

**Opening Statement of Syaru Shirley Lin  
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I want to thank the Commission and the staff for an opportunity to address the critical issue of China's relations with Taiwan and Hong Kong. Today, more than ever, the fates of Hong Kong and Taiwan are tied together and the gap between them and Beijing has never been wider. My comments will focus on the dilemmas that China poses for Taiwan and for Hong Kong and the implications for the United States.

Taiwan is caught in what I call the "high-income trap" with slower growth, stagnating wages, demographic decline, high youth unemployment and widening inequalities. These structural issues are hard to resolve for any high-income economies, and for Taiwan, they are further complicated by a debate over whether China presents a way out of the trap. Many Taiwanese believe that relying on China is a viable solution, given the size and potential of the market. But others worry that further expanding economic ties with China will compromise Taiwan's distinctive identity and values including democracy and freedom.

The previous Ma Ying-jeou government tried to stimulate growth by integrating Taiwan more closely with China. Yet over-dependence on China actually failed to produce higher growth and led to greater inequality and a serious political backlash. Since 2016, the Tsai Ing-wen administration has been trying to economically diversify away from China. Yet cross-strait interdependence has deepened, and trade and investment have continued to rise. Cross-strait investment has fallen, but not dramatically.

The dilemma is intensified as Beijing offers sweeter carrots and brandishes bigger sticks in order to increase support for unification. Incentives include allowing Taiwanese to live and work in China with the same treatment as Chinese citizens. In response, roughly half a million Taiwanese went to work in China last year, forming a brain drain. On the other hand, Beijing has used restrictions on tourism as a coercive tool since Tsai came into office, reducing Chinese tourists by an estimated 80% by the end of 2019. This is in addition to applying sharp power through friendly media and civil society organizations to influence Taiwanese domestic politics.

To reduce what she regards as excess reliance on China, President Tsai has initiated the New Southbound policy, which encourages Taiwanese trade and investment with 18 Australasian countries. This policy has shown positive early results with increased trade, inbound investments and people-to-people exchange. Taiwan's estimated growth of 2% this year will be the highest among high income economies in Asia and unemployment is at a 19-year low. Taipei's incentives to lure Taiwanese businesses back to Taiwan have also been more successful than expected. Such diversification policies have been assisted by the rising costs of manufacturing in China and the increased tariffs the United States has imposed on Chinese exports.

In four months, Taiwanese will choose between a populist Kuomintang candidate who sees China as the solution to Taiwan's high-income trap and a technocratic Democratic Progressive

Party incumbent who prioritizes diversification away from China to strengthen Taiwan. Many Taiwanese fear that re-electing President Tsai next year will be detrimental to relations with China and to Taiwan's economic prospects. Others believe that electing Han Kuo-yu will risk Taiwan's security and threaten Taiwanese identity.

Hong Kong faces a similar China dilemma, with important implications for Taiwan. As a resident of Hong Kong since 1992, I have seen the city's distinctive identity steadily being eroded. Although Hong Kong has thrived with China's economic rise, the city's high-income trap is worse than Taiwan's in terms of inequality and unaffordability. But like Taiwan's protests against deeper economic integration with China in 2014, the recent protests in Hong Kong are beyond economics and are focused on defending core values such as freedom and democracy. Effective solutions must provide ways for Hong Kongers to have a greater voice in the future of their city. It is an international financial center for China and the world, but most importantly, home to seven million people who have only a limited role in its governance.

In both places, surveys show that there is dwindling support for Beijing's preferred political outcomes. Moreover, the perceived parallels between Hong Kong and Taiwan are growing. Many Hong Kongers see democratic Taiwan as a model for their future. And many Taiwanese fear that they are doomed to resemble today's Hong Kong. The majority of Taiwanese have supported the protests in Hong Kong since they began in June. Beijing's insistence on reunification under One Country Two Systems has become completely unacceptable for Taiwanese. Half a million young Taiwanese will cast their ballots vote for the first time in 2020 and few identify themselves as exclusively "Chinese." Their votes could have a significant impact on the outcome of the election.

Finally, what does this mean for the United States? Taiwan is a litmus test of American ability to uphold free markets and democratic institutions against China's presentation of alternative systems. The United States should help Taiwanese defend the values of democracy and social justice that have become important parts of their identity, and help Taiwan overcome the challenges of the high-income trap so that China does not appear the sole solution. To that end, the United States must increase its appeal as a trade and investment partner for Taiwanese who may otherwise feel that they have no choice but to work more closely with China.

Hong Kong is also a canary in the coal mine. It suggests China's inability to accept diversity of values within its borders. The United States must continue to closely monitor the situation, as required by the Hong Kong Policy Act. But if any sanctions are applied, they should be carefully targeted so as not to add to the hardships already faced by ordinary Hong Kong people.

Finally, the United States must demonstrate the attractiveness of market economies and democratic institutions. Having taught in Charlottesville, Beijing, Hong Kong and Taipei, I believe that the United States should encourage more educational and professional exchanges with both Hong Kong and Taiwan, especially with the younger generations, to further this end.

In conclusion, Hong Kong's autonomy is being diluted every day, and Taiwan's democracy is threatened not only by its own shortcomings but also by Chinese efforts to undermine it. How well the United States responds to the challenges facing Taiwan and Hong Kong will be an indicator of America's commitment to exercise leadership in defending shared values.