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**China-Taiwan: Recent Economic, Political and Military Developments  
Across the Strait and Implications for the United States**

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 10<sup>th</sup> 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.