

**TAIWAN-CHINA: RECENT ECONOMIC,
POLITICAL, AND MILITARY DEVELOPMENTS
ACROSS THE STRAIT, AND IMPLICATIONS FOR
THE UNITED STATES**

HEARING

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY
REVIEW COMMISSION

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

—————
March 18, 2010
—————

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UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
WASHINGTON : APRIL 2010

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The Commission was created on October 30, 2000 by the Floyd D. Spence National Defense Authorization Act for 2001 § 1238, Public Law No. 106-398, 114 STAT. 1654A-334 (2000) (codified at 22 U.S.C. § 7002 (2001), as amended by the Treasury and General Government Appropriations Act for 2002 § 645 (regarding employment status of staff) & § 648 (regarding changing annual report due date from March to June), Public Law No. 107-67, 115 STAT. 514 (Nov. 12, 2001); as amended by Division P of the "Consolidated Appropriations Resolution, 2003," Pub L. No. 108-7 (Feb. 20, 2003) (regarding Commission name change, terms of Commissioners, and responsibilities of Commission); as amended by Public Law No. 109-108 (H.R. 2862) (Nov. 22, 2005) (regarding responsibilities of Commission and applicability of FACA); as amended by Division J of the "Consolidated Appropriations Act, 2008," Public Law No. 110-161 (December 26, 2007) (regarding responsibilities of the Commission, and changing the Annual Report due date from June to December).

The Commission's full charter is available at www.uscc.gov.

March 31, 2010

The Honorable ROBERT C. BYRD
President Pro Tempore of the Senate, Washington, D.C. 20510
The Honorable NANCY PELOSI
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR BYRD AND SPEAKER PELOSI:

We are pleased to transmit the record of our March 18, 2010 public hearing on “*Taiwan-China: Recent Economic, Political, and Military Developments across the Strait, and Implications for the United States.*” The Floyd D. Spence National Defense Authorization Act (amended by Pub. L. No. 109-108, section 635(a)) provides the basis for this hearing.

The Commission received opening testimony from Senator Sherrod Brown (D-OH), Congressman Lincoln Diaz-Balart (R-FL), and Congressman Phil Gingrey (R-GA). Each Member of Congress provided important perspectives on how the United States should react to recent developments in the Taiwan-China relationship.

Representatives from the Executive Branch provided the Commission with the Obama Administration’s perspective. Deputy Assistant Secretary of State for East Asian and Pacific Affairs David B. Shear testified that while the United States supports the remarkable progress in the cross-Strait relationship over the past two years, Washington remains “opposed to unilateral attempts by either side to change the status quo.” The United States, he said, continues to have “a strong security interest in doing all that [it] can to create an environment conducive to a peaceful and non-coercive resolution of issues between [Taiwan and China].” Deputy Assistant Secretary of Defense for Asian and Pacific Security Affairs Michael Schiffer told the Commission that it appears “Beijing’s long-term strategy is to use political, diplomatic, economic, and cultural levers to pursue unification with Taiwan, while building a credible military threat to attack the island if events are moving in what Beijing sees as the wrong direction.”

Expert witnesses described to the Commission recent developments in the military and security situation across the Taiwan Strait. Mr. Mark Stokes, Executive Director of the Project 2049 Institute, stated that despite improvements in other areas of the relationship, Beijing’s “refusal to renounce the use of force” to resolve the Taiwan situation is the greatest challenge to the cross-Strait relationship. Mr. David A. Shlapak, Senior International Policy Analyst at The RAND Corporation, told the Commission that China’s military modernization, especially its “growing arsenal of surface-to-surface missiles and increasingly modern air force” are causing the cross-Strait military balance to tilt further in Beijing’s favor. Dr. Albert S. Willner, Director of the China Security Affairs Group at CNA, described current and planned military modernization efforts of the Taiwan government, as well as key challenges Taiwan faces in attempting to strengthen its national defense capabilities.

Panelists agreed that while the growing economic integration between China and Taiwan is an important development in the cross-Strait relationship, it should be accompanied by a similar growth in U.S.-Taiwan economic ties. Dr. Merritt T. (“Terry”) Cooke, founder of GC3 Strategy Inc., observed that economic interdependence across the Taiwan Strait could benefit regional stability, but only when balanced by a strong U.S.-Taiwan economic relationship. Mr. Rupert Hammond-Chambers, President of the U.S.-Taiwan Business Council, similarly pointed out that ensuring strong trade relations between the United States and Taiwan is the best way to balance strengthening economic relationship between Taiwan and China. Dr. Scott L. Kastner, Associate Professor in the Department of Government and

Politics at the University of Maryland, testified that the United States should remain vigilant in regards to regional security, since greater cross-Strait economic integration could fail to reduce the chance for conflict between Taiwan and China.

Witnesses agreed that although recent progress in the cross-Strait relationship has occurred, the United States still has a role to play in ensuring that any remaining problems do not disrupt regional stability. Mr. Randall G. Schriver, President and CEO of the Project 2049 Institute, maintained that the United States needs to continue to support Taiwan in its dealings with China and urge Beijing to renounce the use of force against Taiwan. Dr. Shelley Rigger, Brown Professor of Political Science at Davidson College, stated that the United States should continue to help “Taiwan to remain strong and confident” without “appearing to [pull] Taiwan away from [China].” According to Dr. Richard C. Bush III, Director of the Center for Northeast Asian Policy Studies at The Brookings Institution, the two ways the United States can best help Taiwan are to ensure Taiwan’s military capabilities and to strengthen U.S.-Taiwan economic and trade ties.

Thank you for your consideration of this summary of the Commission’s hearing. We note that the prepared statements submitted by the witnesses are now available on the Commission’s website at www.uscc.gov. The full transcript of the hearing will be available shortly.

Members of the Commission are also available to provide more detailed briefings. We hope these materials will be helpful to the Congress as it continues its assessment of U.S.-China relations and their impact on U.S. security. Per statutory mandate, the Commission will examine in greater depth these and other issues in its Annual Report that will be submitted to Congress in November 2010. If you have any questions or concerns, please have your staff contact Jonathan Weston, the Commission’s Congressional Liaison, at (202) 624-1487.

Sincerely yours,



Daniel Slane
Chairman



Carolyn Bartholomew
Vice Chairman

cc: Members of Congress and Congressional Staff

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**TAIWAN-CHINA: RECENT ECONOMIC,
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THURSDAY, MARCH 18, 2010

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION
Washington, D.C.

The Commission met in Room 562, Dirksen Senate Office Building, Washington, D.C. at 9:02 a.m., Chairman Daniel M. Slane, and Commissioners Patrick A. Mulloy and Larry M. Wortzel (Hearing Cochairs), presiding.

PANEL I: CONGRESSIONAL PERSPECTIVES

HEARING CO-CHAIR WORTZEL: Good morning. In our first panel this morning, we'll hear from several members of Congress. Today we'll be joined by Senator Sherrod Brown from Ohio, and the first speaker will be Congressman Lincoln Diaz-Balart from Florida. Unfortunately, Congressman Gingrey from Georgia will not be able to attend.

Congressman Lincoln Diaz-Balart has represented the 21st District of Florida since 1992. He's currently a senior member of the House Rules Committee and the Ranking Member of the Subcommittee on Legislative and Budget Process. He is also Co-Chairman of the Florida Congressional Delegation, Chairman of the Congressional Hispanic Leadership Institute, and a Co-Chair of the Congressional Caucus on Taiwan.

Congressman, we're delighted to have you here. Thank you very much.

**STATEMENT OF LINCOLN DIAZ-BALART
A U.S. CONGRESSMAN FROM THE STATE OF FLORIDA**

MR. DIAZ-BALART: Thank you very much, Commissioner Chairman. It's a pleasure to be with all of you, and I thank you for your work that's most important, and it's a privilege to be here this morning with you to spend just a few minutes on this critical, critical issue.

I was privileged to visit the Republic of China, Taiwan, in April of last year to commemorate the 30th anniversary of the Taiwan Relations Act, which is, as you know, the cornerstone of U.S.-Taiwan Relations. The Taiwan Relations Act makes clear how important, how dear, the security of Taiwan is to the Congress of the United States, and to the people of the United States thus, and it has been a key factor in preventing military aggression against Taiwan.

I was pleased when the Obama administration announced plans to sell weapons, specifically anti-missile systems, helicopters, minesweeping ships and communications equipment to Taiwan. However, we believe we must never forget that Taiwan's top priority remains the purchase of modern aircraft.

The U.S.-China Economic and Security Review Commission's 2009 report to Congress, explains the threat to Taiwan's ability to live free of threat and coercion posed by the PRC's increasing military capabilities.

Specifically, in regard to air capabilities, the USCC report states-- I think it's important to reiterate it:

The success of seizing air superiority is critical in determining the outcome of any large-scale use of force against Taiwan. Over the years, Taiwan's air capabilities relative to China's have begun to shrink.

And later the report says:

In contrast to the growing size and quality of the PLA's fighter force, Taiwan has not substantially upgraded its fighter force in the past decade and may not do so in the near future. Although Taiwan requested the sale of 66 F-16 C/D fighters from the United States, these aircraft were not part of the Bush administration's October 2008 notification to Congress of U.S. arms sales to Taiwan. Although these fighters are still desired by Taiwan, it is unclear whether the Obama administration will sell these or other modern aircraft to Taiwan.

The January 21, 2010, U.S. Defense Intelligence Agency report further underscores the importance of these fighters to Taiwan's security with its conclusion that Taiwan's air defense is showing increasing vulnerability due to its aging fighters in contrast to the PRC's rapidly increasing military capabilities.

As Taiwan's fighters age, mainland China continues to fortify its military posture and devote increasing proportions of its GDP to modernizing its weapons while continuing to aim, as you know, over a thousand missiles directly at Taiwan.

Since 2006, the Legislative Yuan has budgeted billions of dollars for the purchase of additional modern F-16s to boost Taiwan's air defense capabilities. Meanwhile, the production line of F-16s is scheduled to close over the upcoming year to make way for more advanced fighters.

So the time to provide those fighters, the modern F-16s, is now. The military and strategic imperatives for Taiwan are real. If we fail to show the necessary resolve, it would mean missing a significant opportunity to ensure peace and security in the Asia-Pacific region, which is a vital U.S. interest.

In addition to being irresponsible, I believe it makes no sense to continue to deny Taiwan modern fighter aircraft. Mainland China is going to protest anyway. In fact, by protesting so vociferously to the weapons sale announcement of January 29 of this year, the Communist Chinese are seeking to pressure the United States into not selling advanced fighter planes at all to Taiwan.

I'd also like to address another issue of utmost importance to the people of Taiwan. By participating in international organizations, Taiwan has worked diligently to combat the international isolation that Communist China has tried to impose on it by bullying and threatening international organizations and Taiwan's allies.

I have often spoken in support of Taiwan's participation in international organizations, such as the World Health Organization, and we in Congress must support Taiwan in its current attempts to participate in the U.N. Framework Convention on Climate Change and the International Civilian Aviation Organization.

Finally, distinguished Commissioners, Taiwan has achieved, as you know, extraordinary economic success as a flourishing market-based economy and has one of the highest standards of living in the world. But the U.S.-Taiwan friendship rests on much more than shared economic interests or trade. Our friendship stems from a shared commitment to the fundamental ideals of the rules of law and freedom, as well as opposition to totalitarianism.

We in the U.S. Congress must continue to support our friend and ally Taiwan in all of its critical pursuits.

I thank you for your attention and again reiterate my commendation for your hard work.

[The statement follows:]

**Prepared Statement of Lincoln Diaz-Balart
A U.S. Congressman from the State of Florida**

I was privileged to visit the Republic of China (Taiwan) in April of last year to commemorate the 30th Anniversary of the Taiwan Relations Act, the cornerstone of U.S.-Taiwan relations. The Taiwan Relations Act makes clear how dear the security of Taiwan is to the Congress and the people of the United

States, and it has been a key factor in preventing military aggression against Taiwan.

I was pleased when the Obama Administration announced its plan to sell weapons totaling about \$6.4 billion in anti-missile systems, helicopters, minesweeping ships and communications equipment to Taiwan. However, we must not forget that Taiwan's top priority remains the purchase of F-16 C/D fighters. The U.S.-China Economic and Security Review Commission's 2009 Report to Congress explains the threat to Taiwan's ability to live free of threat and coercion posed by the PRC's increasing military capabilities in the face of Taiwan's waning capabilities. Specifically in regard to air capabilities, the USCC Report states:

The success of seizing air superiority is critical in determining the outcome of any large-scale use of force against Taiwan. Over the years, Taiwan's air capabilities relative to China's have begun to shrink (p241-42).

And later:

In contrast to the growing size and quality of the PLA's fighter force, Taiwan has not substantially upgraded its fighter force in the past decade and may not do so in the near future. Although Taiwan requested the sale of sixty-six F-16 C/D fighters from the United States, these aircraft were not part of the Bush Administration's October 2008 notification to Congress of U.S. arms sales to Taiwan. Although these fighters are still desired by Taiwan, it is unclear whether the Obama Administration will agree to sell these, or other, modern aircraft to Taiwan (p242).

The January 21, 2010 U.S. Defense Intelligence Agency report further underscores the importance of these fighters to Taiwan's security with its conclusion that Taiwan's air defense is showing increasing vulnerability due to its aging fighters in contrast to the PRC's rapidly increasing military capabilities. As Taiwan's fighters age, Mainland China continues to fortify its military posture and devote increasing proportions of its GDP to modernizing its weapons while continuing to aim over a thousand missiles directly at Taiwan.

Since 2006, Taiwan's Legislative Yuan has budgeted billions of dollars for the purchase of additional F-16s to boost Taiwan's air defense capabilities. Meanwhile, the production line of F-16s is scheduled to close over the upcoming year to make way for the more advanced F-35 fighter.

The time to provide these fighters is now. The military and strategic imperatives for Taiwan are real and urgent. If we fail to show the necessary resolve, it would mean missing a significant opportunity to ensure peace and security in the Asia-Pacific region – a vital U.S. interest.

In addition to being irresponsible, it makes no sense to continue to deny Taiwan modern fighter aircraft. Mainland China will protest anyway. In fact, by protesting so vociferously to the weapons sale announcement on January 29, 2010, the Communist Chinese are seeking to pressure the United States into not selling advanced fighter planes.

I would also like to address another issue of utmost importance to the people of Taiwan. By

participating in international organizations, Taiwan has worked diligently to combat the international isolation that Communist China has tried to impose on it by bullying and threatening international organizations and Taiwan's allies. I have often spoken in support of Taiwan's participation in international organizations such as the World Health Organization, and we in the U.S. Congress must support Taiwan in its current attempts to participate in the United Nations Framework Convention on Climate Change and the International Civil Aviation Organization.

Taiwan has achieved marked economic successes such as a flourishing market-based economy and one of the highest standards of living in the world, but the U.S.-Taiwan friendship rests on much more than shared economic interests or trade. Our friendship stems from a shared commitment to the fundamental ideals of the Rule of Law and freedom, and opposition to totalitarianism. We in the U.S. Congress must continue to support our friend and ally Taiwan in its most critical pursuits.

Panel I: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: Thank you, sir. I don't know how your time is, Congressman Diaz-Balart, but would you have time for any questions?

MR. DIAZ-BALART: Yes. Yes, I have a few minutes, sir.

HEARING CO-CHAIR WORTZEL: I'll start if I may. One of the concerns that I've seen, at least in policy circles, about advanced fighter aircraft is that they have a tendency to support offensive operations. Do you think that some statement from Taiwan, a new statement about the defensive nature of its military doctrine, would help the climate in Washington to support the sale of advanced fighter aircraft?

MR. DIAZ-BALART: That's a good question. I think it certainly should be evident to anybody who's an observer of the situation, that the designs and posture of Taiwan are defensive, the goals of Taiwan are defensive, and that the reality that we're facing now is a mainland China that is pointing over a thousand missiles at the island.

I think that questions such as that, since I have such ultimate respect for the internal decision-making process of that democracy, those decisions obviously are up to Taiwan. I think it is evident enough, however, that their designs, their goals, are clearly defensive in nature.

HEARING CO-CHAIR WORTZEL: Thank you.

COMMISSIONER BLUMENTHAL: Thank you very much, Congressman.

I think successive administrations, both President Bush in his latter years and President Obama, have denied not only the F-16 C/D sales but also accepting a letter of request to even evaluate the F-16 C/D sales, and now we have an assessment sent to you and the Congress

by the Department of Defense, that shows a clear military and defense requirement, which is what we're supposed to be making these decisions based upon.

There's a twofold question. One is what do you think is holding back successive administrations from selling required military equipment as we're supposed to do under the Taiwan Relations Act?

The other thing is have you ever seen or have you ever asked for a risk assessment of what it would mean to U.S. forces if we didn't go through with the sale of F-16 C/Ds?

MR. DIAZ-BALART: With regard to the first question, I'm not going to speculate as to the decisions of this or other administrations. I think--and that's why I started off by talking about the Taiwan Relations Act as the cornerstone of our policy--the law in the United States requires that weapons be offered to Taiwan to make certain that it can live without the threat of coercion.

That's what I want to stress. I think Congress needs to be stressing continuously, reminding, in its oversight capacity--because, as you know, the two fundamental roles of Congress are legislating and oversight--in its oversight capacity, must remind the administration that the law requires that a sufficient defensive posture be able to be maintained, certainly the United States offer the weapons so that a sufficient defense posture can be maintained, a credible defense posture can be maintained by Taiwan. So I'm not going to speculate.

With regard to your second question, it's an excellent point, and I will be acting on it, pursuant to not your suggestion but your having brought it out, that it's important that we know the effect and possible consequences on our forces of the ongoing military evolving situation.

HEARING CO-CHAIR WORTZEL: Sir, thank you very much for your time--

MR. DIAZ-BALART: Thank you very much. It's been my privilege.

HEARING CO-CHAIR WORTZEL: --and your willingness to be here and your leadership on this issue.

MR. DIAZ-BALART: All right. Thank you all. Thank you very much. Thank you. Bye-bye.

OPENING REMARKS OF COMMISSIONER PATRICK A. MULLOY HEARING COCHAIR

HEARING CO-CHAIR MULLOY: We want to thank the Congressman for being here. We're going to start our opening statements now, and then there might be a short period before Senator Sherrod Brown arrives.

Congressman Gingrey was planning to be here, but his schedule now will not permit him to be here. So we'll do the opening statements, and then we might take a short break.

Good morning and welcome to this year's third hearing of the U.S.-China Economic and Security Review Commission. Today's hearing will address recent developments and future trends in the cross-strait relationship, and what these developments and trends may mean for the United States of America.

Since the Chinese Communist Party came to power in October 1949, Taiwan has been a key factor in U.S.-China relations. Our Government recognized the non-Communist government of Taiwan as the legitimate government of all of China for over a quarter of a century. In 1979, when Washington formally established diplomatic relations with the People's Republic of China, Congress passed the Taiwan Relations Act to govern our relations with Taiwan.

The May 2008 inauguration of Taiwan's President Ma brought some significant developments in the cross-strait relationship. Direct sea, air, and mail links between the two have now been officially established. Cross-strait trade continues to expand, and China is now Taiwan's largest trading partner.

Trade between China and Taiwan will probably further expand if they sign the Economic Cooperation Framework Agreement which is now being negotiated. Taiwan is the largest foreign investor in China. These and other cross-strait developments will affect the United States and its relationship with both China and Taiwan.

We're very privileged to have a number of experts from the administration, academia and private organizations who will appear here today and will help us get a better understanding of the implications of these developments.

In particular, we're pleased to have members of Congress, Congressman Balart and Senator Sherrod Brown who is going to be here.

We're also privileged that we're going to have David Shear, the Deputy Assistant Secretary of State for East Asia and Pacific Affairs, and Mr. Michael Schiffer, Deputy Assistant Secretary of Defense, who are going to present the Obama administration's perspective on the various issues that the Commission is probing today.

I'm now turning the hearing over to my esteemed co-chair, Commissioner Wortzel, for his opening statement.

OPENING REMARKS OF COMMISSIONER LARRY M. WORTZEL HEARING COCHAIR

HEARING CO-CHAIR WORTZEL: Thank you, Commissioner Mulloy, and I want to thank the witnesses that will be here today in advance to help us understand the recent developments across the Taiwan Strait.

In just a few short years, aspects of the relationship between Taiwan and mainland China have changed noticeably. Official and

unofficial meetings between representatives from the two governments occur with some regularity.

Taipei and Beijing have signed dozens of accords on various issues ranging from financial security cooperation to food safety. And we saw examples of that last year when we were in Xiamen during the visit to China.

President Ma has changed the rhetoric on the relationship between China and Taiwan, and all of this has played a part in improving cross-Strait relations.

Yet problems remain. China continues to block what is generally known as "Taiwan's search for international space." And by this, I don't mean diplomatic recognition for Taiwan; rather this refers to Taiwan's participation in international bodies where de jure statehood is not a prerequisite.

It's unclear whether the improvement in the cross-Strait relationship is durable and could survive a change in leadership in either side of the Taiwan Strait. What's certain, however, is that there is no substantial progress on reducing military tensions between the two sides. The threat from China to Taiwan has not reduced, and the military balance continues to tip in the mainland's favor as Beijing further develops its military capabilities.

It remains to be seen how far Taiwan will move to modernize its own military and address the shifting military balance. Certainly, efforts are being made.

Therefore, today, the Commission will examine the current cross-Strait military situation and future trends. We'll look at the economic relationship between Taiwan and the mainland; we'll assess the developing political aspects of cross-Strait relations.

Our major focus, of course, is consistent with our legislative mandate and is to explore what these developments mean for the United States and regional stability.

I want to thank all of you for participating. I also want to thank the Senate Committee on Rules and Administration for letting us use this great hearing room and our excellent staff that did a great job in preparing the hearing.

We'll now break for about eight minutes, I hope, until Senator Brown comes in, and please don't wander too far from the area because when he comes in, we start.

[Whereupon, a short recess was taken.]

PANEL I: CONGRESSIONAL PERSPECTIVES (CONTINUED)

HEARING CO-CHAIR MULLOY: Senator, thank you.

Senator Sherrod Brown represented Ohio's 13th District in the House of Representatives from 1993 until 2006. During his time in the House, he was a founding member of the Congressional Caucus on

Taiwan.

In 2007, he was elected to the United States Senate. Senator Brown is currently the Chairman of the Senate Banking Committee Subcommittee on Economic Policy and a member of the Senate Taiwan Caucus. He is a strong advocate of the interests of working people of our nation, and he's been a great friend and supporter of this Commission. We're honored to have him testify today.

Thank you, Senator, for being here.

STATEMENT OF SHERROD BROWN
A U.S. SENATOR FROM THE STATE OF OHIO

SENATOR BROWN: Thank you, Commissioner Mulloy, and Commissioner Wortzel, and all of you, thanks.

It's a pleasure to be back in front of you, and thanks for your service on increasingly important issues that our country faces in terms of national security, in terms of economic security. These issues get more interesting, more complicated, and more crucial to our national interests just about every year.

I commend this Commission, first of all, for tackling the tough issue of the United States' relationship with both China and Taiwan and the interaction that way. This hearing is not only timely but vital to understanding the role of the U.S. in the Taiwan Straits.

Even before serving in Congress in the House and the Senate, the role of the U.S. in the Taiwan Strait has been a personal interest to me.

The personal interest became more a professional prerogative because of Taiwanese-American constituents in my old congressional district and in my state.

Taiwan's miracle, its transition from martial law to democracy, as quickly as they did, is, I won't say effortlessly, but as smoothly in many ways as they did, and with the economic vitality that that island nation was able to generate, was nothing short of a miracle.

It's one of the great achievements of the 20th century, yet it's often overlooked. People really don't know much about what happened.

I remember watching the inauguration from President Lee to President Chen Shui-bian, and that's really one of the hallmarks of a democracy, being able to switch, to have a peaceful transition of a chief executive, going from one political party to another, and to do it as smoothly as the Taiwanese did.

That's why the U.S. role in the Taiwan Strait, I think, is so important. It's in our national security interests not to take our attention away from China's presence around the world.

Senator Durbin and I were just in East Africa in four countries which are important to our national interests and are four countries that face some of the biggest challenges of any in the world--Sudan, Ethiopia, Tanzania, and Congo--and we saw beginning, not just

beginning, but a huge Chinese presence in those four countries in ways that frankly got our attention.

When you look at China's presence around the world, from these massive investments in unstable African countries, to engaging in predatory trade practices, about which we are so familiar, just picking the newspaper up everyday from the Wall Street Journal or any other paper, to attempting to monopolize the Taiwan Strait, all of these are crucial issues for us.

The U.S. must be clear as a government and as a people that freedom and democracy form the path to long-term economic stability and prosperity for Taiwan and all nations aspiring for independence and autonomy and self-government. Those who fight for those principles should know that they will be supported by the United States.

The U.S. shouldn't turn its back to human rights like freedom of the press, freedom of speech, freedom of religion. We must encourage and foster those who wish to live free of oppressive regimes no matter where they live, no matter how difficult the challenge.

For the people of Taiwan, we should recognize its own history and we should recognize its cultural identity. Therefore, we must view the issues between Taiwan and China in the context of a diplomatic relationship between two sovereign nations. As Taiwan's closest ally and strongest supporter on its road to democracy, the U.S. should continue to play a leading role in Taiwan Strait relations.

Taiwan has shaken the tentacles of martial law to have free and democratic elections. It has strong environmental and labor ties, something for which this committee has spoken out and stood for forever, really since the creation of this Commission.

Taiwan plays by the rules. It should be rewarded, therefore, and encouraged. That is simply not happening. Taiwan, as you know, is not a member of the United Nations. Taiwan is not a member of the World Health Organization. It doesn't even have observer status at the World Health Organization. This is despite the fact that it's a world leader in medical research. It's formed a health care system that serves virtually all of its people, all in the last decade or so.

It's a nation that when there are national catastrophes, weather catastrophes, natural disasters around the world, Taiwan is often one of the first countries to send in well-trained medical personnel and assistance.

This, not being part of the WHO, has happened despite the concerns of all nations that disease from SARS to H1N1 to so much else freely affects people, regardless of geography or gender, age and nationality.

I remember a very damaging earthquake in Taiwan, back, I believe, in September of 1999, when the world assistance had to await support and acknowledgement from Beijing before we could go into Taiwan. Nations of the world had to get the People's Republic of

China's agreement, acknowledgement of an agreement before they could actually go in and help Taiwan directly. That simply makes no sense for human rights, no sense for the human condition in any way we look at that.

Taiwan's leaders are not, as you know, afforded free and open travel to the U.S. The U.S. does not have an ambassador to Taiwan despite the fact it's one of our largest trading partners. Nor does Taiwan, as you know, have an ambassador to the U.S.

23 million plus Taiwanese have no representation, no presence in our nation, founded on the very values that we acknowledge, that we have fought for, that they aspire to. These injustices must be corrected. Taiwan's democracy is young, it's still growing, but we can't let it revert back to ways of the past.

What is the cost of giving up freedoms and sovereignty in an effort to benefit economically from China? Many in Taiwan have expressed major reservations with the so-called "Economic Cooperation Framework Agreement." This agreement could alter Taiwan's economy for decades, further blurring the lines of nationality and identity, economic independence and economic dependence.

ECFA negotiations should not keep its own people and trading partners in the dark. I've long opposed U.S. trade agreements that were negotiated to give too much away with too little in return. But as frustrating as it's been, as wrong-headed as I think free trade agreements like NAFTA and CAFTA are, and several of you on this Commission have spoken out and been leaders in formulating the intellectual framework around opposition to these agreements, the process in the United States, at least, has been open and subject to congressional approval.

The Obama administration must urge the Taiwanese government to be prudent, to make the negotiations completely transparent, and to take the input from the public and from industries. That's what democracies do.

China may have overwhelmingly military, diplomatic and economic power over Taiwan, this country of 23 million, versus a country of 1.3 billion now, but China lacks the most powerful force available to any nation, and that is the power over the human spirit of the Taiwanese people.

United States must always side with those who encourage democracy and freedom and peace. Spreading democracy and freedom is something our nation has made part of our moral fabric and hallmark and focus of our national strategy.

Our role in the Taiwan Strait should ensure that China emulates the democratic values of Taiwan, not vice versa, where we allow Taiwan to emulate oppressive values of China. The policy of the United States should be "One China, One Tibet, One Taiwan." That's the message we should send the world.

Thank you.

Panel I: Discussion, Questions and Answers

HEARING CO-CHAIR MULLOY: Thank you, Senator.

I know how busy your schedule is. Do you want to take any questions if people have any?

SENATOR BROWN: I'm willing. I always am with you, but I know your schedule is also busy so it's up to you.

HEARING CO-CHAIR MULLOY: If any of the Commissioners have any questions for the Senator, he can take them. Yes.

COMMISSIONER BLUMENTHAL: Thank you for that excellent and I think inspiring testimony. It's really terrific.

As you know, a couple of the issues that the administration faces now include the sale or potential sale of the F-16 C/Ds to Taiwan, as well as some other issues that you mentioned on international space.

We've seen and been provided with a DoD assessment on the requirements for better air defense for Taiwan, and the requirement seems clear, but I'm wondering if you've ever seen anything like a risk assessment to U.S. forces should we not go forward with the sale to Taiwan of F-16 C/Ds or, something contrary, the improvement to the U.S. strategic posture or military posture if we do go forward with the sale of F-16 C/Ds?

SENATOR BROWN: Commissioner Blumenthal, thank you.

I've not seen the classified assessment, and I couldn't comment, I guess, if I had, but I have thought a lot about this, and I think that the President made the right decision. I think this is illustrative of much of American-Taiwanese relations and much of American-China relations, that almost whatever a president chooses to do to not combat or even confront China, but to engage with China, if it's not exactly what the Chinese want, the furor over it is fairly amazing to me each time.

I guess I look at the Chinese reaction to that as one of two things particularly that the Obama administration has done that's recently angered the Chinese, the F-16 sale and the meeting with Dalai Lama, and I just find it intriguing, but I also find it worrisome because does that mean that we don't "confront," is probably the right word--I'm choosing my words carefully--confront the Chinese on the issue of currency, which is in that sense bigger than all of these issues, at least bigger to the average American?

I think it kind of begs the question; that's not a direct answer to your question. I don't know the answer precisely, but I think that the administration, unfortunately, because of China's bellicosity--I've always wanted to use that word in a congressional hearing--I learned it in college--because of China's bellicosity on darn-near everything, our President seems a bit restricted on how many times he can do anything that would be seen as confrontational towards the Chinese.

In that sense, I think our relationship bilaterally with China is unique to China, period, but it's something that we shouldn't cower. We shouldn't cower as a result of that bilateral relationship.

HEARING CO-CHAIR MULLOY: I should note that the Commission in setting up today's hearing asked the USTR to come in to talk about the ECFA and their views on that. We have State here and we have DoD here, but unfortunately the USTR was unable to attend.

SENATOR BROWN: Well, it's a tiny little office, Commissioner Mulloy.

HEARING CO-CHAIR MULLOY: Any other questions for the Senator? Senator, thank you so much for your statement and for being here.

SENATOR BROWN: Thanks for your service, all of you. Thanks. Thanks for your questions.

PANEL II: ADMINISTRATION PERSPECTIVES

HEARING CO-CHAIR MULLOY: On this panel we're going to hear from the Administration's perspective, and we're delighted to welcome David Shear. Thank you for being here again. We appreciate your help to this Commission. He's the Deputy Assistant Secretary of State for East Asian and Pacific Affairs.

We also welcome Michael Schiffer, who is the Deputy Assistant Secretary of Defense for East Asian and Pacific Security Affairs.

We have more comments to introduce them about their tremendous background and their service to the country over a number of years, but I won't go into all that. I welcome them.

I will note for the record that we did invite USTR to appear today. They recently lost their Assistant USTR for China Affairs, who left his position, and they're short-staffed right now so they were unable to be here, but I wanted to put that on the record that we did invite them.

Thank you, and Mr. Shear, if you'll start.

STATEMENT OF DAVID B. SHEAR, DEPUTY ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

MR. SHEAR: Thank you very much, Commissioner Mulloy, Commissioner Wortzel, Chairman Slane. Thank you very much for the opportunity to appear before the Commission today.

As you may have heard, the Los Angeles Dodgers and their two Taiwan-born players have just finished a hugely successful exhibition series in Taiwan in which the Dodgers and the local all-stars split the series. Back home, the fate of our Washington Nationals depends in part on the return to form of Taiwan-born pitcher Wang Chien-ming,

who won 19 games for the Yankees only two years ago.

The fact that the U.S. and Taiwan are interacting at this level demonstrates in a small but telling way the strong, unshakable ties between our two peoples.

For more than 40 years, the United States' "one China" policy based on the three U.S.-China Joint Communiqués and the Taiwan Relations Act has guided our relations with Taiwan and the People's Republic of China.

We do not support Taiwan independence. We are opposed to unilateral attempts by either side to change the status quo. We insist that cross-Strait differences be resolved peacefully and according to the wishes of the people on both sides of the Strait.

Our policy has helped propel Taiwan's prosperity and democratic development while at the same time allowing us to nurture constructive relations with the PRC. Our approach spanning eight administrations has helped create an environment conducive to promoting people-to-people exchanges, expanding cross-Strait trade and investment, and enhancing prospects for the peaceful resolution of cross-Strait differences.

Continued progress in cross-Strait relations is critically important to the security and prosperity of the entire region and is therefore of vital national interest to the United States.

With regard to recent cross-Strait developments, we have witnessed remarkable progress in cross-Strait relations in the nearly two years since Taiwan President Ma Ying-jeou took office. In his inaugural address, President Ma called on the PRC "to seize this historic opportunity to achieve peace and co-prosperity." He pledged that there would be "no reunification, no independence, and no war" during his tenure.

At the end of 2008, PRC President Hu Jintao responded with a speech in which, among other things, he called for the conclusion of an agreement on economic cooperation, proposed that the two sides discuss what he called "proper and reasonable" arrangements for Taiwan's participation in international organizations, and raised the prospect of a mechanism to enhance mutual military trust, or what we might call confidence and security-building mechanisms.

Following President Hu's speech, the PRC dropped objections to Taiwan's participation as an observer to the May 2009 World Health Assembly, which is the supreme decision-making body of the World Health Organization.

This expansion of Taiwan's international space coincided with a diplomatic truce in which Taiwan and the PRC have for the first time ceased competing for diplomatic recognition. In 2008, semi-official talks between Taiwan and the PRC resumed. The two sides agreed in broad terms to discuss the relatively easy, primarily economic issues first, reserving more difficult political issues for later.

As a result of talks in 2008 and 2009, the two sides established direct scheduled flights, provided for direct shipping and postal services, established a framework for financial cooperation and investment, and agreed to increase tourism and enhanced law enforcement cooperation. We expect the two sides will negotiate an Economic Cooperation Framework Agreement this year.

Enthusiasm for progress in the cross-Strait dialogue has been tempered by caution and debate on both sides of the Strait. Some mainlanders fear that the Taiwan side will pocket PRC decisions now and elect future leaders who are less flexible than the current Taiwan administration. The Taiwan public, while supportive of actions to enhance cross-Strait stability, is cautious of moves that could be seen to compromise Taiwan's sovereignty, which remains an emotionally-charged issue on both sides.

As people on both sides of the Strait consider future economic steps, strong concerns remain on both sides of the Pacific about PRC military modernization and deployments. The PRC refuses to renounce the use of force regarding Taiwan. PRC leaders have stated in explicit terms that Beijing considers Taiwan's future a core national interest, and that the PRC would take military action in the event Taiwan were to formally declare independence or to take steps to irrevocably block unification.

The PRC's unnecessary and counterproductive military build-up across the Strait continues unabated with estimates of more than 1,100 missiles pointed in Taiwan's direction. These and other deployments across from Taiwan dilute Beijing's stated devotion to the peaceful handling of cross-Strait relations.

Let's look briefly at the U.S. role in cross-Strait engagement. As I stated at the outset, our "one-China" policy is based on the three Joint Communiqués and the Taiwan Relations Act. We are also guided by the understanding that we will neither seek to mediate between the PRC and Taiwan nor will we exert pressure on Taiwan to come to the bargaining table.

While the United States is not a direct participant in the dispute between the PRC and Taiwan, we have a strong interest in doing all we can to create an environment conducive to a peaceful and non-coercive resolution of the issues between them. This administration welcomes the increased stability in the Strait and the upsurge in Taiwan-PRC economic, cultural and people-to-people contacts. These contacts help further peace, stability and prosperity in the entire East Asia region.

We applaud the courage shown by President Ma in restoring U.S. trust and reversing the deterioration in cross-Strait relations. We should not be alarmed by mainland-Taiwan rapprochement as somehow detrimental to U.S. interests, as long as decisions are made free from coercion.

Future stability in the Strait will depend on an open dialogue

between Taiwan and the PRC, free of force and intimidation and consistent with Taiwan's flourishing democracy. In order to engage productively with the mainland at a pace and scope that is politically supportable by its people, Taiwan needs to be confident in its role in the international community, its ability to defend itself and protect its people, and its place in the global economy.

The United States has a constructive role to play in each of these three key areas. Partly because of U.S. efforts, Taiwan is a member and full participant in key bodies such as the World Trade Organization, the Asian Development Bank, and APEC. We believe that Taiwan should also meaningfully participate in organizations where it cannot be a member.

Taiwan must be confident that it has the physical capacity to resist intimidation and coercion in order to engage fully with the mainland. We will stand by our commitment to provide Taiwan with defense articles and services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

Our decision to notify Congress on January 29 of arms sales to Taiwan worth \$6.4 billion continues a policy that has been followed by successive administrations for more than 30 years. This decision was a tangible example of our commitment to meet the obligations spelled out in the Taiwan Relations Act.

Taiwan President Ma has made it clear that Taiwan desires to strengthen its economic ties with the United States and other trade partners at the same time that it pursues economic agreements with the mainland, such as the proposed cross-Strait Economic Cooperation Framework Agreement.

The United States is the largest foreign investor in Taiwan, and Taiwan is our tenth largest trading partner, larger than Italy, India or Brazil. In any robust trading relationship, there is some friction, and unfortunately we have faced some challenges over beef exports to Taiwan in the past several years. We would like to reinvigorate the U.S.-Taiwan economic agenda through our Bilateral Trade and Investment Framework Agreement process, reduce trade barriers and increase U.S.-Taiwan trade and investment ties.

How the evolving relationship between Taiwan and the PRC develops depends on the will of the leadership and the people on both sides of the Strait. The scope of future economic and political interaction will be determined in conjunction with Taiwan's well-established, thriving democratic processes.

As I noted previously, both sides agreed to address the so-called "easy" issues first, primarily in the realm of economic and cultural exchanges. The two sides have yet to face the more difficult political and military issues. We are nevertheless encouraged by progress to date and confident that our long-standing approach to the Taiwan Strait will enhance prospects for further steps to peacefully manage this

complicated relationship.

Thanks again for the opportunity to testify today on this important topic, and I look forward to your questions.

[The statement follows:]

**Prepared Statement of David B. Shear, Deputy Assistant Secretary
of State for East Asian and Pacific Affairs, U.S. Department of
State, Washington, DC**

Commissioner Molloy, Commissioner Wortzel, and members of the Commission, thank you for inviting me to appear before you today. I appreciate the opportunity to discuss recent economic, political, and military developments across the Taiwan Strait and review the implications of those developments for the United States.

Before I begin my formal remarks, I would like to let those of you who may not have heard know that the Los Angeles Dodgers, with their two Taiwan-born players, pitcher Kuo Hong-chih and shortstop Hu Chin-long, have just finished a hugely successful exhibition series in Taiwan in which the Dodgers and the local all-stars split the series. Back home, the fate of our Washington Nationals depends in part on the return to form of Taiwan pitcher Wang Chien-ming, who won 19 games for the Yankees only two years ago. I think the fact that the U.S. and Taiwan are interacting at this level demonstrates, in a small but telling way, the strong, unshakable ties between our two peoples.

For more than thirty years, the United States' "one China" policy based on the three U.S.–China Joint Communiqués and the Taiwan Relations Act has guided our relations with Taiwan and the People's Republic of China. We do not support Taiwan independence. We are opposed to unilateral attempts by either side to change the status quo. We insist that cross-Strait differences be resolved peacefully and according to the wishes of the people on both sides of the Strait. We also welcome active efforts on both sides to engage in a dialogue that reduces tensions and increases contacts of all kinds across the Strait.

Our policy has helped propel Taiwan's prosperity and democratic development while at the same time it has allowed us to nurture constructive relations with the PRC. We believe that our approach, spanning eight administrations, has helped create an environment conducive to promoting people-to-people exchanges, expanding cross-Strait trade and investment, and enhancing prospects for the peaceful resolution of cross-Strait differences. Continued progress in cross-Strait relations is critically important to the security and prosperity of the entire region and is therefore a vital national interest of the United States.

Recent Cross-Strait Developments

We have witnessed remarkable progress in cross-Strait relations in the nearly two years since Taiwan President Ma Ying-jeou took office. Before commenting on what this progress means for the United States, allow me to chronicle some benchmarks over the last two years. Soon after his March 2008 election, President Ma dispatched Vice President-elect Vincent Siew to meet PRC President Hu Jintao at the April 2008 Boao Forum in Hainan, and later that month President Hu met with Taiwan's honorary KMT chairman Lien Chan in Beijing. In his inaugural address, President Ma called on the PRC "to seize this historic opportunity to achieve peace and co-prosperity." He pledged that there would be "no reunification, no independence, and no war" during his tenure. President Ma also proposed that talks with the PRC resume on the basis of the "1992 consensus," by which both sides agree that there is only one China but essentially agree to disagree on what the term "one China" means.

At the end of 2008 President Hu responded with a speech in which, among other things, he called for the conclusion of an agreement on economic cooperation; proposed that the two sides discuss "proper and reasonable" arrangements for Taiwan's participation in international organizations; and raised the prospect of a mechanism to enhance mutual military trust, or what we might call confidence and security building mechanisms (CSBMs). Following President Hu's speech, the PRC dropped objections to Taiwan's participation in the World Health Organization's (WHO) International Health Regulations, which allows the WHO to disseminate health-related information directly to Taiwan

authorities instead of having to go through the PRC government. In May of 2009 Taiwan was invited to participate as an observer in that year's annual meeting of the World Health Assembly, the WHO's executive body.

This expansion in Taiwan's "international space" coincided with a "diplomatic truce" in which Taiwan and the PRC have for the time being ceased competing for diplomatic recognition from the 23 countries with which Taiwan has formal diplomatic relations.

These developments helped evoke the generally positive atmosphere surrounding the resumption of semi-official talks between Taiwan's Straits Exchange Foundation (SEF) and the PRC's Association for Relations Across the Taiwan Strait (ARATS). The two sides agreed in broad terms to address the easy, primarily economic issues first, reserving more difficult, political issues for later. SEF and ARATS met in June and November of 2008 and in April and December of 2009, concluding numerous agreements designed to promote closer economic and social ties.

As a result of the talks, the two sides established direct, scheduled flights; provided for direct shipping and postal services, established a framework for financial cooperation and investment; and agreed to increased tourism and enhanced law enforcement cooperation. Last year, nearly one million mainlanders visited Taiwan. The two sides are now linked by 270 direct flights per week. The PRC is Taiwan's largest trading partner with cross-strait trade totaling close to \$110 billion in 2009, according to Taiwan statistics. We expect that the two sides will sign an Economic Cooperation Framework Agreement (ECFA) sometime this year, with the next round of talks scheduled for the end of this month.

Enthusiasm for progress in cross-strait dialogue has been tempered by caution and debate on both sides of the Strait. Some mainlanders fear that the Taiwan side will pocket PRC decisions now and elect future leaders who are less flexible than the current Taiwan administration. The PRC leadership no doubt also must weigh with caution Taiwan-related decisions that could become controversial in the run up to the Communist Party succession in 2012. Nevertheless, in a press conference this week, Chinese Premier Wen Jiabao stated that the PRC is willing to let the people of Taiwan "benefit more" than the PRC from a proposed ECFA agreement via tariff concessions and an "early harvest" of tariff cuts. Wen said he believes cross-strait problems will eventually be solved and that he has a strong wish to visit Taiwan someday.

The Taiwan public, while supportive of actions that enhance cross-strait stability, is cautious of moves that could be seen to compromise Taiwan's sovereignty, which remains an emotionally charged issue on both sides. Opponents of cross-strait progress in Taiwan took to the streets to demonstrate against PRC ARATS chief Chen Yunlin when he visited Taiwan in November 2008 and again in December 2009.

As people on both sides of the Strait consider future economic steps, strong concerns remain on both sides of the Pacific about PRC military modernization and deployments. The PRC refuses to renounce the use of force regarding Taiwan. PRC leaders have stated in explicit terms that Beijing considers Taiwan's future a "core" national interest and the PRC would take military action in the event Taiwan were to formally declare independence or to block steps that would irrevocably block unification. The PRC's unnecessary and counterproductive military build-up across the Strait continues unabated, with estimates of more than 1,100 missiles pointed in Taiwan's direction. Although tensions have substantially abated, and there is no reason that Beijing would prefer to use force against Taiwan, these and other deployments across from Taiwan dilute Beijing's stated devotion to the peaceful handling of cross-strait relations.

The U.S. Role in Cross-Strait Engagement

As stated above, our "one China" policy is based on the three U.S.-PRC Joint Communiqués and the Taiwan Relations Act. We are also guided by the understanding that we will neither seek to mediate between the PRC and Taiwan, nor will we exert pressure on Taiwan to come to the bargaining table. While the United States is not a direct participant in the dispute between the PRC and Taiwan, we have a strong security interest in doing all that we can to create an environment conducive to a peaceful and non-coercive resolution of issues between them.

This Administration therefore welcomes the increased stability in the Strait and the upsurge in Taiwan-PRC economic, cultural, and people-to-people contacts. The many billions of dollars that Taiwan

companies have invested in the mainland have played an important role in the PRC's economic performance over the last decade. Taiwan's trade, investment and other economic ties with the PRC are helping the island recover from the past year's economic downturn, and a solid recovery is expected in 2010. Enhanced cultural, economic and people to people contacts help further peace, stability and prosperity in the East Asian region.

We applaud the courage shown by President Ma in restoring U.S. trust and reversing the deterioration in cross-Strait relations that took place during the years prior to his inauguration. We should not be alarmed by Mainland-Taiwan rapprochement as somehow detrimental to U.S. interests, as long as decisions are made free from coercion.

Future stability in the Strait will depend on open dialogue between Taiwan and the PRC, free of force and intimidation and consistent with Taiwan's flourishing democracy. In order to engage productively with the mainland at a pace and scope that is politically supportable by its people, Taiwan needs to be confident in its role in the international community, its ability to defend itself and protect its people, and its place in the global economy. The United States has a constructive role to play in each of these three key areas.

Taiwan's role in the international community

The United States is a strong, consistent supporter of Taiwan's meaningful participation in international organizations. We frequently make our views on this topic clear to all members of the international community, including the PRC. Partly because of U.S. efforts, Taiwan is a member and full participant in key bodies such as the World Trade Organization, the Asian Development Bank and APEC.

We believe that Taiwan should also be able to participate in organizations where it cannot be a member, such as the World Health Organization, the International Civil Aviation Organization and other important international bodies whose activities have a direct impact on the people of Taiwan. We were gratified that after more than a decade of efforts, Taiwan was able to attend last year's World Health Assembly as an observer. We hope Taiwan will be invited again this year and in the future.

Military to Military Engagement With Taiwan

Taiwan must be confident that it has the physical capacity to resist intimidation and coercion in order to engage fully with the mainland. The provision by the United States of carefully selected defense articles and services to Taiwan, consistent with the Taiwan Relations Act (TRA) and based on a prudent assessment of Taiwan's defensive requirements, has bolstered that capacity. We will continue to stand by our commitment to provide Taiwan with defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability. Our decision to notify Congress on January 29 of the approval of arms sales to Taiwan worth \$6.4 billion continues a policy that has been followed by successive Administrations for more than 30 years. This decision was a tangible example of our commitment to meet the obligations spelled out in the TRA.

The excellent working relationships we have with Taiwan were further cemented in August 2009 when the U.S. was able to respond quickly to Taiwan's requests for assistance following Typhoon Morakot. Through USAID, we released emergency assistance funds to the Taiwan Red Cross to help deal with the crisis. PACOM dispatched heavy lift helicopters to Taiwan to engage in relief work and sent several loads of needed relief materials. These actions again demonstrated our lasting friendship with the people of Taiwan and our willingness to lend a hand when Taiwan needed our help.

While we continue to bolster Taiwan's confidence, we also express to the PRC our strong concern over continued lack of transparency in its military modernization and its rapid buildup across the Strait.

Expanding U.S.-Taiwan Economic Ties

Finally, closer economic relations are clearly in the interest of both the United States and Taiwan.

Taiwan President Ma has made it clear that Taiwan desires to strengthen its economic ties with the United States and other trade partners at the same time as it pursues economic agreements with the mainland, such as the proposed cross-Strait Economic Cooperation Framework Agreement. The Administration has the same goal. We would like to reinvigorate the U.S.-Taiwan economic agenda, reduce trade barriers and increase U.S.-Taiwan trade and investment ties.

Taiwan is one of our most important trade and investment partners. The United States is the largest foreign investor in Taiwan with cumulative direct investments of over \$21 billion. Taiwan is our

10th largest trading partner, larger than Italy, India or Brazil, with trade amounting to over \$46 billion last year. We hope bilateral trade can grow substantially in 2010 as both the United States and Taiwan recover from last year's economic downturn.

The United States and Taiwan signed a Trade and Investment Framework Agreement (TIFA) in 1994. The TIFA is our main channel for bilateral trade consultations. Through the TIFA we have been able to resolve many difficult trade issues and deepen our economic cooperation. We have had many successes, including our work together in the area of enforcement of intellectual property rights, where Taiwan has made great strides.

In any robust trade relationship there will be some friction, and unfortunately, in recent months we have faced some significant challenges over beef. But the Administration remains committed to making progress on this and other important trade issues, revitalizing our TIFA process, and exploring new initiatives to expand our bilateral economic relationship.

The Future

How the evolving relationship between Taiwan and the PRC develops depends on the will of the leadership and the people on both sides of the Strait. The scope of future economic and political interaction will be determined in conjunction with Taiwan's well-established, thriving democratic processes.

As I mentioned above, both sides agreed to begin talks by addressing the easy issues first. These tend to be in the realm of economic and cultural exchanges, although I expect that the negotiation to conclude an ECFA will be a challenge on both sides. The two sides have yet to face the more difficult, political and military issues. We are nevertheless encouraged by progress to date, and confident that our long-standing approach to the Taiwan Strait will enhance the prospects for further steps to peacefully manage this complicated relationship.

Thank you for the opportunity to testify today on this important topic. I look forward to your questions.

HEARING CO-CHAIR MULLOY: Thank you, Mr. Shear.
Mr. Schiffer.

**STATEMENT OF MICHAEL SCHIFFER, DEPUTY ASSISTANT
SECRETARY OF DEFENSE FOR ASIAN AND PACIFIC SECURITY,
U.S. DEPARTMENT OF DEFENSE
WASHINGTON, DC**

MR. SCHIFFER: Thank you, Mr. Chairman, Madam Vice Chairman, members of the Commission. I'd like to thank you also for the opportunity also to appear before you today.

I will focus my remarks on the military dimension of the cross-Strait relationship and the implications for the United States. The balance in the Taiwan Strait is a critically important topic that has a strong bearing on our enduring interests in and commitment to peace and security in the Asia-Pacific region, and I commend the Commission for its continued interest in these matters.

The Obama administration is firmly committed to our one-China policy based on the three Joint U.S.-China Communiqués and the Taiwan Relations Act.

This is a policy that has endured across eight administrations, transcended political parties, and has served as a cornerstone of our

approach to Asia for over three decades. President Obama was very clear on this point during his trip to China last November in saying that we will not change this policy and this approach.

Within the Department of Defense, we have a special responsibility to monitor China's military developments. Under the Taiwan Relations Act, we are charged with maintaining the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security or the social or economic system of the people of Taiwan.

We are also charged with making available to Taiwan defense articles and services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability. We take these obligations very seriously.

As I know members of this Commission are aware, the People's Republic of China is pursuing a long-term comprehensive transformation of its armed forces from a mass army designed for attrition warfare on its own territory to one capable of fighting and winning short duration, high intensity conflict along its periphery against high-tech adversaries.

The pace and scope of China's military modernization and development has increased in recent years. However, the transparency and openness with which Beijing is pursuing this build-up continues to lag. Although we assess that China's ability to sustain military power at a distance remains limited, its armed forces continue to develop and field advanced military technologies to support anti-access and area denial strategies, as well as those for nuclear, space, and cyberwarfare.

These developments are changing the regional balance of power and may have implications beyond the Asia-Pacific region as well.

Regarding Taiwan, our assessment is that it appears that Beijing's long-term strategy is to use political, diplomatic, economic and cultural levers to pursue unification with Taiwan, while building a credible military threat to attack the island if events are moving in what Beijing considers to be the wrong direction.

Beijing appears prepared to defer the use of force for as long as it believes long-term unification remains possible. However, it firmly believes that a credible threat is essential to maintain conditions for political progress, and in this regard we continue to see the military balance as shifting in Beijing's favor..

In this regard, we continue to see the military balance across the Strait as shifting in Beijing's favor. This unrelenting military build-up has continued irrespective of the recent reductions in tensions across the Strait due to President Ma's initiatives.

In assessing the cross-Strait military balance, it's important to consider both Beijing's capabilities to conduct offensive operations as well as Taiwan's defensive capabilities.

In terms of Beijing's capacity for offensive operations in the Taiwan Strait region, we continue to see the majority of the PLA's

advanced equipment being deployed to the military regions opposite Taiwan. In this context, Beijing continues to field advanced surface combatants and submarines to increase its capabilities for anti-surface and anti-air warfare in the waters surrounding Taiwan.

Similarly, advanced fighter aircraft and integrated air defense systems deployed to bases and garrisons in coastal regions increase Beijing's ability to gain air superiority over the Taiwan Strait and to conduct offensive counter-air and land attack missions against Taiwan forces and critical infrastructure.

Beijing has also deployed over 1,000 short-range ballistic missiles and a growing number of long-range land attack cruise missiles to garrisons opposite the island to enable stand-off attacks with precision or near-precision accuracy.

These capabilities are being supplemented by growing capability for asymmetric warfare, including special operations forces, space and counter-space systems, and computer network operations.

In response to these changing dynamics in the Taiwan Strait, the authorities on Taiwan have undertaken a series of reforms designed to improve the island's capacity to deter and defend against an attack by the mainland.

These include investments to harden infrastructure, build up war reserve stocks, and improve the industrial base, joint operation capabilities, crisis response mechanisms, and the officer and non-commissioned officer corps.

These improvements on the whole have reinforced the natural advantages of island defense.

In a significant move last year, Taiwan became the first military outside the United States to publish a Quadrennial Defense Review, or QDR. Taiwan's QDR, as well as Taiwan's Defense White Paper, outline a road map of investments for the future, particularly in the area of organizational reforms, force structure adjustments, transitioning to an all-volunteer force, and advancing joint operations across the spectrum of defense operations.

This approach transcends traditional service rivalries to develop an integrated force that takes advantage of Taiwan's strengths and uses innovative approaches as force multipliers.

The increasing sophistication of the threat to Taiwan posed by the forces arrayed across it from the mainland calls for greater attention and consideration of asymmetric concepts and technologies to maximize Taiwan's enduring strengths and advantages. Lasting security cannot be achieved simply by purchasing advanced hardware.

Deploying maneuverable weapon systems, taking full advantage of Taiwan's geographical advantages and making use of camouflage are ways Taiwan can degrade PRC targeting. Furthermore, increased hardening of Taiwan's defense infrastructure will make it more costly for the PRC to attack it.

These and other asymmetric approaches can serve to complicate the PRC decision calculus and enhance deterrence of conflict.

As Secretary Gates has stated, "American engagement in Asia remains a top priority for us. Our alliances and partnerships are stronger and our relationships are always maturing and evolving to reflect changing times. Far from frozen in a Cold War paradigm, our presence in Asia is designed to meet our mutual challenges in the 21st century."

In this context, U.S. policy with respect to Taiwan is a subset of our larger policy within the Asia-Pacific region, which is rooted in our network of alliances and partnerships combined with a force presence that is designed to enable responses to a variety of contingencies, whether they are natural or manmade.

As stated at the beginning of this testimony, the United States is committed to fulfilling its obligations under the Taiwan Relations Act, and on January 29, the Obama administration announced its intent to sell Taiwan \$6.4 billion worth of defensive articles and services. This decision was based solely on our judgment of Taiwan's defensive needs.

Following the March 2008 elections on Taiwan, the security situation in the Taiwan Strait entered a period of relaxed tensions. Both Beijing and Taipei have embarked on a program of cross-Strait exchanges intended to expand trade and other economic links as well as people-to-people contacts. The United States welcomes these trends as they contribute to a greater and more durable stability in a region that has a history of volatility.

Despite these positive developments, however, Beijing's sustained investment in an increasingly capable armed force across from Taiwan continues to shift the military balance in its favor.

The longstanding U.S. policy, as enshrined in the Taiwan Relations Act, continues to play an important role in maintaining stability and deterrence of conflict in the Taiwan Strait by demonstrating to Beijing that it cannot achieve its unification goals by coercion or force.

We take our responsibilities in this respect seriously. A Taiwan that is strong, confident and free from threats of intimidation, in our view, is a Taiwan that is best postured to discuss and adhere to whatever future arrangements the two sides of the Taiwan Strait may peaceably agree on.

In fact, this policy serves as an important enabler of improvements in the cross-Strait relationship because it helps to create the conditions within which the two sides can engage in peaceful dialogue.

Moreover, the preservation of peace and stability in the Taiwan Strait is fundamental to our larger interest of promoting peace and prosperity in the Asia-Pacific region at large.

In contrast, a Taiwan that is vulnerable, isolated, and under threat would not be in a position to reliably discuss its future with the

mainland and may invite the very aggression we would seek to deter, jeopardizing our interests in regional peace and prosperity.

The Department of Defense will continue to monitor military trends in the Taiwan Strait and is committed to working with the authorities on Taiwan as they pursue defense reform and modernization to improve the island's ability to defend itself against an attack from the mainland.

Organizational reforms, joint operations, hardening and long-term acquisition management are all significant steps that will enhance Taiwan's security over the long term. As this process moves forward, the administration is equally committed, and consistent with the Taiwan Relations Act, to consult with Congress appropriately if and when we move forward with additional support and assistance to Taiwan.

Mr. Chairman, Madam Vice Chairman, members of the Commission, I would like to thank you for the opportunity to appear before you today, and I look forward to any questions you may have.

[The statement follows:]

**Prepared Statement of Michael Schiffer, Deputy Assistant Secretary
of Defense for Asian and Pacific Security, U.S. Department of
Defense, Washington, DC**

Mr. Chairman, Madame Vice Chairman, and Members of the Commission, I would like to thank you for the opportunity to appear before you today to offer testimony from the Administration on recent economic, political, and military developments in the Taiwan Strait and their implications for the United States. I will focus my remarks on the military dimensions. From our perspective at Defense, the balance in the Taiwan Strait is a critically important topic that has a strong bearing on our enduring interests in and commitments to peace and stability in the Asia-Pacific region, and I commend the Commission's continued interest in these matters.

The Obama Administration is firmly committed to our One-China policy based on the three joint U.S.-China communiqués and the Taiwan Relations Act. This is a policy that has endured across eight Administrations, transcended political parties, and has served as a cornerstone of our approach to Asia for over three decades. President Obama was very clear on this point during his trip to China last November in saying that we will not change this policy and approach.

Within the Department of Defense we have a special responsibility to monitor China's military developments and deter conflict. And, under the Taiwan Relations Act, not only are we charged with maintaining the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security or the social or economic system of the people of Taiwan, we are also charged with working with our interagency partners to make available to Taiwan defense articles and services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

We take this responsibility seriously. A Taiwan that is strong, confident, and free from threats or intimidation, in our view, would be best postured to discuss and adhere to whatever future arrangements the two sides of the Taiwan Strait may peaceably agree upon. In fact, this policy serves as an important enabler of improvements in the cross-Strait relationship because it helps to create the conditions within which the two sides can engage in peaceful dialogue. Moreover, the preservation of peace and stability in the Taiwan Strait is fundamental to our larger interests of promoting peace and prosperity in the Asia-

Pacific writ large. In contrast, a Taiwan that is vulnerable, isolated, and under threat would not be in a position to reliably discuss its future with the mainland and may invite the very aggression we would seek to deter, jeopardizing our interests in regional peace and prosperity.

Assessing the Military Balance

The Secretary of Defense is required to report to Congress annually his assessment of military and security developments involving the People's Republic of China. An important part of this assessment involves our perspectives on Beijing's strategy toward Taiwan, the military capabilities China is deploying opposite the island, and any challenges to Taiwan's operational capabilities for deterrence. Although we are in the process of finalizing and coordinating this document, the core trends with respect to the military balance across the Strait that have persisted in recent years remain unchanged.

The People's Republic of China is pursuing a long-term comprehensive transformation of its armed forces from a mass army designed for attrition warfare on its own territory to one capable of fighting and winning short duration, high intensity conflict along its periphery against high tech adversaries. The pace and scope of China's military developments has increased in recent years; however, the transparency and openness with which Beijing is pursuing this build-up continues to lag. Although we assess that China's ability to sustain military power at a distance remains limited, its armed forces continue to develop and field advanced military technologies to support anti-access and area denial strategies, as well as those for nuclear, space, and cyber warfare. These developments are changing regional military balances and have implications beyond the Asia-Pacific region.

As the People's Liberation Army's (PLA) modernization has progressed, the improved capabilities have given Beijing's military and civilian leaders increased confidence in surveying the broader strategic landscape for applications of military force in defense of the PRC's expanding interests. However, even as the PLA explores new roles and mission sets that go beyond immediate territorial considerations, we believe that the primary focus of the PLA build-up remains oriented on preparing for contingencies in the Taiwan Strait.

It appears that Beijing's long-term strategy is to use political, diplomatic, economic, and cultural levers to pursue unification with Taiwan, while building a credible military threat to attack the island if events are moving in what Beijing sees as the wrong direction. Beijing appears prepared to defer the use of force for as long as it believes long-term unification remains possible. However, it firmly believes that a credible threat is essential to maintain conditions for political progress, and in this regard we continue to see the military balance as shifting in Beijing's favor. This unrelenting military buildup continues irrespective of the reductions in tensions due to President Ma's cross-Strait initiatives. In assessing the cross-Strait military balance, it is important to consider Beijing's capabilities to conduct offensive operations and Taiwan's defensive military capability.

In terms of Beijing's capacity for offensive operations in the Taiwan Strait region, we continue to see the majority of the PLA's advanced equipment being deployed to the military regions opposite Taiwan. In this context, Beijing continues to field advanced surface combatants and submarines to increase its capabilities for anti-surface and anti-air warfare in the waters surrounding Taiwan. Similarly, advanced fighter aircraft and integrated air defense systems deployed to bases and garrisons in the coastal regions increase Beijing's ability to gain air superiority over the Taiwan Strait, and conduct offensive counter-air and land attack missions against Taiwan forces and critical infrastructure. Beijing has also deployed over 1,000 short range ballistic missiles and growing numbers of long-range land attack cruise missiles to garrisons opposite the island to enable stand-off attacks with precision or near-precision accuracy. These capabilities are being supplemented by a growing capability for asymmetric warfare, including special operations forces, space and counter-space systems, and computer network operations.

We have limited insights into Beijing's actual contingency planning for military operations in the Taiwan

Strait, but based on observed capability investments, we believe that if the mainland were to elect to use military force against Taiwan, the PLA would be tasked to rapidly degrade Taiwan's will to resist while simultaneously dealing with any third party intervention on Taiwan's behalf in a crisis. As a part of this effort, the PLA is building the military capability to execute multiple courses of action in any future Taiwan Strait crisis. Courses of action could include:

Quarantine or Blockade. Traditional maritime quarantine or blockade operations would have the greatest impact on Taiwan, at least in the near-term. However, the PLA Navy would have great difficulty imposing and probably today could not enforce either in the face of resistance or outside intervention. In response, the PLA has discussed in military academic literature potential lower cost alternatives such as air blockades, missile attacks, and mining to obstruct harbors and approaches. Beijing could also attempt the equivalent of a blockade by declaring exercise or missile closure areas in the approaches to ports, to achieve the effect of a blockade by diverting merchant traffic. In any of these cases, however, there is risk that Beijing would underestimate the degree to which any attempt to limit maritime traffic to and from Taiwan would trigger countervailing international pressure and military escalation.

Limited Force or Coercive Options. Beijing may also consider a variety of disruptive, punitive, or lethal military actions in a limited campaign against Taiwan, likely in conjunction with overt and clandestine economic and political activities. Such a campaign could include computer network or limited kinetic attacks, including by special operations forces, against Taiwan's political, military, and economic infrastructure to induce fear on Taiwan and degrade the populace's confidence in the Taiwan leadership.

Air and Missile Campaign. Beijing may also consider limited ballistic and cruise missile attacks against air defense systems, including air bases, radar sites, missiles, space assets, and communications facilities. These attacks could support a campaign to degrade Taiwan's defenses, neutralize Taiwan's military and political leadership, and possibly break the Taiwan people's will to fight.

Amphibious Invasion. The PLA today is capable of accomplishing various amphibious operations short of a full-scale invasion of Taiwan. With few overt military preparations beyond routine training, the PLA could launch an invasion of small Taiwan-held islands such as the Pratas, or Itu Aba. An invasion of a medium-sized, defended offshore island, such as Mazu or Jinmen is also within the PLA's capabilities. Such an invasion would demonstrate military capability and political resolve, and achieve tangible territorial gain while showing some measure of restraint. However, this kind of operation includes significant, if not prohibitive, political risk because it could galvanize the Taiwan populace and generate international opposition.

In terms of a larger scale amphibious operation, the most prominent among the PLA's options is a Joint Island Landing Campaign, which envisions coordinated, interlocking campaigns for logistics, air and naval support, and electronic warfare. The objective would be to break through or circumvent shore defenses, establish or build a beachhead, transport personnel and materiel to designated landing sites in the north or south of Taiwan's western coastline, and launch attacks to split, seize, and occupy key targets and/or the entire island. Success would depend upon air and sea supremacy, rapid buildup and sustainment of supplies on shore, and uninterrupted support. An invasion of Taiwan would strain the untested PLA and almost certainly invite international intervention. These stresses, combined with attrition and the complexity of urban warfare and counterinsurgency (assuming a successful landing and breakout), make amphibious invasion of Taiwan a significant political and military risk for China.

Taiwan's Defense Priorities

In response to these changing dynamics in the Taiwan Strait, the authorities on Taiwan have undertaken a series of reforms designed to improve the island's capacity to deter and defend against an attack by the mainland. These include investments to harden infrastructure, build up war reserve stocks, and improve the industrial base, joint operations capabilities, crisis response mechanisms, and the officer and non-

commissioned officer corps. These improvements, on the whole, have reinforced the natural advantages of island defense.

In a significant move last year, Taiwan became the first military outside of the United States to publish a Quadrennial Defense Review (QDR). Taiwan's QDR, as well as Taiwan's Defense White Paper, outlines a road map of investments for the future, particularly in the areas of: organizational reforms, force structure adjustments, transitioning to an all volunteer force, and advancing joint operations across the spectrum of defensive operations. This approach transcends traditional service rivalries to develop an integrated force that takes advantage of Taiwan's strengths and uses innovative approaches as force multipliers.

With respect to the personnel reforms, President Ma's commitment to transition to an all volunteer force is a monumental undertaking, involving organizational adjustments in personnel recruitment, troop training, logistics preparations, benefits and rights, mobilization mechanisms and retirement plans. At the conclusion of this process by 2014, Taiwan envisions an elite, professional force capable of undertaking major readiness and combat missions.

Taiwan also has begun to implement a long range acquisition planning and management process designed to ensure an efficient procurement process that delivers real joint military capability. By developing this approach, Taiwan will be able to prioritize investments in its domestic defense industries and forecast a better plan for future acquisitions from external sources – which is particularly challenging for Taiwan given that its unique political status yields few options for foreign sources of defense technologies and weapons systems.

In addition to organizational and process reforms to optimize Taiwan's acquisition process, the increasing sophistication of the threat to Taiwan posed by the forces arrayed across from it on the mainland calls for greater attention and consideration of asymmetric concepts and technologies to maximize Taiwan's enduring strengths and advantages. Lasting security cannot be achieved simply by purchasing advanced hardware. Deploying maneuverable weapons systems, taking full advantage of Taiwan's geographical advantages, and making use of camouflage are ways Taiwan can degrade PRC targeting. Furthermore, increased hardening of Taiwan's defense infrastructure will make it more costly for the PRC to attack it. These and other asymmetric approaches can serve to complicate the PRC decision-calculus and enhance deterrence of conflict.

The Role of U.S. Policy

As Secretary Gates has stated, "American engagement in Asia remains a top priority for us. Our alliances and partnerships are stronger, and our relationships are always maturing and evolving to reflect changing times. Far from frozen in a Cold War paradigm, our presence in Asia is designed to meet our mutual challenges in the 21st century." In this context, U.S. policy with respect to Taiwan is a subset of our larger policy within the Asia-Pacific region, which is rooted in our network of alliances and partnerships combined with a force presence that is designed to enable responses to a variety of contingencies, whether they are natural or man-made.

As stated at the beginning of this testimony, the United States is committed to fulfilling its obligations under the Taiwan Relations Act, and on January 29, the Obama Administration announced its intent to sell Taiwan \$6.4B worth of defense article and services. This decision was based solely on our judgment of Taiwan's defense needs:

- 60 UH-60 Blackhawk Utility Helicopters. Utility helicopters fill an immediate need for Taiwan's military to respond to humanitarian assistance and disaster relief operations. In wartime, the UH-60 would provide essential mobility capabilities to move troops and equipment around the island.

- 2 PAC-3 firing units, one training unit, and 114 missiles. Delivering this system completes Taiwan's request for upgraded PAC-3 missile defense systems. These systems will be integrated into Taiwan's missile defense grid.
- Technical support for Taiwan's C4ISR system. This support will help Taiwan develop improved battlefield awareness through an integrated air, sea, and ground defense picture.
- 2 OSPREY-class mine-hunters. Mine-hunting vessels will enable Taiwan to keep key ports and shipping lanes open in the event of blockade by mining.
- 12 Harpoon telemetry missiles. These training missiles will improve Taiwan's ability to meet current and future threats of hostile surface ship operations.

However, the extent of our obligation does not end with arms sales. As part of our defense and security assistance to Taiwan, we are constantly engaged in evaluating, assessing and reviewing Taiwan's defense needs, and in this regard, we continue to work with our partners on Taiwan to advise and assist their modernization efforts. The Department of Defense leads strategic level discussions with the Taiwan Ministry of National Defense on defense modernization, PACOM leads operational and strategic level discussions with the Taiwan Ministry of National Defense, and PACOM's component commands lead tactical level discussions with their counterpart services to improve Taiwan's defensive capability.

Conclusion

Following the March 2008 elections on Taiwan, the security situation in the Taiwan Strait entered a period of relaxing tensions. Both Beijing and Taipei have embarked on a program of cross-Strait exchanges intended to expand trade and other economic links, as well as people-to-people contacts. The United States welcomes these trends as they contribute to a greater and more durable stability in a region that has a history of volatility. Despite these positive developments, however, Beijing's sustained investment in an increasingly capable armed force across from Taiwan continues to shift the military balance in its favor.

In light of these dynamics, longstanding U.S. policy, as enshrined in the Taiwan Relations Act, continues to play an important role in maintaining stability and deterrence of conflict in the Taiwan Strait by demonstrating to Beijing that it cannot achieve its unification goals by coercion and force.

The Department of Defense will continue to monitor military trends in the Taiwan Strait and is committed to working with the authorities on Taiwan as they pursue defense reform and modernization to improve the island's ability to defend against an attack from the mainland. Organizational reforms, joint operations, hardening, and long term acquisition management are all significant steps that will enhance Taiwan's security over the long-term. As this process moves forward, this Administration is equally committed, and consistent with the Taiwan Relations Act, to consult with Congress appropriately if and when we move forward with additional support and assistance to Taiwan.

Mr. Chairman, Madame Vice Chairman, and Members of the Commission, I would like to thank you for opportunity to appear before you today.

PANEL II: Discussion, Questions and Answers

HEARING CO-CHAIR MULLOY: Thank you, Mr. Schiffer.

We're going to have five-minute question periods, and since we have a lot of Commissioners with questions, we'll try and stick with

this time frame. So, first, Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Thank you both for your service.

I know your departments are doing great things on this issue. It's much easier to be in my position and lob hard questions than it is to be in your position and make policy, but nonetheless I will take my position and lob hard questions. I hope they're not too hard.

I have two for Mr. Shear and one for Mr. Schiffer. The first is, I think it makes a lot of sense that we're for basically a policy of peaceful resolution without, well, free from coercion. But there seems to be an inconsistency in your testimony because you said we're not for independence but we're for peaceful resolution that the two sides decide upon.

So would we be for a peaceful negotiated independence?

MR. SHEAR: We do not support Taiwan independence. Our one-China policy is based on the three Communiqués and the Taiwan Relations Act.

COMMISSIONER BLUMENTHAL: But even if they negotiated peacefully? Because that's inconsistent with a peaceful resolution that the two sides come to.

MR. SHEAR: Well, the ultimate resolution of issues across the Taiwan Strait will be between the Taiwan people and the people on the mainland.

COMMISSIONER BLUMENTHAL: So how can we remove--

MR. SHEAR: We'll leave it to them.

COMMISSIONER BLUMENTHAL: When you say we're not for independence to begin with, how can you then say that we're for peaceful resolution and what the two decide on because then we're removing an option? If the two sides decide, like so many others who have had territorial disputes, to a peacefully-negotiated independence, commonwealth, or something like that, we'd be against that?

MR. SHEAR: I understand the logic of your position, but the fact is that the policy, as I have stated it, has worked for 30 years. It has maintained peace and stability. It's helped maintain peace and stability across the Taiwan Strait, and I think it will continue to do so in the future. How the issues across the Taiwan Strait are resolved are ultimately up to the people on both sides of the Strait.

COMMISSIONER BLUMENTHAL: So we can surmise that whatever they come up with, we'll support it if it's peaceful.

The other question I had is for both of you, and then a question for Mr. Schiffer. One is can we really say that they're negotiating even now free from coercion when you both testified about the continued unabated military build-up across the Strait? Aren't they still, even today, negotiating with a gun pointed against their head in the case of Taiwan?

MR. SHEAR: If I may, I think it's a matter of confidence, and

leaders on Taiwan tell us it's a matter of confidence, and that continued U.S. support for Taiwan as well as continued U.S. arms sales help give them the confidence to engage with the mainland, and I think that's the fundamental issue here, confidence.

COMMISSIONER BLUMENTHAL: Do we ever press the mainland to--it's hard to negotiate in confidence, just as a general matter, I think, if the other side has not renounced the use of force against you. Do we ever push the Chinese to renounce the use of force and negotiate in confidence and take down its military forces so they could actually negotiate free of coercion?

MR. SHEAR: We have expressed our concern with regard to the Chinese military--the PRC military--build-up on their side of the Strait repeatedly, and our approach to issues on the Taiwan Strait for over 30 years now has been on the basis of peaceful resolution.

COMMISSIONER BLUMENTHAL: But is it both of your assessments that they are now negotiating free of coercion?

MR. SCHIFFER: I guess I would go off the statement that President Ma made after the announcement of our arms sale package on January 29, where he stated that he was thankful for the package and that it did provide him with the confidence that he feels that he needed to be able to engage in discussions across the Strait.

This is obviously an issue that we have to pay close and continuing attention to, and as the military balance across the Strait changes--it's, as you know, a very dynamic balance--we have to make sure that we are doing our utmost to assure that Taiwan can continue to have the confidence that it needs to be able to engage with the mainland.

COMMISSIONER BLUMENTHAL: How much time do I have left?

HEARING CO-CHAIR MULLOY: 20 seconds.

COMMISSIONER BLUMENTHAL: 20 seconds. Okay. I would just ask in my last 20 seconds if there's any way we can get some kind of unclassified, or classified, I suppose, risk assessment to U.S. forces if Taiwan does not have the adequate air capability to defend its own airspace?

Thank you very much for your answers.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Shea.

COMMISSIONER SHEA: My question won't be as tough as Dan's, but I'll ask it. Later today, we're going to hear from Professor Shelley Rigger from Davidson College, and she writes the following:

"The United States and Taiwan have long shared the position that without robust military defenses, Taipei will lack the confidence to negotiate with Beijing. For that reason, improving economic and political relations across the Strait not only is consistent with continued arms sales but depends on"--depends on--"continued arms sales. In

addition, a sharp change in the military balance in the Strait would destabilize the region. Instability is not conducive to better relations."

Do you agree with that statement?

MR. SCHIFFER: I believe, as I put it in my statement, we view the arms sales as a necessary enabler that allows for these positive developments to go forward. So broadly speaking, yes.

MR. SHEAR: Yes.

COMMISSIONER SHEA: Okay. So you feel that in order for Taiwan to engage with the PRC on economic, cultural, even political matters, they need to have the security that grows out of a strong military defense posture vis-à-vis the PRC? Is that correct?

MR. SHEAR: That is correct.

COMMISSIONER SHEA: In our report last year, we had a section outlining the various forces of Taiwan versus the various forces of the PRC, and it doesn't look like a very fair balance. Do you think we're at the point where the balance is so shifting towards the PRC that we're risking having instability in the region?

MR. SCHIFFER: This is a question that, as you know, we are constantly grappling with at the Department of Defense. And we are constantly assessing and reassessing across every single possible dimension the nature of the shifting balance of forces and what's necessary to assure that Taiwan has the goods, the services, and the capabilities that it needs to be able to defend itself and to deter attack by China.

It's not, as you know, a simple question to answer because there are circumstances in which asymmetric Taiwan capabilities provide it the ability to effectively deter and defend. Given the nature of the Chinese military build-up, given the nature of the island of Taiwan, its demographic constraints, the physical constraints that it's under, we're never going to have a symmetric balance--

COMMISSIONER SHEA: Right.

MR. SCHIFFER: --across the Strait. So the question is making sure that Taiwan has a sufficient capability to be able to deter and defend, and that's what we seek to do.

COMMISSIONER SHEA: Well, help me understand--how you grapple with this issue? I've never worked at the Defense Department, but I imagine if I were working at the Defense Department, I would say Taiwan needs more, more military, more security, but what other factors go into a decision whether to accept, for example, the letter of request on the F-16s?

What are the other things that you consider when making those types of decisions?

MR. SCHIFFER: Well, I will answer that in the F-16 sort of context a little bit more, more specifically, because I think it's a good case study. I don't think there is any question that Taiwan faces a challenge to its dominance of its airspace. I think that's not news.

That's been a situation that's existed for quite awhile and which we've been concerned with for quite awhile.

But the question then becomes what's the right answer to that, to that question? What's the right answer to that challenge? And answering that question--and wish it were simple--requires looking at a whole range of capabilities. It's not just what platform they have; it's also a question of do they have runway repair kits; do they have hardened hangars?

If we're going to ship a bunch of planes over to Taiwan that they can't actually ever use in combat because this is a "but for the nail the horseshoe was lost," "but for the horseshoe, the kingdom was lost" sort of situation that doesn't necessarily make sense.

If there are other priorities that Taiwan also has to pay attention to that would become unbalanced by concentrating too much in one area that would create other vulnerabilities, either equal or greater, that Taiwan would have to face, and that we would have to compensate for, we need to figure out how to best prioritize all of these challenges, and so on and so forth.

It's very, very complicated set of questions, as I said, that cut across a number of different dimensions as we assess the threat and challenges that Taiwan faces, the needs that they have, to be able to counter those challenges and to be able to have confidence in their ability to do so, and those are the sorts of questions that we are constantly cycling through internally, discussing with the authorities on Taiwan, so that we can get a better sense of their view of the issues and working to try to come up with the right set of answers.

HEARING CO-CHAIR MULLOY: Thank you, Mr. Schiffer.
Commissioner Fiedler.

COMMISSIONER FIEDLER: Thank you.

Actually I thought that both your testimonies were a very clear statement of U.S. interests, and in the case of Mr. Schiffer on the defense side, perhaps the clearest that I've heard.

And I note one new thing, and that is your explicit discussion of asymmetric counter to China, in a defense sense, which has not been part of the discussion except for the asymmetric strategy China employs, access denial, in the past, and I think I agree with you more than a little that it's not simply a question of F-16s; it's a question of maybe how many, for what purpose, and in combination with what else?

So I'm more encouraged by the asymmetric discussion and less discouraged by the fact that we haven't been selling them the F-16s. That's just a personal sort of opinion.

On the coercion side, I was a little more disappointed--I was happy after your testimony, and then a little more disappointed in response to Dan's question on the coercive atmosphere, but I do understand that you all have diplomatic roles. But I think we should be clear that, and I think one of you stated or both of you, that the Chinese

believe that they need the military capability to continue negotiations.

Do you believe that's because they fear that the DPP could win again soon and therefore squander away what they believe is their advantage in negotiating with the Ma administration?

MR. SHEAR: As I said in my statement, I think some people on the PRC side do fear that the current administration on Taiwan may pocket some concessions made by the PRC, and then Taiwan would elect less flexible leaders in the future. I think the Chinese, there are Chinese who are very concerned about that. I think one reason for the deployments on the PRC side is that they wish to deter a declaration of Taiwan independence.

COMMISSIONER FIEDLER: I'm going to ignore the second point, the declaration of independence, because that may be the red flag in front of the bull, but it's much more generically problematic, i.e., the Chinese are afraid of democracy in Taiwan.

It's not just a contrast necessarily between the DPP and the KMT. It's also a concern that another KMT leader wouldn't be as willing to negotiate as President Ma has been.

That seems to be like an endless problem. The Chinese are never going to be completely or even partially comfortable with democracy. That's most certainly the case on the mainland. So I don't see an end to that problem, and therefore the defensive issues come to fore vis-à-vis the United States and our policy.

Just to put the coercive atmospherics into human context, and I understand why you might not be able to talk numbers because of classifications, but China unleashing a combination missile-artillery barrage on the small island of Taiwan with a concentrated population, despite your comment about precision weaponry, has to involve the loss of innocent life.

Have we ever done any estimates whether that is minimal, substantial, if you don't want to use numbers?

MR. SCHIFFER: We have looked at a number of scenarios, and without being able to go into any details here as I'm sure you can imagine, depending upon the nature of the sort of Chinese strike that one would imagine and what weapons are used, how many, when, and where, you have, there's a wide variety of possible outcomes in terms of the damage assessment.

COMMISSIONER FIEDLER: Wide and involving significant loss of life?

MR. SCHIFFER: Again, depending upon exactly what the scenario is that you're looking at, there's a wide variety of outcomes.

COMMISSIONER FIEDLER: How much time do I have?

HEARING CO-CHAIR MULLOY: Ten seconds.

COMMISSIONER FIEDLER: Okay. I yield back to Mr. Mulloy.

HEARING CO-CHAIR MULLOY: Thank you, Commissioner Fiedler.

Commissioner Wortzel.

HEARING CO-CHAIR WORTZEL: Well, thank you both for appearing and for the clear explanations of U.S. policy and obligations under the Taiwan Relations Act in your statements. That's very helpful.

Mr. Schiffer, on page three of your written testimony, you argue that traditional maritime quarantine or blockade operations would have the greatest impact on Taiwan in the near term.

In the past, the Republic of China has sought to acquire submarines to meet that threat. U.S. arms sales have significantly strengthened Taiwan's anti-submarine warfare capabilities.

Where do we stand today on Taiwan's stated need for submarines?

MR. SCHIFFER: That's a matter that we're continuing to assess and look at.

HEARING CO-CHAIR WORTZEL: I yield my time.

HEARING CO-CHAIR MULLOY: Thank you, Commissioner Wortzel.

Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Good morning, gentlemen. I've heard the sales package mentioned, \$6.4 billion. The defense budget is \$9.3 billion. How are they going to pay for it? How was the number developed? In that \$6.4 billion, are the three Patriot missiles--at almost a billion bucks apiece--included? Who developed this package and how realistic is it?

MR. SCHIFFER: Well, as you know, this was an arms sales package that was developed based upon the request that Taiwan had put before us and our assessment of their defense needs.

COMMISSIONER VIDENIEKS: How much of it is hardware and how much is support?

MR. SCHIFFER: I can get you the exact breakdown because in some of the categories, there is hardware and support are wrapped together, but certainly when it comes to things like the Blackhawk helicopters, the PAC-3 firing units, the OSPREY-class mine hunters and the Harpoon telemetry missiles, I mean that's hardware, but there is support that's associated with--

COMMISSIONER VIDENIEKS: Who is going to provide training and where?

MR. SCHIFFER: We have, as you know, a rather robust relationship with Taiwan to provide them with appropriate training and support.

COMMISSIONER VIDENIEKS: Are these people, if they're Americans, are they in harm's way?

MR. SCHIFFER: We certainly don't think so. I suppose that all depends on how you consider "in harm's way," but we certainly don't think so.

COMMISSIONER VIDENIEKS: Are you free to say approximately how many uniformed or other people there are on the

island now performing training and other support services?

MR. SCHIFFER: Not in this setting.

COMMISSIONER VIDENIEKS: One more question, sir. You quoted or at least referred to the Taiwan Relations Act and said that part of it is a vital interest to the U.S. My understanding is that "vital" means that we may go to war if a vital area were threatened.

Could maybe both of you comment on which part of the Taiwan Relations Act poses a vital consideration to the United States?

MR. SHEAR: If I recall correctly, the Taiwan Relations Act states that security and stability in the Western Pacific is of great importance to the U.S. I don't remember the exact words, whether it says "vital" importance or not.

COMMISSIONER VIDENIEKS: I think this morning you used the word "vital."

MR. SHEAR: The Taiwan Relations Act recognizes the importance of security and stability in the Western Pacific, and it states that the U.S. government would view with grave concern the incidence of violence in the Strait.

COMMISSIONER VIDENIEKS: Understood. But as far as the amounts involved, the \$6.4 billion and the, to me what appears to be rather few, three missiles at almost \$900 million apiece, helicopters at \$50 million apiece, is this an equipment cost or is it a combined cost of equipment plus support? And how long a period of time will this package, this program, span, and how are they going to pay for it?

MR. SCHIFFER: As I said, I will be able to provide you the breakdowns, if you wish, for each element of the hardware package and then the support element and break that down for you.

COMMISSIONER VIDENIEKS: We would appreciate that.

MR. SCHIFFER: As you know, with many of these systems that we provide to Taiwan, these can be multi-year packages, and we are right now at the early stages, having notified Congress of our intentions to offer these systems to Taiwan, of now entering into the process of discussing with Taiwan the contracts and the process by which they will then be purchasing those--

COMMISSIONER VIDENIEKS: Thank you. If you could provide that to the leadership, we'd appreciate it very much. Thank you.

MR. SCHIFFER: Happy to do so.

HEARING CO-CHAIR MULLOY: Thank you.

Larry, you had something you wanted to get into the record.

HEARING CO-CHAIR WORTZEL: I'm going to help you out, Dave. I'm going to quote from that paragraph of the Taiwan Relations Act, and then I'll get out of the way:

"It is the policy of the United States to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific and of grave concern to the United States."

HEARING CO-CHAIR MULLOY: Thank you for that clarification. That's in the record.

Now, Chairman Slane.

CHAIRMAN SLANE: Thanks to both of you for taking the time to appear before us today.

I have a question for Mr. Shear. Can you give us an update on the extradition treaty?

MR. SHEAR: We're looking at the possibility of an extradition agreement with Taiwan. We have not yet finished those deliberations, and when we do, we will get back to Taiwan with a response.

But certainly enhanced legal cooperation between Taiwan and the United States is very important, and we believe that this issue is a good indication of the importance we place on cooperation as a whole with Taiwan.

CHAIRMAN SLANE: One of our responsibilities is to make recommendations to Congress. Is there anything that Congress can do to help you move this forward?

MR. SHEAR: We'll have to get back to the Commission on that as our look at this possibility progresses.

CHAIRMAN SLANE: Thank you.

HEARING CO-CHAIR MULLOY: Is that it?

CHAIRMAN SLANE: Yes.

HEARING CO-CHAIR MULLOY: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you both for being here. I'm sure you have many demands on your time so appreciate all of your time.

Let me ask a question related to the commitments and the language that Commissioner Wortzel read just a moment ago regarding the activities the U.S. might engage in.

China has enhanced its capabilities of denial and deterrence, and clearly both in a hardware sense, as well as we've seen with cyber-incursions over the last several years, presumably targeting logistical support or how they might attack logistical support, et cetera, in the eventuality that there might be some conflict or desire of the U.S. to have force projection to show its interest in the area.

Can you comment on increasing Chinese capabilities in terms of targeting, denial, deterrence, and how the U.S. is responding, recognizing there has been some minimization of mil-to-mil contacts, but what are we doing about their enhanced capabilities and how do we respond to them? Either witness, but Mr. Schiffer, this is probably more in your bailiwick.

MR. SCHIFFER: Sure, and let me just provide you with one example in the cyber area that you had mentioned. Our 2009 report to Congress, as you're aware, discussed China's use of computer networks as both a tool for intelligence but also as a potential asymmetric weapon.

The Secretary of Defense has approved the establishment of a sub-unified command, the U.S. Cyber Command, in June 2009, to better focus military cyberspace operations, including the defense of our own department's information networks, and also to be able to provide us with the appropriate sub-unified command to focus on the military aspects of cyberspace, of the cyberspace domain.

We view those as absolutely critical for U.S. military command and control and the conduct of operations and obviously critical in any potential conflict that we would envisage with an adversary that possesses cyber ability and the ability to use cyber as an asymmetric weapon.

We are doing our utmost to develop the capabilities that we need to be able to defend and protect ourselves and our partners in the cyber domain.

COMMISSIONER WESSEL: I believe it was last year in our hearing on naval modernization that we learned of increased capabilities by the Chinese to deter U.S. naval forces, longer-range targeting, more accurate targeting, et cetera, that would presumably seek to have us, our forces, at a greater distance and therefore less able to respond.

I have not read the most-recent QDR--has DoD looked at that specifically, and have there been any discussions with the Chinese about concerns about specific targeting or capabilities of U.S. forces?

MR. SCHIFFER: We are increasingly concerned about the area denial and anti-access capabilities that China appears to be developing, and we are particularly concerned about the lack of transparency that accompanies this area as with other areas of China's military modernization efforts.

We have made a number of efforts to engage with our Chinese friends to discuss these issues and to encourage them to engage with us in our mutual interests in a greater degree of transparency so that we can better understand what they are doing and therefore avoid any possibility of miscalculation or misapprehension down the line.

I can tell you that there's been some success, we've gotten some traction, but obviously nowhere near as much as we hope, and this is an area where we're going to continue to work and continue to press the Chinese to see if we can develop a better set of communications and exchanges in this area.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Cleveland.

COMMISSIONER CLEVELAND: I have a short question. The Taiwan Relations Act says that with regard to defense articles and services, any decision to make those available to Taiwan should be based solely upon their judgment of the needs of Taiwan.

Could you interpret that clause for me?

MR. SHEAR: It means what it says. It means that our decisions

are based on an assessment of Taiwan defense needs that are made in consultation with the Taiwan side.

HEARING CO-CHAIR MULLOY: Thank you.

I have a question. This goes to Mr. Schiffer's testimony on page two--and the question is for Mr. Shear and then Mr. Schiffer to comment:

"It appears Beijing's long-term strategy is to use political, diplomatic, economic and cultural levers to pursue unification with Taiwan, while building a credible military threat to attack the island if events are moving in what Beijing sees as the wrong direction."

Taiwan already has much more trade with China than they do with us. They have more investment with China than they do with us. This will probably further increase that. Does the United States favor this Economic Cooperation Framework Agreement?

MR. SHEAR: In general terms, we haven't seen how the ECFA is going to look, and we have not yet had the chance to determine how it may affect our economic relationship with Taiwan, so I'm going to withhold judgment on the ECFA for the moment, but I would like to say that in general terms we welcome expanded economic cooperation between Taiwan and China.

HEARING CO-CHAIR MULLOY: As a follow-up to that, what would you think if Taiwan and China entered an agreement that Taiwan says we're not going to move towards unification? We'll do a 50-year agreement; we won't move towards unification for 50 years, and you promise that you won't invade us for 50 years, and we'll see where things are after 50 years. Do you think something like that would be useful to ease tensions there?

MR. SHEAR: I think that's pretty hypothetical, and I'm reluctant to comment directly on it, but I will say that it is up to the people on both sides of the Strait, and I expect that should progress be made in cross-Strait relations--that it will be made on the basis of strong support from the people of Taiwan as a whole.

HEARING CO-CHAIR MULLOY: Mr. Schiffer, do you have anything you want to add?

MR. SCHIFFER: No, nothing to add.

HEARING CO-CHAIR MULLOY: Okay. Although we're now at the time when we should let you fellows go, do you have a few more minutes? There are a couple of Commissioners who have follow-up questions; if we give them two-minute follow-up questions, that might be useful.

Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Sure. The statement is to both of you. Mr. Shear, I did not mean to put you on the spot. This inconsistency has been puzzling me since I served in government, and we even had people in the Bush administration say we would go ahead and oppose Taiwan independence.

I guess my point is, is if we want a peaceful resolution, we have to keep all options and flexibility on the table and not be inconsistent about any one of those options. This has been a longstanding logical inconsistency that I think forecloses flexibility.

But my follow-up question is on the question of the F-16 C/Ds and some of the things you said, Mr. Schiffer, referring to the survivability and so forth, it seems like we're holding Taiwan to a higher standard than our own Air Force. Kadena and Guam are not any more or less hardened, from my understanding, unless things have changed, than Taiwan is. Yet we continue to have an Air Force deployed in those places.

I wonder why we don't have a policy that says because of the clear requirement that says we're going to harden those places, help Taiwan harden those places and sell them the weapons they need, just as we're going to harden our own bases, which are not any more hardened?

MR. SCHIFFER: I think we're paying an awful lot of attention to that exact set of questions regarding our bases in the region as well, and that's an issue that we're grappling with there also.

I didn't want to suggest in my statement, and I hope no one took it as such, a decision one way or another on this issue. I was just merely trying to sketch out that it's a much more, getting to the right answer on the question of how we assure that Taiwan is able to maintain sufficient dominance of its airspace is a much more complicated question than just sort of a simple, okay, here's we have this challenge so this particular system in and of itself, by itself, is the answer.

And as we grapple with this question of what the right answer is to assure that Taiwan has sufficient control of its airspace, we're cycling through a whole range of interconnected questions. That's all I was suggesting.

COMMISSIONER BLUMENTHAL: Thank you. Thank you, both.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Shea.

COMMISSIONER SHEA: I also want to thank you both for being here.

I've just got three quick questions. It's my understanding under the Taiwan Relations Act, the United States is not required to intervene militarily in the event of a conflict between Taiwan and the PRC. Is that correct?

MR. SHEAR: That is correct.

COMMISSIONER SHEA: Okay. Do you think the prospect of the U.S.--I think this is called "strategic ambiguity"--the prospect or the possibility of U.S. military intervention in the Taiwan Straits enhances the security of Taiwan?

MR. SHEAR: I think it does.

COMMISSIONER SHEA: Okay. Mr. Schiffer, do you agree?

MR. SCHIFFER: Yes, I would agree with that.

COMMISSIONER SHEA: Going back to the issue Commissioner Wessel raised--I've been hearing/reading about this anti-ship ballistic missile that's going to deny potentially access of the U.S. military into the region. If the PRC were to test and deploy such a weapon, how would that impact your analysis of Taiwan's defensive military needs?

MR. SCHIFFER: We would have to take it into account if and when it happened and, yet, again, I mean these are precisely the sorts of questions that we are constantly assessing as we try to determine both what our needs are to assure that U.S. forces have the capabilities that they need, the posture that they need, the presence they need, in the region, to be able to continue to underwrite peace and stability in the Asia-Pacific region as we have successfully for 60 years now, as well as what the implications of any of these developments are for our allies and for our partners in the region.

COMMISSIONER SHEA: Okay. Thank you.

HEARING CO-CHAIR MULLOY: Commissioner Fiedler.

COMMISSIONER FIEDLER: Just a quick question on China's reaction to this package and their threats of retaliation against U.S. companies.

Do you, as the government, consider that to be serious or just a new form of whining about our policy?

MR. SHEAR: In general terms, the Chinese reaction to the notification did not exceed our expectations, nor did it exceed what the Chinese have done in the past except for the threat of sanctions on U.S. firms involved in the arms sale.

The Chinese have not--as far as I know--the Chinese have not implemented that threat. They have not yet imposed any sanctions on U.S. firms.

COMMISSIONER FIEDLER: So, therefore, am I right to assume that we take this threat seriously, are monitoring it, and that if it occurs, that it presents a fairly significant problem in U.S.-China relations? "It" being a explicit, although we saw--half of us believe that they have the more sophisticated use of political threats for economic gain, but, in this case, it would be a blatant difference in their policy of dealing with us.

MR. SHEAR: We're certainly watching the situation very closely. We took strong note of what the Chinese said, and we would view with concern any implementation of the threat.

COMMISSIONER FIEDLER: Thank you.

HEARING CO-CHAIR MULLOY: I want to thank both our witnesses, and we want to thank State and DoD for being so helpful to this Commission over the years.

We're going to take a seven-minute break, and then we'll come back with our next panel.

Thank you, again, gentlemen.

[Whereupon, a short recess was taken.]

PANEL III: MILITARY ASPECTS

HEARING CO-CHAIR WORTZEL: If you take your seats, we'll get started. In this next panel we'll examine the cross-Strait military balance and what it means for the United States.

We're joined by three expert witnesses to help us explore the topic, and we're delighted to have them.

Our first speaker will be Mark Stokes. He's Executive Director of the Project 2049 Institute, a nonprofit think tank that focuses on future security assessments of East Asia.

He was the founder and President of Quantum Pacific Enterprises and Vice President and Taiwan Country Manager for Raytheon International. He is a 20-year Air Force veteran and has served as Team Chief and Senior Country Director for China, Taiwan and Mongolia in the Office of the Secretary of Defense for International Security Affairs, and as air attaché in China.

Our next speaker will be David Shlapak. He's a Senior International Policy Analyst at the RAND Corporation. Beginning in the late 1990s, Shlapak helped write a number of studies on the strategic challenges presented by China's rise.

He has also published on the military and strategic aspects of the China-Taiwan confrontation and the Sino-U.S. security relationship, including co-authoring last year's study, "A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute."

The final speaker is Dr. Albert Willner. Al is Director of the China Security Affairs Group at the nonprofit research institute, CNA. Prior to CNA, he was Associate Dean at Georgia Gwinnett College where he researched Chinese defense policy, China-Taiwan security issues, and U.S.-China military relations.

He's a retired U.S. Army Colonel, and in 2005, Dr. Willner was the first active-duty U.S. Defense Attaché equivalent assigned to Taiwan since 1979. He was in charge of representing the U.S. Department of Defense interests in supporting U.S.-Pacific Command initiatives. He holds a Ph.D. in Foreign Affairs from the University of Virginia.

We thank you all for being here together today. We'll start with Mr. Stokes, and it's seven minutes.

STATEMENT OF MR. MARK STOKES, EXECUTIVE DIRECTOR PROJECT 2049 INSTITUTE, ARLINGTON, VIRGINIA

MR. STOKES: Thank you, sir.

I appreciate the opportunity to appear here before this esteemed group and aside colleagues here.

To be able to stick within that particular limitation, I'll keep my remarks limited to four points, and the first point being I know it's been discussed already, but it's useful, as a reminder, to point out the basis of U.S. policy with regard to Taiwan and the basis for U.S. relations with the People's Republic of China, and that basis lies within the Taiwan Relations Act.

What's useful to highlight is the emphasis on peaceful resolution of political differences between the two sides of the Taiwan Strait. What's important here is that one of the fundamental obstacles, or at least from Beijing's perspective, obstacles to U.S.-PRC relations has to do with the definition of what peaceful resolution is.

Beijing does a very good job at casting blame on the United States for its arms sales, but the reality is the U.S. defines a peaceful resolution in terms of the nature of the military challenge, and military threat that the PRC poses to Taiwan, whereas, the PRC has a different interpretation.

So I just want to throw that out, that the U.S. requirement to provide for Taiwan's defense and sell necessary defense articles and services is based upon the Taiwan Relations Act.

A second point. The PRC, despite improvements in cross-Strait relations and deepening and broadening economic interdependence, has yet to renounce use of force to resolve its differences with Taiwan, as well as effect a visible and tangible reduction in its military posture opposite Taiwan.

Taiwan faces a significant challenge today, as does the United States. Central to the challenge, I would argue, are the five brigades of short-range ballistic missiles, missiles subordinate to the Second Artillery, that are deployed in southeast China opposite Taiwan.

It cannot be overstated that this is really the problem. There would be an equilibrium if it weren't for these ballistic missiles, but this is the key point.

The third issue to address are fundamental differences in approaching Taiwan's requirements, and these depend upon the scenario in which you look at the potential for PRC use of force, one being coercive at the lower end of the spectrum, and one being, for lack of a better term, annihilative, usually in the form of an amphibious invasion, with the differences being a whole range of options in between.

Most studies and most analyses are done within the context of an annihilative type scenario, an amphibious invasion. So I would like to make that point and address questions later.

The fourth and last point, I believe the Obama administration and Department of Defense is doing well and continuing a tradition over successive administrations in providing for Taiwan's defense.

There is still a lot more to be done. In my view, the most important priority for Taiwan is in the area of C4ISR, Command, Control, Communications, Computers, Intelligence Surveillance and

Reconnaissance. The reason why this is so fundamental, yet often forgotten, to use an analogy like oxygen, oxygen is so fundamental, but it's only realized how important it is once you lose it.

The C4ISR is critical for Taiwan's defense, all the way from communications that are survivable, to command and control systems, and all the way to sensors, being able to see threats around you, and it's not just for military, but it's also for disaster response and a whole range of other emergencies.

Air defenses are critical. As an Air Force officer, I'd be remiss in not pointing out that when it comes to military conflict, control of the air is key, and it goes all the way from a limited use of force like we saw in the 1996 missile exercises, 1999 flights over the Taiwan Strait, all the way to a denial type of scenario. And so this is a key priority.

Sea denial is also key. Submarines have a useful role and are a legitimate requirement. And all the way to ground forces.

So with that, I will wrap up my remarks and leave it open to questions. Thank you, sir.

[The statement follows:]

Prepared Statement of Mr. Mark Stokes, Executive Director, Project 2049 Institute, Arlington, Virginia

Mr. Chairman, thank you for the opportunity to participate in today's hearing on a topic that is important to U.S. interests in peace and stability in the Asia-Pacific region. It is an honor to testify here today.

A proper starting point is a brief review of the Taiwan Relations Act (TRA). The TRA highlights the U.S. expectation that Taiwan's future will be determined by peaceful means, considers non-peaceful solutions a challenge to regional peace and security, provides the basis for U.S. provision of arms of defensive character, and the need to maintain the capacity of the United States to resist any resort to force or other forms of coercion that jeopardize the security, or social or economic system of Taiwan.

At the same time, healthy and constructive relations between the United States and People's Republic of China (PRC) are important and founded upon understandings outlined in the three Joint Communiqués. An important yet often overlooked aspect of these understandings is an assumption of Beijing's commitment to a peaceful approach to resolving its political differences with Taiwan. However, fundamental differences exist over what constitutes a peaceful approach. Beijing views its military posture as ensuring a peaceful approach in part by deterring what it perceives as moves on Taiwan toward *de jure* independence. However, successive U.S. administrations have defined a peaceful approach in terms of the nature of the PRC military posture arrayed against toward Taiwan. As a result, U.S. sales of defense articles and services in accordance with the TRA are driven by the nature of the military challenge that the PRC poses to Taiwan.

In addition, it is worth noting up front that the military dimension of cross-Strait relations is only one aspect of a broader dynamic that contains elements of both cooperation and competition. Subsequent panels today will address growing economic interdependencies. Despite unfavorable odds, Taiwan has not only flourished but has played a central yet often unacknowledged role in a gradual liberalization of the PRC since initiation of its far-reaching economic reforms. Over the past 25 years, Taiwan has become a hidden yet major factor behind China's economic reforms and rapid export-driven growth that has been essential for domestic stability, modernization, and potential gradual political liberalization. These reforms, facilitated by a massive infusion of capital and expertise from Taiwan, have increased the population's standard of living, literacy, and relative level of personal freedom.

Economic interdependence has the dual effect of discouraging moves that challenge fundamental PRC interests with regards to perceived moves toward *de jure* independence on the one hand, while furthering the peaceful transformation of China on the other. As economic ties have grown, Beijing appears to be softening its approach to dealing with Taiwan while at the same time continuing to advance its ability to exercise military force. Paradoxically, despite the PRC's ability to impose its will upon Taiwan through military means, the costs of doing so are rising at an exponential rate. Non-military factors, such as growing economic interdependence, may increasingly dampen moves on either side of the Taiwan Strait to adopt policies that challenge fundamental interests of the other.

Perhaps the greatest challenge to cross-Strait relations continues to be the PRC's refusal to renounce use of force to resolve its political differences with Taiwan. However, renunciation of use of force by itself is not enough. An end to the state of hostility between the two sides of the Taiwan Strait would require a tangible decrease in the nature of the military threat that Chinese authorities and the military force under their control pose to the people on Taiwan and their democratically elected leadership. Overall trends in cross-Strait relations makes continued reliance on implicit or explicit use of military force increasingly outdated and even counterproductive.

Taiwan's influence in China likely will continue well into the future. Guided by the Taiwan Relations Act, a strong defense has enabled Taiwan to withstand PRC coercion, foster democratic institutions, and given Taiwan and its people the confidence needed for the deepening and broadening of cross-Strait economic and cultural interactions. In short, there is no logical disconnect between efforts to improve cross-Strait economic and political relations, Taiwan's desire for a strong defense, and procurement of defense articles from the United States.

Trends in PRC Military Capabilities

The PRC is steadily broadening its military options that could be exercised against Taiwan, including the ability to use force at reduced cost in terms of lives, equipment, and overall effects on the country's longer term development goals. Investment priorities include increasingly accurate and lethal theater ballistic and land attack cruise missiles; development and acquisition of multi-role fighters; development of stand-off and escort jammers; and ground force assets such as attack helicopters and special operations forces. At the same time, Beijing is investing in advanced command, control, communications, and intelligence systems and is increasing emphasis on training, including increased use of simulation.

Beyond simply developing a broader range of military options that could be applied against Taiwan, the PRC also is focused on developing the means to deny or complicate the ability or willingness of the United States to intervene in response to PRC use of force around its periphery. Evolving capabilities include extended range conventional precision strike assets that could be used to suppress U.S. operations from forward bases in Japan, from U.S. aircraft battle groups operating in the Western Pacific, and perhaps over the next five to 10 years from U.S. bases on Guam.

Aerospace power will become an increasingly powerful instrument of PRC coercion as the range and number of PLA strike aviation assets increase, land attack cruise missiles are fielded, their inventory of increasingly lethal and accurate theater ballistic missiles expands, and sophisticated electronic attack assets are deployed. Aerospace power likely will dominate any conflict in the Taiwan Strait and could shape its ultimate outcome. PLA planners may perceive that an aerospace campaign, involving the integrated application of theater missiles, electronic warfare, and strike aviation assets, offers the PRC political leadership with quick, decisive political results, perhaps more so than other options, such as gradual escalation involving a series of island seizures or slow strangulation through a maritime blockade.

Balance and Assumptions

With the foregoing in mind, a relative erosion of Taiwan's military capabilities could create opportunities and incentives for Beijing's political and military leadership to assume greater risk in cross-Strait relations, including resorting to force to resolve political differences. The cross-Strait security situation often is viewed within the context of a military balance. However, PLA capabilities should be judged against specific political objectives in a given scenario and assessed in light of Taiwan's vulnerabilities, as well as assumptions upon which U.S. decisions in fulfilling TRA obligations are made.

Evaluating basic assumptions may serve as a useful starting point. Assumptions are an important foundation for the deliberate and force planning process and in assessing Taiwan's required capabilities. At least two assumptions may be most relevant: 1) independent defense vs. external intervention; and 2) coercive courses of action vs. annihilative/invasion.

To begin with, should Taiwan assume U.S. intervention as the basis for strategic and operational planning? If there is a high degree of certainty of external assistance, such as that found in a formal alliance, then this likely would lead to a different set of priorities in the force planning and acquisition process. While there is good reason to hope and plan for potential *ad hoc* coalition operations with intervening U.S. forces, the TRA is no substitute for a mutual defense treaty. In the absence of a formal alliance commitment, prudence seems to suggest that independent defense should serve as a formal planning assumption and the basis upon which U.S. policy decisions with regard to release of defense articles.

A second fundamental assumption relates to possible PRC courses of action. If one judges Taiwan's requirements on a worst-case, least likely course of action, then the conclusions reached could be different from judgments based on more likely coercive courses of action. Within this context, assessments of the capabilities required for sufficient self-defense can be inherently subjective.

At its most basic level, debates could surround whether most likely courses of action could be coercive in nature, or annihilative through a full scale invasion. An amphibious invasion is the least likely yet most dangerous scenario and the basis upon which most assessments of Taiwan's requirements are made. It is easier to evaluate military balances when political, psychological, economic, and factors are removed.

However, annihilation involving the physical occupation of Taiwan is the least likely course of action. PRC decision makers could resort to coercive uses of force, short of a full scale invasion, in order to achieve limited political objectives. Coercive strategies could include a demonstration of force as seen in the 1995/1996 missile exercises, 1999 flights in the Taiwan, or in the future a blockade intended to pressure decision makers in Taiwan to assent to Chinese demands, strategic paralysis involving attacks against the island's critical infrastructure, limited missile strikes, flights around the island, just to name a few.

A coercive campaign could be geared toward inflicting sufficient pain or instilling fear in order to coerce Taiwan's leadership to agree to negotiations on Beijing's terms, a timetable for unification, immediate political integration, or other political goals. Military coercion succeeds when the adversary gives in while it still has the power to resist and is different from brute force, an action that involves annihilation and total destruction.

Prominent PLA political analysts believe coercive approaches offer the optimal solution to minimize negative international repercussions in the wake of using force against Taiwan to achieve limited political objectives. According to one PLA observer, a full scale military assault is "the largest scale and most violent military operation that hopes to achieve unification in one stroke and will be the most likely operation to cause the most serious U.S. military intervention." While confident China could prevail in a determined attempt to occupy the island, even in the face of limited U.S. military intervention, observers believe that the likelihood of a new Cold War in the Asia-Pacific region would be the costly consequence of a brute force, annihilative solution. Such a situation would imperil China's broader national goals and may be unnecessary to achieve more limited political goals.

PRC leaders may believe that Taiwan's central leadership has a low threshold for pain and would acquiesce shortly after limited strikes. However, others do seem to believe that coercive measures such as a blockade or occupation of a few off-shore islands leaves too much to "luck" since the Taiwan leadership's threshold is difficult to calculate.

Regardless, a couple of examples may help to illustrate the differences between coercive and annihilative scenarios in the context of U.S. security assistance. First, as the PRC began its short range ballistic missile (SRBM) build-up opposite Taiwan well over a decade ago, Chinese interlocutors vehemently protested the potential sale of systems, such as PATRIOT PAC-3, which could undercut the coercive utility of the SRBMs. PRC interlocutors made it clear that the military utility of these systems in a full scale military confrontation was not a concern. Missile defenses can be saturated or exhausted in fairly short order through a combination of multi-axis strikes, maneuvering re-entry vehicles, exhaustion or saturation through large scale salvos, and a range of other missile defense countermeasures. However,

what made these systems egregious is that they weakened the coercive utility of China's growing arsenal and increasingly accurate and lethal ballistic missiles, limited the menu of coercive courses of action available to PRC political and military leaders, and ostensibly signified a deepening of the bilateral relationship between Taiwan and the U.S.

On the other hand, the PRC has long viewed U.S. support for Taiwan's acquisition of submarines as another red line, yet for different reasons. Submarines are viewed as having significant military utility due to their inherent ability to survive a crippling first strike, potential ability to complicate surface operations in an amphibious invasion scenario, and possible challenges to PRC strategic sea lines of communication should a conflict escalate beyond the immediate vicinity of Taiwan. Yet they also most likely could signify a broadening or deepening of operational linkages between the US and Taiwan.

When viewed within a coercive context, Beijing is at war with Taiwan every day. Use of force goes along a continuum from "deterrence warfare," perhaps best demonstrated by Beijing's deployment opposite Taiwan of five Second Artillery SRBM brigades under the People's Liberation Army Second Artillery, all the way to annihilation. In between are a range of coercive scenarios involving limited applications of force to achieve limited political objectives. The 1995/1996 missile tests and 1999 flight activity in the Taiwan Strait are examples of use of force at the lower end of the violence spectrum. An amphibious invasion is the least likely scenario, but there are a range of more likely coercive courses of action far short of annihilation. Despite Beijing's arguments to the contrary, "deterrence warfare" is hardly a peaceful approach to resolving differences with Taiwan.

Taiwan's Defense Requirements: How Much is Enough and Toward What End?

Taiwan faces perhaps the most daunting security challenges in the world. Under significant pressure, the armed forces of the Republic of China (ROC) are transforming into a world-class military and the Obama administration, and Department of Defense (DoD) in particular, should be commended for efforts to date.

In order to meet the evolving challenges, a set of fundamental capabilities may be worth considering, with a special emphasis on cost effective solutions that could address a broad spectrum of coercive and annihilative challenges. The effectiveness of one capability over another depends upon the effects that policymakers are seeking. If planning for a worst case scenario, then raising the costs to the PRC of using military force by denying it success in occupying and pacifying the island becomes critical. A discussion of possible solutions could be broken down into the following capabilities:

- Upgrading the island's ability to ensure situational awareness and assured ability to communicate in the most stressing of scenarios;
- Denying the PRC command of the skies in the Taiwan area of operations;
- Ensuring sea lines of communication remain open; and
- Denying the PRC the ability to take and hold Taiwan.

C4ISR. One of the most fundamental requirements in any emergency situation is a survivable national command and control system that with sufficient warning of impending dangers and a survivable information infrastructure that could function in the most stressing of emergencies. Taiwan has powerful incentives to field one of the most advanced and networked emergency management C4ISR systems in the world. Whether military or civilian, responses to all hazards require maximal situational awareness and the means to react efficiently and effectively to prevent a further deterioration of the situation. Perhaps best exemplifying Taiwan's position at the cusp of the information revolution is the recent introduction of one of the world's most sophisticated advanced tactical data link networks. The number of participants in the network today remains limited. However, assuming proper training and cultural adjustments can be managed, the gradual expansion of the advanced data link network will solidify Taiwan's position at the leading edge of the network-centric information revolution.

However, there is more that could be done to leverage C4ISR for its defense. Enhancements to its command and control system, especially in the area of anti-submarine warfare (ASW) and maritime domain awareness, would better prepare the island's civil and military leadership for a range of emergency situations. Other investments could be worth considering, such as advanced voice

communication technologies and dual-use space systems (including electro-optical and synthetic aperture radar (SAR) remote sensing and broadband communication satellites), could prove invaluable to PRC use of force, as well as disaster warning, recovery, and response. These capabilities also may satisfy verification requirements in any future cross-Strait arms control regime.

Air Defenses. Denying the PRC unimpeded access to skies over the Taiwan Strait and Taiwan proper is a fundamental requirement. While it may be difficult to sustain operations indefinitely in an annihilative scenario, air and air/missile defense assets may be critical in resolving a conflict in its early stages and help defend the sovereignty of the skies over Taiwan. In a protracted resistance, it may be within Taiwan's ability to hold PLA pilots at risk for an extended period of time. Among the basic requirements include effective early warning and survivable surveillance networks and air battle management systems; an integrated approach to defending against medium and short range ballistic missiles, land attack cruise missiles, anti-radiation missiles, unmanned aerial vehicles, and other airbreathing threats.

If viewed from an annihilative perspective, and the goal is to deny the PRC uncontested air superiority, sea control, and ability to insert a sizable force onto Taiwan proper, then a multi-role manned platform able to conduct multiple missions is needed: close air support missions in support of the Army, maritime interdiction missions in support of the Navy, and extended range air defense against opposing fighters and other air assets. The fourth mission is more sensitive: deep interdiction against critical nodes within the theater operational system.

Maintaining the current size of Taiwan's fighter fleet, consisting of roughly 400 fighters, is important. The fleet of 60 F-5E/F fighters that Taiwan acquired during the Reagan administration is nearing the end of its useful service life and sustaining four different airframes is a significant logistical burden.

When matching these requirements against the need to take off and land using limited amount of runway, then an optimal solution could be a very short take off and landing airframe. However, possible options likely wouldn't enter the operational force for an extended period of time. From this perspective, Taiwan's desire to procure additional F-16s is understandable. The airframe already exists in the ROCAF's operational inventory, and additional F-16s to replace other airframes could reduce the logistical burden. A follow-on procurement of F-16s could serve as a bridge pending the availability of very short take off and landing airframes, or reduction of the PRC's military posture arrayed against Taiwan. While Taiwan's current ability to rapidly repair runways is substantial and its bunkers housing aircraft are significant, more likely could be done to ensure continuity of air base operations.

Denial of Sea Control. An integrated maritime surveillance network that could detect activity out into the open ocean appears to be a valid requirement. Such a network could not only support military operations, but also could be invaluable for a broad range of other missions, including border control, disaster warning, counter-trafficking, and scientific research. Among the range of options include undersea and coastal surveillance, a network of low probability of intercept coastal surveillance radars, and unmanned aerial vehicles. Taiwan's acquisition within the last few years of fast attack boats also appears to be a step in the right direction. The boats, with a lower radar cross section than larger frigates and destroyers, are able to operate with more flexibility in coastal waters. Taiwan has a valid requirement for diesel electric submarines that not only would undercut the coercive value of the PRC's growing naval capabilities, but also contribute toward countering an amphibious invasion.

Counter Invasion. The goal in a counter-amphibious landing campaign logically would be to identify and target command and control nodes, negate as many amphibious landing ships as possible, and attrit invading forces to the maximum extent, preferably as far from shore as possible. In order to reduce the size of attacking forces, joint maritime interdiction is key. In theory, assuming sufficient munitions, an impenetrable coastline could be an ultimate deterrent. In addition to new generation attack helicopters and anti-ship cruise missiles, also worth examining could be artillery- or multiple rocket-launched shells with dual purpose improved conventional munitions (DPICM) or other submunitions.

Concluding Remarks

A full scale military conflict between the two sides of the Taiwan Strait would be disaster, not only for Taiwan and the PRC, but for the United States and the world as a whole. As the economies of the two sides of the Taiwan Strait become increasingly integrated, the chances for armed conflict, in effect a form of mutually assured economic destruction, are likely to diminish. However, the PRC's refusal to renounce

use of force against Taiwan to resolve political differences and reduce its military posture arrayed against the island remains an obstacle to peace and stability in the region. Given the evolving asymmetries in military capabilities, innovative means must be found to raise the costs for PRC of force, regardless of how integrated the two economies become.

Thank you.

HEARING CO-CHAIR WORTZEL: Thank you, Mr. Stokes.
Mr. Shlapak.

**STATEMENT OF MR. DAVID A. SHLAPAK
SENIOR INTERNATIONAL POLICY ANALYST, THE RAND
CORPORATION, PITTSBURGH, PENNSYLVANIA**

MR. SHLAPAK: Good morning. I would like to thank the Commission for the opportunity to testify. It's an honor to be here.

It seems paradoxical to discuss a potential China-Taiwan conflict when relations between the two are smoother flowing today than they have been in years.

We know, however, that political tides can change almost overnight, while it takes years to redress a military balance gone awry. So prudent defense planners and strategists in the United States and Taiwan must therefore remain attentive to the changing cross-Strait balance.

For 20 years, China has worked to transform the People's Liberation Army into a modern force capable of effective operations on a contemporary battlefield. While it is important not to overstate its progress, China's military has steadily improved more or less across the board. The result today is a cross-Strait military balance that is tilted increasingly in China's favor.

This modernization effort appears to have two primary and interlocking aims: enhancing China's ability to take offensive action against Taiwan while preventing effective U.S. intervention.

A key to achieving both these goals is a synergy between China's growing arsenal of surface-to-surface missiles and its increasingly modern air force.

China has fielded over 1,000 short-range ballistic missiles and adds about 100 to its inventory every year. The latest version of the missiles offer greater ranges, improved accuracy, and a wider variety of conventional payloads, and may incorporate features such as decoys and maneuvering warheads to help defeat anti-missile defenses.

A prime target for these missiles would likely be Taiwan's military airbases. The PLA could seek to cripple Taiwan's Air Force by attacking the runways and parked aircraft at these installations.

To attack a runway, China would employ missiles with submunition payloads optimized to create craters in the surface. If enough craters are produced, the runway becomes unusable. Civil

engineer teams would work to repair the damage, but the sheer number of potholes that could be created, and China's ability to reattack bases, could keep most or all of Taiwan's Air Force out of action for hours to days.

Since not all of Taiwan's combat aircraft can be accommodated in hardened shelters, some are typically parked outside. These would be struck with a different kind of submunition warhead, one optimized to destroy any warplanes that might be exposed on the ramps.

Our analysis concluded that between 90 and 250 missiles would enable China to cut every runway at Taiwan's ten main fighter bases and damage or destroy virtually every unsheltered aircraft found there.

The attack would decimate Taiwan's ability to defend itself against follow-on strikes conducted by manned aircraft delivering precision-guided munitions against a wide variety of targets, including hardened aircraft shelters.

China's ability to inflict such a knockout blow to Taiwan's Air Force has increased in recent years as the PLA Air Force has added modern aircraft and the associated weapons to its arsenal. These jets are comparable to fourth generation U.S. fighters like the F-15, F-16, and F/A-18. Only the F-22 and in the future perhaps the F-35 will retain a significant edge over China's newer fighters, and even they could be overwhelmed by the numbers of aircraft that China could employ.

Were Taiwan's Air Force suppressed, the U.S. would face a difficult, perhaps impossible, task trying to protect Taiwan's airspace on its own. U.S. Air Force fighters lack well-situated bases from which to operate. Bases that are close to Taiwan, like Kadena in Japan, are threatened by Chinese missiles, while those safer from attacks such as Andersen in Guam are a long way from the fight.

U.S. Navy aircraft carriers would likewise face limitations. Absent a long pre-war warning period, only a few carriers, perhaps only one or two, would be on scene at the start of the conflict. The relatively small number of U.S. fighters that would be available in these circumstances would face an uphill struggle against the more numerous attackers.

Our analysis indicates that adding 50 new fighters to Taiwan's Air Force might improve outcomes, but results depend strongly on the island's air bases remaining operational.

A new F-16C that cannot fly because runways are closed or one that has been destroyed while parked on the tarmac offers no advantage over older model fighters.

There are important improvements that could enhance Taiwan's ability to fly and fight. Air bases could be further hardened or Taiwan's Air Force could seek to acquire short take-off vertical-landing fighters like the F-35B that require a much shorter stretch of runway from which to operate. Taiwan could also procure additional mobile surface-to-air missiles making it harder for China to fully suppress its air defenses.

Each of these solutions would be expensive and only a partial solution to the problems confronting Taiwan. Implementing all three options might be more robust, but would likely be prohibitively costly and take years to accomplish.

Overall, the difference between yesterday's cross-Strait balance and today's is, after decades of offsetting the mainland's quantitative superiority by exploiting decisive qualitative advantages, Taiwan and the United States have seen its qualitative edges erode while the numerical handicap persists.

This deteriorating cross-Strait military balance has two important implications for the United States. One is more immediate; one is longer-term.

The job of defending Taiwan is getting harder. For the first time since the Cold War, the United States faces a potential challenger that can compete with it in every relevant dimension of warfare: in the air, on and under the sea, in space, and along the information frontier.

PLA modernization does not bode well for future stability across the Taiwan Strait, and there appear to be no quick, easy or inexpensive ways out.

In the longer term, the United States and Taiwan may confront a fundamental strategic dilemma, one inherent in the geography of the situation. Taiwan lies only a few hundred miles from the mainland. Taipei meanwhile is nearly 1,500 nautical miles from the nearest U.S. territory, Guam; nearly 4,400 nautical miles from Honolulu; and about 5,600 nautical miles from the west coast of the United States.

This geographic asymmetry combined with the limited array of forward basing options for U.S. forces and China's growing ability to effectively attack both those forces and their bases call into question Washington's ability to credibly serve as guarantor of Taiwan security indefinitely.

A China that is conventionally predominant along the East Asian littoral could pose a direct, difficult, broad, and enduring challenge to the U.S. position in the region. As with almost every issue touching on Sino-U.S. relations, this is all a question of balance.

The U.S. and its allies must continue to pursue a strategy that simultaneously hedges against China's growing military power while engaging and enmeshing Beijing in networks of political, economic and human ties that may eventually render military power anachronistic.

Today's Taiwan dilemma raises an important geopolitical question: what role should and can the U.S. seek to play in the East Asian landscape that includes an economically vibrant, militarily powerful, politically unified and self-confident China?

Look at Taiwan and beyond, what is the new equilibrium in East Asia, and how can the forces at work there be managed so as to create an equilibrium tolerable to the United States? That is the ultimate question of balance posed by the growing imbalance of military power

across the Taiwan Strait.

I thank you again for inviting me to speak.
[The statement follows:]¹

HEARING CO-CHAIR WORTZEL: Thank you.

**STATEMENT OF DR. ALBERT S. WILLNER
DIRECTOR, CHINA SECURITY AFFAIRS GROUP, CNA,
ALEXANDRIA, VIRGINIA**

DR. WILLNER: Mr. Chairman, Mr. Vice Chairman, Commissioners, thank you for inviting me to appear here today to discuss important, planned changes in Taiwan's defense posture. It is an honor for me to be here to testify today.

With the publication of two key documents last year, the Quadrennial Defense Review and the National Defense Report, Taiwan has formally laid out an ambitious agenda of change to its defense posture during the next few years.

For budgetary, political, and bureaucratic reasons, however, many of the proposed changes are unlikely to take place exactly as planned. My testimony today will focus on major areas of change introduced and lay out some of the key challenges and implications for Taiwan.

Taiwan's first ever QDR, published in March 2009, produced a defense assessment and helps explain what the current administration is doing. Its key proposals are as follows:

Streamline Taiwan's defense organization by consolidating Defense and Joint Staffs and military services to improve accountability and focus on service specialties;

Reduce the total statutory armed force structure from 275,000 to 215,000 by the end of 2014;

Reduce the number of senior level general flag officers. The goal is to make cuts of this number from 387 to somewhere slightly above 200 plus; and

Reduce the high ratio of senior officers to personnel down from almost two percent to .7 percent;

Increase the number of civilian defense officials in MND, in part to get officers assigned there back to the field, and to build up civilian defense expertise;

Work towards a volunteer force by continuing to reduce the conscript period, currently one year, and develop means to recruit and retain officers and enlisted for the long term.

Additional transformation objectives focus on improving force planning and armaments development mechanisms. In addition, joint

¹ [Click here to read the prepared statement of Mr. David Shlapak](#)

operations, human resources, and expanding efforts with civilian industry and local governments receive more attention in the document.

The 2009 National Defense Report, released in October of last year, expands on the QDR's proposed defense posture, addresses current MND challenges, and it makes some important revisions.

The most significant goal is to build a force built on volunteers. The cost of transitioning to the active force within five years will require funding and resources not yet provided by the Legislative Yuan in the defense budget.

Disaster prevention and relief have also been introduced in the NDR as a new core armed forces mission. The costs of taking on this mission and its support requirements have yet to be adequately addressed as well.

Finally, the NDR makes notes of the efforts of Taiwan to initiate peace and seek out confidence-building measures to support the government's cross-Strait efforts at seeking compromise and keeping the peace, noting that its goal is, quote, "lowering the probability of accidental provocation of war."

How this change will actually affect Taiwan's defense posture and strategy still remains to be seen.

The changes proposed are likely to encounter significant challenges, and it's to that I turn now.

First, there is the question of whether the political will and funding exists to see these changes through? President Ma's initiatives across the Strait are changing the security environment, which is likely to have a corresponding effect on the defense posture. Multiple domestic political challenges to Ma within his own party, with the LY, and by the public could well weaken his commitment to see the changes through.

A change in threat perceptions could lead to a commensurate change in the willingness of public or their representatives to support needed defense reforms.

Second, continued reductions in defense spending will clearly affect full implementation of these changes. Debates within the LY, between the LY and the executive branch, and party positioning in the lead-up to elections later this year, and on, are likely to impact on spending plans.

There appears to have been a significant downturn in civil-military relations which could impact significantly on QDR and NDR implementation.

There are indications that MND is not being kept in the loop about ongoing cross-Strait dialogue and security impacts, that National Security Council and MND relations are strained, and that Ma and his advisors are dismissive of MND advice and perspectives.

At issue is not obedience to civilian control, but the negative impact that civil-military tensions are likely having in addressing critical

and needed defense reforms and, even more significantly, potentially causing damage to ensuring good and reliable communications, coordination and control especially in time of crisis.

Recent pay-for-promotion scandals, independent prosecutor investigations of Taiwan defense contractors, military accidents, and other challenges have all further stressed the military's relationship with the President and others, affecting morale and diverting needed attention of senior officials to the day-to-day business of running the military and working on these new defense initiatives.

As Taiwan transitions to a volunteer military, fundamental choices will have to be made about how to develop a new culture with incentives designed to bring on board the right kind of soldiers and keep them in for the long term.

Recruitment and retention efforts will have to address service to nation, a challenge, particularly among many of the young people who see little incentive or significant security threats requiring their commitment.

The need to develop civilian defense expertise is an important proposal and, if implemented, would potentially create a reservoir of civilians who deeply understand and work defense issues day-to-day and are in government for the long term.

Although it will take years to fully implement, movements towards establishing a civilian defense bureaucracy is critical to enhancing influence and broadening understanding of defense challenges facing Taiwan.

Finally, in order to be successful, the defense posture changes will need to be augmented by a vigorous and persuasive campaign to further educate the public about the threats that continue to face Taiwan.

Even as cross-Strait improvements are taking place, it is important that the Taiwan government credibly continue to articulate why a credible defense posture remains paramount. Taiwan has already taken a significant step by outlining in its QDR and NDR what needs to be done to stay relevant, successfully adapt to the changing domestic situation, and meet the emerging regional environment.

In doing so, it has outlined important changes that will help the government, its military, and its people to transition to the new realities. Hard choices will have to be made and resources applied. If those commitments are made and seen through, Taiwan's defense posture and its critical role in helping keep the peace and stability will be well-served.

Thank you very much, and I look forward to your questions.
[The statement follows:]²

² [Click here to read the prepared statement of Dr. Albert S. Willner](#)

PANEL III: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: Thank you. The three of you did a superb job in covering different aspects of the defense equation. I don't think we could have asked for a better coverage of the waterfront.

We're have five minutes for each Commissioner's questions, and the first Commissioner is Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Yes. Thank you all very much for excellent testimony.

I'd like to ask a question regarding some of your testimony, Mr. Shlapak, and then a broader question, I think, for everyone.

The first is I understand well the problems Taiwan faces in having a survivable Air Force, but, as I asked in the previous panel, I think we face the same problems with our forward deployed Air Force, and our answer is not let's not have an Air Force; our answer is let's have an Air Force that can survive.

So you made some recommendations, I think, for Taiwan to have, how Taiwan could have a survivable Air Force. I was wondering if you could provide an answer on a package the U.S. can come up with such that Taiwan has--basically the administration has come up with a report saying they certainly need the new aircraft because they have an aging fleet--how to make that more survivable? And would that mirror some of the things we need to do at our own bases?

My more general question is--Commissioner Fiedler brought this up in the last panel--but it's this notion, and you make reference to it, Mr. Shlapak, that the Chinese say they need a military in order to make sure that if the next party comes into power in Taiwan, they can make sure that it doesn't declare independence.

But somehow it seems like from the panel we saw last time, we're accepting that as somehow justified, and Commissioner Fiedler made the point that, in fact, they're not happy with democratic change in Taiwan.

Is it true, and this is for all of you, is it, somehow, why wouldn't we say to the Chinese this is not the way we do things; we do not resolve issues through the use of force; renounce the use of force; accept that another party will come into power?

This is not somehow going to work its way into the American bloodstream to say, yes, we understand you need a military so that if another party comes to power, you can coerce them into not coming into power or you can coerce them either way.

And so that's a broader question for the whole panel.

MR. SHLAPAK: Let me address your first question. Mark talked about the key role of the ballistic and land attack cruise missiles in Taiwan's defensive problems, and indeed we believe that those are real game changers.

The ability to use accurate weapons with sophisticated warheads,

including submunition warheads, creates a threat that you can harden against it to some extent, but at some level it becomes a race between how fast they can build missiles and how clever we can be at protecting the things we don't want them to destroy.

You can build hardened shells for aircraft. It's hard sometimes to further harden a runway, it being made out of concrete to begin with. So even if the aircraft survive, the risk of being trapped on the ground is non-trivial. So, yes, there are things they could do.

I'm concerned, however, that in the long-run, we're on the wrong side of the exchange rate there.

COMMISSIONER BLUMENTHAL: How about Mr. Stokes or someone else on the broader question I just raised?

MR. STOKES: On the broader question of the PRC's policy of not renouncing use of force and maintaining a very, for lack of a better term, somewhat of a bellicose military posture against Taiwan?

COMMISSIONER BLUMENTHAL: And our acceptance somehow that this is--we understand that they need to do this in case another democratic party is elected.

MR. STOKES: I think the military posture, in general, and this is the way PRC tends to frame it, is a deterrence force. It's a form of deterrence warfare intended to, what they view, is to deter, split us, to deter Taiwan independence advocates.

In my personal opinion, today, the PRC's military policy with regards to Taiwan is not only unnecessary but is counterproductive.

One question, do they even need to have this military posture anymore? With the two sides being as interdependent as they are economically, both sides, in my view, would have a very, very difficult time having a sudden shift in policy either way.

Now, in 2012, if there's another party that comes into play in Taiwan, I think it would still be extremely limited in its ability to be able to shift its own policies vis-à-vis China.

And so I think what's underestimated, its ability to be able to--in other words, it has other leverages other than military, and to me, I just don't understand why they wouldn't take active measures to be able to renounce use of force as well as reduce their military posture.

HEARING CO-CHAIR WORTZEL: Thank you.

If we get a second round, you might want to readdress.
Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen, for being here.

I have two questions, which if we could start with Mr. Shlapak and then have the others comment.

First, I asked a question of a previous panelist, Mr. Schiffer, about U.S. capabilities. Most of the discussion has been about what are Taiwanese capabilities, but if with changing dynamics and capabilities of the Chinese, what is your view on what the U.S. may need to do to

minimize the deterrence and capabilities of the Chinese vis-à-vis our ability to come to the aid of Taiwan if that should become necessary? First question.

The second is, is it your assessment that the acquisition of F-16 C/D or, later on, potentially F-35s, would that make a substantial difference in the air power balance between Taiwan and the Chinese, and in what ways?

MR. SHLAPAK: Let me take your second question first. Our analysis suggests that the F-16 C/D would substantially improve the situation as long as they are based at facilities that can stay open, that don't get shut down for substantial periods of time. So that's the dilemma that Taiwan faces and that we face in judging that.

You're absolutely right, that the risk to our own forces in the Western Pacific, in the event of a conflict, is growing. We've looked at Kadena and Guam and all sorts of options. There are things that can be done, but as with the case with Taiwan, it comes down to them building missiles and us pouring concrete, and who can do what faster.

So I think that the challenge there is to continue raising the cost of entry, if you will, for China, so that they're not making a choice between starting a little tiny war and no war. They face a choice of starting a really big war and a little war, and that, I think, is how you can alter the deterrence dynamic in our favor.

COMMISSIONER WESSEL: Okay. Other witnesses?

MR. STOKES: I tend to view the utility of F-16s in a slightly different manner. I agree with everything that Mr. Shlapak mentioned. But one is assuming a worst-case scenario when you look at the massive salvos of short-range ballistic missiles that frankly anything on Taiwan that is not hardened--it would render anything vulnerable basically with some exceptions.

And, to me, a full-scale annihilative scenario involving massive salvos of ballistic missiles is one step down on the spectrum of violence from a nuclear strike. In other words, you hear many people saying what do we do to maintain Taiwan's defense in the face of a nuclear type of scenario? Full-scale amphibious invasion, to me, is not the most likely scenario for use of force against Taiwan.

The most likely scenario is one that is limited use of force to achieve limited political objective. Within this context, looking at cross-Strait competitions being inherently political in nature with military being a subset, the value of F-16s certainly has military value, but more than that, it serves as a viable demonstration of Taiwan's resolve to be able to resist PRC coercion.

Same thing with PAC-3, Patriot PAC-3, you can make the same argument. Patriot PAC-3 would be a speed bump in terms of a massive PRC ballistic missile strike. But the value of PAC-3 really lies in its ability to be able to undercut the utility of those ballistic missiles that are arrayed against Taiwan. It's more sort of a confidence, a

psychological edge.

So I would tend to put F-16s in terms of a strong argument sort of in that sort of frame.

COMMISSIONER WESSEL: Dr. Willner.

DR. WILLNER: Nothing.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR WORTZEL: Dr. Willner, Mr. Stokes discussed C4ISR. Can you address advantages that might accrue to Taiwan's defense capacity if C4ISR received a higher priority from the Legislative Yuan and the Ministry of Defense? The procurement and installation of these by Taiwan seems to be piecemeal, which impedes cooperative targeted engagement, and obviously, Mr. Stokes, you may have a comment on that also.

Mr. Shlapak, just how safe is Guam from China's longer-range missiles? And in that order.

DR. WILLNER: Commissioner Wortzel, thank you for your question.

Obviously, I focused most of my testimony here today on QDR and some of the things they were doing with the National Defense Report, but my experience both on island and since obviously would heavily support an increased priority for C4ISR. I think it goes to the core of their ability to manage at a macro and micro level, and I think that this is worrisome.

I think one of the issues that is out there with the National Defense Report and the QDR is that there are lots of budget items implied in those two documents and it may be at the expense of some other needed military developments that are ongoing.

MR. STOKES: On the subject of C4ISR, no question, to me, it's similar to an individual's cognitive system. You can't live without it.

And to give Taiwan credit, and this goes back all the way to the previous administration, Lee Teng-hui administration, previous administration, and then the Ma administration, they've done actually really well.

What's gone unnoticed is operational capability, what's called Po Sheng, which is their advanced tactical digital data links, that went forward in December. This is a revolutionary change. The whole force is not equipped with it, but this is a revolutionary change in looking at it from a doctrinal perspective in terms of network-centric warfare where you empower warfighters at lower levels, for example, whether it's your tank drivers or whether it's your airplane pilots, be able to empower them to be able to synchronize operations without initially-- even if you're cut from the top, you can still conduct autonomous operations.

There's a lot more that Taiwan can do, and Taiwan has the potential to field one of the most advanced C4ISR networks in the field. I can give details if interested, but I'll hold it at that.

MR. SHLAPAK: In terms of Guam's safety, I think today we would assess it as being fairly safe. The Chinese have not developed and deployed the sorts of weapons that would be necessary to launch the kind of attacks on Guam that we see possible in Taiwan or on Okinawa.

There's nothing preventing--that we can see--there's nothing preventing China from developing and deploying enough longer-range missiles, whether IRBMs or submarine-launched land attack cruise missiles, that could bring Guam under substantial threat. That's in the future. We don't see them doing it.

There are some challenges to their accomplishing it that they didn't encounter with the short-range missiles, but in terms of technology, if they're willing to make the investments, they could certainly make the situation much more worrisome for Guam.

HEARING CO-CHAIR WORTZEL: Thank you.

Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Good morning, gentlemen.

The first question is kind of a brief one. It's to Dr. Willner. Even though Taiwan's defense budget is roughly \$9.3 billion, and half of it goes to personnel costs, you're saying at this point that they still have not begun to fund, have not begun to fund the voluntary aspect of the armed forces even though half of their military budget is devoted to personnel costs?

And a general question is when we look at the comparative effectiveness of the forces, are we looking at the theater concentration of forces? Because--and I don't know what portion of their military the PRC has concentrated across the Strait, but I could see where other military don't even come into the consideration.

And then, how would, since there are 1,100 missiles concentrated across the Strait, and possibly the Air Force could be incapacitated by damaging the airfields, how would a preemptive strike by Taiwan on PRC to try to get those missiles out of the way be viewed by the U.S. and by the TRA? That's to all three.

DR. WILLNER: Well, to your first question, Commissioner, the issue of defense budget, their being enough money for personnel, I think part of the challenge is one of the same challenges we encountered in the '70s going to an all-volunteer force, is that there are spikes in terms of that initial transition, and I think that was underestimated.

I think there's a lot more money that goes into easing some people out, bonuses, those kinds of things, in transitioning the force. I think that also probably underplayed or underestimated in terms of budgeting for personnel is the amount of money that it takes to recruit and retain for the long term folks that are coming in voluntarily. There's issues related to family support.

COMMISSIONER VIDENIEKS: Are you saying, sir, that is something which will be reflected in future budgets, and this one doesn't

even touch on it?

DR. WILLNER: Well, that's what we hope, but I think that there is understanding really on both the part of defense officials and the civilian officials that there were costs that were not fully taken into account as they planned the budgets to support both the NDR and QDR proposals.

COMMISSIONER VIDENIEKS: Thank you.

On the other question, theater, preemptive strikes, and maybe the seriousness of Taiwan's three percent of GDP military budget as a serious attempt to self-defense?

MR. SHLAPAK: On the issue of what forces China will bring to bear, in our work, we assembled a couple of different forces representing different assumptions about who, what, where. In both cases, they were broadly consistent with things you see in the DoD's annual report and so forth.

Regarding some sort of preemption against China on the part of Taiwan, I cannot speak at all to what the attitude of the U.S. government would be to that. Operationally, I would have to be convinced that it wouldn't be a flea biting an elephant.

These missile launchers are mobile. If they are dispersed, they're very hard to get. If you remember, 1991, in the desert--

COMMISSIONER VIDENIEKS: All those thousand missiles are mobile. I understand their nuclear forces are.

MR. SHLAPAK: Right, right. The strategic nuclear force at this time is fixed, but the short-range missiles, I believe, are all mobile. I'm looking around for confirmation. Obviously, if they're sitting in their storage facilities, they'd be more vulnerable, but presumably any state of tension sufficiently high for the idea of preemption to percolate to the top of Taiwan's leadership echelon would be one in which the Chinese would have been likely to have flushed those launchers and made them very, very, very survivable.

COMMISSIONER VIDENIEKS: Please.

MR. STOKES: Sir, on two of the issues, first, on the all-volunteer force, one would need to ask a fundamental question of what makes people join the military? Financial incentives, in my view, are only one aspect in terms of recruiting and retaining people.

One aspect that's forgotten very often is the attractiveness of having a military that's respected and has modern equipment. Now, simply, for kids, it's kind of cool to go out and fly an F-16. It may not be that cool to be able to go and fly an F-5. So there's a connection between that.

The 50 percent in terms of the costs, that will be worked down. There will be sort of differences in the bucket.

You mentioned the ten billion, and if that's enough. My view, in terms of three percent GDP, is there's an opportunity cost. If you increase the military budget, you're going to take away other things that

are really important for Taiwan, whether it's all the way from social welfare, to investment into science and technology.

COMMISSIONER VIDENIEKS: But is it basically a hope for a larger war?

HEARING CO-CHAIR WORTZEL: Commissioner Videnieks, we've run out of time on this one.

MR. STOKES: The last point on preemption, just to make the point, that the Second Artillery Forces opposite Taiwan, yes, of course, the launchers are mobile. However, in every system, if you look at the Second Artillery as a system, it is a system, and every system has single points of vulnerability.

COMMISSIONER VIDENIEKS: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Fiedler.

COMMISSIONER FIEDLER: Two sets of questions. One, conceptual, and one much more specific, a hardware question.

But, first, the whole discussion we had earlier about limited war and this, that, and we're all talking hardware, but let's talk politics of it because in the end the decision to go to war is always in some measure political.

Does anybody believe that it is reasonable to consider that Chinese motivation vis-à-vis Taiwan contains some significant element of planning, that if there is internal instability in the country, that it is a useful diversion? At that point, the political-diplomatic calculus changes dramatically, i.e., if we have a survival problem domestically, we don't much care what anybody thinks worldwide. Is that a scenario that people game out? Is it reasonable? Is it a consideration or are we discounting that?

I know the government wouldn't answer that question so I didn't bother to ask them.

MR. STOKES: I can address that at a political level. Yes, sir, of course, it is a possible scenario.

COMMISSIONER FIEDLER: Is it reasonable?

MR. STOKES: If I were in Beijing, I would say it is not reasonable, and the reason is you can cause yourself a lot more problems by causing problems with Taiwan than you would if you took that approach.

COMMISSIONER FIEDLER: Yes, but you also said earlier, you didn't understand why they didn't--

MR. STOKES: Renounce use of force.

COMMISSIONER FIEDLER: --yes. So I thought that was naive. So--

MR. STOKES: Well, to me, it's a worthwhile objective. There have been polls that reflect a significant part of China's population that actually would like to see that happen, but it is a possible scenario. No question. The use of an external diversion is certainly a possible scenario.

COMMISSIONER FIEDLER: Anybody else? You disagree with him? All three?

You then made reference to limited warfare for limited objectives. In the current context, can you conceive of that being realistic, i.e., that they think that they can drop any ordnance on Taiwan and not have a major international problem?

MR. STOKES: The short answer to your question is there would be major international problems if there's a kinetic solution involved.

However, would the intervention be as severe as if you would have a major amphibious invasion? In other words, there's--

COMMISSIONER FIEDLER: No, I understand the difference. You're talking the difference between lobbing missiles and putting people on the ground.

MR. STOKES: And large-scale deaths and bloodshed. In other words, the reaction, I think there would be a calculation--

COMMISSIONER FIEDLER: I tell you what I'm getting at. I'm getting less at the Chinese willingness to do that as sort of world and the United States', our own government's, reaction to such an event, when we are less than aggressive, in my view, about confronting them on what I perceive to be absolutely minor issues of protocol, like meeting the Dalai Lama in the Oval Office or the office next door, or let him go out the front door or the back door.

If we're so concerned about that kind of stuff, I'm very frightened about the reaction to limited incursions, if you will.

And so the question becomes here, and this is all in the end a political, and I understand it's gaming out what are possibilities, but these are all things, I mean if they thought that they could get away with something limited, I'd be very frightened about our response.

MR. SHLAPAK: Just a quick response. I think that there are two things to bear in mind here. The first is I don't know of many people who have studied China who would say that China is itching to go to war, is itching to drop weapons on Taiwan. I think, certainly my belief is, that use of force against Taiwan is absolutely the last resort for them, precisely for the reasons that you express.

The consequences outside the battlefield, the consequences to their economy, and so forth, would be severe. As to how likely we would be to intervene, it could depend somewhat on what provoked the Chinese. If it was a clear and very dramatic breaching of one of their declared red lines versus something about who's using what door on the presidential palace, I think it's possible that the reaction might be different.

But I think absent a more thorough understanding of the exact circumstances, it's hard to make a prediction one way or the other.

COMMISSIONER FIEDLER: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Mulloy.

HEARING CO-CHAIR MULLOY: Thank you, Mr. Chairman. I

want to thank all of you for being here.

Mr. Shlapak, I really liked your testimony because I thought it was such a broad gauge look at this whole thing. I remember the Cuban missile crisis so I appreciated the point you made there.

On page four, you talk about the difference between the cross-Strait balance ten to 20 years ago and say it's substantial--the difference is substantial. And you say after decades of offsetting the mainland's quantitative superiority by exploiting decisive qualitative advantages, these qualitative edges are eroding while the numerical handicap persists.

So I think that means that we had higher-tech weapon, and could counter the lower-tech weapons of China.

Have the United States' policies, economic and trade policies and investment policies and tech transfer policies, toward China over the last ten years contributed to this erosion of our ability to defend Taiwan if we chose to do that?

MR. SHLAPAK: I'm not really qualified to talk about trade policy or technology transfer policy so I'd like to take a pass on that.

The erosion has had many sources. China for the last almost 20 years now has been buying billions of dollars of front-line equipment from Russia, and probably technology transfer from there is far more important than any impact it might have had from the United States, but I'm not really equipped to judge what that impact was.

HEARING CO-CHAIR MULLOY: Do either of the other witnesses want to comment on that?

MR. STOKES: I don't have a good handle on U.S. tech transfer policy. However, instinctively, I would say that when the People's Republic of China, when their defense industry, whether it's the space and missile industry or aviation industry or shipbuilding industry, has a technological problem, in other words, there's a bottleneck that exists, my view is that they are very adept at finding ways to overcome that particular technological bottleneck, whether it's technology from the United States or former Soviet Union, or a range of all other sources.

So whether or not this is a reflection of U.S. tech transfer policy or if it's the Chinese growing--basically, the global nature of technology diffusion, whether that's more of a factor than it is any specific aspect of U.S. policy per se.

HEARING CO-CHAIR MULLOY: Now, on the economic agreement, do you guys follow the economic agreement that's being discussed between Taiwan and China? Anybody following that? No. Okay.

Mr. Stokes, you're not--

MR. STOKES: Not in detail.

HEARING CO-CHAIR MULLOY: Okay. I'll save my question then on that for the next panel.

Thank you very much.

HEARING CO-CHAIR WORTZEL: Commissioner Shea.

COMMISSIONER SHEA: I want to thank you all for your very, very interesting testimony.

I guess the first question I have is for Mr. Stokes, and then the second one for Dr. Willner, and, Mr. Shlapak, just jump in if you feel the urge.

Following up on Commissioner Fiedler's point, Mr. Stokes, you said that it was inexplicable that China would be continuing to have a thousand plus missiles targeted on Taiwan. I was wondering if you could give us a little bit of insight into the dynamic within China, within the Chinese leadership? Is the military calling the shots here? Is it the civilian leadership?

Are there any tensions with the civilian leadership? Or is the civilian leadership calling the shots? Or do you have any insight into that? That's the first question.

And, then, Dr. Willner, with respect to Taiwan, you hinted that there was some tension between the Ministry of National Defense and the National Security Council, the civilian leadership, the security leadership, in Taiwan. I was wondering if you could flesh that out?

And has the expanded mission of disaster relief for the Taiwanese military, has that been well received? If you could comment on that as well.

MR. STOKES: I could say I'm not in a position to speculate; however, I'm not going to say that.

COMMISSIONER SHEA: Speculate.

MR. STOKES: I'm going to speculate. I love speculation. In general, there is the stated reason about the refusal to renounce use of force or withdraw the five missile brigades opposite Taiwan, but there's a whole range of dynamics that probably exist in China that may not be different from other countries around the world.

You need a threat. Scenario-based planning. People like to get away from scenario-based planning and go to capabilities-based planning, but you need a threat, and Taiwan is a good whipping boy. It's a great one.

You can build up your military in a way that sort of channels attention on to one particular issue, and you're not going to have, theoretically, people that alarmed, for example. What better way to do it? Because frankly, the capabilities you're bringing against Taiwan could be arrayed against Japan. It doesn't take that much of a leap to take those SRBMs, extend the range, and then use those same capabilities. But having Taiwan as sort of at the focus of that threat is nice and convenient.

Secondly, the other issue, and again this is keeping with the same theme, a lot of the changes that occurred in terms of the military posture opposite Taiwan occurred in 1991 right when the availability-- right when the Soviet threat went away.

So when you started having that build-up that occurred in '91, and so in order to maintain that focus, you had Taiwan, you roll out the usual suspect, and let's counter Taiwan independence, when actually use of military force doesn't do anything to deter. On Taiwan, I think they're oblivious to it, but anyway.

COMMISSIONER SHEA: Thank you.

Dr. Willner.

DR. WILLNER: To your first question, Commissioner, about differences between MND and NSC, I think there are three issues at play: personality-based issues, cultural-based issues, and policy-based differences.

I think personality, I think there were some, certainly with Su Chi and the MND leadership, I think there was some friction there that was very personality-based, and I think there was a consolidation within the NSC to work some things sometimes to the exclusion of MND that caused some personality frictions.

I think there were cultural differences, and I think this is an issue that would be, maybe not resolved, but that would go a long way in developing civilian defense expertise for the long term. Folks that stay in, that understand the issues that deal with the military, that haven't necessarily been in the military, go a long way in advancing Taiwan's interests. So I think there are some cultural issues there in terms of understanding of each other's culture.

And I think policy has played a role in this, and that is policy differences or at least concern on the part of the civilian side of the house and NSC that MND was less than supportive or perhaps slow-rolling some of the changes expected by Ma, and that was a reflection of some of the--that was played out in some of this--maybe not conflict but certainly some of these tensions.

In terms of whether the expanded mission on disaster relief has been well received, it has been well received. Actually, there's been an ongoing move over the past several years to move in that direction.

I think that this also plays to the concerns that the Legislative Yuan and the people have about whether the military can not only support defending Taiwan against external threats, but is ready to respond when there are internal challenges as well.

I think Typhoon Morakot last year opened the window on some significant challenges that the military has, that Taiwan has in dealing with these, and I think that is what generated, in part, this push to make sure that disaster relief was a core mission of the military, and I think it's been well received.

I think I would just add that one of the problems is that when an earthquake or typhoon hits, that significant amounts of the defense budget, O&M, is realigned to support that. And there was a lot of money pulled out to support the typhoon response, and I guess that creates additional challenges in terms of their day-to-day support for

other initiatives.

COMMISSIONER SHEA: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Cleveland.

COMMISSIONER CLEVELAND: Dr. Willner, I was interested in your testimony. You said that in a discussion about the transition to the voluntary military that--volunteer military--that young people see little incentive or significant security threats requiring their commitment.

I was interested in your comment, Mr. Stokes, in talking about China, that there has to be a threat.

So I'd like to ask all of you, do you think that the Taiwanese people perceive a clear and present danger or a threat? The second part of the question--probably apocryphal in this context--but do you think--we constantly talk about the need for additional military assets--do you think that they would actually be used?

MR. STOKES: I haven't, in terms of Taiwan taking polls there, but I think there's a consensus, and it's reflected in the sustenance of the defense budget, a consensus that a strong defense is required among Taiwan's general population.

You will see some complaints or some opinion leaders coming out strongly in favor of a reduction, for example, of the military budget, but it's not that different from what we have here in the U.S. In other words, so you do see support for sustained levels of defense spending.

COMMISSIONER CLEVELAND: I don't like to equate defense spending with a perception of national security interests. I do not believe that they are synonymous. So if you could separate defense spending and talk more about what you see as public perception of the threat, I think that's really what I'm more focused on.

MR. STOKES: In the general populace, a threat from the PRC, military threat, they see the ballistic missiles obviously. Every citizen on Taiwan lives within seven minutes of destruction, and they know that.

DR. WILLNER: I would add to that a couple of things. I think in terms of young people, my experience there was Taiwan is attracting some great young people to its military force. I think there is, the young lieutenants and the captains that I ran into and some of the junior sergeants, especially, very impressive. They've got their eye on the ball, and they're doing what it takes in an unlimited environment to support Taiwan's defense.

I think the public perception of threat is mixed. I think that, as Mr. Stokes pointed out, that there are lots of other issues competing for defense dollars. I think there are lots of things pulling young people in other directions, obviously, lots of good business opportunities, those types of things, and that's impacting certainly on young people wanting to go in.

That's one of the reasons I highlighted in my testimony that I think it's incumbent on the Taiwan government, MND, to seek out ways

to make sure they're articulating that the defense posture reflects a serious threat to Taiwan that continues to be out there, and there are lots of things going on, such as opening up bases, introducing young people to what's available to them in the military, and I think this transition to the volunteer force will only enhance that.

COMMISSIONER CLEVELAND: The second part of the question, do you think they'll use the assets that they have secured?

MR. STOKES: The Taiwan defense establishment? Yes, ma'am.

HEARING CO-CHAIR WORTZEL: Commissioner Fiedler, I'll give you two minutes for a follow-up.

COMMISSIONER FIEDLER: I just have a quick hardware question. So we say there's anywhere between 1,100 and 1,200 missiles pointed at Taiwan. That's not their arsenal, so how many do they have available, they could run in, nearby, resupply, or do they just think that the 1,100 or 1,200 at the moment is all they need to accomplish their objectives? What kind of problem are we facing over if they don't achieve their ends with the first barrage or the first ten barrages?

MR. SHLAPAK: I think that all of their deployed short-range ballistic missiles are, in fact, arrayed in the regions opposite Taiwan. I'm not aware of their being active duty brigades elsewhere.

COMMISSIONER FIEDLER: So how many sitting around undeployed do they have that they could resupply with?

MR. SHLAPAK: Well, they have a much smaller number of launchers than they have missiles so that 1,100, 1,200 number includes a substantial number of reloads for their launchers, maybe a three-to-one or four-to-one ratio of missiles to launchers.

COMMISSIONER FIEDLER: So the 1,100 includes the repeated launch--

MR. SHLAPAK: That's correct, yes.

COMMISSIONER FIEDLER: Okay. Thank you.

HEARING CO-CHAIR WORTZEL: Gentlemen, thank you for helping us understand this. We appreciate your time and your testimony very much. It's been enlightening.

We're going to break now until 12:45.

[Whereupon, at 12:00 noon, the hearing recessed, to reconvene at 12:50 p.m.]

A F T E R N O O N S E S S I O N

PANEL IV: ECONOMIC ASPECTS

HEARING CO-CHAIR MULLOY: Welcome back. In this panel, we're going to examine the economic developments in the cross-Strait relationship and their implications for the United States. We're very fortunate to have three top experts on this matter before the Commission, and we're grateful to them for accepting our invitation to

be here.

Our first speaker is Dr. Merritt (Terry) Cooke, and he's the founder and CEO of GC3 Strategy. I first met Terry during his 15 year career with the U.S. Foreign Commercial Service. During that career, he worked at U.S. missions in Berlin, Shanghai, Taipei, Tokyo, and as the U.S. government's Senior Commercial Representative in Taiwan.

Our next speaker, Rupert Hammond-Chambers. Rupert, we're glad to have you back. He testified at the Commission's very first hearing on June 14, 2001. We welcome you back.

He's been the President of the U.S.-Taiwan Business Council since 2000. Over the years, he's worked to develop the Council's role as a strategic partner to its members with the goal of positioning the Council as leader in empowering American companies in Asia.

Our final panelist is Dr. Scott Kastner. He's an Associate Professor at the Department of Government and Politics at the University of Maryland.

In 2005-2006, he was a Visiting Research Fellow in the Princeton-Harvard China and the World Program.

In 2007-2008, he was a China Security Fellow at the Institute for National and Strategic Studies of the National Defense University.

We welcome all three of you, and why don't we start with Dr. Cooke, and then go across.

**STATEMENT OF DR. MERRITT T. COOKE, CEO, GC3
STRATEGY, INC., BRYN MAWR, PENNSYLVANIA**

DR. COOKE: Thank you very much, Commissioner Mulloy.

It's a great pleasure for me to make my fourth appearance before this Commission. The commercial and economic relationship across the Strait of Taiwan has evolved dramatically since I first gave testimony on that issue in August 2001, and I commend the Commission for its continued focus on this complex but highly significant dynamic.

As I've consistently testified, the growing economic and commercial interdependence between Taiwan and China has great significance for the prosperity and stability of the Asia-Pacific region.

The U.S. stake in this dynamic is huge. U.S. prosperity and jobs depend directly upon active engagement in this region of the world enjoying the most robust current growth and the best long-term prospects for high rates of future growth.

U.S. security also depends directly on maintaining the stability of the region and further advancing the prosperity which supports that stability. While it's far from Main Street, the Strait of Taiwan is a fulcrum for vital U.S. interests. This Commission plays a vital role in helping illuminate the economic dynamics behind the headlines in the region.

As we meet, the triangular security relationship between the

United States, China and Taiwan is again under some strain. In particular, the strain in the U.S.-China leg of the triangle has been marked overtly, as this group was looking at very closely this morning, by a series of political events over recent months: the President's meeting with the Dalai Lama; the Taiwan arms sale package; China's perceived intransigence--China's intransigence--excuse me--as other U.N. Security Council members have moved toward sanctioning Iran for its nuclear program; and the perceived spoiler role that China played in the COP15 climate change talks in Copenhagen; as well as, finally, the governmental parry-and-thrust over Google's disclosure of orchestrated hacking into its servers.

The U.S. relationship with Taiwan despite an overall improvement under the administration of President Ma has not been without its own recent difficulties. Most significant has been the interruption in momentum towards improving trade and investment ties as a result of legislation adopted in Taiwan in December.

Meanwhile, the improvement of Taiwan-China economic and commercial relations has been both steady and strong, and prospects are good for conclusion of an Economic Cooperation Framework Agreement by June of this year.

The overt markers for these shifting tensions within the strategic relationship, the economic triangular relationship, have been political events, as just mentioned, but the tectonic forces determining these surface events have been largely economic and, in particular, the global economic recession starting in September 2008 has sharply accelerated pressures long at play affecting each leg of the security triangle.

As I've written into my statement, and I will not take the Commission's time right now, I include the short analysis of the economic status of each leg of the triangular relationship, and with China and Taiwan, it is clearly the story of the dramatic progress of the ECFA negotiations and the preceding Financial Agreement.

With China and the U.S., it's essentially the fact that the impact of the global recession seems to have fallen more heavily on Europe, and the strains there are very overt. It has created a great deal of challenge and discussion, as far as the U.S. and China economic relation, and I'm sure it does continue for the year ahead, though, on balance, the economic and commercial ties do remain not too badly affected.

And then with the U.S. and Taiwan, it's largely a discussion of perhaps a somewhat political impasse that has to do with the difficulties over the beef legislation, starting in December; the fact that the Obama administration and the executive branch has yet to completely, clearly and convincingly define its international trade posture; and then the fact that in this branch of the government, there are also some strong and divided opinions; and that that at some level holds the vitality of the U.S. and Taiwan relationship hostage.

Whether it's due to the technical issues of beef, or the broader

issues of the party base of the administration that's currently in power, or tugs of war between the congressional and the executive branch, the economic vitality of the U.S.-Taiwan triangle is somewhat held up by those things.

So, in conclusion, I will simply perhaps respond to some of the specific points that were raised in the letter of invitation to me, and I invite Commissioner Mulloy or Wortzel to cut me off at any point when my time--should I continue into some of this?

HEARING CO-CHAIR MULLOY: No, keep going. You've got a little time left.

DR. COOKE: Okay. Good. What is Taiwan's position in the World Trade Organization? Generally, China refuses to deal directly with Taiwan within the WTO format, and from a U.S. policy perspective, this is regrettable since all WTO members have the right to enter into FTA discussions under WTO auspices, and the current ECFA negotiations between China and Taiwan are taking place outside of WTO auspices largely due to China's refusal to deal directly with Taiwan within the existing WTO structure.

How is the recently implemented China-ASEAN FTA affecting Taiwan? It puts, according to my analysis, considerable pressure on Taiwan's traditional industries such as petroleum, auto parts, and machinery, since competing imports from ASEAN member countries are able to enter the mainland at a reduced tariff rate, putting the Taiwan suppliers at a disadvantage.

This is not so much of an issue with the IT global supply chain where Taiwan has traditionally had a very strong position precisely because that supply chain is so well integrated into the mainland economy and because tariffs are already low.

How likely is closer economic integration between mainland China and Taiwan to lead to political integration? I'll leave that question to the political panelists in today's hearing other than to remark that the question of the ramifications of economic integration has always been vigorously contested by Taiwan's political actors, and that Taiwan's public opinion has demonstrated remarkably consistent disposition to pursue the benefits of economic integration while resisting any concomitant pressures towards political integration.

[The statement follows:]³

HEARING CO-CHAIR MULLOY: Thank you. Thank you very much for that. Your full statement will be in the record of the hearing and will be up on our Web site.

Mr. Hammond-Chambers.

³ [Click here to read the prepared statement of Dr. Merritt T. Cooke](#)

**STATEMENT OF MR. RUPERT HAMMOND-CHAMBERS,
PRESIDENT
U.S.-TAIWAN BUSINESS COUNCIL, ARLINGTON, VIRGINIA**

MR. HAMMOND-CHAMBERS: Thank you, Commissioner Wortzel and Commissioner Mulloy.

It is indeed my honor to return to the U.S.-China Commission to testify today, and, as you noted, in the first opportunity I had, we also were in the presence of Jim Lilley, recently departed and greatly missed, somebody who played an important role in guiding many of the policies that our country has used to project its interests into the region and influence many of us in how we think about China and our country's relationship with China.

I'm going to keep it very brief, as Mark Stokes did in a previous panel, and just point you to the answers, the responses, I should say, I gave in my formal submission to the Commission.

But very quickly, just to touch on the central issues right now in the commercial relationship between the United States and Taiwan and China. Taiwan and China, right now the narrative is dominated by the Economic Cooperation Framework Agreement, or ECFA. ECFA dominates the relationship between Taiwan and China as a platform for deliberation over, first, the normalization of the economic relationship between the two, and then the liberalization of the relationship between the two, using the framework that China and ASEAN used in ASEAN Plus 1, where you have a framework, you have what the Taiwanese call an "early harvest," an initial set of liberalizing areas, and then a calendar for the following several years, let's say, in which other areas are liberalized.

ECFA is the most important issue in Taiwan's domestic narrative, domestic political narrative at this time. It completely dominates the discussion between the government and the opposition parties. The principal opposition party, the Democratic Progressive Party, opposes ECFA. Some of the reasons for its opposition, in the Council's view anyway, are not clearly thrashed out, and certainly within Taiwan, it's difficult to grasp fully the differences of opinion. If not ECFA, then what?

But anyway, notionally, the Ma government is focused on passage of the ECFA at the next Straits Exchange Foundation-ARATS meeting in the May-June time frame. And that will be a big moment for the relationship between Taiwan and China. It will certainly receive a great deal of coverage, and I think it will also be a moment in which commentators ask a legitimate question: how is America going to respond?

What is an appropriate American response to this rapprochement, this economic rapprochement, between Taiwan and China?

As Terry touched on, the Trade and Investment Framework

Agreement, or TIFA, is at this time anyway America's principal platform for engaging Taiwan in any discussions on trade issues or trade liberalization matters.

The TIFA has for the second time in a decade been frozen, this time over the issue of beef. In the Council's view, the freeze in the '03-04 time frame over IPR and this most recent freeze over beef has been a failure, has been counterproductive to American interests.

Beef is a tiny component of U.S. commercial relations with Taiwan, and the bulk of those businesses that would benefit from further liberalization of the trade relationship between the two are at this time continuing to be shut out as a function of the TIFA freeze.

That said, the manner in which Taiwan handled the breaking of the October 2009 Protocol, which is, in fact, what transpired--an agreement was reached between the Obama administration and the Ma administration. That agreement was announced in October '09, but the rollout of the agreement was bungled in Taiwan, and it took a political life of its own resulting in an early January 2010 decision on the part of Taiwan's parliament to make changes to the Protocol.

That if and of itself raises legitimate questions about Taiwan's reliability as a trading partner. If we are to do future protocols, will we be confronted with similar challenges in dealing with a legislative branch that is not in tune with the executive branch?

And also the regional implications of this. If we do not react in a serious manner to Taiwan's changing of agreed protocol, what message does that send to the Koreans and the Japanese, who are also looking closely at market access issues, some of which also are related to beef?

So that's very much on the minds of USTR. That said, with the timing of ECFA and the fact that America has equities in the relationship with Taiwan, it is beholden on us as a country to respond.

I do believe that the Obama administration is looking for ways to address this issue with beef, while also attempting to schedule a TIFA meeting at some point later this year, so that both optically, as well as substantively, there is balance in Taiwan's external relations with its two principal strategic interlocutors: that of China on one side with ECFA; that of the United States on the other side with TIFA.

One final thought I would like to leave you with is what next? Once ECFA is done, what challenges is the U.S. going to face in respect to supporting this nascent early rapprochement between the two sides? Yes, we've made some gains in respect to peace and security in the Taiwan Strait, but as the Chinese demands on Taiwan move from economic low-hanging fruit, trade normalization, and liberalization, what demands will be placed on Taiwan in the political and military arena?

There is, there remains anyway, a consensus in Taiwan that economic normalization with China, as long as it comes hand-in-hand with Taiwan's ability to participate in bilateral and multilateral

initiatives in the region, which at this time China still opposes, that consensus for support of ECFA remains, but President Ma has no such consensus for support on political and military matters.

So how does that impact Ma's ability to engage the Chinese as we move through ECFA? And then what would be an adequate U.S. response to support the Ma administration as it deals with thornier issues related to sovereignty?

Thank you very much.

[The statement follows:]⁴

HEARING CO-CHAIR MULLOY: Thank you very much.

Dr. Kastner.

**STATEMENT OF DR. SCOTT L. KASTNER
ASSOCIATE PROFESSOR, DEPARTMENT OF GOVERNMENT
AND POLITICS, UNIVERSITY OF MARYLAND, COLLEGE PARK,
MARYLAND**

DR. KASTNER: I'd like to thank you very much for inviting me here.

I wanted to comment briefly on some of the political consequences of cross-Strait economic integration. In particular, my comments will touch on two issues:

First, I consider if and how deepening economic integration might affect the likelihood of a future military confrontation in the Taiwan Strait?

Second, I ask whether China-Taiwan economic integration makes political unification between China and Taiwan any more likely?

Economic integration is widely believed to have a stabilizing impact on cross-Strait security relations. And my reading of U.S. policy is that it has generally been supportive of cross-Strait economic exchange for this reason.

But to be confident about economic integration's stabilizing effects, I think it's important to examine whether the specific processes through which economic ties could affect conflict are actually playing out in China-Taiwan relations. With this in mind, I believe it's possible to identify at least three such processes through which China-Taiwan economic integration could, indeed, potentially lead to a reduced danger of military conflict in the Taiwan Strait.

First, and this is the most straightforward, economic integration raises the cost of military conflict for both sides. As the costs of military conflict increase, it's possible that leaders on both sides will be more cautious about using force or adopting policies that could risk

⁴ [Click here to read the prepared statement of Mr. Rupert Hammond-Chambers](#)

escalation.

Second, economic integration can potentially foster a transformation in the policy preferences of the two governments, especially in Taiwan, which is more dependent on the bilateral economic relationship.

For instance, a growing percentage of Taiwanese likely recognize that Taiwan's general economic fortunes have become deeply intertwined with the PRC's.

In turn, a growing number of Taiwan voters may be less likely to support candidates who will emphasize sovereignty-related issues, fearing that such candidates will provoke conflict with Beijing.

As such, it may become more difficult over time for leaders committed to Taiwan independence to be elected in Taiwan. Economic integration, in other words, may facilitate some convergence in the preferences that governments in Taipei and Beijing have over sovereignty related issues.

Conflict, in turn, could become less likely as the two sides come to have similar or at least less divergent underlying preferences.

Third, cross-Strait economic integration potentially makes it easier for Beijing to coerce Taiwan or to signal resolve credibly without resorting to military measures, since economic integration means that Beijing can impose great costs on Taiwan by enacting economic sanctions.

In essence, economic integration may reduce the likelihood of war in the Taiwan Strait because it provides Beijing with ways to punish Taiwan without needing to resort to military violence.

As I note in my written testimony, some of these processes may be unfolding in the Taiwan Strait. In particular, I suspect that cross-Strait economic integration likely contributes to a sense of pragmatism among Taiwan voters on cross-Strait sovereignty issues.

In turn, this pragmatism probably makes it harder for strongly pro-Taiwan independence candidates to be elected president in Taiwan. Yet, I also note that there is at least some reason for skepticism concerning how deeply entrenched or relevant these processes are in the Taiwan Strait, and I'd be happy to expand on that a little bit more in the Q&A.

For some of the same reasons, I am somewhat skeptical that cross-Strait economic integration is having a major effect on the prospects for military conflict in the Taiwan Strait, I am also skeptical that cross-Strait economic integration makes political unification any more likely. Again, I think that there are two plausible mechanisms through which growing cross-Strait economic ties could influence the likelihood of China-Taiwan political unification.

First, to return to an earlier point, economic integration might enhance China's coercive capacity over Taiwan. That is, by opening the possibility of threatening or imposing economic sanctions, it may be

more feasible for Beijing to coerce Taiwan into a unification bargain.

Second, economic integration could lead to changed preferences among societal actors in Taiwan so that there is more demand for unification.

However, again, my sense is that economic integration is unlikely to lead to unification through either of these processes, at least for the foreseeable future.

Consider, first, the possibility that the PRC might use economic coercion as a means to maneuver Taiwan into some sort of a unification deal. As Taiwan's economy has become more integrated with the PRC, it is certainly the case that China could cause a great deal of pain in Taiwan through the use of economic sanctions.

But it is important to recognize that the PRC would also face significant constraints in any effort to compel unification through the use of economic sanctions. Obviously, economic sanctions would also be costly to the PRC, as well as Taiwan, but, perhaps more importantly, it is by no means clear that Taiwan would react to economic coercion by capitulating to PRC demands.

Sanctions would potentially alienate the very actors whom Beijing would most need to acquiesce to PRC control, those who already have a strong stake in a stable economic relationship. And sanctions would confirm the worst fears of Taiwanese who suspect that China might not have Taiwan's best interests at heart.

A second possibility is that growing cross-Strait economic ties will ultimately lead to increased demands in Taiwan for political unification. For instance, it is conceivable that deepening economic ties and the associated growth in cross-Strait contacts and communications will lead a growing number of Taiwanese to identify more with China and to see themselves increasingly as Chinese.

Alternatively, Taiwan's voters and businesses might start to make a more pragmatic calculation that Taiwan's economic future is fundamentally tied to China and unification ultimately offers the best way to guarantee continued stability and prosperity.

Yet, again, well-known trends in Taiwan public opinion call into question whether these sorts of processes are taking hold or are likely to take hold in the future. For example, despite deepening economic ties, the percentage of Taiwan citizens who self-identify as Taiwanese rather than as Chinese or both Chinese and Taiwanese has continued to grow.

In some recent surveys, those identifying solely as Taiwanese outnumber those placing themselves in the other two categories combined.

Similarly, various surveys suggest extremely limited support in Taiwan for unification, again, despite burgeoning economic ties.

Recent surveys suggest that even when presented with a hypothetical future scenario where social, political and economic

conditions on mainland China and Taiwan are similar, most Taiwanese voters still oppose unification.

So, in short, economic integration does not appear to be having a transformative effect on Taiwan public opinion relating to Taiwan status and identity. Perhaps support for unification would be even lower if it weren't for deepening cross-Strait economic ties, but support remains quite limited as it is.

Thank you.

[The statement follows:]

**Prepared Statement of Dr. Scott L. Kastner
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Prior to the election of Ma Ying-jeou as Taiwan's president in 2008, the phrase "hot economics, cold politics" succinctly summarized the nature of the China-Taiwan relationship. Despite hostile political relations and occasional crises, economic ties grew rapidly beginning in the late 1980s; by the early 2000s China had become Taiwan's largest trading partner. Since Ma's election, however, the political relationship has improved dramatically. The two sides are engaged in regular dialogue, and have reached numerous agreements on such issues as direct flights across the Taiwan Strait and allowing Chinese tourists to visit Taiwan; both sides have even indicated some interest in trying to reach a peace accord.

Whether the détente in cross-Strait relations is a permanent thaw, or merely a temporary warming, remains unclear. The People's Republic of China (PRC) continues to modernize its military capabilities, and it has not reduced the large number of missiles deployed in range of Taiwan. Taiwan president Ma Ying-jeou's approval ratings have been weak, meaning the island's future political direction is uncertain. Given this uncertainty, the impact of deepening cross-Strait economic integration on cross-Strait security relations remains an important topic. My comments briefly address two issues. First, I consider whether deepening economic integration helps to reduce the likelihood of a future military confrontation in the Taiwan Strait. Second, I ask whether China-Taiwan economic integration makes it more likely that Taiwan will eventually choose political unification with the PRC.

DOES CHINA-TAIWAN ECONOMIC INTEGRATION MAKE A CROSS-STRAIT MILITARY CONFLICT LESS LIKELY?

Economic integration is widely believed to have a stabilizing impact on cross-Strait security relations, and my reading of US policy is that it has generally been supportive of cross-Strait economic exchange for this reason. This idea—that economic integration across the Taiwan Strait would help stabilize the relationship—is grounded in a large body of literature that examines the relationship between international trade and military conflict in a broadly international context. While this topic remains controversial, it is my judgment that the preponderance of the evidence in this literature is on the side of those who argue that trade does indeed tend, all else equal, to reduce conflict between countries.

Applying these findings to a specific case like China-Taiwan relations, however, is problematic. For instance, it is possible that the Taiwan Strait is simply an exception to a broader pattern. There have certainly been other cases where military conflict emerged despite considerable economic ties: the case of World War I in Europe is an example in this regard. To assess whether economic integration affects the likelihood of military conflict in a specific case like the Taiwan Strait, it is important to examine whether the specific processes through which economic ties could affect conflict are actually playing out in that

case.

With this in mind, it is possible to identify at least three such processes through which China-Taiwan economic integration could indeed lead to a reduced danger of military conflict in the Taiwan Strait.

First, economic integration raises the costs of military conflict for both sides; at a minimum, serious military conflict would most likely lead to a prolonged interruption in cross-Strait trade, and it is easy to imagine more dire, and long-term, consequences. As the costs of military conflict increase, it is possible that leaders on both sides will be more cautious about using force or adopting policies that could risk escalation.

Second, economic integration can potentially foster a transformation in the policy preferences of the two governments—especially in Taiwan, which is much more dependent on the relationship. In particular, a growing number of Taiwanese have a clear economic stake in a stable cross-Strait relationship. This point does not apply only to those businesses with investments in China and their employees. Rather, a growing percentage of Taiwanese likely recognize that Taiwan's general economic fortunes have become deeply intertwined with the PRC's. In turn, actors in Taiwan who benefit from cross-Strait economic exchange may be less likely to support candidates who will emphasize sovereignty-related issues, fearing that such candidates will provoke conflict with Beijing. Economic integration, in other words, may facilitate some convergence in the preferences governments in Taipei and Beijing have over sovereignty-related issues; conflict, in turn, could become less likely as the two sides come to share similar—or at least less divergent—underlying preferences.

Third, cross-Strait economic integration makes it easier for Beijing to coerce Taiwan or to signal resolve credibly without resorting to military measures. Leaders in Taiwan may have some uncertainty concerning PRC resolve to use military force should Taiwan take concrete steps to formalize its sovereign status; PRC threats in this regard are inherently suspect since talk is relatively cheap. War could result if Taiwan concludes a truly resolved PRC is bluffing. But economic integration gives Beijing a way to communicate its resolve more credibly if Taipei tests that resolve: in particular, China can impose economic sanctions, which demonstrate a willingness to pay high costs to block Taiwan independence. In essence, economic integration may reduce the likelihood of war because it provides Beijing with ways to punish Taiwan without needing to resort to military violence.

Some of these processes may be unfolding in the Taiwan Strait. For instance, the average Taiwan voter is quite pragmatic on sovereignty related issues. This pragmatism is revealed in surveys which show that a substantial majority of Taiwan voters support maintaining the status quo in cross-strait relations. Likewise, while a substantial majority of voters would support an independent Taiwan if peace with the PRC could be maintained, an equally large majority would oppose independence if it were to provoke a PRC attack. I suspect that this pragmatism in part arises because voters believe that war would be incredibly costly for Taiwan, and I also suspect that deepening cross-Strait economic ties help to reinforce this belief. So, the perceived increasing costs of war may help to induce a cautious attitude at the level of individual Taiwan voters, and this, in turn, probably makes it harder than it otherwise might be for politicians strongly committed to independence to be elected to Taiwan's presidency. In other words, economic integration may reduce—at least marginally—the extent to which the PRC and Taiwan are pursuing divergent foreign policy objectives.

Yet there is also reason to be at least somewhat skeptical about how deeply entrenched the causal processes linking increased economic integration to a reduced likelihood of military conflict actually are in the Taiwan Strait. For example, though economic ties may be contributing to a sense of pragmatism among Taiwan's voters, there is little evidence to suggest a deeper transformation in the fundamental preferences held by most Taiwanese on cross-Strait sovereignty issues. I will return to this point momentarily when discussing whether cross-Strait economic integration affects the prospects for political integration.

Likewise, it is quite possible that economic integration can actually be destabilizing in certain contexts. For instance, if economic integration does indeed raise the costs of war for Beijing, then a Taiwan president may be tempted to “push the envelope” on sovereignty issues farther than he otherwise might. At a minimum, economic integration may be less stabilizing when Taiwan is led by a president unhappy with the status quo in cross-Strait relations than is the case if Taiwan is led by a president generally content with the status quo.

Finally, while the possibility of economic coercion does give Beijing a way to punish Taiwan without firing a shot, economic sanctions could also backfire. For instance, economic sanctions would most seriously hurt actors in Taiwan that already have a direct stake in the cross-Strait relationship (such as businesses with mainland investments) and as such tend to be more skeptical of Taiwan policies that could be destabilizing. Punishing these sorts of actors could be especially damaging to Beijing’s long-term goals in Taiwan, as it would in essence alienate a constituency that tends to support stable cross-Strait relations to begin with. If Beijing calculates that economic sanctions might backfire by further alienating Taiwan’s population without leading to changed Taiwan behavior, then it is unlikely the PRC would utilize economic sanctions as a way to signal resolve prior to initiating military conflict.

DOES ECONOMIC INTEGRATION MAKE POLITICAL UNIFICATION MORE LIKELY?

For some of the same reasons I am somewhat skeptical that cross-Strait economic integration is having a major effect on the prospects for military conflict in the Taiwan Strait, I am also skeptical that cross-Strait economic integration makes political unification any more likely.

I think there are two plausible mechanisms through which growing cross-Strait economic ties could influence the likelihood of China-Taiwan political unification. First, to return to an earlier point, economic integration might enhance China’s coercive capacity over Taiwan. That is, by opening the possibility of threatening or imposing economic sanctions, it may be more feasible for Beijing to coerce Taiwan into a unification bargain. Second, economic integration could lead to changed preferences among societal actors in Taiwan, so that there is more demand for unification. Economic integration, for instance, could conceivably lead individuals in Taiwan to identify more with China. Or, alternatively, individuals and businesses could come to view unification as essential to a stable cross-Strait economic relationship. However, my sense is that economic integration is unlikely to lead to unification through either of these processes, at least in the foreseeable future.

Consider first the possibility that the PRC might use economic coercion as a means to maneuver Taiwan into some sort of unification deal. As Taiwan’s economy has become more integrated with the PRC, it is certainly the case that China could cause a great deal of pain in Taiwan through the use of economic sanctions. Taiwan’s Mainland Affairs Council estimates, for instance, that trade with mainland China accounts for over 22 percent of Taiwan’s total trade, and exports to China account for over 30 percent of Taiwan’s total exports. Furthermore, roughly two-thirds of Taiwan’s approved outward direct investment flows to mainland China.

But it is important to recognize that the PRC would also face significant constraints in any effort to compel unification through the use of economic sanctions. Obviously, extensive economic sanctions would impose costs on the PRC as well as Taiwan. Some of these costs would be direct, such as lost trade and investment linkages vis-à-vis Taiwan. Others would be indirect, such as harm done to China’s other bilateral relations. I doubt, for instance, that the US would simply stand by if Taiwan were subjected to broad-scale economic sanctions or an economic blockade. Perhaps more importantly, and as I noted before, it is by no means clear that Taiwan would react to economic sanctions by capitulating to PRC demands. Sanctions would potentially alienate the very actors whom Beijing would most need to acquiesce to PRC control: those who already have a stake in stable cross-Strait relations. And sanctions would confirm the worst fears of Taiwanese who suspect that China does not have Taiwan’s best interests

at heart. Finally, while Beijing has shown some willingness to politicize cross-Strait economic ties—such as harassment of pro-Democratic Progressive Party businesses in China after the 2000 and 2004 Taiwan elections—these efforts seem to me to be quite limited and of questionable success. In sum, I don't believe deepening cross-Strait economic ties make it much more likely that the PRC will be able to coerce Taiwan into some sort of unification bargain.

A second possibility is that growing cross-Strait economic ties will ultimately lead to increased demands in Taiwan for political unification. For instance, it is conceivable that deepening economic ties—and the ancillary growth in cross-Strait contacts and communications—will lead a growing number of Taiwanese to identify more with China and to see themselves increasingly as Chinese. Alternatively, Taiwan's voters and businesses might start to make a more pragmatic calculation that Taiwan's economic future is fundamentally tied to China, and unification ultimately offers the best way to guarantee continued stability and prosperity. Yet well-known trends in Taiwan public opinion again call into question whether these sorts of processes are taking—or are likely in the future to take—hold.

For example, despite deepening economic ties, the percentage of Taiwanese citizens who self-identify as Taiwanese rather than as Chinese or both Chinese and Taiwanese has continued to grow; in recent surveys, those identifying solely as Taiwanese outnumber those placing themselves in the other two categories combined. Similarly, various surveys suggest extremely limited support in Taiwan for unification, again despite burgeoning economic ties. Support for China's proposed one country, two systems framework has been consistently minimal. Recent surveys suggest that even when presented with a hypothetical future scenario where social, political and economic conditions on the Mainland and in Taiwan are similar, most Taiwanese voters still oppose unification. In short, economic integration does not appear to be having a transformative effect on Taiwanese public opinion relating to Taiwan's status and identity. Perhaps support for unification would be even lower if it weren't for deepening cross-Strait economic ties, but support is quite limited as it is.

CONCLUSION

In summary, the United States should not be too complacent about the implications of cross-Strait economic integration for the prospects for military conflict in the Taiwan Strait. While it is possible that economic ties could reduce the danger of conflict—and there are several plausible ways this could happen—there is at least some reason to be skeptical that the specific causal processes that could link trade to a reduced danger of conflict are actually playing out in this case. With that said, I do not believe that economic integration across the Taiwan Strait is on balance a bad thing (at least from the standpoint of its security-related implications). I certainly don't think it makes military conflict any more likely. Moreover, I don't believe that economic integration has clear implications for the likelihood of eventual political unification between China and Taiwan. As such, I do not believe that China-Taiwan economic integration is inconsistent with current US policy toward Taiwan.

PANEL IV: Discussion, Questions and Answers

HEARING CO-CHAIR MULLOY: Thank you, Dr. Kastner.

We're going to have a five-minute question period for each Commissioner, and we're going to start with Commissioner Wortzel.

HEARING CO-CHAIR WORTZEL: Thank you, all, for your testimony.

Mr. Hammond-Chambers, can you generally characterize the industrial sectors for the 2,244 product categories that Taiwan restricts

and the rationale for those restrictions? And then I'll come up with a second question, and then let you guys go.

For Dr. Kastner, can you characterize the political policy views of the business actors in Taiwan with mainland investments? How do their political views impact on any domestic political activities they may have in Taiwan and how do these business actors interact with mainland leaders?

And Dr. Cooke, if you have any views you want to add on either of these, please do.

MR. HAMMOND-CHAMBERS: Thank you, sir.

About 800 of them are agricultural products. President Ma as a candidate in the run-up to the March 2008 presidential election consistently made the point that in any rapprochement, economic rapprochement, with the Chinese, those agricultural products would not be part of any ECFA agreement.

It is worth noting that the opposition parties question that the farmers' interests will, in fact, not be jeopardized. Otherwise, you're talking about an arbitrary group of products that ostensibly have national--the Taiwanese do use the term "national security" related products, but they fall in areas such as fasteners, industrial fasteners, or heat panels. I mean it really is an arbitrary list of product areas where barriers were put in place to ensure that Taiwan's nascent industries in those areas were protected against Chinese imports.

HEARING CO-CHAIR WORTZEL: Thank you.

Yes.

DR. KASTNER: In response to your question, I haven't done a great deal of research on this specific issue, but my sense is that when it comes to economic matters, there is certainly a view that economic liberalization is a good thing. I think that there's a tendency to take a lower profile on political issues because it's a lose-lose situation to be too outspoken on political issues.

I'm not really sure about your last point, about the interactions with the PRC government.

HEARING CO-CHAIR WORTZEL: Okay. Dr. Cooke, anything to add?

DR. COOKE: I would just make three simple points. First of all, in terms of the interaction of Taiwan CEOs with mainland counterparts, it depends really the industry sector we're talking about. In the information technology sector, the founding CEOs of the largest Taiwan firms are viewed with considerable respect as mentors for China's industry, but in more future-oriented industries like biotechnology or clean energy, the Chinese business leadership appears to feel that they have a clear path to that future without the assistance of CEOs from the Taiwan area, and the relationship is structured accordingly.

Just an additional comment that ties to Commissioner Wortzel's question and to Dr. Kastner's testimony, in terms of the susceptibility to

coercion in the mainland on the part of Taiwan businesses who are active there, my own experience is that it is relatively less than one would expect.

In the year 2000, there were some fairly crude attempts made in the mainland to harass Taiwan companies through aggressive auditing and other disruptive practices, and it was recognized by the Taiwan business leadership as a cost of doing business there, but it did not, it did not seem to translate in any way that was particularly helpful to the mainland objectives.

HEARING CO-CHAIR WORTZEL: Thank you.

HEARING CO-CHAIR MULLOY: Thank you very much.

Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, Mr. Chairman. Thank you for your return presence, and for our new witness. Terry, I think that you were a control officer for one of my CODELs probably 20 years ago or more so. It's always good to see you. We've probably changed a bit in the process.

I'd like to ask a slightly differently framed question because there are a number of issues on the U.S. policy agenda right now, and I want to have some understanding from the panelists about how you view those as affecting Taiwan's interests specifically and also vis-à-vis China and the U.S.

The two policy areas are the Trans-Pacific Partnership, and the other is the question of China's currency manipulation and the upcoming potential for the administration to name China as a currency manipulator.

Mr. Hammond-Chambers, if you could begin with the question on the Trans-Pacific Partnership, which I assume you have followed a bit, which because of some perceptions that it is meant as an economic response to China's growing influence in the region, some view it as an economic containment policy, how should we be viewing it?

How vis-à-vis both U.S.-Taiwan relations and Taiwan's interests itself in the region should it be viewed?

And, again, then, also on the currency issue, with the fairly massive investments by Taiwan business interests in the mainland, what are the implications of China being named a currency manipulator, hopefully leading, of course, to a more market-based currency, but short of that, what do you think happens in the interim?

This is for the other witnesses as well.

MR. HAMMOND-CHAMBERS: Thank you for your question, sir.

On the TPP, in my view, should the U.S. choose to lead on the TPP, it would be both important for us as a country, as well as for Taiwan.

I'll make a statement in my own view about where we are right now. In the absence of a trade liberalization policy here in the United States, we can't have a complete Asia policy. The Chinese are driving

that process, and we have a self-inflicted, or a choice, if you will, to be on the outside of that process. It's damaging our interests economically, and it's damaging our interests strategically.

If the TPP represents an opportunity for President Obama to lead--as President of our country--to lead in Asia on trade, that's a win for the United States, and far from confronting China or surrounding China, it is simply the United States pursuing its own commercial interests and equities in the region.

Taiwan wins because it is an opportunity to fold Taiwan into a process right now that it is shut out of. It would love to be part of the bilateral and multilateral arrangements being struck in Taiwan, but as a function of Chinese opposition, it is shut out.

COMMISSIONER WESSEL: Do you think that Taiwan could be a participant in TPP with China's acquiescence?

MR. HAMMOND-CHAMBERS: Acquiescence. Again, I think it's very important for the United States to show leadership on that. If we choose to step forward with the TPP, that we choose to include Taiwan from the get-go in that conversation, making it clear to everybody that given that Taiwan is part of the ADB, the WTO, there's absolutely no reason why it shouldn't be part of the TPP, as well, and APEC.

So there's every reason to believe that if the Obama administration chose to take this step and lead forcefully, that they could include Taiwan in that without any confrontation of our sovereignty position on Taiwan status.

As for currency manipulation, Taiwan, the integrated relationship between the U.S., Taiwan and China is such that Taiwan's businesses in the mainland that produce products for us would be equally impacted, as with our own business investments in the mainland, as well as Chinese companies, but these businesses are all exceedingly competitive.

I believe the issue would be more what sort of stability or instability would a rapid revaluation in the Yuan create in the Chinese economy, and as a consequence, what would that mean for businesses that have specific exposure to exports and a rapid appreciation or possibly depreciation, but highly unlikely.

COMMISSIONER WESSEL: Understand. Other witnesses?

DR. COOKE: No, I think Rupert has captured what I would say very well. Nothing particular to add, though I remember fondly the time we had.

COMMISSIONER WESSEL: As do I. Dr. Kastner.

DR. KASTNER: Yes. I don't really have anything to add to that.

COMMISSIONER WESSEL: Okay. Thank you.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Fiedler.

COMMISSIONER FIEDLER: Dr. Kastner, you were talking essentially about the political and more macro level security concerns about economic integration. I want to get down a little farther, and it's

a two part question. The first part is what does this economic integration--by exposing our technology that is present in Taiwan, what are the implications for our own national security and the theft of that?

This includes defense information. Given the fact that the integration poses security, personal espionage security problems for the United States. I just want to know how deep do you think that might be, number one?

Number two, what is Taiwan's internal security problem posed by this integration? In other words, can you trust even less the allegiances of a Taiwan businessman because they are more open to coercive opportunities for the Chinese government?

DR. KASTNER: In response to the first question, I guess I don't, I don't really have enough expertise to give you a good answer on that in terms of the extent to which U.S. technology or U.S. secrets might be compromised.

In regards to the second one, there are a number of ways that people in Taiwan think about some of the security implications of cross-Strait exchange, and people point to a number of potential negative consequences from a security standpoint.

Sometimes people bring up things like technology transfer. There's also concern about becoming more dependent on the PRC, and there is concern about the implications of having Taiwan businesses interacting in the PRC, and that this might, as you put it, lead to changed political loyalties.

I think that some of these concerns are legitimate ones. But there are counter arguments as well. For instance, the loss in terms of economic growth by not interacting would be more consequential--

COMMISSIONER FIEDLER: That's just a general export--

DR. KASTNER: Yes.

COMMISSIONER FIEDLER: That's what tea would make, yes.

DR. KASTNER: But again, I'm kind of skeptical as to kind of how much--

COMMISSIONER FIEDLER: Okay. Let me ask the other witnesses a question. Let's just take semiconductors. Taiwan is a world-class semiconductor producer. We have restrictions on the latest semiconductor technology being sold to China. So what? Does it matter that we have restrictions if it's well exposed to theft and cooperative agreements that are counter to our interests coming from Taiwan?

MR. HAMMOND-CHAMBERS: Terry is very, very good on this stuff, but I'll just jump in before he gets it all right. The U.S. government allowed Intel to invest in Dalian at 300 millimeter level. At present, Taiwan does not allow that level.

COMMISSIONER FIEDLER: Excuse me?

MR. HAMMOND-CHAMBERS: At 300 millimeter, the technology level for the--

COMMISSIONER FIEDLER: Yes, I know.

MR. HAMMOND-CHAMBERS: Yes, okay. So we've already gone ahead and released that technology level for investment in China. Taiwan has not. There's an underlying presumption here about the nature of Taiwan businesses that I'd like to perhaps address.

Companies like Taiwan Semiconductor are global companies with IP that is as good, if not better, than their global competitors. And the notion that they don't nurture that IP and protect it as voraciously as any U.S. company is not correct. In fact, with TSMC, there's just been a recent case with a Chinese company called SMIC in which TSMC won a case in a California court over IP violations. They won over a billion dollars in compensation, which included ten percent of SMIC.

These are sophisticated companies with an acute sense that their future is inexorably intertwined with their ability to protect their intellectual property as well as research and develop new intellectual property.

I'll pass it over.

COMMISSIONER FIEDLER: Can I just respond to something? I don't want the presumption being here that because they're somehow Chinese, that there's a greater risk. It's the integration question that's the risk. We have plenty of problems protecting our own stuff, and we're pretty far away.

MR. HAMMOND-CHAMBERS: Yes.

COMMISSIONER FIEDLER: I'm just getting to a proximity question and an intercourse question in terms of risk.

DR. COOKE: That's a very useful clarification, Commissioner Fiedler, and I think when the position of Taiwan companies in a global value chain is properly understood, their vitality depends precisely on protecting the intellectual property and brand equities of the brand partners at the high end of the value chain.

So it works in exactly the same way. Even when one gets away from extremely sensitive security technology, such as integrated chips, and you look at a more consumer-based product like an iPhone, the equity there has to do more with consumer dynamics rather than military safety, but the companies that are in the middle of that value chain, such as Hon Hai Foxconn or HTC, realize that they are just goring their own ox if they allow the sensitive proprietary technologies to bleed down lower into the value chain of cooperative relationships.

Things do happen, but the companies have very impressive systems in place precisely to prevent it from happening because it's in their interests to do so.

COMMISSIONER FIEDLER: Okay. Thank you.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Blumenthal.

COMMISSIONER BLUMENTHAL: Yes. Thank you all very much.

I have a question relating to U.S. positioning vis-à-vis what seems like the inevitable passage of the ECFA, and what could the United States do to take advantage and grow its own economy, grow its own trade and investment capability, take advantage of an opening by Taiwan to China or an opening generally of Taiwan sectors to the world economy?

It seems as if we're sort of encouraging them to go ahead, but we're not taking advantage. These are Taiwan companies or some other companies that do the best in China by far. They know how to do business there. Certainly, it seems like there are opportunities for joint ventures, for all kinds of things that would benefit our own companies and our own economy, and what kinds of recommendations would you make such that we could better position ourselves to take advantage of that?

DR. COOKE: My recommendation is perhaps less concrete than you're looking for, Commissioner Blumenthal, but I would say there's a wonderful opportunity for the United States to seize a story line here, which is simply that economic liberalization is a win-win situation for the participants of economic liberalization, and that the Taiwan-China ECFA Agreement could be held up in tandem with an aggressive trade liberalization policy that we are ourselves are bringing to the Asia-Pacific region.

It could be held up as a positive example of economic liberalization overcoming political rigidities that were deeply built into a historical past but that hold benefits for the various participants. And, then, in support of that, we could be engaging in our own robust economic liberalization with the region.

COMMISSIONER BLUMENTHAL: I was looking for something more concrete.

DR. COOKE: I know.

COMMISSIONER BLUMENTHAL: It seems like we have a preferential position with Taiwan because of our unique relationship. They're about to go ahead and negotiate a set of tariff reductions and other types of reductions, and we're on the outside looking in, where we have--I'm not an expert on this--but some real concrete possibilities to improve our own economic standing.

DR. COOKE: Well, I will cede to the other two panelists, but just to try to respond a little bit more concretely. I did write in 2006 that I view a free trade agreement between the U.S. and Taiwan as desideratum, and I think that the timing of, assuming that one is able to overcome TIFA difficulties, that would be a very strong element to bring to bear, along with a conclusion between China and Taiwan of an ECFA in support of Taiwan.

MR. HAMMOND-CHAMBERS: I would start where Commissioner Blumenthal left off, that the optimum solution is a U.S.-Taiwan Free Trade Agreement, all encompassing, providing U.S. trade

negotiators an opportunity to match the preferential market access and even go beyond it in areas where we felt that we had a critical advantage.

In respect to the meantime, I believe an area where I would hope that the Obama administration--it's certainly been wrestling with this issue for some time--but the notion of a bilateral investment agreement.

We don't seem to yet have that issue resolved within the administration to the extent that our trade negotiators can then take it out into the world.

But that's certainly an area where our Council members are looking to gain better access and uniformity and would be an important win-win for both sides, tax, as well.

COMMISSIONER BLUMENTHAL: Am I out of time?

HEARING CO-CHAIR MULLOY: No, you've got 30 seconds.

COMMISSIONER BLUMENTHAL: Which, if you all think creatively, which sectors of the U.S. industry and economy could most benefit from Taiwan's liberalization to China and U.S. liberalization vis-à-vis Taiwan?

MR. HAMMOND-CHAMBERS: Ten seconds. Right now we have world-class engineering businesses. There is a huge requirement right now in Taiwan for infrastructure improvement. There is absolutely no reason that our businesses shouldn't be all over that winning, I would say, all of the business, but at least, at the very least, competing with Taiwan and Chinese businesses for infrastructure and business.

Services companies. I think another, logistics and transportation, I think, are other areas. Why is it that only Taiwan and China companies can ply the Taiwan Strait? Ship and air. We have outstanding airlines. We have outstanding shipping companies. They should be allowed to participate in this opportunity, too.

HEARING CO-CHAIR MULLOY: I should tell the witnesses, if you get interrupted and you want to submit something to supplement your answer for the record, we're happy to have that.

Commissioner Shea.

COMMISSIONER SHEA: I want to thank the witnesses for being here today. I've enjoyed your testimony.

I'd like you to help me out here. As I understand ECFA, the motivations of the Chinese and the motivations of the Taiwanese and the end games for both are completely different. For Taiwan, the end game is economic. It's expanding their economy, using the ECFA as a prelude to get other free trade, to have greater economic integration into Asia. That's how I understand it.

For China, the economic benefits of ECFA are much less significant, and they basically view ECFA as a step on a political road to unification.

Is that fair to say, that they both have different motivations and end games; is that correct? Do you agree?

MR. HAMMOND-CHAMBERS: I absolutely do.

COMMISSIONER SHEA: Okay.

DR. KASTNER: I would agree as well.

COMMISSIONER SHEA: So these end games are very different; right? A stronger economy, on the one hand; political unification on the other.

Is the end game, one possible end game, what some have suggested, a Finlandization of Taiwan, where with greater economic integration, Taiwan essentially accepts the role of China in the region? China gives some benefits back to Taiwan; Taiwan becomes more of a neutral power as opposed to an informal strategic ally of the United States. Do you see that as a possible end game here?

DR. COOKE: I would just make three comments. I think that is a theoretical outcome. I don't think it's by any means a foreordained outcome, the Finlandization scenario.

And I would say that, although the mainland's motivations are overwhelmingly political and Taiwan's motivations are overwhelmingly economic, there is one small beachhead of common ground, which has to do with the stated belief, explicitly articulated by both sides, and shared by the U.S. government, as well, that tourism relations, trade relations, and person-to-person contacts have a beneficial effect.

COMMISSIONER SHEA: Comment?

DR. KASTNER: I'm also kind of skeptical of the Finlandization concept as I don't think that a neutral Taiwan is something that China is going to be willing to accept as long-term outcome in the Taiwan Strait.

So I don't think that Finlandization is a likely long-term outcome, though it might represent a possibility in the short term. In terms of motivations, certainly there are different motivations, including political motivations, for pursuing an ECFA, and as Terry pointed out in his testimony, there is a lot of controversy in Taiwan about the political implications of an ECFA.

But I am skeptical of this idea that ECFA is something that actually does signify a significant step toward unification.

COMMISSIONER SHEA: Mr. Chambers?

MR. HAMMOND-CHAMBERS: I would just, just going back to the opportunity I had to give some remarks before the start, for me, it appears that both sides are vested in signing some sort of agreement that they're going to call ECFA in the May-June time frame, whatever that might end up being. Politically, they've both decided that that's in the best interests of the direction this is going.

The principal challenge in my view is what next? Because that's where this whole thing falls off a cliff.

COMMISSIONER SHEA: Exactly. If your long-term goal is political unification, then you pass the ECFA, get that in place, you might become a little bit impatient; what's next? How do I achieve my goal?

Okay. Thank you.

HEARING CO-CHAIR MULLOY: Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Good afternoon, gentlemen.

We've been talking a lot about economic integration, cross-Strait economic integration. In what form will it take place? Do they still charge customs duties to each other? I've not been there so I'm asking these questions, which may be obvious. Okay. Do they charge duties? Will they eliminate customs income fiscally? And hopefully then corporate income taxes will go up. What will be the net effect fiscally of cross-Strait economic integration? Over what period of time will one see any kind of a result? That's the question to everybody.

DR. COOKE: I will lead off with perhaps just a statement of the obvious, but the two economies are extremely complementary, and the primary benefit of an ECFA is to reduce barriers of tariffs and inspection and the like that currently impede the free movement of the goods and capital to support what is otherwise a very complementary arrangement.

The Chinese mainland has vast advantages that Taiwan does not enjoy in terms of access to labor, low-cost facilities, land availability, and a large domestic consumer market.

Taiwan has very advanced manufacturing processes, proprietary know-how and management expertise, and the idea is to bring the two together to benefit both with a minimum number of rigidities getting in the way.

COMMISSIONER VIDENIEKS: As in one company? In several companies? Integrated companies? In other words, a corporation would be located both in Taiwan doing high-end stuff and maybe manufacturing in China? The same--

DR. COOKE: That frequently happens, yes.

MR. HAMMOND-CHAMBERS: Terry has really covered it, so I would just note that Taiwanese think tanks doing studies on ECFA, and there's actually a study coming out from our own Peterson Institute for International Economics here in D.C., and across the board, I've yet to read a reputable study done that doesn't show significant year-on-year growth as a function of ECFA.

Notionally, you're right, that any duty and tariff reduction, sir, would come with a marginal reduction in income for the government. Taiwan fortunately takes a policy of having a low corporate tax rate which assists its companies in their competitiveness.

But mostly the impact of ECFA in more general terms impacts the rationalization of the relationship between the two that's where we already are today and improves investment flows. So it directs money more towards the critical advantages that both sides have.

COMMISSIONER VIDENIEKS: My question basically is would there be a net gain or loss immediately if tariff income were eliminated? How long would it take for additional corporate income to materialize

and where do they pay their taxes? Where the headquarters are? Taiwan, PRC? What proportion of fiscal income of each country, each entity, is from trade as opposed to income tax, budgetary income?

DR. KASTNER: I suspect it is a pretty trivial percentage. I don't know the exact percentage rate. I think that customs--

COMMISSIONER VIDENIEKS: Is it significant or not?

DR. KASTNER: I think it would be pretty insignificant.

DR. COOKE: The only thing that I would add is in some of the traditional sectors of Taiwan's economy, I think the analysis is less in terms of projected income. I'm sure there are accountants at the companies that are doing that, but it really has to do with the viabilities of the companies themselves and the industrial sectors on a long-term basis, if they are getting economically marginalized in the Asia-Pacific region. So it has to do with the overall vitality and long-term growth prospects. That's the analysis I've seen more than specific income, corporate earnings impacts.

COMMISSIONER VIDENIEKS: Thank you.

HEARING CO-CHAIR MULLOY: Thank you.

Commissioner Cleveland.

COMMISSIONER CLEVELAND: Thank you.

Mr. Hammond-Chambers, you said that in 2009, the breach in the protocol over beef created questions about Taiwan's reliability. I think that was the word you used.

I'm interested in what you think contributed to that breakdown, and what might have been done that could have prevented it? And going forward, how, how we patch up the differences?

MR. HAMMOND-CHAMBERS: Thank you, ma'am.

This is a commentary on Taiwan domestic politics. I think initially what we have seen as keen observers of the Ma administration and Taiwan generally is that when President Ma came in, he centralized a great deal of government control in his National Security Council, and to look at this issue through that prism is instructive.

The NSC was the principal organization addressing the Protocol and its rollout, and as a consequence they had a breakdown in communicating the Protocol to the Legislative Yuan and to the people more generally.

Because Taiwan's partisan atmosphere is as active as our own, if you'll excuse the term, all hell broke loose, and the opposition party saw an opportunity to undermine the credibility of the president and to question the president's willingness to put at the forefront the interests of the Taiwan people. Their suggestion was at the expense of--putting the interests of Taiwan's relationship with the United States ahead of the interests of the Taiwan people.

And the Ma administration lost control of the issue, and it resulted in the Legislative Yuan's KMT Caucus--the KMT, the ruling party, dominates the parliament as well, but also as a reflection of how

little control the president has over his own parliament--that might resonate--that they went ahead and did something that the president clearly did not want them to do.

What does it leave with us?

COMMISSIONER CLEVELAND: Could I stop you?

MR. HAMMOND-CHAMBERS: Yes, ma'am.

COMMISSIONER CLEVELAND: When you say that he lost control and they went ahead and did something, without calculating the impact on the relationship with the United States? I mean I think we were all sort of surprised when we were there at the vociferous debate that was going on, which did not seem to take into consideration the potential damage to the relationship.

MR. HAMMOND-CHAMBERS: I think that's fair. I mean I don't think it's unfair to say within Taiwan's legislature, there are several very responsible good parliamentarians who understand the importance of parliamentary responsibility for the country's external relations, but they're a minority. And all politics is local, and that's true for how this situation played out.

For our country moving forward, as I mentioned, we have a challenge. We have a challenge in that this has regional implications. We can't allow Taiwan, for this to sit out there when we have significant trade equities and interests with other major trading partners. Otherwise, it might offer a blueprint for them to change protocols that our negotiators sign.

But that said, we have equities on Taiwan that need to be dealt with in the face of ECFA, and more broadly speaking, because our trade negotiators are so limited in how to respond to China and Chinese efforts to drive the process of regional liberalization, we've got this TIFA process, and it's pretty much all we've got right now, and we need to get it back up and running.

So probably some sort of penalization of Taiwan, whatever that might be, but also separating beef out and relaunching TIFA as soon as possible.

HEARING CO-CHAIR MULLOY: Thank you.

I have a question. In this ECFA, essentially, that's a free trade agreement, and Article 24 of the WTO GATT means it has to cover substantially all trade to get that kind of exception from the MFN treatment. Do you guys expect this ECFA to cover substantially all trade between China and Taiwan?

DR. COOKE: I think precisely because it takes place outside of WTO auspices, China and Taiwan are essentially agreeing to handle it in a somewhat different way. In principle, over time, the idea is that it would encompass all trade, but to make it more feasible to conclude quickly, they've restricted the scope in the initial stages quite clearly.

HEARING CO-CHAIR MULLOY: Do you agree with that, Mr. Chambers?

MR. HAMMOND-CHAMBERS: I do, Commissioner Mulloy. I happen to believe in the end, this agreement will be a free trade agreement, as you've described, but to Terry's point, I believe that initially they're working on a political time table, and they don't want issues that may come up in a normal trade negotiation to interrupt the signing of this agreement in the springtime, so some of that stuff may possibly fall off.

HEARING CO-CHAIR MULLOY: Okay. When we were in Taiwan in December, senior officials in Taiwan were saying that they wanted the ECFA because of the ASEAN-China FTA, and they posited that if they were ever to get the ECFA with China, that China might be less reluctant to see them do FTAs with other, with their other trading partners.

Mr. Cooke, you say on page seven of your testimony that may not be the right assumption. You're saying that these FTAs aren't what China has in mind, making the possibility of FTAs with larger economies outside of the region more remote. That China is not going to be playing that game.

So I just wonder is somebody operating on assumptions that may not be real? I'd be interested in knowing your views.

DR. COOKE: One of the benefits of no longer being a U.S. government official is that I am able to speak very freely. And it's nothing but a personal interpretation, but my personal interpretation is that China's tactical plan with an ECFA is that it can involve Taiwan to mutual economic benefit in a robust network of regional trade relationships where China has a very central position, but in Beijing's calculation, that may somehow give Beijing a little bit more ability to interfere with a possible free trade agreement outside the region with very large partners such as the EU or the United States.

But I think it would incumbent upon the EU and the U.S. to be forceful in their global commitment to economic liberalization everywhere.

HEARING CO-CHAIR MULLOY: Mr. Cooke. Mr. Chambers, have any view on that?

MR. HAMMOND-CHAMBERS: Commissioner Mulloy, sir, I happen to think that in the absence of another plan that what President Ma is proposing makes sense, but where the rubber meets the road is Chinese willingness to change their position on objections to Taiwan's participating in bilateral and multilateral agreements.

That said, there is a strong case to be made. If you look at the change that China made in its position over WHA observer status last year and the notion that the Chinese wanted to demonstrate some magnanimity on international space for Taiwan, it is possible, it is conceivable that the Ma government can quietly make the case to the Chinese that this could fit in the realm of flexibility in the non-sovereignty related area, to afford Taiwan more international space

where it raises the economic equities of the Taiwan people, but doesn't affront China's interpretation of Taiwan sovereignty.

And that would be to allow Taiwan, under whatever they might agree to call it, whether it's an ECFA for everybody else, as well, but to allow Taiwan to start engaging in regional, bilateral and multilateral initiatives.

But as it stands right now, the Chinese are saying no.

HEARING CO-CHAIR MULLOY: Do you have anything to add?

DR. KASTNER: I would agree with that. I would think that there would be some compromise after ECFA is reached, especially with the Ma administration, though I'm not sure how broad such a compromise would be or whether China would drop objections to Taiwan negotiating FTA's with major economies.

HEARING CO-CHAIR MULLOY: Thank you.

Fellow Commissioners, three of you have asked for an additional round. If we could limit it to two minutes, we can do it. T

COMMISSIONER FIEDLER: I have just a factual question.

HEARING CO-CHAIR MULLOY: Go ahead.

COMMISSIONER FIEDLER: Five seconds. Does Taiwan have a meaningful equivalent to our Foreign Corrupt Practices Act?

DR. COOKE: Not to a U.S. standard, no.

MR. HAMMOND-CHAMBERS: I agree with Terry.

HEARING CO-CHAIR MULLOY: Commissioner Wortzel.

HEARING CO-CHAIR WORTZEL: Another yes/no. If the Legislative Yuan reversed some of Ma Ying-jeou's position on the U.S. Beef Agreement, could the LY do the same kind of thing and derail an ECFA after it is agreed?

MR. HAMMOND-CHAMBERS: Commissioner Wortzel, I'll take a stab.

Sir, conceptually, in my experience with the LY, they can do a lot of things. But they, it's interesting the way it tracks with what we're seeing going on right now here in the United States. They're looking at a number of different procedural methods for handling ECFA to minimize the possibility of collateral damage and the opportunities that those who oppose ECFA may feel they have in trying to kill it.

But, as yet, as I understand it, and please, please disagree, they haven't yet decided exactly how ECFA will pass through the Legislative Yuan, but the LY will get some opportunity to review it, but how, that's still apparently to be determined.

HEARING CO-CHAIR MULLOY: I want to thank this panel again for your very helpful oral testimony. Your written testimony, which was very thoughtful, will be in our record, and we can then use that to help write our report later. So we thank you very much, all three of you.

HEARING CO-CHAIR WORTZEL: Thank you.

HEARING CO-CHAIR MULLOY: Ten minutes. We'll be back at

2:10. Thank you.

[Whereupon, a short recess was taken.]

PANEL V: POLITICAL ASPECTS

HEARING CO-CHAIR WORTZEL: The final panel today will explore the political dynamics of the cross-Strait relationship and its implications for the United States. We have three very distinguished panelists.

The first panelist is Randall Schriver, President and CEO of the Project 2049 Institute. He's also a founding partner of Armitage International LLC, and a Senior Associate at the Center for Strategic and International Studies.

He served as Deputy Assistant Secretary of State for East Asian and Pacific Affairs from 2003 to 2005, and as Chief of Staff and Senior Policy Advisor to then Deputy Secretary of State Richard Armitage from 2001 to 2003. He's also served as an intelligence officer in the U.S. Navy.

Dr. Shelley Rigger is the Brown Professor of East Asian Politics at Davidson College in North Carolina. She has a Ph.D. in Government from Harvard University and B.A. in Public and International Affairs from Princeton University.

She's been a Visiting Researcher at National Chengchi University in Taiwan and a Visiting Professor at Fudan University in Shanghai.

She's a prolific writer and has published two books and numerous articles on Taiwan's domestic politics and cross-Strait relations.

The final panelist is Dr. Richard Bush, III, a Senior Fellow at the Brookings Institution and Director of its Center for Northeast Asian Policy Studies.

Dr. Bush has long-time experience in dealing with China and Taiwan beginning in 1977 with the China Council of The Asia Society. He has worked in the House Foreign Affairs Committee Subcommittee on Asia-Pacific Affairs, the House Foreign Affairs Committee, and the National Intelligence Council as National Intelligence Officer for East Asia.

His final position prior to Brookings was as Chairman and Managing Director of the American Institute in Taiwan. He's also the author of numerous articles and several books on cross-Strait relations and U.S. relations with China and Taiwan.

We look forward to your testimony. It will be seven minutes each. Please, Randy.

**STATEMENT OF MR. RANDALL G. SCHRIVER
PRESIDENT AND CEO, PROJECT 249 INSTITUTE
ARLINGTON, VIRGINIA**

MR. SCHRIVER: Thank you, Commissioner Wortzel, and thank you to all the Commissioners. I appreciate the opportunity to be here, and I particularly appreciated being seated with people I respect so much, Dr. Rigger and Dr. Bush.

This has been, I think, a long day for the Commissioners, and I know much ground has been covered, but I do think that the political elements of this cross-Strait environment are, in fact, the most important and the core elements. At the heart of it, the dispute is a political dispute.

But I will be very brief and want to focus very intensely on what I think are the core challenges to an enduring stability and a stability which would ensure prosperity and peace going forward because I think there is a narrative out there that is becoming close to consensus and conventional wisdom, even, which I think may not, in fact, be the correct narrative.

what I mean by that is I think most would agree, perhaps all would agree, that there is a great deal of positive momentum in the cross-Strait relationship, and that the environment is much improved over the last couple of years, but I think when you pull the thread further and give consideration to the future trajectory, I certainly think that trajectory is far from certain, and when people start to talk about challenges and obstacles, I think they're often going to the wrong place and looking at the wrong issues.

I think one of the common narratives is that the potential challenge or obstacle for an enduring peace and stability is sort of the volatility of Taiwan's democracy and perhaps the unpredictability of an activist Legislative Yuan or president or future president, but I don't think that the robust and very representative nature of Taiwan's democracy is the core problem.

I think the core problem is Beijing's intransigence, their strategy, which is fundamentally flawed in that it overly relies on coercion as one of the key elements and their neuralgia really related to the democracy on Taiwan.

So let me be a little bit more specific about this. I do think Beijing in a sense has somewhat of an upper hand. They actually have a vision, and they have a strategy to get there. Their vision is quite clear. They want some reconciliation, and what they would say reunification--what others would say unification--around the core principle of "One China."

Their strategy, although it has many moving parts to it, is essentially a strategy of carrots and sticks, and then a few years ago it was noted sweeter carrots and harder sticks. Sweeter carrots being the economic inducements; the harder sticks being things like the Anti-Secession Law and the military build-up opposite Taiwan.

This is all underscored by a very aggressive perceptions management campaign which is designed to drive a wedge between

Taiwan and its key supporters, most principally the United States, but also to isolate Taiwan internationally and vilify those that might seek a different future for Taiwan.

So this is the fundamental strategy that has been in place for I think some period of time. Even though the level of sophistication and the implementation of this strategy and some of the elements on the margins changed, this is essentially it, a carrots and stick strategy supported by an aggressive perceptions management campaign.

The problem with this is that the sweeter carrots have been powerful enough to create these economic linkages, have been powerful enough to change some opinions about mainland China within Taiwan, but the sticks part, the coercive elements have had the opposite effect in terms of engendering positive feelings toward China in Taiwan.

So the outcome has been an interest in greater economic ties and greater interaction, but the political goal which Beijing holds may actually be getting further away or more difficult to obtain due to this coercive element of their policy.

So what does the net effect then become over time? Over time, you have a situation where Beijing either changes a political objective, which I think is highly unlikely, or you ask for unlimited patience, which is I think is also pretty unlikely, or the coercive tools become more attractive to them, which I think is a cautionary note and something that we do need to be watchful about.

I think the polling in Taiwan, though fickle and not 100 percent reliable, underscores this view. If you ask people their opinion about the political status between the two sides, yes, overwhelmingly, people say status quo, the so-called "status quo." But if you ask follow-on questions such as status quo, then what, or the theoretical, in the absence of military threat opposite Taiwan, what would your opinion be, in both cases, those supporting independence is actually increasing according to the Mainland Affairs Council in their polling.

So status quo now, independence later is increasing. What would you support in the absence of a military threat? Independence is increasing. And so, again, I think the dynamic that is unfolding is a situation which could be more and more difficult for Beijing to tolerate.

Many have commented on these polls and said, well, the outcome here then should actually give us some reassurance Taiwan is not going to rush into a deal that's bad for their interests. They wouldn't sacrifice their sovereignty and the hard fought-for democracy that they have, but, in fact, not as much attention is being paid on the effects that this dynamic could have on Beijing.

Again, do they have unlimited patience? I heard Commissioner Shea's question to the previous panel. Do they have a fundamentally different political goal? Do we expect them to have unlimited patience or do we think the coercion tool could become more attractive to them?

To conclude, I do want to take the opportunity of this hearing and

this panel to make some recommendations because, I think, again, if your analysis is flawed and you're looking at the wrong obstacles and challenges to an enduring stability, then your policy recommendations that follow from the analysis could also be flawed.

I think there are a number of recommendations that have been put forward by scholars and academics and former officials that suggest somehow this should be on autopilot, everything is going great, and therefore we should not mettle or violate the Hippocratic Oath of involving ourselves in actually doing harm, or that these outcomes just aren't consequential or important enough for the United States to upset the trend line.

I know my time is short. Just very quickly, I do think the United States should reintroduce and strongly urge the Chinese to renounce the use of force. I think that's fallen out of our mantra. And should put a great deal more pressure on China to reduce the military aggressive posture opposite Taiwan.

Failing that, I think the United States should consider scaling back somewhat the military-to-military relationship with China. I think it is of somewhat questionable value to begin with, but as long as the posture is as we know it to be opposite Taiwan, I think having a more robust military interchange with China is not well advised.

I think the United States should do a series of things, hopefully, in 2010, to enhance the U.S.-Taiwan relationship, and I would include things that have already been put on the agenda, like a visa waiver program, an extradition treaty. I would also like to see a Cabinet Secretary visit Taiwan in 2010. Of course, we know the Clinton administration sent three. The Bush administration in eight years sent zero. So it's been over a decade since a Cabinet Secretary has visited.

I do support a Free Trade Agreement between the United States and Taiwan. I think in the current environment, particularly on our side, that's not likely, but a more robust TIFA process, which would, I think, not only support our economic interests, but I think would give Taiwan the valuable hedge against ECFA, against further isolation.

I do support more enhanced security assistance to Taiwan. I know the issue of F-16 has been on the table. I do support that program very much. I think it would be the right message to send to China right now, and I do think the United States should continue efforts to support Taiwan's participation in international organizations, and particularly make this a more prominent feature in our discussion with Asian allies like Japan and Australia.

Thank you.

[The statement follows:]

**Prepared Statement of Mr. Randall G. Schriver
President and CEO, Project 249 Institute
Arlington, Virginia**

Good afternoon Commissioners. Thank you for the opportunity to appear before you today to convey my views on the current state of the cross-Strait relationship and the direction of important trend lines. And thank you as well for making me look good by association – I'm honored to sit on the same witness panel with both Dr. Rigger and Dr. Bush.

As this is the last panel of the day, and many issues associated with the cross-Strait economic and security environment have already been ably addressed, I'd like to keep my statement very brief. In that spirit, I'll forgo extensive discussion of where I see things stand today, and instead focus more on what I believe to be the major challenges to stability and progress in the Taiwan Strait going forward. I'd also like to take this opportunity to address the interests of the United States that are at stake and some specific policy recommendations.

Background:

Since the election and inauguration of Ma Ying-Jeou as President of Taiwan in Spring 2008, Asia-watchers have observed a remarkable rapprochement between the People's Republic of China and Taiwan. Significant progress has been made between the two sides in areas such as cross-Strait commercial air travel, tourism in both directions, an easing of investment restrictions, and even international space for Taiwan. Arguably, cross-Strait relations have never seen so much positive momentum, over such a short period of time in the modern era.

The future trajectory of cross-Strait relations, however, remains far from certain. A number of essential questions about China and Taiwan's collective future remain extremely difficult to answer. There are a large number of variables, each complex and fluid, that factor into the equation that will ultimately determine the health of China-Taiwan ties. While current trend lines remain mostly positive, there are increasing signs that the direction of cross-Strait relations could still change dramatically. The environment remains fragile and vulnerable to disruption from a variety of sources. As a result, the interests of the United States could be adversely impacted.

Potential Challenges:

There seems to be an emerging conventional wisdom that progress and/or minimal stability hinges upon effective leadership and governance by the current Kuomintang (KMT) government in Taiwan. This is largely informed by Chinese government officials and academics who vociferously warn us of the dire consequences for cross-Strait relations should the Democratic Progressive Party return to power in Taipei. Yet the sources of potential challenge to stability in the Strait are far more complex, and have much more to do with the continuing insecurities of the Chinese leadership, Beijing's neuralgia associated with democracy on Taiwan, and a strategy that is fundamentally flawed by an over-reliance on coercion. While it's true there are two primary parties to the dispute and thus both sides contribute to the political environment, the threats to peace and progress emanate most acutely from the PRC side.

Let me try to be more specific. I believe leaders in Beijing have a grand vision for Taiwan and a strategy to get there. By some measure, this greatly advantages Beijing by virtue of the clarity of their view and their ability to sustain a disciplined approach to Taiwan and the outside world. While China has a strategy, Taiwan continues to lack consensus on even the most fundamental aspects related to the desired end state of relations between the two sides of the Strait. Thus Taiwan, and to a large extent the United States, are in a responsive posture, and are constrained to tactical maneuvering.

On the other hand, Beijing's strategy – which appears effective in the short term – may very well contain critical flaws that will ultimately inhibit China from achieving the political outcomes they desire. The dynamic we are witnessing, therefore, may actually be deceiving. We see rapid progress at the present, particularly in the economic sphere, but the political objectives could be subtly diverging. This,

in turn, may test Beijing's patience, and may make coercive tools even more tempting to China's insecure leaders.

Beijing's vision is quite clear – they seek unification (which they refer to as “re-unification”) in political form under the rubric of “One China.” Their strategy is also clear, though rarely explicitly stated. Fundamentally, China adopts a version of the classic carrots and sticks approach to Taiwan. This was enhanced after President Hu Jintao came to power and was described by analysts as sweeter carrots (more economic inducements) and harder sticks (the Anti-secession Law and the military build-up). And despite their rhetoric, Chinese leaders also recognize the Taiwan issue has been “internationalized.” Therefore, they incorporate an international carrots and sticks approach to major outside players, as well as an aggressive perception management campaign designed for the consumption of the international community.

Beijing's strategy can thus be said to have seven core elements: (1) complete intransigence on the issue of “One China;” (2) economic and other inducements to attract the government and people of Taiwan; (3) military build-up as a tool of intimidation and coercion; (4) pursue overwhelming military advantage to make a variety of contingent scenarios credible; (5) isolate Taiwan from the international community; (6) a steady stream of positive and negative inducements for the United States in an effort to weaken U.S. resolve to support Taiwan; and (7) an aggressive perception management campaign that supports all of the aforementioned elements of their strategy.

The PRC's efforts in the area of perception management have grown increasingly sophisticated, but the core objectives have been remarkably consistent over time. PRC leaders seek to paint China as the responsible party, offering a reasonable political solution (Beijing assures that Taiwan need only to agree to “One-China” for all other things to be possible), seek to de-legitimize and vilify Taiwan independence seekers (Chen Shui-bian was always described by the Chinese as a “trouble-maker” who could bring about war), seek to place blame on outside parties who show any level of support for Taiwan (China describes U.S. arms sales to Taiwan as an obstacle to cross-Strait relations, while never making mention of their own aggressive build-up), seek to dangle the promise of better cooperation with other parties if core interests are respected (e.g. North Korea and Iran cooperation), and seek to ensure China's threat of war is credible (China refuses to renounce the use of force against Taiwan and has repeated the mantra “Taiwan Independence means war” so many times, that even former Deputy Secretary of State Zoellick urged members of Congress to understand during a hearing that “Taiwan Independence means war”).

This overall approach from Beijing's perspective enables an ability to sustain a clear and consistent pursuit of their vision. Within their strategy, Chinese leaders have the latitude to make pragmatic decisions on economic and other types of activities with Taiwan, and can realize incremental progress in the overall relationship with Taipei. However, since the democratization of Taiwan, China's political goals may actually be more difficult to realize in the absence of outright coercion. Sweeter carrots and harder sticks may very well bring closer economic ties and greater people-to-people interaction, but support inside Taiwan for eventual unification continues to drop. This phenomena is not simply a result of generational change on Taiwan, it is a direct outcome of China's policy choices. But rather than re-cast her policy, at every juncture China seems to drive deeper into the cul-de-sac.

This is Beijing's conundrum. With Taiwan's robust democracy, the possibility of Taiwanese independence must be taken seriously. However, that which is necessary on China's part to prevent Taiwanese independence in actuality makes political reconciliation and unification much more difficult. Unless China is willing to change its political objective (highly doubtful), Beijing's options dwindle to a choice between having unlimited patience, or more aggressive isolation and coercion of Taiwan. Since unlimited patience carries some risk (Taiwan could slide further away and abandon the so-called status quo), the isolation and coercion tools become more understandable. This starts to explain why Beijing reacted so negatively to new U.S. arms sales to Taiwan even at a juncture when the cross-Strait relationship is so positive – they understand their ultimate political objective may remain out of reach

unless they can effectively coerce Taiwan.

Current polling in Taiwan underscores China's dilemma. While it is true that a vast majority of people in Taiwan support the so-called status quo, this statistic belies other important trends. When asked what arrangement people would support for Taiwan in the absence of a military threat from China, the numbers supporting independence have been steadily growing, and those supporting eventual unification have been dropping. When people are allowed to answer "status quo now" but something else later, according to the Mainland Affairs Council in Taiwan, those believing that independence should come after the status quo in Taiwan is on the rise while those supporting unification after the status quo is on the decline. This particular trend has developed even during the Ma Administration, and even after the economic outreach from Beijing.

Some may take away a degree of confidence that these trends prove Taiwan will not rush into an ill-advised political reconciliation with China. In my view, however, not enough analysts are paying attention to how these same trends may impact Beijing. It is truly a dangerous mix when Beijing refuses to renounce the use of force, continues to gain military advantage in the Strait, and over time sees the true fiction of the highly questionable narrative they had once embraced – that supporters of Taiwanese independence were the simple by-product a few troublemakers in Taiwan – it may see no alternative but to seek a coerced outcome.

I do not mean this to sound alarmist or to suggest that conflict in the Taiwan Strait is inevitable. We have policy choices going forward that can promote a more durable environment of peace, stability, security and prosperity. And while I recognize that mine may be a bit of a contrarian view, I do worry that acceptance of faulty analysis regarding the real challenges in the cross-Strait political relationship going forward will lead the Administration to poor policy decisions. Increasingly, respected people with significant professional stature suggest in public forums that our approach to the Strait should be either laissez-faire given how well the two sides are progressing, or that we should actually pull back our level of support for Taiwan. Many advocates of the latter approach hope to either gain Beijing's cooperation in other areas, or speed along the inevitable political unification process. I strongly believe that a general trend of weakening U.S. support for Taiwan will make a coerced outcome – to possibly include the use of violent force – more likely, not less likely.

What is at Stake for the United States?

There are some who may disagree with my analysis above, and I welcome debate with anyone who can disagree without being disagreeable. But what I find quite troubling is that some U.S. Asianists may actually agree with my analysis, but might also be quite comfortable with the trajectory I've described above. There are those who are willing to see Taiwan sacrificed in the hopes that greater strategic cooperation can be forged with China. I believe this latter camp undervalues Taiwan and the U.S.-Taiwan relationship. I also believe they risk endorsing a false trade-off, and the promise of Chinese reciprocation for the U.S. abandonment of Taiwan would never materialize. Ironically, such a course would equate to *both* bad Taiwan policy *and* bad China policy.

As Commissioner Blumenthal and I wrote in our co-authored report "Strengthening Freedom in Asia" in 2008, "the United States has an interest in a free, democratic, prosperous, and strong Taiwan." It is a large trading partner of the United States, and has proven to be a responsible stakeholder on global issues of concern such as climate change, counter-proliferation, humanitarian relief, and the promotion of democracy and human rights. Again to cite our 2008 report, "if Taiwan is successfully coerced by the PRC into a settlement against the wishes of the 23 million people of Taiwan, Washington would not only lose a valuable international partner, but its interests and regional position would also suffer a severe blow... A coerced settlement against the wishes of the Taiwanese may carry even greater strategic significance over the long term. Chinese control of Taiwan (and presumably, the Taiwan Strait) could effectively deny the United States and its allies access to critical sea lanes during conflict. Mainland

control of Taiwan would also significantly extend the reach of the People's Liberation Army in the Asia-Pacific region.”

Naturally, the United States also has a strong interest in a constructive relationship with China. Instability in the Taiwan Strait, and the resulting tension with China could adversely impact our interests. But too often in the past when trouble arose, the United States chose to treat the symptom rather than the disease. Perhaps there is a practical logic at play. When facing tension in the Taiwan Strait, U.S. policy makers often chose to impress upon the party where presumably we had the most influence – in other words, we pressured Taiwan to change their behavior or actions because we had greater chance of success than had we tried to alter China's behavior. But this type of action-reaction cycle only serves to obscure the real challenges to enduring peace, namely China's profound discomfort with democracy in Taiwan, and her unwillingness to abandon a policy rooted in military coercion. And laterally speaking, analysts would be hard pressed to demonstrate where our pressure on Taiwan ever resulted in enhanced Chinese cooperation in other areas (quite to the contrary – historically speaking, there is absolutely no correlation between U.S. policy toward Taiwan and Chinese decision making on Iran, North Korea, etc.)

Policy Recommendations:

U.S. interests at first blush may appear complex due to the perception that we are faced with competing interests and policy trade-offs. I would submit, however, those are perceptions largely manufactured by Beijing who want us to believe such trade-offs are real. The reality may actually be the counter-intuitive. Given the fundamental flaws in China's strategy toward Taiwan, and given our interests in both avoiding conflict in the Strait, as well avoiding a potential coerced settlement, we are not on the optimal trajectory as popular opinion might have us believe. I would advocate that we reorient our own policy objectives to more accurately address the long term challenges to peace, stability, security and prosperity in the Taiwan Strait.

As an overarching goal, the United States should be seeking to mitigate and/or remove the true obstacles to an enduring peace in the Taiwan Strait. And the true obstacle to peace is not a vibrant, flourishing democracy in Taiwan – it is the Chinese refusal to renounce the use of force, and an overall Chinese approach that is leading all parties in the direction of a coerced settlement. Specifically, I have six policy recommendations for the Obama Administration and the Congress:

-- The United States should resume strong calls for China to renounce the use of force against Taiwan, and should resume strong calls for China to pull back from its threatening posture opposite Taiwan in consequential ways. Doing so would be an appropriate counter to growing Chinese assertiveness.

-- The United States' military-to-military relationship with China should be scaled back until China is more responsive to our calls for constructive steps related to the security environment in the Taiwan Strait. After nearly 30 years of interaction, the U.S.-China military-to-military relationship has proven to be of very limited value to the United States. Ironically, when Beijing's leaders want to demonstrate pique over U.S. support for Taiwan, China pulls back from military to military exchanges. In such cases in the future, the United States should welcome China's decision. As China aggressively pursues military modernization and seeks a more professional force, choosing to limit interaction with the world's greatest military will actually hurt China more than the United States.

-- The United States should take a series of steps to enhance the U.S.-Taiwan relationship. Before the end of 2010, the United States should send a U.S. cabinet secretary to Taiwan, should reach agreement on extending Visa Waiver to Taiwan, and should conclude an extradition agreement. These steps would demonstrate that we see merit in a U.S.-Taiwan relationship in its own right, breaking free from the mindset that Taiwan is only important as a subset to broader U.S.-China relations.

-- The United States should pursue a Free Trade Agreement (FTA) with Taiwan. As the current political

environment in Washington may not be favorable to any new FTA efforts, we should at a minimum re-start a robust TIFA process to promote bilateral trade. Such a step would not only support U.S. economic interests and strengthen U.S.-Taiwan ties, it would also help Taiwan to have a valuable hedge against PRC economic influence in Taiwan.

-- The United States should support a robust security assistance program for Taiwan. As a first step, the United States should accept a "Letter of Request" from Taiwan related to the follow-on F-16 purchase, and should ultimately approve the request for additional F-16s. If Taiwan has greater defense capabilities, it will have greater confidence to proceed with constructive dialogue with Beijing.

-- The United States should promote Taiwan in international organizations and should to promote Taiwan as an important issue with our key Asian allies such as Japan and Australia. Taking such measures may help counter China's attempts to isolate Taiwan.

**STATEMENT OF DR. SHELLEY RIGGER
BROWN PROFESSOR OF POLITICAL SCIENCES, DAVIDSON
COLLEGE, DAVIDSON, NORTH CAROLINA**

DR. RIGGER: I'd like to echo Mr. Schriver's thanks to the panel for including us and for convening this meeting and, in particular, for including me on your docket. I'm very happy to be here.

I think that it's a pretty well-established observation that doesn't really bear repeating, but I'll repeat it anyway, that the relations between Taiwan and mainland China are much better today than they have been over the past decade or so, and in some ways one might argue, are better than they have ever been because even in the era when unification, speaking of mantras, was the mantra of both sides, actual action toward unification, actually communication between the two sides and real meaningful contacts were completely absent.

Today really is the first time that we have seen deep progress and opportunities for collaboration and cooperation between the two sides on both the economic front and the political front. This is really an unprecedented moment, and I think because it is an unprecedented moment, it has provoked a lot of debate and a fair amount of resistance among the Taiwanese public.

For eight years, during the Chen Shui-bian administration, the primary driver of Taiwanese political debate was a conversation about how wise or unwise President Chen's cross-Strait policies were, and was he too provocative? Was he taking Taiwan in a risky direction? And that debate really escalated in President Chen's second term between 2004 and 2008.

Given the amount of attention and scrutiny that Taiwanese voters and Taiwanese publics had given to President Chen's policy, there was an expectation, and not surprisingly so, that when a new president came in with a very different approach to cross-Strait relations, the public would embrace that new approach, having been critical of the previous one.

But what we found is that the Taiwanese public is not particularly

enthusiastic -- or certainly not sanguine -- about the possibilities for mischief or trouble associated with the Ma Ying-jeou administration's approach. This is not to say that anybody would be eager to go back to the Chen administration, but simply to say that there is a great deal of anxiety among Taiwanese about the future direction of their relationship with mainland China, and there is a very widespread sense that the range of options for Taiwan are very narrow so the most important characteristic that national leadership can bring to Taiwan is the ability to navigate through this very narrow channel without drifting too far in either direction because, at both sides, there are serious perils and dangers.

During the Chen administration, we saw a lot of public opinion polling, kind of nudging the president back toward the center of the channel, and now we see public opinion polling looking very different, which I think is really the Taiwanese populace nudging President Ma back toward the center of the channel.

So I think the most important message we can derive from the political ferment within Taiwan is that there is no mandate for rapid or radical action for Taiwan's leadership in the Taiwanese public or in the Taiwanese electorate.

But there also was no mandate for radical or extreme action for the previous administration, either. So it seems to me that the effect of public opinion in domestic politics, the primary effect of domestic politics on cross-Strait relations, is really to restrain all Taiwan governments and to slow the pace of cross-Strait developments so that today we find, even on the economic front where, during the Chen administration, there was the greatest enthusiasm for ramping up cross-Strait cooperation and integration, even on the economic front, there's rising skepticism about whether or not Taiwan should continue the current trajectory of economic integration.

I think ultimately, this is actually very beneficial to Taiwan. It serves Taiwan's interests well to have this level of skepticism and popular reluctance to embrace the president's approach because it gives President Ma a very credible foundation on which to argue to his Chinese counterparts the limitations of what he can deliver and what he can yield.

To the extent to which people in mainland China may have gone into the Ma administration with the expectation that they would very quickly gain their heart's desire, that expectation has been substantially revised with some disappointment but also a considerable amount of realism on the part of PRC leaders and people in China who are knowledgeable about the Taiwan issue, many of whom knew this would happen before Ma Ying-jeou was ever elected.

But the consequence is that Ma has a very credible case to make in dealing with the mainland, that he has to take it slow, that he cannot deliver very quickly, especially on the most controversial item, which is

to say the political elements of what Beijing might hope or expect the two sides could engage on.

With that, I'll yield the rest of my time to Dr. Bush.

[The statement follows:]

**Prepared Statement of Dr. Shelley Rigger
Brown Professor of Political Sciences, Davidson College, Davidson,
North Carolina**

Describe the current status of, and recent trends in, the Cross-Strait Relationship

Relations between Taiwan and mainland China have warmed substantially since President Ma Ying-jeou assumed office in May 2008. The tension that gripped Taiwan and China during the Chen Shui-bian presidency (2000-2008) has abated. High-level visits have become routine, with the heads of the two sides' quasi-official negotiating bodies, (Chiang Pin-kung of Taiwan's Straits Exchange Foundation and Chen Yunlin of China's Association for Relations Across the Taiwan Straits) exchanging regular visits and engaging in substantive negotiations during those visits. The agreements already negotiated and currently under negotiation focus on economic issues, but they also include technical matters related to cross-Strait travel, trade and investment. A comprehensive trade agreement, which Taipei is calling an Economic Cooperation Framework Agreement (ECFA) is under negotiation. Officials in Taipei say they expect it to be finalized this spring.

What is your assessment of China's recent diplomatic and economic initiatives toward Taiwan? Why has there been no parallel movement on the military front by Beijing?

It appears the PRC government has determined President Ma is the most favorable interlocutor they can realistically expect to find in Taiwan. Although resistance within Taiwan has made for a slower-paced cross-Strait rapprochement than many observers expected, Chinese leaders have tolerated the slow pace. For example, they fulminated against the U.S. for selling arms to Taiwan, but spared Taipei from direct criticism. Beijing has not allowed setbacks in the relationship, such as protests and failed agreements, to scuttle the talks. The PRC even has made limited concessions on Taiwan's demand for international space. It has joined Taipei in the tacit "diplomatic truce" Ma proposed after his inauguration (neither sides has established diplomatic ties with the other's existing diplomatic partners) and in 2009, Beijing withdrew its opposition to Taiwan's efforts to secure observer status at the UN World Health Assembly.

The most persuasive interpretation of Beijing's actions, in my view, is that they reflect a "hope for the best, prepare for the worst" strategy. That is, China is pursuing better relations with Taipei on the economic and diplomatic front, but it will not relax its military posture. Chinese leaders believe long-term trends are in their favor. They expect that increased economic integration and people-to-people contacts – when combined with the steady increase in mainland China's global weight – will pull Taiwan toward the mainland. However, they also believe there is a small, but real, chance Taiwan might make a sharp gesture toward formal independence. China's military posture is designed to deter that gesture. If deterrence fails, it is designed to respond forcefully to Taiwan's move.

Other interpretations for the gap between China's economic/diplomatic conduct and its military posture are less persuasive. The idea that the military posture is dictated by the People's Liberation Army, and is in tension with the civilian leadership's preference for carrots as opposed to sticks, overstates the degree of autonomy the PLA enjoys. Taiwan policy is one of the PRC's very highest priorities; it is unlikely top leaders would permit the PLA to deviate from their preferred line. For that reason it is more likely that China's threatening military posture is intended and approved at the very top. The argument that Beijing is using carrots to stall for time while it prepares for military action also is unpersuasive, because enticing Taiwan to move closer to the mainland is far less costly than unleashing military force. The military option is real, but it remains a last resort.

What is your assessment of future trends in the cross-Strait relationship? Will it continue to improve, or has it reached a plateau? What unforeseen events could provide a setback to cross-Strait relations?

At present there is very little overlap in the two sides' long-term visions. Beijing is committed to a form of unification in which Taiwan is absorbed into the People's Republic of China – albeit with a very high degree of local autonomy. The democratically-elected government in Taipei is accountable to a public that is united in its determination to remain politically independent of the PRC. Taiwan's public is willing to accept compromises on symbolic issues, such as the island's nomenclature, but there is no support for folding Taiwan (or the Republic of China) into the PRC.

Given these visions' irreconcilability, the key to successfully managing cross-Strait relations is to draw out the process long enough that those visions can be reconciled. Prolonging the process will require the two sides to find issues that can be negotiated; some observers have begun to wonder whether the supply of such issues might be dwindling. I would argue that it is not. Even after all the outstanding economic and technical issues are resolved (and there are many), there will be opportunities to negotiate and implement military confidence building mechanisms. Beyond confidence building lies a peace accord (something both sides agreed was desirable back in 2005). Each of these steps can take a very long time. So long as both sides are content to let the process take its course, they will provide ample fodder for protracted negotiations.

The quality of relations may be at something of a plateau, but I would argue that reflects more the big improvement over the Chen era than a slowing of the warming trend under President Ma. Moreover, Taiwan leaders' confidence that they will sign an ECFA in the next few months suggests that on substantive issues, if not in the atmospherics, progress continues.

Unforeseen events that could provide a setback would include a military or serious civilian accident involving actors from the two sides. A sudden increase in the hostility directed at Taiwan from Beijing would provoke a retrenchment in Taiwan's position. (It also would hurt President Ma and his party politically, raising the likelihood that the DPP would win the 2012 presidential election. That would put the Sino-skeptical DPP back in charge of mainland policy – something Beijing would prefer to avoid.) Such an event could be caused by a surge in nationalist activism in the mainland, either domestically-generated or in response to actions in Taiwan or the U.S. Because it prefers to avoid this outcome, the PRC government has been at pains to “accentuate the positive” in interpreting cross-Strait developments for its citizens.

Do you feel that greater cross-Strait economic integration will led to increased political integration?

There is no necessary relationship between economic and political integration; if there were, Ottawa and Washington would have set aside their differences and reunified British North America long ago. Of course, Taiwan and mainland China shared a vision of unification more recently, so the analogy may be faulty, but Taiwanese support for unification is negligible today. Economic interactions have reduced the level of tension, in part by creating large constituencies on both sides that derive direct benefits from good relations. That is especially important in Taiwan, which at one time looked like it might be an obstacle to peaceful relations. However, reducing tension is not the same thing as increasing political integration. A shift toward political integration is not inconceivable in the long run, but it is hard to map a route to political integration that reaches that destination in the next decade.

Can the Chinese Communist Party continue to live with de facto independence for Taiwan as long as economic integration progresses?

On the Taiwanese side, if Taipei were to make a strong gesture toward de jure independence, its de facto independence might become intolerable to Beijing. On the PRC side, domestic politics in the mainland

could develop in such a way that the CCP would be forced to sacrifice Taiwan to preserve its own power. The most likely scenario of that kind would be a strong surge in nationalistic sentiment sparked by setbacks in other areas, such as a loss of international prestige or a major economic failure. Neither of these are necessary developments, which suggests the CCP can continue to live with Taiwan's de facto independence.

Another relevant factor here is China's increasing comprehensive national power. The PRC's economic, political and military power is growing rapidly, and other nations are recognizing its rise. The sense that China has "come into its own" could prompt a debate in the PRC over whether it is necessary to continue tolerating Taiwan's de facto independence. The outcome of such a debate is hard to predict, as there are strong voices that would argue precipitous action would be unnecessary and costly – and might even set back China's rise. Chinese leaders' statements to this week's National People's Congress meetings stressed China's domestic challenges – including corruption, inequality and economic instability. I see little evidence that the Chinese leadership is prepared today to risk its domestic stability and international stature in order to force a change in the Taiwan Strait status quo.

In your opinion, how willing is Taiwan's domestic audience to accept greater political and economic integration with China?

Taiwanese are eager to reap the benefits of economic integration, but they are deeply skeptical of political integration. Even the level of political rapprochement already achieved makes many Taiwanese uncomfortable. Their anxiety is evident in their receptivity to criticism of President Ma and his cross-Strait policy. It is easy for Ma's political opponents to activate citizens' distrust of Ma and his party by claiming they are insufficiently alert against PRC threats.

Most importantly, Taiwanese do not currently perceive a need to sacrifice their preference for political separation to achieve economic benefits. Since 1987, Taiwanese have enjoyed ever-growing economic cooperation and engagement with the mainland, while surrendering little of their political autonomy. They have made sacrifices, to be sure. In the early 1990s, there was serious talk about how Taiwan might win formal independence. Today, Taiwanese rarely talk of de jure independence; when they do, the possibility is often set in the context of a hypothetical statement like, "if the CCP loses power" or "were China to implode..." But changing the name of the country (one of the few events Taiwanese would recognize as "changing the status quo") has never been a high priority for a majority of Taiwanese. Preserving Taiwan's de facto political independence is the most important goal, and I do not perceive much change on that dimension.

Many Taiwanese found President Chen Shui-bian's policies unnecessarily provocative, but they have not thrown their unconditional support to President Ma. Over the course of his two years in office, citizen confidence, as measured in polls, has been consistently low for a number of reasons. The lack of transparency in decision-making has been a particular concern. Politicians in the main opposition party, the Democratic Progressive Party (DPP) argue that the government's cross-Strait decision-making – including on the proposed Economic Cooperation Framework Agreement (ECFA) – is dangerously opaque. They charge that the negotiators may fail to secure Taiwan's interests. To protect Taiwan, Ma's critics are demanding ECFA be subjected to formal ratification, either by popular referendum or in the legislature. Legislative speaker Wang Jin-pyng, a KMT member, has said the legislature might overrule the ECFA deal if it does not meet lawmakers' standards. As President Ma chairs the KMT, the weak support for his policies in the KMT reinforces the sense that he lacks a firm hand – exactly what he needs to deal effectively with the ever-tough negotiators from Beijing. Declining confidence in the Ma government also reflects the public's sense that his administration has not responded well to domestic concerns, including typhoon Morakot, H1N1 vaccine and U.S. beef imports.

In short, Taiwan's domestic political environment would not welcome a shift toward "political integration."

How do recent cross-Strait political developments impact U.S.-Taiwan relations?

The warming trend in cross-Strait relations reduces the threat of a sudden, violent rupture that would require U.S. action. This is a highly positive development for the U.S.

How might greater cross-Strait political and economic integration affect U.S. national interests in the region?

Improving relations between Taiwan and the mainland benefit both economies. To the extent that stable economic growth serves U.S. interests, cross-Strait economic ties serve U.S. interests. Because economic integration is not likely to produce political integration – much less unification – in the near future, the U.S. is unlikely to find itself facing a radical shift in its relationships in the region. In other words, U.S. interests still are threatened far more by the absence of good cross-Strait economic and political ties than by their presence.

What role should the United States play in the U.S.-Taiwan-China triangular relationship in light of recent developments between Taiwan and the Mainland?

The U.S. should continue to reassure Taiwan that it will help Taipei resist Beijing's pressure to accept a political deal with that would erase Taiwan's democracy. Pressing for a particular outcome is likely to backfire, not only in the mainland, but on Taiwan as well. It is not the U.S.'s job to push the two sides together or to drive a wedge between them. The most useful course of action for the U.S. is to help Taiwan remain strong and confident to resist Beijing's pressure without appearing to be pulling Taiwan away from the mainland. That is a tricky balance, but acting consistently, in line with decades-old practices, minimizes the room for misunderstanding in Beijing and Taipei.

Altering U.S. policy would be risky. In Beijing, some policy changes could be viewed as an opportunity to exploit U.S. weakness or lack of resolve, while others could be seen as attacks on China's core national interests. In Taipei, even small adjustments in how U.S. policy is communicated provoke storms of debate; an actual policy shift would be profoundly destabilizing and confusing; a retreat from the traditional levels and types of support the U.S. has provided would be dangerously demoralizing.

Is there a logical disconnect between Taipei moving to improve economic and political relations with Beijing while continuing to press for arms purchases from the United States?

The United States and Taiwan have long shared the position that without robust military defenses, Taipei will lack the confidence to negotiate with Beijing. For that reason, improving economic and political relations across the Strait not only is consistent with continued arms sales, but *depends on* continued arms sales. In addition, a sharp change in the military balance in the Strait would destabilize the region. Instability is not conducive to better relations; on the contrary, it is likely to prompt Taiwan to recoil from interactions with the mainland.

All sides need to bear in mind the dangers posed by a sudden deterioration in Taiwan's political position. There is a broad consensus among Taiwanese that the status quo is acceptable, but there is no consensus about what else would be acceptable. If the PRC (or the U.S.) were to demand or impose a change in the status quo, Taiwan's domestic situation would become chaotic, with heavy economic losses. The economic troubles would spill over into the PRC, especially its high tech sector. Taiwanese are not only the main foreign investors in that sector; they also divide their production between the PRC and Taiwan. A disruption in the Taiwanese supply of high tech components to assembly plants in the mainland would have a large impact on PRC exports – and on the global supply and price of high tech goods. This is a concrete example of how excessive pressure from Beijing – even short of military force – could backfire, with global consequences.

Concluding Thoughts

When President Ma Ying-jeou took office, a grand experiment began. His cross-Strait policy differs from any previous policy – it is not Chen Shui-bian’s policy of minimizing compromise while fortifying Taiwanese for resistance, nor is it the policy followed by Chen’s predecessor, President Lee Teng-hui.

The stakes for this experiment are high. President Chen’s policy did not strike a sustainable balance between enhancing economic interactions and avoiding political interactions. Instead, economic ties raced ahead of technical agreements, leaving Taiwanese over-exposed in the mainland and exacerbating the asymmetry between the two sides. Overall, Taiwan’s options were narrower at the end of the Chen administration than at the beginning. Chen’s approach also undermined Taiwan’s relations with the United States. The lesson of the Chen years was that Taiwan needed a different policy direction. Ma’s approach represents that new direction. The risk is that if Ma’s approach does not succeed, it is unclear what new policy Taiwan might adopt. Although the DPP opposes Ma’s policy, it has not articulated a concrete alternative for the future.

The popular reaction to the “grand experiment” has been skeptical, which has slowed the pace of implementation. Overall, the experiment seems to be having modest success. Economic ties are bearing fruit (Taiwan’s economy is recovering relatively quickly from the global recession), and China is not pressing Taiwan very hard politically. Still, Beijing shows no sign of giving in on its core demands, it has not reduced its military threat, and it has made aspects of the Taiwan issue (especially arms sales) a focus of nationalist discourse aimed at domestic audiences. In sum, the atmosphere in the Strait is far better than it was three years ago, but the fundamental source of conflict – the two sides’ contradictory goals – remains unresolved.

STATEMENT OF DR. RICHARD C. BUSH, III DIRECTOR, CENTER FOR NORTHEAST ASIAN POLICY STUDIES, THE BROOKINGS INSTITUTION, WASHINGTON, DC

DR. BUSH: Chairman Mulloy, Commissioners, thank you very much for having me today. Thank you for doing this hearing. Clarifying the trajectory of China-Taiwan relations is one of the most pressing analytical challenges facing the two countries concerned and the United States.

Let me speak to the topics that the staff proposed. First of all, on the background of recent events, from the early 1990s till 2008, a corrosive political dynamic came to dominate political relations between Taiwan and China in spite of complementary economic relations. Each side feared that the other was preparing to challenge its fundamental interests. Each side took steps, military or political, to defend those interests which only intensified the spiral of mutual fear.

The cross-Strait situation improved markedly after the election of President Ma Ying-jeou. Ma's belief that Taiwan could better assure its prosperity, dignity and security by engaging and reassuring China rather than provoking it began the process of reversing the previous negative spiral.

Now on the nature of the current process, analytically, I think what we're seeing can yield two principal outcomes. One is the stabilization of cross-Strait relations, moving from the conflicted coexistence that we saw prior to 2008 to a more relaxed coexistence.

The other is resolution of the fundamental dispute between the two sides, what we call unification.

In and of itself, stabilization does not lead to resolution. Political integration is not the inevitable result of economic integration. President Ma has been explicit that unification will not be discussed during his term of office. The Chinese leadership actually appears to understand, correctly, that resolution is a long-term proposition.

Certainly stabilization can create a better climate for resolution. It can also evolve incrementally in that direction, either through better mutual understanding or because one side knowingly or unknowingly makes concessions to the other.

Now, on China's initiatives. Since 2005 and in contrast to past periods, China's approach to Taiwan has been somewhat more skillful. President Hu Jintao shifted the near-term priority from achieving unification to opposing Taiwan independence.

The Beijing leadership recognizes the importance of building mutual trust through dialogue and exchanges. It is emphasizing what the two sides have in common rather than what divides them.

It is trying to build up support for a PRC-friendly public on Taiwan. It sees the value of institutionalizing a more stable cross-Strait relationship.

The main and worrisome exception to this trend is the People's Liberation Army's continuing acquisition of capabilities that degrade Taiwan's security. Why this build-up continues in spite of the decline in tensions is puzzling. I'm inclined to believe that it reflects both issues in civil-military relations and the PRC's desire for a sufficient coercive capability to both deter Taiwan independence and perhaps to compel Taiwan to negotiate on its terms, and we should recall Beijing has miscalculated before. It can miscalculate again.

Where do current trends lead? I can't rule out the possibility that gradually and over time the Taiwan public and leaders will decide that Taiwan should become a Special Administrative Region of the PRC, but I doubt it. There is still a broad consensus that the Republic of China on Taiwan is a sovereign state, a position that is inconsistent with China's unification formula.

The more likely future, I think, is a creation and consolidation of a stabilized order, one in which economic interdependence deepens, social and cultural interaction grows, competition in the international community is muted, and all these arrangements will be institutionalized, but none of this is automatic.

The sovereignty issue and China's growing military power could complicate stabilization. Dr. Rigger has emphasized the anxieties of the Taiwan public, and if the DPP were to come back to power, China might misread its intentions and abort stabilization. How will the Taiwan public respond to all of this?

So far polls suggest that the Taiwan public supports continued

economic integration but not political integration. A substantial majority favors keeping the status quo for the foreseeable future. If Beijing were to push political talks before the public was ready, there would likely be a backlash.

Now, I believe that Taiwan will be more likely to support economic integration and perhaps modest political integration if it has a sense of self-confidence. Creating that self-confidence will require self-strengthening in the economic, military and political areas. Doing so will also deter PRC mischief.

Can Beijing live with the status quo? In Chinese press commentary, we sometimes see opinions that economic integration will lead to a fairly quick political reconciliation and on Beijing's terms. China's leaders, I think, are more realistic and more patient. Although unification does remain their goal, they know this will occur after a protracted and complex process. What is important for Beijing in the short and medium-term is that nothing happens to put their goal out of reach.

What about the U.S. view? Before 2008, the United States worried that the two sides might inadvertently slip into a conflict through accident or miscalculation, and so encouraged both sides to show restraint. Since Ma's election, Washington has welcomed his approach to cross-Strait relations.

Clearly, if there were a movement from economic integration to political integration, there would be implications for the United States. One concerns the U.S. geopolitical position in East Asia. That, of course, depends on the terms of unification and, specifically, whether the PLA Navy and Air Force could operate from Taiwan.

But I believe that political integration with all its attendant issues is not even on the horizon. U.S. interests might also be affected by the process of stabilization. There's been initial talk about the two sides concluding a peace accord. If they try, I expect Beijing is likely to place U.S. arms sales on the agenda. But I don't believe that a peace accord is likely in the near term.

Right now the main security issue is the PLA's continued build-up of capabilities relevant to Taiwan and the proper U.S. response is continued arm sales.

Another area in which the United States can complement what Taiwan is doing vis-à-vis the PRC is in the area of economics and trade, and I agree with Randy Schriver's recommendations here.

In conclusion, Taiwan's improving relations with China should not be regarded as an inexorable and irreversible movement through economic integration, political reconciliation and unification. Neither Beijing nor Taipei sees it that way, and there are real brakes on the process--the inherent difficulty of some of the issues at play, the caution of Taiwan's leaders, and Taiwan's democratic system.

Thank you very much.

[The statement follows:]

**Prepared Statement of Dr. Richard C. Bush, III
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Clarifying the trajectory of China-Taiwan relations is one of the more pressing analytical challenges facing the two parties concerned and the United States. The hope is that the outcome can be beneficial for all parties concerned, and certainly for the people of Taiwan. The worry is that trends will work against one or more of the parties and create a suboptimal situation.

The Recent Past

To clarify the present and the future, it is important to understand the trajectory of cross-Strait relations in the recent past. From the early 1990s until 2008, a corrosive political dynamic came to dominate political relations between Taiwan and China, dashing the faint hopes in the early 1990s of a political reconciliation after decades of hostility. All this happened in spite of their complementary economic relations.

This process was complex, but the result was obvious: deepening mutual suspicion between Taiwan and China. Each feared that the other was preparing to challenge its fundamental interests. China, whose goal is to convince Taiwan to unify on the same terms as Hong Kong, feared that Taiwan's leaders were going to take some action that would have the effect of frustrating that goal and permanently separate Taiwan from China – the functional equivalent of a declaration of independence. Beijing increased its military power to deter such an eventuality. Taiwan feared that China wished to use its military power and other means to intimidate it into submission to the point that it would give up what it claims as its sovereign character. Taiwan's deepening fears led it to strengthen and assert its sense of sovereignty.

Certainly, there was misunderstanding at work here. I have long believed, for example, that Beijing incorrectly read former Taiwan President Lee Teng-hui's opposition to its one-county, two-systems formula as a rejection of unification all together. Certainly, domestic politics was at play, particularly in Taiwan's lively democratic system. The 2008 Taiwan election was a case in point. But politics is a force in China as well. Misperceptions and politics thus aggravated the vicious circle of mutual fear and mutual defense mechanisms – military on the Chinese side and political on the Taiwan side.

The United States came to play a special role in this deteriorating situation. It did not take sides, as each side preferred. Rather, Washington's main goal has always been the preservation of peace and security in the Taiwan Strait. First the Clinton Administration and then the George W. Bush Administration worried that the two sides might inadvertently slip into a conflict through accident or miscalculation (in which case, Washington would, unhappily, have to choose sides). So each administration employed the approach of "dual deterrence." Each warned Beijing not to use force against Taiwan, even

as it offered reassurance that it did not support Taiwan independence. Each warned Taipei not to take political actions that might provoke China to use force, even as it conveyed reassurance that they would not sell out Taiwan's interests for the sake of the China relationship. In this way, Washington sought to lower the probability of any conflict.

The 2008 Transition

The situation improved markedly after the election of Ma Ying-jeou, the leader of the more conservative Nationalist party, or Kuomintang (KMT). This created the possibility of reversing the previous negative spiral. Ma campaigned on the idea that Taiwan could better assure its prosperity, dignity, and security by engaging and reassuring China rather than provoking it. Since Ma took office in May 2008, the two sides have undertaken a systematic effort to stabilize their relations and reduce the level of mutual fear. They have made significant progress on the economic side, removing obstacles and facilitating broader cooperation. There has been less progress on the political and security side, but this is partly by design. Beijing and Taipei understand that the necessary mutual trust and consensus on key conceptual issues is lacking, so the two sides have chosen to work from easy issues to hard ones and defer discussion of sensitive issues.

The Nature of the Current Process

What is the trajectory of the current process? Conceptually, there are at least two possibilities. On the one hand, and more consequential, what we are watching *might* reflect movement toward the resolution of the fundamental dispute between the two sides. One type of resolution would be unification according to the PRC's one-county, two-systems formula, but there are others. On the other hand, what we are seeing could be the stabilization of cross-strait relations. That term implies several things: increasing two-way contact, reducing mutual fear, increasing mutual trust and predictability, expanding areas of cooperation, institutionalizing interaction, and so on. It constitutes a shift from the conflicted coexistence of the 1995-2008 period to a more relaxed coexistence. Examples of this process at work are the array of economic agreements that the two sides have concluded, removing obstacles to closer interchange; China's approval for Taiwan to attend the 2009 meeting of the World Health Assembly; and the two sides' tacit agreement that neither will steal the other's diplomatic partners.

In and of itself, stabilization does not lead ineluctably to a resolution of the China-Taiwan dispute—however much Beijing prefers inevitability and however much some in Taiwan fear it. President Ma has been quite explicit that unification will not be discussed during his term of office, whether that is four or eight years. The Chinese leadership at least realizes that the current situation is better than the previous one and understands that resolution will be a long-term process.

Certainly, however, stabilization can create a better climate for resolution. It's easier to address the tough conceptual issues that are at the heart of this dispute in an environment of greater mutual trust. But I don't see that happening anytime soon. Stabilization can also evolve very incrementally toward resolution, either through better mutual understanding or because one side, knowingly or unknowingly, makes concessions to the other. How stabilization might migrate to resolution brings me to the Commission's questions.

China's Initiatives

Since 2005, and in contrast to past periods, China's approach to Taiwan has been rather skillful. President Hu Jintao shifted the priority from achieving unification in the near or medium term to opposing Taiwan independence (unification remains the long-term goal). Although he speaks about the need for the two sides to "scrupulously abide by the one-China principle," he has been prepared, for the sake of achieving substantive progress, to tolerate *so far* the Ma administration's quite ambiguous approach to that issue.

The Beijing leadership recognizes the importance of building mutual trust through dialogue and exchanges after a decade-plus of mutual fear. It is emphasizing what the two sides have in common—economic cooperation and Chinese culture—and agreed to reduce somewhat the zero-sum competition in the international arena. Through its policies and interactions, it is trying to build up support for a PRC-friendly public on Taiwan. It sees the value of institutionalizing a more stable cross-Strait relationship.

The exception to this trend is the continuation of the People's Liberation Army's acquisition of capabilities that are relevant to a Taiwan contingency. Why this build-up continues, in spite of the decline in tensions since President Ma took office, is puzzling. After all, Ma's policies reduce significantly what Beijing regarded as a serious national security problem. China is more secure today than two years ago, yet it continues to make Taiwan more vulnerable. Possible explanations are rigid procurement schedules; the inability of civilian leaders to impose a change even when it makes policy sense; and a decision to fill out its capacity to coerce and intimidate Taiwan, in case a future Taiwan government challenges China's fundamental interests. The answer is not clear. I am inclined to believe that it is a combination of the second and third reasons.

What is clear is that this trend is in no one's interests – Taiwan's, China's or the United States'. Taiwan's leaders are unlikely to negotiate seriously on the issues on Beijing's agenda under a darkening cloud of possible coercion and intimidation. The Taiwanese people will not continue to support pro-engagement leaders if they conclude that this policy has made Taiwan less secure. The U.S. will not benefit if mutual fear again pervades the Taiwan Strait.

Where do Current Trends Lead?

To be honest, I do not know. I cannot rule out the possibility that gradually and over time the Taiwan public and political leaders will abandon decades of opposition to one-country, two systems and choose to let Taiwan become a special administrative region of the PRC. But I doubt it. Despite the consciousness on the island of China's growing power and leverage, there is still a broad consensus that the Republic of China (or Taiwan) is a sovereign state, a position that is inconsistent with China's formula. Moreover, because of the provisions of the ROC constitution, fundamental change of the sort that Beijing wants would require constitutional amendments and therefore a broad and strong political consensus, which does not exist at this time.

So if political integration is to occur in the next couple of decades, it will occur not because of the cumulative impact of economic integration but because Beijing has decided to make Taiwan an offer that is better than one-country, two systems. So far, I see no sign it will do so.

The more likely future is the continued creation and consolidation of a stabilized order, one in which economic interdependence deepens, social and cultural interaction grows, competition in the international community is muted, and all these arrangements will be institutionalized to one degree or another. But none of this will be automatic. Issues relevant to the resolution of the dispute (e.g. whether Taiwan is a sovereign entity) may come up in the process of stabilization and dealt with in ways that do not hurt either side's interests. And the issue of China's growing military power—and what it reflects about PLA intentions—remains.

How Will the Taiwan Public Respond?

Clearly, as long as the Taiwan government wishes to pursue something like the current policies, it will have to maintain political support for its continuation in power. How the public views its cross-Strait policies are one key factor. So far, polls suggest that the public supports continued economic integration but not political integration. A substantial majority favors keeping the status quo for the foreseeable future. Because swing voters are a substantial block of public opinion, views of the government's performance can be fairly volatile.

If Beijing were to push for advances in political relations and the Taiwan government chose to go along before the public was prepared, there would likely be a backlash. Beijing appears to understand that (Taipei certainly does), and I hope that China will see the value of improving its image on Taiwan by initiatives that increase Taiwan's sense of security and its international dignity. These should not be regarded as favors but as steps to maintain the current momentum, which is in Beijing's interest. If China is, for example, too grudging in the run-up to the 2012 elections, there is the chance that Taiwan voters will punish Ma and his party because their promise of benefits from engagement would not be realized.

The Taiwan public will be more likely to support economic, and possibly modest political integration, if it has a sense of self-confidence. Creating that will require self-strengthening in a few key areas.

- It must continue to enhance its economic competitiveness. Interdependence with the Mainland is one way. The Economic Cooperation Framework Agreement (ECFA) on which the two sides are working is another way because it will enhance interdependence. But economic liberalization with others is also necessary, including the United States. And Taiwan should undertake domestic economic reforms to facilitate the transition to a knowledge-based and service-based economy.
- Taiwan also needs to strengthen itself militarily. If, as is possible, China intends to complete the creation of a robust capability to coerce Taiwan, then the island's armed forces need the ability to raise the costs of coercion and so ensure some degree of deterrence. The United States certainly has a role to play in improving Taiwan's deterrent.
- Finally, Taiwan needs to strengthen its democratic system. Some key institutions, such as the legislature and the mass media, could serve the public better. Unfortunately, they reinforce a regrettable polarization that began ten years ago. A centrist foundation to politics, in which the two major parties cooperate on pressing tasks, is what the Taiwan people deserve. The growing pragmatism in public opinion, which Dr. Rigger has so ably documented, suggests that the public would welcome more constructive politics.

Can Beijing Live with the Status-Quo?

There is no question that China has different expectations for cross-Strait relations than does Taiwan. In Chinese press commentary, writers regularly express the belief that economic integration will lead to a fairly quick political reconciliation. Last summer, there was a very interesting poll in which people on each side were asked what was likely to happen over the long term. Sixty percent of Taiwan respondents believed that the status quo would persist. Sixty-four percent of PRC respondents said that the two sides would become one nation. So, Taiwan people prefer stabilization, while Mainland people expect to see resolution on Beijing's terms.

When it comes to the Chinese leadership, however, I detect a different calculus. They certainly seek unification as the ultimate outcome, and they give no hint of any deviation from one-country, two-systems. On the other hand, there is an appreciation that this is a protracted and complex process. What is important in the short and medium term is that nothing happens to negate the possibility that the PRC goal will be achieved. As long as the door to unification remains open, patience is possible. It is when Beijing sees that door closing that it becomes anxious and a bit reckless. Thus, the growing emphasis before 2008 on preventing Taiwan independence. If the danger of Taiwan independence is low, the leadership can wait for political integration.

What Is the United States View of Recent Developments?

First the Bush Administration and now the Obama Administration have welcomed the change that President Ma's approach has brought to cross-Strait relations. Recall that in the late 1990s and early 2000s, Washington was worried that the situation of mutual fear might lead either or both sides to

miscalculate, leading to a conflict that would likely involve the United States. As the chances of such a scenario decline and Beijing and Taipei take more responsibility for the peace and stability of their neighborhood, the United States has one less problem to worry about. It does not need to engage in dual deterrence. For similar reasons, the stabilization of cross-Strait relations, if it occurs, would also benefit the United States.

Clearly, if the situation evolved from stabilization to an attempt to resolve the fundamental Taiwan-China dispute, and if there was movement from economic integration to political integration, there would be implications for the United States.

Some of these potential consequences are strategic in nature. Would unification, on whatever terms, undercut the U.S. geopolitical position in East Asia by facilitating PLA Navy operations in the Western Pacific and limiting freedom of navigation for the U.S. and Japanese navies? It is impossible to tell, because we cannot know what the terms of that unification might be. If the PLA were to have no presence on Taiwan, as is sometimes suggested, the consequences for the United States might be limited. But I believe that political integration, with all its attendant issues, is not even on the horizon. The two governments are not yet ready, conceptually, to address the key issues (Taiwan's sovereignty, for example), and Taiwan's public is not ready.

Even in the task of stabilizing the cross-Strait order, U.S. interests might be affected. There has been initial talk about the two sides' concluding a peace accord. President Ma has long since signaled that such an effort would have to be accompanied by changes in PLA capabilities and/or deployments, particularly of ballistic missiles. If Beijing agreed, then it would likely try to place on the agenda the advanced systems that the island acquires from the United States and the American security commitment.

Again, I don't believe that negotiations on a peace accord are likely in the near term. The two sides will have enough problems negotiating an economic accord, much less a peace accord. And right now, the main security issue is the PLA's continued build-up of capabilities relevant to Taiwan. The proper U.S. response to China's continued build-up is to increase Taiwan's capabilities. We should, of course, be guided by how the island's civilian and military leaders assess their security needs. But if China increases the island's vulnerability even when President Ma's policies have removed its need to do so, then the United States, at the request of Taiwan, should seek to reduce the island's insecurity. It is China's actions, therefore, that create the disconnect between economic and security relations.

Another area in which the United States can complement what Taiwan is doing vis-à-vis the PRC is in the area of economics and trade. As Taiwan liberalizes its economic relations with China, it has an interest in pursuing liberalization with other trading partners. Hopefully, the conclusion of ECFA will open the door to liberalization with the countries of ASEAN. But the United States should be involved as well. The Administration should resume our economic talks with Taiwan under the Trade and Investment Framework Agreement. It should not hold those talks hostage to single issues like market access for small amounts of American beef.

Taiwan's improving relations with China should not be regarded as an inexorable and irreversible movement through economic integration, political reconciliation, and unification. Neither Beijing nor Taipei sees it that way. And there are real brakes on the process. One is the inherent difficulty of some of the issues at play, particularly in the security area. Another is the caution of Taiwan's leaders when it comes to those sensitive issues. And finally, there is Taiwan's democratic system, despite its problems. Taiwan's legislature will have some say on ECFA, and the island's voters will have the opportunity to judge the performance of President Ma and his party in municipal elections this December, and in the legislative and presidential elections of early 2012. Any fundamental change in Taiwan's relationship with the PRC will require a broad political consensus.

PANEL V: Discussion, Questions and Answers

HEARING CO-CHAIR WORTZEL: Thank you all for your thoughtful testimony.

Commissioner Blumenthal will start, and it's going to be five-minute rounds of questioning by the Commissioners.

COMMISSIONER BLUMENTHAL: Thank you very much for your testimony. It was all very good and very insightful.

I asked a question of the administration earlier today, which I was trying to look for the right analogy, and I asked my Catholic friend here if this is the right analogy. It was like introducing something new into the encyclical or something like that, but the reaction certainly felt like I was introducing some kind of major theological change or something, but the basic question was this:

The testimony was--which is sensible and there's an always if that was the case--is that our basic policy is one of peaceful resolution of the conflict between Taiwan and China; we're agnostic about the outcome as long as it's peaceful. But then he added but we don't support independence, and I can understand why we would say we don't support independence, we don't want war and so forth, and that's sensible.

But how can you be both agnostic on peaceful resolution and have a stated policy of not supporting independence? What if the two sides, like so many other countries have done in the world, are a commonwealth of Anglo states and so forth? What if the two sides negotiated a peaceful independence, would we then not support a peaceful independence? I mean doesn't saying that beforehand preclude options and give us less diplomatic flexibility in the future?

I give that to everybody.

DR. BUSH: I think that if the two sides negotiated an independence deal for Taiwan, of course, we would accept it and support it. I think we just have a very realistic assessment of what this PRC government is prepared to tolerate.

I think when we say we don't support independence, it's a particular kind of independence that we are not supporting, but it's really a neutral position. I think the more precise way of saying it is what Randy Schriver probably suggested President Bush say, that we oppose any unilateral change in the status quo.

COMMISSIONER BLUMENTHAL: Okay. They were quite adamant about saying we do not support independence, and this was also--it's been puzzling me since I served in government because we used to have people who almost say they oppose independence, which then we're in a position of, well, what if they both agree to it, are we opposed?

MR. SCHRIVER: My policy preference would be that we support peaceful resolution, full stop. If you talk about opposing unilateral

changes to the status quo, then you couldn't oppose a negotiated independence. I appreciate the comment that we're being realistic about what Beijing can tolerate, but we're being assured that unification isn't on the table either, yet, we're not going out of our way to say we do not support unification.

So I think if you're going to have a policy that is essentially agnostic on the outcome, and is mostly about process, that it be peaceful, independence shouldn't necessarily be taken off the table because although it may be in the category "very unlikely," it's not impossible. As you say, there are historic examples of sides negotiating very difficult things.

So I guess my other concern, not to go on too long, but I think there is a sense that Beijing through pressure and their own rhetoric has the ability to maneuver people even further along the line that they prefer.

I think in the Bush administration, we saw a movement from do not support to oppose independence, and maybe that was the political conditions at the time, but again I think sticking to the essential peaceful resolution, which in my mind does keep a form of independence on the table, would be my policy preference.

COMMISSIONER BLUMENTHAL: Anything to add to that?

DR. RIGGER: Not to add.

HEARING CO-CHAIR WORTZEL: Thank you.

Mr. Schriver, in your written submission, you recommend that the United States military-to-military relationship with China should be scaled back until China is more responsive to our calls for constructive steps in the security relationship in the Taiwan Straits.

Given the restrictions in military-to-military contacts in the 2000 Defense Authorization Act, and further limitations in the 2010 Defense Authorization Act, what would you further scale back?

MR. SCHRIVER: Well, I'll answer that question, but let me also add context. I think there's a playbook that we're all familiar with, when the Chinese want to show their pique over Taiwan arms sales, they immediately reach for the mil-to-mil and curb that.

I think rather than wring our hands and become the ardent suitor, we should say okay, there's a lot of things that the United States doesn't do well, we have our flaws, we have our deficiencies, but we still have the greatest military in the world. If you have aspirations to be a modern great military, and you're choosing not to interact with us, that is at your peril and is counterproductive to your ultimate goals.

Commissioner Wortzel and I both have had involvement with the mil-to-mil relationship. I think there are aspects that are valuable. I would point mostly to senior level dialogue because I think there is where you get at perceptions and where you get at intentions.

I think the interactions between military forces are often one-sided, and that can be chipped away at and worked out over time, but

linking that back to the topic of today, the PRC posture opposite Taiwan, I think it's somewhat inappropriate, given this political environment between the two sides of the Strait, that the buildup continues, the posture is as aggressive as ever, and we've done nothing ourselves to show displeasure over that.

DR. BUSH: I think the other piece of this is that what the situation really requires is the PRC side be willing of engage in serious dialogue about these issues with Taiwan and find ways through that process to make Taiwan feel more secure.

HEARING CO-CHAIR WORTZEL: Let me get really specific, if I could, because you've been involved in these things as I have.

Would you tell the Pacific Command and the military services to stop engagement? They do, every year they sit down and figure out their engagement plans and how many sergeants they're going to try to get to China, and how many majors. Would you cut that back and just stop acting as though we thrive on these contacts?

MR. SCHRIEVER: Yes. I think that would be the appropriate thing to do. Again, my analytical framework here is what is the problem, the obstacle, the challenge, and I think it's the PRC refusal to renounce the use of force and the aggressive build-up.

So I think there's a variety of ways we can address that, and one of them should be through the modalities of how we engage their military.

HEARING CO-CHAIR WORTZEL: Thank you very much.

Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen, ma'am, and Dr. Bush, good to see you again. We had many interactions, I guess is probably the best way to put it, over many years on issues related to Asia policy.

I asked a question of the previous panel on economics relating to some policy challenges that are going to come up, primarily between the U.S. and China, but from a political perspective, I was hoping to get some guidance and insights.

We have a number of economic policies that are coming to a head or moving forward. One is the Trans-Pacific Partnership, TPP. The other is the upcoming potential for the U.S. to name China as a currency manipulator.

Vis-à-vis Taiwan, and the impact of those policies, can you give me what you think the political impact would be? For example, TPP, some believe is an effort to economically isolate China or to enhance U.S. presence in the region. Vis-à-vis Taiwan, how might that affect them since they won't be in the TPP at the beginning?

And from the currency issue, if we have a blowup over currency, how do Taiwan's interests get affected positively or negatively? Please, all the panelists, and Dr. Bush first.

DR. BUSH: Since you're looking at me, I'll give it a shot. I think

both of these issues should be looked at in the context of the nature of the economic activity that goes on, and that is that Taiwan is in the middle. It's the middle link in a global supply chain, and so anything that rattles that chain may well have a political or economic impact on them. That, I think, would be the main concern, that TPP might divert trade away from them, and that a big fight between the United States and China, if that is what would happen from our naming them, might complicate their economic relations with both of us. But that is pure speculation on my part.

COMMISSIONER WESSEL: As far as you or any of the other panelists know, in the TPP, has Taiwan stated any interest, positive or negative, so far?

DR. BUSH: Generally they would like to do free trade area like--

COMMISSIONER WESSEL: I understand, yes.

DR. BUSH: --arrangements with us. I think that the government has made the judgment that doing ECFA first may open the doors to doing similar arrangements with Southeast Asia and other partners. I hope that works. It remains to be seen.

COMMISSIONER WESSEL: Dr. Rigger.

DR. RIGGER: It's a truism in Taiwan, and I think very widely accepted, that when relations between the U.S. and China are bad, Taiwan suffers, and I had a conversation last month actually with an employee of the DPP Headquarters, and I raised that issue. I asked, do you still feel that way? And she said oh, yes, definitely. When things heat up in the Beijing-Washington relationship, things heat up for Taiwan as well.

So from a political standpoint, I think that when the U.S. and China are too close or seem to be approaching a moment where they might be talking about Taiwan in a private conversation in which Taiwan is not a participant, that's not comfortable either.

But, China and the U.S. arguing in the hallway doesn't make the Taiwanese huddling in their bedroom feel any better either. So that's one piece.

The other piece is the economic element, and here I would very much agree with Richard, that Taiwan's economic interests are so entwined at this point, not only in China's economic interests but also in the economic relationship between China and its primary export markets, that an interruption in U.S.-China economic cooperation is also damaging to Taiwan.

There are many ways in which Taiwan's economic interests in China are fungible and flexible, and the relationship is certainly not a one-way relationship in which China gains all the advantage or all the leverage. I think it's very much a two-way relationship of great value to the PRC as well as to Taiwan.

But it's not easy for Taiwanese businesses to pick up and move or to change the mix in their own business process rapidly. So I think both

as a political matter and as an economic matter, deteriorating relations between the U.S. and China would not be welcome in Taiwan and wouldn't serve Taiwan's interests.

COMMISSIONER WESSEL: Mr. Schriver.

MR. SCHRIVER: I've always kind of thought the Goldilocks principle applies: they don't want relations too bad or relations too good between the United States and China; they want it sort of just right. And I think that, even with the change of government, I think that's still sort of a fundamental point of view.

On TPP, just to add to what I think were very good comments, I think there's a broader political issue at stake here. There's a lot of talk about the United States being back in Asia and being involved again, and I think this administration deserves credit for showing up to meetings again and being a participant in a lot of the regional affairs, but I don't think you're truly back in Asia without a trade policy.

And trade policy/commerce, that's the life blood of Asia so I think this is the game in town. This is what the administration finds acceptable, I guess, given the political environment, as they read it here in Washington, and so this is what is drawing us into what is a very dynamic game in Asia.

We may not be interested in free trade, but everybody else in Asia is, and we're not in the game without this, without this play. So I think from Taiwan's perspective, put the economic issues aside, they see tension in the U.S.-Japan alliance, they see a favorable government in Seoul, but one that we're not being as responsive to as they would like.

This is potentially one of the key pillars to bring us back into the region in a consequential way.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Fiedler.

COMMISSIONER FIEDLER: A couple of questions. Chinese leadership change is upcoming. Any anticipated effect or are we going to have a seamless transition in Taiwan policy from the next crowd?

DR. BUSH: I've spent my whole career hoping for a better next generation of leaders.

COMMISSIONER FIEDLER: Yes, and we're both getting a little gray.

DR. BUSH: And I think it's improving somewhat. There is no way to know what the next group will do with respect to Taiwan. My bet would be on continuity as long as they feel that the door is not shutting on their goals and that they're making progress.

One thing that concerns me is civil-military relations because this next leadership will be the third one that doesn't have military experience, and so I think that creates greater autonomy for the PLA to sort of shape the course of national security policy, and that is--

COMMISSIONER FIEDLER: Bothersome.

DR. BUSH: --not necessarily good for Taiwan, not good for us.

COMMISSIONER FIEDLER: Anybody?

DR. RIGGER: Just a small point. One thing that has certainly changed over the last 15 years or so is the quality of the information about Taiwan that's available to Chinese leaders. We used to say that they really didn't understand Taiwan, that someone was giving them the polls from the GIO Web site, but how could they interpret them?

But we know now through conversations with PRC scholars and at PRC think tanks devoted to understanding Taiwan that, in fact, there's really good information available to Chinese leaders, very nuanced and honest assessments of the domestic political situation in Taiwan.

These documents and briefings are available to PRC leaders. Unfortunately, I can't tell you what they do with them, but that is a substantial improvement.

COMMISSIONER FIEDLER: Well, they got a lot of information on us, too, and it seems to be a mild disconnect.

DR. RIGGER: But I think in terms of miscalculation, in terms of actually doing something counterproductive because they honestly didn't understand the situation in Taiwan, that seems less likely.

COMMISSIONER FIEDLER: Okay. Yes, Randy.

MR. SCHRIVER: I just wanted, I definitely wanted to underscore the point Richard made about civil-military relations. That's a concern.

But to add to that, irrespective of their view once they take office, I would like to point out that I think this period up until that point is a tricky period because I've yet to meet the political leader in China or the Ministry of Foreign Affairs person or the PLA officer who has found it career enhancing to be moderate on Taiwan.

COMMISSIONER FIEDLER: Right.

MR. SCHRIVER: And I think as they're maneuvering and positioning and trying to secure their position, we could actually get a bit of a harder line up until the point of that transition, and remember, of course, 2012 is also an election year in Taiwan. So that's a dangerous--

COMMISSIONER FIEDLER: That's what I wanted to combine into the picture next, which is the DPP could win. So the question becomes has the DPP leadership, new leadership, matured at all in its willingness or unwillingness to play chicken? So does it understand it has a different dynamic at play? And we're combining two changes of leadership, two potential changes of leadership, which seems to me to be a volatile situation.

DR. RIGGER: I think from the standpoint of Taiwan's next presidential election, the possibility of a replay of 2000 is real, that the PRC may not have come to terms with the necessity of taking seriously and having a relationship with a DPP president.

So if one were elected in 2012, which is not inconceivable given the current political situation on Taiwan, although I still think it's kind of a long shot, but if the DPP were to win that election, the PRC

leadership might, if you don't mind me--I'm not a diplomat or a person--

COMMISSIONER FIEDLER: Hopefully.

DR. RIGGER: --paid--I'm not paid to say things carefully. I'm paid to keep people awake--

COMMISSIONER FIEDLER: Good. Good.

DR. RIGGER: --in classes.

I think they could panic and assume that once again, as they did with Chen Shui-bian, we don't know how to deal with this person. This is going to be someone we can't work with.

I think the DPP leadership is much more responsible, much more careful and serious than they are portrayed very often in our media and certainly in the PRC media. I think that was also true, though, in 2000.

I don't think Chen Shui-bian when he took office was the ogre that the Chinese leadership decided he must be.

So one possibility is a repeat of 2000, but that's certainly not the only one.

COMMISSIONER FIEDLER: Richard.

DR. BUSH: I agree with that. The DPP is only now trying to figure out what its approach to China will be, and there are ideological and generational disagreements on that score, and how they come out on that I think will shape what the PRC would do.

I'd only note that we're going to have a transition here, too. This is the first time there will be sort of political turnover in all three countries in the same year.

HEARING CO-CHAIR WORTZEL: Commissioner Mulloy.

HEARING CO-CHAIR MULLOY: Thank you, Mr. Chairman. I want to thank each of you for being here and your very helpful prepared testimony.

First, I'll just make a comment. Just for the record, if you're interested in free trade with Asia, that may be one matter. If you're interested in continuing a trading relationship like we've had with Asia, that's another matter. So I think that's part of the problem.

Coming to the ECFA, Dr. Bush, you said that it could lead to FTAs with maybe some of the other Asian countries. I don't know whether you were here when Dr. Cooke was here before; he thought that may be true with some of the other Asian countries, but that it would not lead to FTAs beyond the region.

So he thought China was really going to try and enmesh Taiwan into a greater Chinese co-prosperity sphere or something like that. He didn't use those exact words. That's my capturing of it. Do you agree with that? Is that what you see going on?

DR. BUSH: I frankly don't know what their strategy is here. I think what Dr. Cooke suggested is certainly plausible. I think that even the question of Taiwan doing FTA-like arrangements with Southeast Asian countries is not a slam dunk either.

I think that, though, this is a place where at the appropriate time

we could step up and say that we have every right to do an FTA-like arrangement with Taiwan and they have a right to do it with us, that we should go forward on that basis.

HEARING CO-CHAIR MULLOY: Do any of you have a comment on that issue?

The second question, I remember talking with a senior official of Taiwan, and he said maybe the best deal Taiwan could get would be a 50-year status quo agreement. No invasion. No independence. Status quo. Let's see where we are after 50 years. What do you think? Is that a good idea? Is that where we should be heading?

Dr. Rigger, you might comment. I remember, you were very helpful in 2004 when we were in Taiwan, and I went to one of your lectures, and I learned a lot. So I would maybe ask you to take the lead on that one.

DR. RIGGER: Well, thank you.

I can't remember where I was in 2004 so I'm glad you can. I think one, maybe this is a slightly mischievous way to look at it, but it seems to me that if we date 1987 as the beginning of cross-Straits rapprochement, that's when the Taiwan side allowed people to begin traveling back and forth, and things very quickly accelerated from there, both on the business side in a kind of chaotic and unmanaged way, but also on the political side in a very up and down kind of way.

So if 1987 is the beginning, then we're past 1997 and we're past 2007, so we've postponed the beginning of that 50-year period now by close to half its own length.

So what I think a lot of people in Taiwan would like to do is to talk about a 50-year period for another 50 years and then implement one. The indefinite postponement of a final resolution is, I think, perceived as the most desirable outcome by a kind of mainstream consensus of Taiwanese citizens.

HEARING CO-CHAIR MULLOY: Postpone the ultimate outcome.

DR. RIGGER: Just to postpone. So there was a time around 1987 to about 1995 when it was easy to find people, very easy to find people in Taiwan who would say things like I just need to have this settled; I can't stand the uncertainty. I think people have gotten very good at living with uncertainty and very good at living with this kind of liminal status that they have as neither fish nor fowl, but something that both swims and flies pretty successfully.

So that I think the proposal for a 50-year, it was a peace accord. It's been phrased in various ways, but the idea of a 50-year freeze on change was a way of putting into a more legalistic or formal framework what is really just a felt preference for let's just keep this going as long as we can. I entirely agree with Randy, that the factor that allows or disallows that outcome -- or it's really not an outcome --, that non-outcome, is Beijing's determination to have its way or Beijing's

determination that having its way is too costly, and that therefore it will allow this process to unwind for some indefinite period.

MR. SCHRIVER: I'll just quickly jump in on this one as well. I think if the two sides decided that it's not for an outside party to say that's the wrong decision, but I would be pretty skeptical that they could get there, number one, but also that it would hold.

Number one, I've never particularly liked the term "status quo." I found it remarkable that my own administration, which I served in, said we demand that there be no changes to the status quo, as we define it, but we wouldn't define it.

If there is a status quo, it's hardly static. So then you get into a game of what's a violation of the status quo? I am pretty confident China would feel further U.S. arms sales to Taiwan would be a violation of status quo. I would say the military build-up is a change.

So I've never been a huge fan of that because it's hard to define, and it's not really static. I mean a new generation of new Taiwanese is a change of the status quo in a way if they have a different world view; right?

I also think there's a qualitative difference. You get into sort of dangerous position of equating a PRC military posture and their aggression to democratic decision-making on Taiwan, and I think that's qualitatively different.

If people in Taiwan want to have a say in their future, and we're saying, no, you must agree to not do that, and in exchange Beijing won't attack you, I think you're equating aggression and military posture with what I think should be the purview of the people on Taiwan to have a great say if not ultimate say in their future.

HEARING CO-CHAIR MULLOY: Thank you.

DR. BUSH: I agree with all of that. I would only add that there is a danger of trying to negotiate such an agreement and failing, which is not out of the question, because each side would figure out that the other side was not as warm and fuzzy as they thought.

HEARING CO-CHAIR MULLOY: Thank you all.

HEARING CO-CHAIR WORTZEL: Commissioner Shea.

COMMISSIONER SHEA: Thanks for the testimony. It's been very interesting.

Dr. Rigger, I just want you to know that I read a portion of your testimony to the administration witnesses this morning, and that was your statement that improving economic and political relations across the Strait not only is consistent with continued arms sales, but depends on continued arms sales, and they both said they agreed with your position. So I just want to let you know that.

And, Mr. Schriver, I appreciate the points you put in your statement. I was hopeful that you could flesh out the last point that you make, the last recommendation, which is you say U.S. should promote Taiwan as an important issue with our key Asian allies such as Japan

and Australia.

Could you put more detail into that, and could you also inform us a little bit, and maybe the rest of the panel as well, on Japan-Taiwan relations and what's going on there with the new administration in Japan?

MR. SCHRIVER: Sure. Thank you. I was trying to make recommendations that were appropriate for what I described as the PRC strategy, and I think one of the main parts of their strategy is to isolate Taiwan and de-legitimize a lot of Taiwan's aspirations, and I think the United States is in a position, as given the powerarchy of where we stand in the world, to resist a lot of that, and other countries are not quite as able to, and so they really need a U.S. bilateral effort to provide the kind of support I think they should be providing to Taiwan because doing so on their own is oftentimes much more difficult.

What I have in mind is this is a potential flashpoint and problem area for Asia. It should very much be subject to discussion and a military alliance and not just the military issues associated with it, but broader.

So I think not only should the United States be involved in TIFA talks, but we should be encouraging others, Japan, Australia. There's allegedly this ground bargain on the table, Taiwan gets ECFA, and then they have the ability to go talk to others. We should be encouraging "the others" part of that equation to start that dialogue sooner rather than later, rather than hanging back and waiting to see where ECFA goes.

Just very briefly, my own sense of Japan-Taiwan relations is they've somewhat soured. Part of that is based on perceptions that might be fair or unfair, but when Ma Ying-jeou took office, there were concerns in Japan about his views toward Japan, and he said, well, I think that's because I wrote my dissertation on disputed territories, and so he had an explanation for that.

But there was a perception coming in that he might not look at favorably, but then you also had a transition in Tokyo where I think the Hatoyama government, among other things, I think is very interested with rapprochement with China.

And so I think things have soured a bit. There are a few initiatives. Taiwan just opened up a new representative office in Sapporo so there's things going on, but I think overall it's a bit down from where it has been in the recent past.

DR. BUSH: To some extent, Japan-Taiwan relations are a function of the relations of each with China. Japan-Taiwan relations were probably best while Chen Shui-bian was President of Taiwan and Koizumi Junichiro was Prime Minister of Japan because both of them saw China as a problem or acted in ways that offended China.

Then Japan started moderating its policy towards China, and at least some people in Taiwan got concerned, and conservatives in Japan

got concerned with Ma Ying-jeou's more favorable approach to China. Where the Hatoyama administration is going with its China policy remains to be seen.

DR. RIGGER: If I can just take this issue in a slightly different direction. I think something very important for people in Taiwan and also for people who care about Taiwan in the U.S. to bear in mind is that the generational change in Taiwan but also in neighboring countries has required a new generation of citizens and also politicians to produce their own understanding of why Taiwan is important to them or to the larger world or to their regional community, whatever it may be.

I think developing that understanding is not always easy for citizens who have been raised with the idea of China as a member of the community of nations, (which is not really what people over 50 in any of these countries were raised to understand China to be, since China was a pariah state until the 1980s, and then sort of became a pariah state again in the early 1990s.)

But young people don't see it that way. And so the question of why should we care about Taiwan I think is actually very pressing for people in the younger generations of citizens and leaders in places like Japan, and I think it is important that Taiwan make the case for itself on the grounds of something other than, well, we are somehow standing between you and China because that puts Taiwan's status in the context of other nations' relations with China, which is not an independent position to stand on.

So I think it's a change that we need to pay attention to, whether or not new leaders have the understanding of the role that Taiwan has played historically and the values that Taiwan brings to the region and to the world. It may not be so obvious to them.

COMMISSIONER SHEA: Thank you.

HEARING CO-CHAIR WORTZEL: Commissioner Videnieks.

COMMISSIONER VIDENIEKS: Good afternoon, everybody.

This is kind of a broad question for everybody and maybe it's been answered. Is there precedent anywhere globally for a bilateral economic integration without some political integration beforehand? Is one a condition of the other? Or should the order be reversed?

To me, the last panel discussed the economic integration and the moves maybe for common firms to operate in both sides of the Strait in Taiwan and mainland. My question is can it be done? Can economic integration, whatever form, either national or by firm or by industry, can it be done without prior political integration?

DR. BUSH: I think the European Union is a case.

COMMISSIONER VIDENIEKS: That's multilateral though, and there is some question as to the degree. Besides that? In Latin America, Asia, Africa, wherever?

MR. SCHRIVER: Not being an economist, I'll probably say something very stupid here, but I think it depends on what you mean by

economic integration. I would point to the United States and China as being two economies that are incredibly integrated.

COMMISSIONER VIDENIEKS: Good point.

MR. SCHRIVER: And, we're nothing even close to political integration. Barring having a common currency, major trading partners, major holder of our debts, I think a lot is possible in terms of--

COMMISSIONER VIDENIEKS: Having a trade partner is political integration?

DR. RIGGER: I would argue that for Taiwan, the biggest mistake was actually not addressing the political side earlier, not in the sense of political integration but in the sense of realistic management of the economic relationship.

So I think where Taiwan's vulnerability came from was in a situation, whether it was something that the Taiwanese leadership could have controlled or not, what happened was Taiwanese firms went to China whether or not they had the blessing of their own government. And their government then belatedly played catch-up and is still playing catch-up with these Taiwanese firms.

But those firms incurred a lot of vulnerability as firms. Taiwanese people incurred a lot of vulnerability as individuals in mainland China because their government had not made arrangements for the security of their investments and their persons while they were doing business in China.

So I think the problem with trying to decide which is the cart and which is the horse is that unrestrained economic activity produces just as many problems as undertaking the process of political negotiation, however awkward and difficult that might be, introduces.

COMMISSIONER VIDENIEKS: Any other comments? Thank you.

HEARING CO-CHAIR WORTZEL: No. Okay. Well, thank you very much for helping us think our way through it and for some very, very thoughtful written submissions and great oral testimony and answers to questions. Thanks. We'll call it a day then.

DR. BUSH: Thank you.

MR. SCHRIVER: Pleasure to be here.

[Whereupon, at 3:15 p.m., Thursday, March 18, 2010, the hearing was adjourned.]

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Statement of Phil Gingrey, a U.S. Congressman from the State of Georgia

Chairman Mulloy, Chairman Wortzel, Chairman Slane, Vice Chairman Bartholomew, and Commissioners—I appreciate this opportunity to testify before you today and would like to thank each of you for your important work on the U.S.-China Economic and Security Review Commission. Geo-politics is far from static, and we have an obligation to thoroughly evaluate the changing state of international relations and the shifting balance of international power and influence—particularly as we see the rapid economic and military growth of the People’s Republic of China. The implications of this growth only help to underscore the importance of preserving and strengthening our relationship with the Republic of China on Taiwan.

Accordingly, I am pleased to be able to share my thoughts with you and to also express the general sentiments of the House of Representatives Taiwan Caucus.

I am also pleased and honored to be able to join today with my friend, colleague, and fellow Co-Chairman of the Taiwan Caucus—Lincoln Diaz-Balart. The House Taiwan Caucus has four co-chairs—2 Republicans and 2 Democrats—and maintains a strong, bi-partisan membership of almost 140 members. The strength of this Caucus demonstrates this Congress’s continued commitment to support Taiwan in accordance with the Taiwan Relations Act which requires Congress and the Administration to “preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan.”

In fact just last year, Congress unanimously passed House Concurrent Resolution 55 recognizing the 30th Anniversary of the Taiwan Relations Act and reaffirmed the House’s “unwavering commitment to the Taiwan Relations Act as the cornerstone of relations between the United States and Taiwan.”

Peace is not only sustained through diplomacy, but also through the maintenance of vigorous self-defense. The preservation of peace in the Strait of Taiwan requires the strengthening of Taiwan’s defenses to ensure that PRC military aggression against Taiwan is never, never a viable option either from an international perspective or from a practical standpoint.

Under the Taiwan Relations Act, our policy is that that “United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary

to enable Taiwan to maintain a sufficient self-defense capability.”

Further, after intense study and thorough examination, it has become abundantly clear that the United States must move forward with pending announced arm sales as well as agreeing to sell F-16 Fighters to Taiwan.

These sales are critically important for several reasons. Outside of the F-16, Taiwan’s current fleet consists of F-5s, Indigenous Defense Fighters, and Mirage 2000 Fighters. The F-5s are aging rapidly, while the Mirage 2000 fleet will have to be retired in 2010 due to the lack of affordable spare parts. The Indigenous Defense Fighters are expected to reach the end of their service life by 2020. Without new F-16s, in the next 5 years the Taiwanese fleet will be reduced by 120 aircraft. It is clear that new F-16s would enable Taiwan to maintain a sufficient self-defense and ensure cross-strait stability through air parity.

With respect to Taiwan’s participation in the global community, we must also recognize that it is imperative that the United States encourage, and the international community recognize, the practical contributions of the people of Taiwan. As clearly demonstrated by its participation with the World Health Organization, Taiwan stands ready, willing, and able to make meaningful contributions to the international community through involvement in United Nations specialized agencies, programs, and conventions. Accordingly, I think the U.S. should encourage the meaningful participation of Taiwan International Civil Aviation Organization (ICAO).

We all recognize there remains to be unresolved questions for which there are currently no definitive answers regarding Taiwan and China. However, as we continue to analyze and deepen our comprehensive of the changing nature of the relationship between the United States and the People’s Republic of China, U.S. policy must continue to reflect the important role of Taiwan and preserve the special relationship between the people of the U.S. and the people of Taiwan.