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The Washington-Taipei Relationship: New Opportunities to Reaffirm Traditional Ties

Edited by Andrew B. Brick

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Andrew B. Brick

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Introduction

Nowhere today is the distinction between democracy and totalitarianism clearer than across the 100-mile Taiwan Strait. In Beijing, elderly dictators hang desperately on to power, dispatch thousands of armed troops to the city's central square at even a hint that a handful of students may gather in peaceful protest, and suffocate economic freedoms. In Taipei, meanwhile, former authoritarians are relinquishing the reigns of power and are allowing their countrymen, including explicit political opponents, to search for and debate constitutionalism and the pace of democratization.

This change on Taiwan, no less so than the continuing repression on the mainland, has changed the arena in which U.S. policy toward China operates. Just as Washington has had to redefine its policy toward Beijing, it must begin adjusting its policy toward Taipei.

It was with such a reassessment in mind that Heritage Foundation President Edwin J. Feulner, Jr. and Dr. King-yuh Chang, Director of Taipei's Institute of International Relations, finalized plans for this conference. Titled "The Washington-Taipei Relationship: New Opportunities to Re-Affirm Traditional Ties," the October 25, 1989, conference proceedings that follow reflect not only a common bond between the two societies but also the challenges that the Republic of China's fledgling democracy poses to Washington and Taipei policy makers.

Deliberately organized to evaluate U.S.-ROC ties against the tragic backdrop of the massacre in Tiananmen Square, the proceedings reveal two distinct responses by the ROC participants to the events in Beijing that, largely, defined the conference's debate. On the one hand, there is the usual sense of affinity for and sympathy with the students and therefore a heightened sense of Chineseness. On the other hand, there is an affirmation of Taiwan's separateness. When the conference concluded, there was a pervasive sense that the status quo in Taiwan – and therefore Washington's relations with Taipei – no longer seemed as assured as it had in the previous four decades.

In no small way, the old truths on Taiwan are under seige. The ROC's evolving democracy challenges traditional Chinese notions of stable governance. The demonstrations in Taipei's streets that are becoming more common, for instance, seem chaotic to many Chinese. Moreover, democracy in the ROC creates an identity crisis for many of its citizens. This especially is so as the island has gotten wealthier. Accurately observes *The Economist*: "Taiwan is an example that when people grow richer, they grow more demanding. They want more freedom, both material and political." As in other developed nations before them, the ROC's emerging middle class society will not sit easily atop political immobility.

This respect for and analysis of the ROC's current political dynamism drives these conference proceedings and makes them particularly useful. From the policy makers, like Alaska Senator Frank Murkowski and ROC diplomat Pan Chia-sheng, to academics like Heritage Foundation Asian Studies Center Director Roger Brooks and Professor Hou Chi-ming of Colgate University, the presentations that follow reflect a healthy respect for flexibility in policy-making as yet another polity in the world makes the important transition to democracy. This, I believe, will prove to be this conference's greatest contribution.

Andrew B. Brick
Policy Analyst for China Studies

Opening Remarks

Dr. Edwin J. Feulner, Jr.: Good morning ladies and gentlemen. I am Ed Feulner, President of The Heritage Foundation. On behalf of all my colleagues here at The Heritage Foundation, especially our Asian Studies Center, its Director Roger Brooks, and the Chairman of its Advisory Council Richard Allen, it is my very great pleasure to welcome you to the Louis Lehrman Auditorium for this conference.

This is the fifth conference that The Heritage Foundation has co-sponsored with institutions from the Republic of China. Like the previous four, this conference will explore the Washington-Taipei Relationship. Unlike the previous four conferences, however, today's topic is driven by a truly tragic event. The massacre in Beijing on June 4 shocked the world. It fundamentally redefined the world's relationship with the communist regime on mainland China. Moreover, the PLA's slaughter of innocents in Tiananmen Square forced many of us out of our complacency. It is in times of difficulty that we truly appreciate how important our friends are.

Our co-sponsors for today's conference certainly rank among our very best friends. The Institute of International Relations in Taipei is one of the most extraordinarily distinguished "think-tanks" in the world. For over three decades, the IIR has provided analysis of current issues for public policy leaders in the ROC. It has expanded from a small group of academics to an international organization with more than 200 scholars. Its principal areas of emphasis have been Sino-American relations, international relations regarding China directly, and a mainland China research unit.

Besides the special publications from its Research Department, the IIR regularly publishes journals such as *Issues and Studies* and *American Studies Monthly*. It also sponsors and cosponsors seminars on various subjects with counterpart organizations. This, in fact, is the second joint Heritage-IIR conference. On April 18, 1988, we co-hosted a conference on the U.S.-Republic of China Trade Relationship and examined various new strategies.

Today, we will not only pick up where we stopped some seventeen months ago but we will explore some new vistas as well. Informed by

the slaughter in Beijing, this conference has been organized to both explore new opportunities and re-affirm traditional ties in the U.S.-ROC relationship.

The Republic of China on Taiwan has been a staunch supporter of the U.S. for decades. Taipei shares Washington's belief in individual freedom, has been democratizing its political system, and is an extraordinary example of free market success.

Indeed, the ROC plays a role in the global economy far greater than its relative physical size and population. Think about it: Twenty million Chinese on an island the size of New Hampshire traded more than $110 billion worth of goods last year, making it the world's thirteenth largest trading nation. The ROC conducts as much international business as such demographic giants as Brazil, India, and Mexico. And Taipei's $73 billion in foreign exchange reserves is exceeded only by Tokyo's $90.2 billion.

Such phenomenal economic vigor owes much to American generosity, patience, and guidance. For one thing, there are deep personal ties between the two societies. Today's conference is a testament to that. For another thing, from 1949 to 1965, the U.S. gave more than $1.7 billion in economic aid to the ROC. This helped finance much of the island's initial development, from road construction to farm development. For twelve years until last year, Taipei benefitted from the U.S. Generalized System of Preferences or GSP. GSP fostered trade-driven growth by granting duty-free treatment to approximately 3,000 products from the ROC and 140 other developing countries.

Perhaps the most important contribution that the U.S. has made and continues to make to the ROC is to ensure its military security. For decades, Taiwan feared invasion from the mainland. To deter this, the U.S. gave Taipei almost $4 billion and based some 3,700 American troops there, under the terms of the 1954 U.S.-ROC Mutual Security Treaty. Though no U.S. forces remain on Taiwan, the 1979 Taiwan Relations Act – or TRA – commits Washington to assist Taipei in maintaining its defense against possible threats from mainland China. Indeed, the TRA – which now dictates America's close relations with the ROC – is a document unique in American diplomatic history, specifically designed to reaffirm U.S. support for the people of Taiwan.

It is now my great pleasure to introduce my colleague and co-host for today's conference, Dr. King-yuh Chang, Director of the Institute

for International Relations in Taipei. This conference may be one of Dr. Chang's final duties as Director of IIR because he has already taken over the presidency of one Asia's finest universities, the National Chengchi University. Dr. Chang is one of the ROC's finest and most widely known scholars. He is the former Director-General of the Government Information Office.

Dr. Chang, it is a great pleasure to welcome you back to The Heritage Foundation this morning.

Dr. King-yuh Chang: Thank you very much, Dr. Feulner. It's always a pleasure for me to visit the United States and, of course, a special honor for the Institute of International Relations to team up with The Heritage Foundation to organize this very important and useful conference.

I would like to use this opportunity, first, to thank Dr. Feulner, Mr. Allen, Mr. Brooks, Mr. Brick and others for taking so much time to organize today's conference.

I would like to take this opportunity to review very briefly for you the achievements, problems, and prospects of Taipei-Washington relations in the last decade. Despite some of the uneasiness and occasional differences during this period, our relations nevertheless have developed steadily. Substantive ties between the people of our two countries, especially between nonofficial organizations, have continued to expand. The two sides have overcome their early uncertainty and the relationship has matured and become institutionalized.

The following figures illustrate the current state of relations. In 1979, when the United States severed diplomatic ties with the Republic of China, there were 25 cooperative agreements in existence between the two sides. Today, there are 95.

Since 1979, bilateral trade has jumped from $9 billion to nearly $40 billion and U.S. private investment in the ROC has increased from $80 million to more than $420 million. The ROC, now the world's twelfth largest trading country, is the fifth most important trading partner of the United States, which of course has long been the largest market for the ROC exports. In the first half of 1989, the United States replaced Japan as the major source of Taiwan's imports.

Progress in cultural exchange and scientific cooperation is impressive, too. The ROC and the United States have signed fifteen cooperative scientific agreements since 1979, allowing hundreds of Chinese and

American scientists and professionals to collaborate in a variety of projects. There are approximately 26,000 students from the ROC studying in the United States, one of the largest bodies of foreign students in this country. In addition, hundreds of Americans are studying in Taiwan. In short, this vibrant, varied relationship is flourishing in nearly all aspects.

Why is the relationship growing? First, a consensus on both bilateral relations and relations with Mainland China exists between Washington and Taipei. Both agree that the Taiwan Relations Act (TRA), enacted by the U.S. Congress in 1979, is the legal framework for the continuation of relations in the wake of derecognition. The object of the TRA is to help maintain peace, security, and stability in the Western Pacific and to promote the foreign policy of the United States by authorizing the continuation of commercial, cultural and other relations between the people of the United States and the people of Taiwan.

Secondly, the two sides accept that Taiwan's future should be peacefully determined by Chinese on both sides of the Taiwan Strait. Any nonpeaceful attempt to determine Taiwan's future would be a threat to the peace and security of the Western Pacific and of grave concern to the United States. In addition, the U.S. refuses to serve as an intermediary for the Beijing government and pressure the ROC on the issue of China's reunification.

Another reason why the relationship is growing is that both sides have been willing to take a constructive, nonconfrontational approach in dealing with their differences. There's no denying that as the U.S.-ROC relationship has developed, it has run into a number of difficulties. The United States' huge trade deficit with the ROC, for example, has long been the object of complaint in Washington, D.C. The U.S. has also criticized Taipei's high tariff import rates, restrictions on imports of U.S. agricultural products, and failure to protect intellectual property rights.

ROC government officials, however, contend that many complex factors, including structural differences, have produced the chronic trade imbalance. There is no instant solution. While the appreciation of the New Taiwan Dollar has made the ROC's exports less competitive and forced a number of smaller and medium-sized businesses to close

down, it still has had little impact on Taiwan's trade surplus with the United States.

To prevent these differences from affecting the overall progress of the relationship, the two governments hold regular consultations to further mutual understanding and reconcile differences. In order to narrow its trade surplus with the United States, Taipei has made significant moves to liberalize its economy over the last few years. Tariffs have been reduced, foreign exchange controls lifted, and the exchange rate of the New Taiwan Dollar against the U.S. dollar has risen more than 40 percent since 1986.

The Taiwan market, moreover, has been opened to American beer, wine and cigarettes. Import quotas on American agricultural products have been raised, despite strong protest from domestic producers. Efforts to protect intellectual property rights have been stepped up and export diversification encouraged.

The ROC Minister of Finance has drawn up a four-year timetable for further tariff reductions starting in 1989. So far, 23 percent of these have been implemented.

Finally, the U.S.-ROC relationship has prospered because it is mutually beneficial. The ROC has been integral to maintaining peace and stability in the Taiwan Strait and East Asia. And Taiwan's continuing prosperity and political democratization has given Taipei greater confidence in dealing with the Chinese mainland.

Likewise, the relationship with the United States has helped the ROC to develop a stronger and more liberal economic system. The U.S., furthermore, has served as an example to be emulated as Taiwan has moved to strengthen its democratic institutions.

The rapid disintegration of the socialist world in recent months could affect the future development of Washington-Taipei relations. From Eastern Europe to the Soviet Union, a world we have come to know is changing. For Taiwan, the most astonishing and dramatic example of the socialist world in decay was understandably seen in the student democracy movement in Beijing.

Dissatisfied with official corruption and the lack of personal liberties, Chinese students took to the streets. They organized demonstrations that demanded freedom of speech and freedom of assembly and association. Their protests attracted massive support from the citizens of Beijing and the protests were echoed in nearly all the major cities of

Mainland China. Eventually, the movement was ruthlessly suppressed by troops armed with tanks and machine guns, killing thousands of students and ordinary citizens.

But the aspirations for democracy have not been extinguished. Exiled mainland Chinese intellectuals and students have established pro-democracy organizations in France, in the United States, and other foreign countries. They are determined that mainland China will one day become a democracy.

The turmoil in mainland China may also influence Washington to reconsider its attitude towards Beijing and consequently look more favorably on the ROC.

Amidst all the political change, however, U.S. relations with Asia will likely focus on economics. Specifically: the economic prosperity of the Pacific Rim countries. For the last decade, the Western Pacific has outperformed the rest of the world in terms of economic development, GNP growth, and international trade. The results have been most impressive in the so-called "free-enterprise" economies, such as Japan, the Republic of China, South Korea, Hong Kong, and Singapore. The general opinion is that this trend in growth will continue throughout the 1990s and will render the Pacific region the world's most dynamic economic zone.

To be sure, economic growth in the region has given rise to demands for more freedom and democracy. And governments have, in general, responded to the pressure for change by instituting various political reforms. The demands are simple enough: intellectual freedom, more open political processes, and more liberal economic policies. Thus far, the reforms introduced in the Republic of China, South Korea, and the Philippines have been fairly successful.

Another significant development in the Asia-Pacific region is the increased interest of it shown by the Soviet Union. Mr. Gorbachev has stated that it is the policy of the Soviet Union to reduce tensions with its Asian neighbors and to enhance its influence in the region. In May 1989, when the student democracy movement was in full swing, Gorbachev met mainland Chinese leaders in Beijing and normalized the Soviet Union's relations with Communist China. The Soviets have also shown interest in expanding economic ties with Asia. His immediate goals: expansion of existing trade ties. His long-term goals: the development of Siberia. Although, it is still not certain whether this

project will become reality, there nonetheless is good reason to believe that the Soviet Union will be politically and economically more involved in Asian affairs in the coming decade.

With Asia's emergence as an economic power, the uncertain future of Communist China, and the resurgence of Soviet interest in the Far East, Washington's interests in the region should correspondingly grow. It also is anticipated that because of its increasing economic ability, the ongoing internationalization of its economy, and the success of its political reforms, the Republic of China will seek to play a larger regional role. As such, I would assert, the two countries share parallel interests in many areas.

The United States and the ROC will become more important economic and trade partners. Despite the erosion of the United States' domination in the Pacific, the U.S. nonetheless remains the largest export market not only for the ROC but also a number of other Asian countries. Moreover, the U.S. remains a major source of investment, high technology, and manufacturing facilities. The United States is the world's greatest advocate for and influence on the international free trade system from which the Republic of China and other Asian countries benefit. The U.S. economy, finally, remains a positive, stabilizing force in East Asia and the Pacific.

As for the Republic of China, it will continue to strengthen its economic ties with the United States and try to solve the trade deficit problem. Taipei has already made efforts to correct the trade imbalance. Although Taiwan's manufacturers have been trying to diversify their foreign markets, the ROC government continues, as it has since 1978, a "Buy American" campaign. So far, a total of fifteen missions have been sent to the United States. The first fourteen such missions purchased more than $10 billion worth of American products.

In May 1989, the ROC formulated a four-year plan for increasing its imports from the United States and diversifying its foreign markets. This should go a long way to fundamentally solving the trade imbalance. Under the plan, there should be a ten percent annual reduction in the trade surplus.

The ROC, moreover, will continue to support the United States in its fight against protectionism and its promotion of free trade. It has always been the ROC's policy to encourage growth through trade and exports, relying on market forces and free enterprise. In the last few

years, the ROC has introduced a series of liberalized measures: it has opened its markets, it has relaxed numerous economic controls, and it has significantly reduced tariffs. The ROC also is ready to open its financial markets to foreign banks, insurance and securities firms, thus making the ROC's economy even more internationalized. The ROC also is willing to contribute, along with the United States, to solving the mounting economic problems of the Third World by extending loans to developing countries through international financial institutions.

The government has already established a $1 billion International Economic Cooperation Development Fund to assist economic development in the Third World. Up to now, the Fund has received a dozen or so applications for various economic development projects. The first project to be approved involved a loan of more than $9 million to Costa Rica to finance the construction of an export processing zone. Similar applications filed by the Dominican Republic and Guatemala are expected to be approved soon.

Early this year, the Chiang Ching-kuo Foundation for International Scholarly Exchange was established. The task of this Foundation is to sponsor a program of China-related studies abroad and promote academic cooperation between scholars and institutions in Taiwan and their overseas counterparts. $100 million has already been raised.

One obstacle barring ROC participation in international aid programs is that Taipei, despite its economic strength and financial power, is excluded from international economic organizations as a result of political pressure from Mainland China. This is most regrettable for both the ROC and the international community, as international economic organizations should include all nations capable of contributing to world welfare. Hopefully, the United States will exercise its influence to persuade other countries to accept ROC membership in these organizations.

The ROC also will play a more important role in determining the future development of relations across the Taiwan Strait. Taipei's successful political reforms and outstanding economic performance have boosted its confidence in the Taiwan experience and gradually eroded the government's fear of communism. Since November 1987, the government has progressively relaxed curbs on contact with the mainland. Family visits are allowed. The ban on news gathering there has been lifted. Indirect trade has been legalized. Direct mail and

telephone links have been opened. And people from Taiwan are now permitted to participate in international activities and sports events there.

With the opening of communications between the two sides, the Republic of China has been able to inform the mainland people about the Taiwan experience and promote freedom and democracy in the PRC. Premier Lee Huan recently declared that the ROC government does not seek to replace the communist regime, but only to try to bring about democratization, economic liberalization, social change and freedom of speech there.

The June 4th suppression of the student protests in Beijing demonstrated the failure of communist rule and the determination of the Chinese people to fight for freedom and democracy. The prodemocracy movement is likely to prove stronger as time goes by. The ROC would like to see democracy established in mainland China, not for any ideological reason, but because the Taiwan experience proves that this is the best prescription for stability and economic development. The ROC also welcomes support from the United States, whose encouragement of democracy has prompted political reforms in a number of Asian countries in the last decade.

The United States and the ROC have a long history of cooperation. We were allies during World War II and fought shoulder to shoulder against Japan. We stood side by side again during the Cold War, when we battled to defend the free world and contain communist expansion. Today, the two countries cooperate with each other to attain a common goal of promoting peace and prosperity in the world. The two nations have achieved a lot in the past and they can achieve more in the future. They have similar political systems and they share the same values of liberty, equality and democracy. They both advocate a free economy and entrepreneurship. Both are now willing to assist world economic development and the welfare of all human beings.

The Washington-Taipei Relationship Ten Years After the TRA

Dr. Feulner: Thank you very much, Dr. Chang, for that magnificent overview. At this point, I would ask my colleague, Richard Allen to introduce our first guest speaker.

Richard V. Allen: Thank you very much, Ed. The Asian Studies Center of the Heritage Foundation was created to study public policy issues that confront the United States in Asia. Its purpose is to determine and recommend the choices American leaders must make with respect to relationships with Pacific Basin nations. In the process, it sheds light and a great deal of wisdom, we hope, on a wide array of matters.

The address that Dr. Chang just gave was an outstanding summary of the changes that have taken place in U.S.-ROC relations. I congratulate him for making such a forthright and challenging statement. It certainly sets the tone for the remaining part of our discussions today.

When I stop to think of the mood that prevailed just ten years ago when the Taiwan Relations Act was created and contrast that mood with the one that prevails today, I think you could say that our expectations have been met and exceeded in virtually every sphere. Ten years ago, that mood was fairly glum. The Carter Administration had chosen to break relations with an old and trusted ally. In place of the formal diplomatic ties, they tried to create a legal basis for a new relationship. Their attempts were deemed totally unsatisfactory by the United States Congress. In the end, legislation that was submitted by the Carter Administration to govern the relationship between the United States and the Republic of China that not only was drastically and radically altered but also strengthened by the House of Representatives and the Senate.

The result was, of course, the Taiwan Relations Act. It fairly can be said that a decade ago few people had a clear idea of the meaning and richness of the legislation that the Congress persuaded President Carter to sign.

I also remember that there was great concern at the time about the ability of the Republic of China to maintain its economic strength. This was especially true because many people felt that economic strength

would be the ultimate determinant of the security of the Republic of China. There was a pervasive pessimism that surrounded the Taiwan issue. And in 1980, that pessimism spilt over into the presidential campaign.

Eventually, the platform of the Republican Party and the program of the newly elected Reagan Administration became clear. The three essential ties between the United States and the Republic of China – on political, security, and economic fronts – would continue to be American priorities.

Today, virtually every aspect of the commitments made in 1980 and 1981 have been maintained. The security of the Republic of China is assured. And Washington continues, for the most part, to maintain a healthy political relationship with Taipei.

To be sure, there have been ripples in the economic relationship, but as Dr. Chang so ably pointed out the Republic of China has tried to accommodate the United States wherever it could. Today, Taiwan feels the strength of its own economic momentum. It sits on foreign exchange reserves of some $73 billion, the second largest such holding after Japan in the world. A nation of 20 million has accomplished so much in such a short time.

The Republic of China is an international success story. And the contrast between it and the People's Republic of China, especially after the carnage of June 4, could not be more stark.

Our next speaker this morning is Congressman Phil Crane. He currently is serving his 11th term in Congress, representing the 12th District of Illinois. When the history of modern, so-called "mainstream" conservatism is written, Phil Crane will be featured prominently. He is both founder and an active member in the Intercollegiate Studies Institute, Young Americans for Freedom, the American Conservative Union, and the Republican Study Committee. He has written widely. In 1964, in fact, Phil and I had the opportunity to publish books together.

Phil Crane is the third ranking Republican on the Ways and Means Committee where he has jurisdiction over such issues as energy, taxes, trade, and Medicare. Phil has been a mainstay in the Republican Research Committee's Task Force on Foreign Policy. In 1983, it was Phil Crane who introduced a resolution to establish the commission on the bicentennial of the U.S. Constitution. In short, Phil has been at the

forefront of most every cutting public policy issue. Please join me in welcoming a real friend, not only of the Heritage Foundation, but of the Republic of China, Congressman Phil Crane.

Representative Philip M. Crane: When I was growing up, I was fascinated by the Chinese civilization. I considered focusing on Chinese history, in fact, before I set out to do my Ph.D. Thankfully, though, I realized how easy it would be to be overwhelmed by China's long and rich history. It is a subject matter no one human can master in its entirety.

Given that sense of being overwhelmed, I looked for easier pursuits, focusing in the end on U.S. history. This concentration didn't compel me to study much more than 500 years. And more specifically, my area of specialization was limited to a period of about 25 years.

Think about it: What are 25 years to Chinese history?

What's striking to me about all this, is given the richness of Chinese history I simply do not understand how anyone in China could fall for a discredited Western ideology like communism. The Chinese are much too brilliant to fall for scams like that. Communism has always been a discredited theory in the U.S. In fact, the folks at Plymouth Rock understood its illegitimacy 250 years before Karl Marx ever ventured into the bowels of a library in London to concoct that notion of redistribution of income and equalization of the human condition.

The Plymouth colony initially had a communist settlement. The rule at Plymouth was "from each according to his ability, to each according to his need." But this nearly starved those godly people to death after three years. Finally, Governor Bradford, in desperation, parceled out land and said, "All right, you folks are going to be responsible for yourselves. You till your own farms." And overnight, they suddenly were producing crops and surpluses for export. Writing in his diary about it afterwards, Governor Bradford said, "The experience in this common course and condition, tried sundry years, and that amongst godly and sober men, may well evince the vanity of that concept of Plato's and other scholars," that the taking away of property and putting it in the community might make them happy and prosperous, and then he added this line, "... as if they were wiser than God." That line has ever since stuck with me.

How could the Chinese fall for such a discredited ideology? It is not a little inconceivable.

Still, I find solace in the fact that Chinese culture overwhelmed Kubla Khan. I believe Chinese traditions and Chinese culture ultimately will overwhelm and defeat communism. The victory will come from within, not from without.

In such light, the fact that Chinese students took Tiananmen Square is instructive. Young people, who have known nothing but communism, have risen in its opposition. This is evidence that the victory can now be envisioned.

The Republic of China on Taiwan is the best example of what China is about and what China is capable of achieving. In fact, the ROC is a more miraculous success story than what has happened, economically, in Japan. Taiwan's example extends not only from the economic front, but from the political front as well.

As Dick mentioned, what role the U.S. would play in that success story was in question a decade ago. I remember the sense of betrayal that accompanied Jimmy Carter's decision to formally recognize the Beijing regime. I was campaigning in New Hampshire in the presidential primary at the time. I was outraged, fearful, and apprehensive. The future seemed very uncertain. The ROC, however, has proved our apprehensions unnecessary.

A little island with just 20 million people, has a higher GNP than the mainland. They have demonstrated that free enterprise works; that diligence brings economic miracles. And as Benjamin Franklin once said, "A good example is the best sermon." Taiwan is an example worth emulation.

And this especially true for those across the Taiwan Straits. There is a subversive nature to the example Taipei sets. I believe it has already started to infect the PRC.

In the interim, it is vital that the U.S. and the ROC address their bilateral trade differences. Friction between Washington and Taipei could seriously impair the ROC's confidence and needlessly detract from the value of the Taiwan example. Taipei has proven responsive to American complaints: they have begun to address an unfavorable balance of trade; they have improved their tariff scheme; they have initiated special "Buy American" campaigns.

To be sure, it is going to be difficult for Taipei to full address many of these contentious trade issues. The unfavorable balance of trade between our nations, for example, is unlikely to ever fully be corrected because our nations' economies are different sizes. We are the Republic of China's biggest market. It is unlikely they will ever be ours.

Nevertheless, Taipei's present initiatives are attracting American business into Taiwan and the trade imbalances have started dropping very dramatically. The exports out of the Republic of China are still going up, but U.S. exports into Taiwan have also gone up at a faster rate.

One way to address trade problems is through a Free Trade Area. I have proposed legislation for FTAs with the Republic of China. I introduced another with Japan, and one with the ASEAN nations as well. An FTA would remove over time those restrictions to free trade about which we currently negotiate. It provides another, vital means of addressing trade issues and it should be considered.

Mr. Brooks: Congressman Crane, I have a question about the Taiwan Relations Act. What is the awareness of those who have come into Congress just recently about the TRA?

Congressman Crane: I think it's important to educate a number of our newer members about the Taiwan Relations Act, specifically, that it is a document unique to diplomatic history and as important today as it was a decade ago when written.

We've had a massive turnover in the twenty years I've been in Congress. I think it is important to inform these people. Many of them still think that we fully recognize the Republic of China. And I am sure there are others that do not even understand the distinction between the Republic of China and People's Republic on the mainland.

Mr. Lee: Neil Lee, C.C.N.A.A..Sir, you mentioned that a free trade agreement would be a good idea. But one problem with that is the fact that Taiwan is not a member of the GATT. There's a very strong interest in Taipei for the ROC to become a member of the GATT. Do you think the U.S. can do something like Dr. Chang suggests to persuade other members of the GATT to allow Taiwan to be a member?

Congressman Crane: It certainly is in the U.S. interest to do so. And this includes the so-called "unofficial capacity." I do believe there is a recognition in Congress that the ROC is a viable economic entity and deserves recognition in the international economic community.

Mr. Allen: Before Congressman Crane leaves, I would like to thank him for his appearance here today and salute him for reaffirming the importance of the Taiwan Relations Act. Moreover, the Congressman reminded us of the travesty of Taipei's "non-role" in the international community. It seems the latest example is often no further than today's newspaper. Take for instance the news today that Taipei would not be invited to participate in the so-called Pacific Forum taking place in Australia in November. It's simply inconceivable, as Congressman Crane pointed out, that the Republic of China should be omitted from such a forum.

With that, I'll turn it back over to our co-chairman, Dr. Chang.

Dr. Chang: Ladies and gentlemen, it is my present duty to introduce the speaker of our second morning session, Mr. Pan Chia-sheng. Mr. Pan and I share a common history. We went to the same high school. He was a few years ahead of me, an honor student. We went to the same university and studied in the same department: the Department of Law at the National Taiwan University. And then we went to the same graduate school. He majored in public administration; I majored in international law and diplomacy.

Mr. Pan is one of the ROC's finest diplomats, a regular stalwart at the Ministry of Foreign Affairs. He has held a diverse spectrum of positions. He has been Deputy Director General of the Board of Foreign Trade. He served in the Commercial Division of the CCNAA Office in Chicago and New York. He now is the Chief of the Economic Division of the CCNAA Office in Washington, D.C.

I think he is the right person to tell us about the trade and economic relations between the United States and the Republic of China. Let's welcome Mr. Pan.

Mr. Pan Chia-sheng : Thank you, Dr. Chang, for the introduction. Good morning, ladies and gentlemen. It's a pleasure for me to present a general introduction of U.S.-ROC economic relations here this morning at The Heritage Foundation.

My speech will focus on the growth and development of U.S.-ROC bilateral trade and investment relations during the past decade. It is divided into two parts. In the first part, I will give a general view of the trade relations during the past ten years. In the second part, I will examine the measures taken by our government to ease the U.S.-ROC trade tensions.

As you know, trade between the United States and the Republic of China on Taiwan has grown steadily over the last ten years. The respective economic environments in both countries also considerably have changed, in no small way affecting the U.S.-ROC relationship. Nonetheless, the relationship remains strong, grounded in our long-standing friendship.

Perhaps the most important factor in our bilateral economic relationship in the 1980s has been the growing U.S. federal budget deficit. It has affected the value of the U.S. dollar, which, in turn, considerably helped increase the U.S. trade deficit. Recent figures show that the U.S. will have a trade deficit of $110 billion in 1989. Its presence has compelled numerous U.S. industries and many in the American Congress to introduce policy aimed at reducing the imbalance. Many of these policies have been directed at America's largest trading partners, including the Republic of China on Taiwan. Many threaten protectionist action by the United States.

The economic and the political environment in the ROC also changed during the 1980s. Strong domestic economic growth averaged yearly 7 to 8 percent. The growth fueled development of Taiwan's infrastructure and helped increase per capita income. In 1980, for instance, per capita income was around $2,300. This year, per capita income is over $7,000. The ROC holds huge domestic reserves. With the wealth, the structure of the economy has gradually shifted from traditional emphasis on light industries, such as apparel and footwear, to heavy industry and high technology, such as electronics, electrical machinery, metal products and transportation equipment.

Through it all, the Republic of China on Taiwan has remained committed to reducing trade frictions with its largest single trading partner, the U.S. It has attempted to respond positively to the concerns of the United States during the course of the past ten years.

What have been some of the measures taken by the Taiwan government to ease the U.S.-ROC trade tensions? The ROC government has

implemented several major policies designed to foster and structure change in the ROC economy in order to ease trade tensions with the United States. Foremost among them is the action plan to be implemented in the next four years, called the Detailed Plan for Strengthening Trade and Economic Ties with the United States.

The plan aims to reduce the trade imbalance with the United States, increase social benefits available to the Taiwanese population, and stimulate domestic spending. The government will float bonds to raise funds for public investment in development projects. It has increased spending on thermal energy, NASA tracking, transportation, construction projects and other public investment projects and plans to increase spending on education, culture development, health and medical services, tourism, insurance and other welfare projects in the coming years.

The ROC government is building up consumer loan programs to stimulate domestic consumption. In addition, it is continuing efforts to reduce tariffs and red tape and promote market liberalization for the foreign products.

Another aspect for the action plan taken by the ROC government is to diversify Taiwan's export market. Taiwan promotes trade relations with Europe, Japan, and other newly industrializing countries of East Asia, including Singapore, Hong Kong, Korea, and Thailand. Moreover, the government not only has loosened restrictions and reduced taxes on the overseas trade offices of ROC businessmen, but also has actively encouraged the establishment of more of these trade offices abroad.

We have established an Overseas Economic Cooperation Development Fund to assist countries with their economic development and hope, ultimately, to increase our sales of goods and services to them. The ROC also encourages investment abroad. We have promoted investment in the domestic insurance industry and hope it fuels an expansion of import-export service.

The action plan calls for the ROC to reduce the share of its exports to the United States to one-third of the total ROC exports in 1992. The action plan calls for further initiatives to liberalize Taiwan's trade regime.

Although the past ten years have already seen sweeping changes, slashing tariffs is one of the major steps that the Republic of China has

taken to open its market to foreign competition. Between 1971 and 1978, ROC tariffs were reduced almost twenty times. And the effective duty rate declined from 14.1 percent to about 5 percent. The action plan calls for the average effective duty rate to be reduced to 3.5 percent by 1992, which is a level compatible to the major industrial countries.

In addition to lowering tariffs, the ROC has loosened nine tariff import restrictions on such items as soda ash, zinc, American potatoes, peaches, beer, wine, cigarettes, and oil. Except for a few agricultural items, nearly 98 percent of the total commodities my country imports come into the ROC without any restrictions, compared to only 57.1 percent in 1970. Furthermore, Taiwan has cut the harbor construction fee from 4 percent of the price of the imported goods to 0.5 percent and now applies the tax to exports, as well as imports.

The action plan calls for Taiwan to study further liberalization of those remaining items for which import control or restrictions have been established.

With the growth of the ROC's economy, there has been a commensurate boon in the service market. The action plan stipulates gradual liberalization of this promising market, in addition to the action already taken to open the service market for the U.S. firms. In the past three years, the ROC has greatly eased the restrictions of foreign bank operations.

The scope of business for U.S. insurance firms in Taiwan has been expanded. U.S. insurance firms are now allowed to compete directly with the local firms. The quota system and the surcharge import imposed on the American firms has been abolished.

American motion pictures receive copyright protection under the ROC's copyright law.

Furthermore, the ROC has eased the limitations on the level of foreign investment permitted. Since 1983, the U.S. investors have been permitted to invest indirectly through mutual funds in the ROC stock market. Four security investment trust companies have been established to raise funds from overseas to invest in the domestic security market. At present, seven security investment consulting firms, 20 percent owned by foreigners, are in operation in Taiwan. Foreigners may also invest up to 40 percent in the domestic security industry.

Security and bond transaction business will be gradually opened to foreign competition.

To promote foreign trade, the ROC government has supported a policy of economic liberalization and industrialization. In July 1987, the government announced it would ease foreign exchange controls. Today, every individual in Taiwan can remit $5 million per year.

Intellectual property rights used to be an area of great contention in the U.S.-ROC relationship. This is no longer the case. The ROC has taken a number of significant measures to strengthen intellectual property rights in the areas of patents, trademarks and copyrights. Relevant laws in these areas have been revised or amended to conform to international standards. Patent protection for pharmaceuticals and chemicals has been increased. U.S. entities may bring litigation against ROC companies when U.S. patent rights have been infringed.

The burden of proof in patent infringement cases now lies with the defendant that no violations exist. Penalties for violations have been gradually increased, helping to reduce the incidence of intellectual property rights violations in the ROC. Plans are underway to assign special judges to handle these cases in special courts. Laws have been amended to provide trademark owners with the right to petition courts for the prevention of trademark infringement. In addition, trademark owners are now permitted to choose any number of methods to claim compensation.

Improvements have also been made in the area of copyrights. The number and the variety of the copyright items receiving protection has increased in recent years.

Another important effort which the ROC government has made since 1978 to ease U.S.-ROC bilateral trade tensions are the "Buy American" missions. There have been fifteen such missions which have come to the United States. The result: the Taiwanese businessmen on the missions have purchased over $12 billion of U.S. products. Items purchased include agriculture products, such as corn, soybeans, wheat, barley, cotton and fruit juices, consumer goods and appliances, several aircraft, electronic power generating equipment, tour buses, and computer facilities. The most recent mission toured the United States in September of this year. The ROC action plan calls for continuation of those missions.

Besides sending these missions, the ROC also plans to continue assisting U.S. firms in promoting sales of their products in the ROC market. This assistance includes sponsoring show for U.S. products and providing free rental for U.S. state government representative offices in Taipei. In addition to this aid, the ROC government assists U.S. exporters to Taiwan directly by providing export credit. The Export-Import Bank of the Republic of China has established a facility whereby it provides funds to overseas commercial banks that have favorable fixed interest rates, the so-called FRRF system, for prospective clients who wish to export American goods to the ROC on different payment terms. The low cost alone should make the costs of these sales cheaper for the U.S. firms, thus increasing the competitiveness in Taiwan.

The ROC continues to be concerned about the increase in the bilateral trade deficit with the U.S. and is trying to respond to U.S. concerns in every way possible. We want to ease the political strain on this strong economic relationship. ROC efforts to liberalize tariff and non-tariff import barriers, to redirect its export efforts to other markets, such as Japan and the European community, and to appreciate the value of the NT Dollar has helped to reduce Taiwan's trade surplus with the United States from $16 billion in 1987 to $10 billion in 1988.

In recent years, Taiwan has increased substantially its imports from the United States and has made concerted efforts to decrease our export market share in the United States. In 1988, Taiwan's overall trade balance declined 45 percent; 40 percent with the United States alone. The NT dollar has appreciated 45 percent since September 1985. The ROC government believes the coming years hold much promise for strengthening U.S.-ROC economic ties and for increasing Taiwan's participation in the international trade community. The ROC will continue to implement comprehensive measures designed to improve U.S. access to the ROC market and to reduce the ROC's trade surplus with the United States. Taiwan expects the two countries to continue to work together productively and harmoniously and to develop a beneficial framework for our future trade and the investment relationship.

PANEL I

The U.S.-ROC Political and Economic Relationship After Tiananmen Square

Dr. Feulner: The June 4th Tiananmen Square massacre shocked the world. In his press conference on June 5th, President Bush said, "The United States cannot condone violent attacks and cannot ignore the consequences for our relationship with China."

Today's first panel will examine Washington's relationship with the ROC on Taiwan after the events in Tiananmen Square. How does the violence in Beijing and the policies of that government impact the U.S.-ROC relationship? Will Taipei's highly publicized flexible diplomacy significantly be altered because of these events?

To examine these questions and others, we've invited the three distinguished members of this panel to today's conference. Dr. Ding Mow-sung, a prominent attorney in Taipei, has made the trip halfway around the world to be with us. He will examine the impact of the events on the U.S.-ROC trade relationship.

Mr. Ray Sander, the Director of Trade and Commerce Programs for the American Institute in Taiwan, is a well-known expert on Taiwan. He will be discussing U.S. policy and the relationship across the Taiwan Strait.

Finally, Dr. Richard Bush, Staff Consultant for the Subcommittee on Asian and Pacific Affairs, will try to shed the light of the U.S. Congress on U.S.-ROC relations. Without further ado, I invite Dr. Ding to begin.

Dr. Ding Mow-sung: Over the last few years, I have had the privilege of attending the trade talks between the United States and the Republic of China. What I will share with you today are my personal views on some of the tactics applied in those trade talks.

In recent U.S.-ROC trade talks the United States has made very specific demands: U.S. negotiators have wanted certain ROC statutes amended; they also wanted some amendments to be created. In fact, the U.S. presented to us specific wording of several amendments.

One would have thought that under the U.S. Omnibus Trade and Competitiveness Act, there really would be no need for the United States to be bothered with such details. American concern, I believe, would have been better served by telling us what results the U.S. really wanted. As to how we in Taiwan can produce the results, we in Taiwan know best.

The legal ramifications of negotiating trade differences is most instructive. The ROC fully realizes many amendments to our trade laws will have to be made. But amendments to ROC law is best made by ROC lawyers. If suggested U.S. amendments were made to the wrong statute, such amendments would not stand up in court if challenged. In short: if the United States believes it has a better understanding of ROC law, it is misled.

Such dilemmas are common to U.S.-ROC negotiations. Why? I think it is because the Omnibus Trade and Competitiveness Act, which amends the Trade Act of 1974 and provides for the so-called "Super 301," requires the USTR to identify foreign countries that are not entering into good faith negotiations or making significant progress in bilateral or multilateral trade negotiations or provide adequate and effective protection of intellectual property rights.

We found ourselves, in short, in a dilemma. If we refused to agree with the United States to take certain actions which we knew would not work or would not withstand challenges in court, the USTR could, at a later date, turn around and identify our country as one that did not enter into good faith negotiations.

The point I wish to emphasize is my sincere belief that no one's best interest is served if the rule of law is compromised for expediency. This is not to say I ignore the various wrongs committed in the ROC – such as by our MTV industry. Those wrongs are undefendable. And I'm not here to defend them. But trade talks between two governments can not be conducted as if they were negotiations between private parties for settling their disputes out of court.

The next thing I'd like to address is the problem about the high seas drift nets for fishing in the North Pacific, which Senator Frank Murkowski will likely address later today. As you know, our two countries have recently signed an agreement on that subject. More than ten prominent professors in our country have signed a letter urging our lawmakers not to approve this agreement. The principal concern was

directed at the right given in that agreement to the United States' law enforcement officers to board our fishing boats on the high seas without the prior consent of the ROC government. For reasons I'm not going to trouble you with, I do not share the views of those professors.

Still, this case is instructive because it highlights the need for effective public diplomacy when dealing with contentious issues in the U.S.-ROC relationship. In short: once arrangements are made, they must be presented in ways sensitive to public perception.

Unfortunately, I must say the United States was only interested in assuring that all of her concerns and demands were clearly and unequivocally expressed and specified in the driftnet fishing agreement. Washington left the defense of the agreement totally in the hands of Taipei. And when it became apparent that the written agreement was politically unpalatable in the ROC, the U.S. refused to consider any amendments to the original proposal. I seriously doubt if this is the best way to deal with trade issues, especially if they are politically explosive. Agreements are meaningful only when they can be implemented. And ROC politics threatened the viability of the original agreement.

In all bilateral trade talks, I would recommend the parties first identify and agree on the substantive issues. Then, they should examine the difficulties and emotional issues each government will have to face upon presentation of the written agreements to its lawmakers and public and endeavor to write an agreement that will be generally acceptable in each country. Both parties must work as a team, rather than as adversaries. Trade talks should not be conducted like contract negotiations between two parties, each endeavoring to maximize his gains without any regard for what is left for the other party.

Sensitivity to one another's interests can extend beyond the arranged agreement as well. When the U.S. and the ROC agreed to terms for the sale of American beer, wine and cigarettes in Taiwan, everyone recognized that advertising and sales promotion would be a direct result of the agreement. American cigarette companies needed to acquaint our public with their availability in our market. This was considered and recognized to be essential. However, in the last twelve months or so, we have seen more and more promotional activities aimed at increasing the teenage smoking population, rather than introducing different United States cigarette makers' brands and tastes to our public. I consider this rather deplorable.

We notice that cigarette smoking is now being subjected to more and more restrictions in the United States. We have read with great alarm the various U.S. court findings against cigarette companies, demonstrating a deliberate intent on the part of the cigarette companies to challenge all adverse medical and scientific evidence regarding smoking and willfully ignoring the known health consequences to consumers from the sales of their products.

I believe there must be ways other than increasing the smoking population among Chinese teenagers to balance the two-way trade between our two countries. A balance must be struck between moral principles and political or business expediency.

Such cases underline the need for a settlement of dispute clause in our nations' bilateral agreements. The ROC government's position has been quite flexible with respect to what kind of disputes should be covered by such a clause or agreement, how the independent body of arbitrators should be composed, what specific qualifications each arbitrator must have, how the arbitrators should be appointed, as well as what procedures the arbitrator or arbitrators must follow in conducting the arbitration proceedings. Unfortunately, the United States has persistently rejected all of our proposals.

This is unfortunate for us, considering that we are not a member of GATT. There is no way that we can invoke the arbitration provisions in the GATT arrangement. Thus, all differences arising from the agreements between our two countries must be settled by consultation between the two governments. Consider such a task against the backdrop of the Omnibus Trade and Competitiveness Act. It is not difficult to guess whose views will ultimately prevail.

In closing, I would like to say that most U.S. trading partners take seriously the trade complaints and economic criticism of the U.S. and make serious efforts to meet Washington's demands. But the effort must come from both sides. What has the United States done to reduce its huge budget deficit, which is feeding the large trade deficits in international trade and goods and services? As was pointed out in *The Economist* in its October 14 issue, the United States cannot just rely on her trading partners to do all the dirty work to redress the trade imbalances. It is not everyone else's problem to push down the value of the dollar through coordinated rises in North American interest rates, to appreciate their currencies, to inflate our domestic economies

to suck in more imports from the United States. Something must be done by Washington as well. With out American action, all these efforts only put off to a later date the day when the United States will eventually have to act.

Dr. Feulner: I will ask Mr. Ray Sander from the American Institute in Taiwan to give Washington's perspective.

Mr. Ray Sander: Thank you, Ed. I'd like to discuss my experiences over the last year and a half as the senior AIT representative in over twelve different consultations that we've had with Taiwan. In many of those, I've sat across from the table from our distinguished counsel, Mr. Ding Mow-sung, who's given you his very perceptive and highly legal perspective of those consultations. I feel I've been thrown into the pit with a very distinguished attorney, and that I now have to defend the American position on some very controversial issues.

First of all, I think that it would be worthwhile to quickly review the issues of the consultations that have taken place over the last fourteen or fifteen months. They range from the sublime to the ridiculous. Included are such important issues as President's Lee's trade action plan and how that document was put together in order to address many of the issues of concern to policy makers here in the United States. Many of these issues arose from and are manifest in the Omnibus Trade Act, particularly the Super 301 and the Special 301 provisions. But the consultations also were on such topics as steel and machine tool VRAs, textile agreements, the beer, wine and tobacco agreement that Mr. Ding referred to earlier, and maritime issues. Probably more than half of them had to do with intellectual property rights and the issue of MTVs. We also, I should add, dealt with the problems surrounding frozen turkey parts.

I think this diversity of issues points out one of the most significant problems in U.S.-ROC trade. Simply put: many of trade negotiators' most contentious issues are a result of a bottoms-up approach in the policy making process. Single industries assiduously pushing single cases purposely narrow the scope of the trade negotiation's agenda.

Another problem that I see is that, unlike Ding Mow-sung's ideal of being prepared and being proactive, many of our consultations are reactive. Indeed, they're often so reactive to problems that they give

rise to other disputes. As a result, the negotiating process can become terribly burdened.

Another problem I perceived in this past fourteen or fifteen months is the bilateral nature of our negotiations. Unfortunately, because of Taiwan's diplomatic isolation and the concurrent importance of the U.S. market to their export market, most of the pressure to reform Taiwan's trading regimen has come from the United States. It thus appears, at virtually every turn, that the U.S. alone is asking Taiwan to change its current operating procedures. Often, it seems we make these requests because of the close political and economic partnership that we've had over the years. If Taiwan had larger trading partners – or partners that were equally as important as the United States – they would be receiving pressure from these trading partners to change their regimen, as well. But the U.S. plays an inordinately important role in the ROC's economic scene, so much of the pressure for reform comes from us and not from other partners. Consequently, the United States is always perceived as asking for yet something else.

There are four principles that the U.S. side has used in negotiations with the ROC. I've seen no change in these, regardless of events elsewhere in the world. And those principles, while not always articulated in the preamble to the meetings or even in the summary of the meetings, are always present at the table. The first of those principles would be equal treatment. I think that one of the things that we try to strive for in our negotiations with the Coordination Council for North American Affairs is to try to get equal treatment for American firms and American services in Taiwan.

The second principle would be striving for an open market and free trade. We have attempted at every turn to reduce the kinds of restrictions for our imports and our exports with Taiwan and I think that great progress has been made on that front. This is an underlying precept in the U.S. approach to consultations. When no solution appears to be satisfactory to either side, I assure my good colleague, Mr. Ding, that we are not striving for win-lose solutions; we are truly trying to strive for win-win solutions, so that both sides can walk away from the consultation with a sense that something has been achieved for mutual benefit.

I think that the principle that underpins this mutuality is economic interdependence. Economic interdependence is the fourth principle.

American firms produce many products in Taiwan, using the excellent work force and know-how of the Taiwan people. Those products come back to the United States and are in great demand. Thus, no matter how contentious specific negotiations may become – whether it concerns turkey parts or salmon fishing – there is great deal of economic interdependence between the U.S. and the ROC that is enduring.

From my perspective, the problems that we've had are resolvable in mutually beneficial ways. And this is in no small way due to the quality of the trade negotiators on both sides of the table. On the Taiwan side there is Vincent Chow from the Council on Economic Planning and Development, P.K. Chiang and K.S. Chou from the Board of Foreign Trade, and the staffs of many other ministries that come as consultants to the Coordination Council for North American Affairs. On the U.S side, there is Peter Allgeier and Mark Gore and now Sandy Kristoff, from the USTR. I think these are the kind of people who have the mindset to recognize these principles and who try with a very sincere effort to come to mutual accommodation.

The politics of trade disputes occur in both settings. In Taiwan, you'll have fishermen who don't want to give up their rights to fish on the high seas and professors who have a critique of what the issues of sovereignty are. In the United States, we also have economic fishing interests who are concerned about the right to preserve certain species that are indigenous to the United States and to conserve the environment. In the end, the lines are drawn and you have the makings of a momentous struggle. The politics on both sides exacerbates the task that negotiators have in trying to resolve a problem. More often than not, the issues trade negotiators deal with are not just the problems on the table. Often the problems come from outside the room.

In such light, it is vital to understand the entire context of all disputes. That is something I have personally tried to do at all the negotiations to which I have been party. Those of us who have a sincere interest in maintaining a good and solid economic relationship between the people of the United States and Taiwan should not judge our relationship by the problems or the disputes that we're having, but by the manner in which we attempt to solve those problems.

Dr. Feulner: We will now turn to Dr. Richard Bush, a staff consultant to the Subcommittee on Asia-Pacific Affairs of the House Foreign Affairs Committee. Dr. Bush is an old China hand, having received his

Ph.D. in Chinese studies at Columbia. He has formerly served on the staff of the Asia Society and has lived extensively in the Philippines, Hong Kong, and Taiwan.

Dr. Richard Bush: I appreciate this opportunity to speak to a Heritage Foundation audience. I feel a little intimidated by the topic – providing the Capitol Hill view of the democratization that is occurring on Taiwan – because there is no single congressional view on that subject. I suppose I should be happy that I don't have to talk about turkey parts.

It would, of course, be presumptuous of me to suggest that I know precisely what all members of Congress think about the island's democratization. Some might discount what I have to say because I work for a member of Congress who has, in the past, been critical of Taiwan's political system. Let me assure you that what I have to say today are my own personal views and are not necessarily those of the House Foreign Affairs Committee or any of its members.

If I had to estimate, I'd say most or all members of Congress who take an interest in Taiwan's internal affairs have a very positive attitude about what has happened in Taiwan in the last three years. Martial law has been lifted. Freedom of expression is greatly expanded. The press is vigorous and competitive. Political prisoners have been released. Opposition parties are both legal and active. There has been quite a change. Some may argue at the margins about this or that particular point, but I think that most members of Congress would recognize that change has taken place. Indeed, under the leadership of Professor Chiang Ching-kuo and Lee Teng-hui and through the efforts of a reformist cadre of Kuomintang leaders who are increasingly pressured by a viable opposition movement, many of the changes which Taiwan's congressional critics were calling for in the early 1980s have already been accomplished.

Now having been trained as a political scientist and as a student of Chinese affairs, I personally find the process of political reform on Taiwan to be of tremendous political significance. Unfortunately, this is a story that's being missed in much of the world. I think that has something to do with the assignment policies of the American media. It's too bad because there is something terribly significant occurring.

In the first place, from a historical and comparative perspective, we need to keep in mind that political reform is a tremendously difficult task to pull off. A reformist leadership can never move fast enough to

satisfy those who demand change overnight and will always move too quickly for those who fear any change at all. And in Taiwan, the mutual antagonism between radicals and conservatives – if we could apply those terms loosely and without value judgment – is compounded by the unavoidable issue of Taiwan's international identity.

Taiwan is taking a gradualist approach to political reform, in contrast to what one might call the blitzkrieg strategy performed by reformists in the Republic of Korea. On Taiwan, this sometimes seems to foster a certain amount of short-term instability. But it will be interesting to see which strategy, in the long run, results in a more stable outcome. My bet is on Taiwan.

Second, political reform in Taiwan is intellectually important because the Kuomintang is organizationally a Leninist party. In terms of its ideology, of course, it is anti-communist and economically liberal, but many of its fundamental structural features were fashioned by the same Comintern agents who shaped the Chinese Communist Party in the mid-1920s. Although it is internally more democratic than all other Leninist systems in the world, it nonetheless is interesting to consider what is happening in Taiwan along with what is happening in other systems that are led by Leninist parties. Some of those parties are trying to ride the change; some of those are trying to resist it. Taiwan may be the most successful of those systems to make the transition to democracy with stability.

Third, Taiwan is the first area in the Chinese or Sinic culture to attempt genuine democracy. From an historical perspective, this raises some important questions. Will the leaders on Taiwan be able to set aside what some, including our esteemed Assistant Secretary of State for East Asian and Pacific Affairs, believe is a sort of culturally driven fear of "luan" – or chaos – and will they be able to resist the temptation that Chinese leaders in the past have all too often given into, that is to restore and maintain stability through rigid organization. Will those who have opposed the dominance of the ruling party be able to accept the rules of the political game, assuming that a consensus on a fair set of rules will be created? One can only hope so.

All of this raises some interesting questions about the implications of what is happening on Taiwan for the post-Tiananmen situation on the mainland. True, the prospects for either political or economic reform in the PRC seem remote in the short term. True, the Taiwan

setting has always provided a more favorable environment for reform than the overpopulated and relatively impoverished mainland. Nonetheless, the fact that an organizationally Leninist ruling party is fostering democratization in a Sinic cultural context must serve as an inspiration to the PRC officials and officials who would like to see radical political reform in China. Moreover, what is occurring on Taiwan will serve something as a goad or embarrassment to orthodox Leninists in Beijing.

One can also ask about the implications for political reform and liberalization on Taiwan for the future interaction between the island and the mainland. Obviously, the events of June – and what the Communist Party subsequently said about them – greatly diminished the credibility of any promises or proposals that Beijing may offer about reunification. Now more than ever, the Chinese Communist Party will have to earn the trust of the people and leaders of Taiwan if there is to be any sort of reassociation. Moreover, democratization on Taiwan insures that any reconciliation between Taiwan and the mainland, if it is to occur, will have to pass the test of public opinion.

Let me conclude by offering three cautionary notes about Taiwan's recent political evolution. And again, these points again are my own views, though I suspect that those in Congress who have been critical of the KMT in the past and who have the highest expectations of it in the future might share them.

First, it cannot be said today, at this moment, that Taiwan is yet a full democracy. It was I believe Jeane Kirkpatrick – I wasn't able to verify it, but I think it was she – who said that democratic systems contain two essential elements: broad-based political participation and genuine contests for political power. A political change on Taiwan, it seems to me, has occurred much more in the area of participation than in the area of political contests. And a continuation in office of members of the Legislative Yuan and the National Assembly – which serves in part as an electoral college for the presidency – seriously limits the degree to which political power is truly contested on Taiwan today. That will change, of course; yet it may be a source of instability in the interim, and thus reduce the extent to which Taiwan can be seen as a democracy.

Second, I believe that the conduct of the elections on Taiwan this December is terribly important. And I specifically refer to the conduct of the elections and not necessarily their outcome. These are the first

elections to be held after the lifting of martial law and the legalization of opposition political parties. If these elections are free and fair and if they are perceived to be free and fair by the people on Taiwan and by the international community, then Taiwan's democratic credentials will be greatly strengthened. If, on the other hand, the elections are perceived to have been significantly flawed, and one hopes they aren't, then all the political reform steps taken since the fall of 1986 will inevitably be viewed in a more negative light.

Third, and here I'm being somewhat philosophical, I think it's worth asking whether the democratic system which I sense is emerging on Taiwan is the appropriate system to deal with the issues which that system will have to face. I suspect that the Kuomintang reformers are looking to Japan for a model. They see the Kuomintang as Taiwan's

Liberal Democratic Party. There's nothing wrong with that. There's nothing fundamentally defective with the Japanese system. Yet, Taiwan is not blessed by Japan's social homogeneity. The security threat which Taiwan faces is much greater than Japan's and significantly affects the role of the military in the political system. And Taiwan must inevitably address questions of identity, something Japan has never had to. These are not insurmountable problems. Perhaps the Japanese style political system can succeed in a Taiwanese political context if the Kuomintang chooses to go beyond the Liberal Democratic Party in permitting a closer connection between public opinion and public policy. But even those who are most optimistic and satisfied about Taiwan's political future need, I think, to look over the horizon and ask if the system being built today will be adequate and sufficient for the needs of the next century.

Dr. Feulner: Thank you very much. Ladies and gentlemen, questions or comments for any of our three panelists?

Would the panelists discuss the U.S.-ROC relationship after Tiananmen Square. Did Tiananmen Square have any effect on U.S. and ROC, politically?

Dr. Bush: The position of the U.S. government is that the outcome or the settlement of the Taiwan question is not for the United States to resolve or say anything about. It's for Taiwan and the people on the other side of the Strait to work out for themselves. Our only interest is that it's done peacefully.

Obviously, the events of June have an effect on people's calculations, both on the mainland and in Taiwan. But I think that what's most important for the United States is that whatever happens be peaceful.

Mr. Sander: The only thing that I could add to that is from the commercial and economic perspective. At AIT, we have been receiving an increasing number of inquiries from firms about doing business in Taiwan. Taiwan has become more of a market in people's minds over the last several months. I think that has many reasons; it would be hard to segregate just one reason that would contribute to that. But I would suspect that the events in June on the mainland have had an impact on people's perception about where business and economic opportunities lie over the next several months and years.

Dr. Feulner: Dr. Ding, would you like to add a last word on the subject?

Dr. Ding: As an attorney, I can share this with the audience. In Taiwan, until the Tiananmen incident, many of my law firm's clients were quite interested in some kind of indirect trade or investment relationship with mainland China. After the Tiananmen incident, most of them decided to call a halt to all these operations. They decided to look around and see what's going to happen. For the first time, they really felt scared.

Mr. Fu: Norman Fu, *China Times*. Dr. Bush, I have a question for you but I would like to hear comments from the other panelists as well on the subject as well. You mentioned in your remarks, Dr. Bush, Taiwan's problem of identity. I'm sure you are aware of the fact that Taipei lately has been taking the diplomatic offensive by engaging in so-called "flexible diplomacy." I'd like to know Capitol Hill's point of view on this subject and whether it is perceived as a plus for the ROC or whether this will complicate American policy towards the PRC. As you know, Beijing has been very harshly criticizing Taipei for engaging in flexible diplomacy. They call it "dollar diplomacy."

Dr. Bush: I think to the extent that people have observed the recent initiatives of Taiwan in the international arena, the response is probably quite positive. I personally feel that Taiwan may have hurt itself a little bit by having a somewhat more inflexible diplomatic position in the first part of this decade.