

**RECENT DEVELOPMENTS IN CHINA'S RELATIONS WITH TAIWAN  
AND NORTH KOREA**

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**HEARING**  
BEFORE THE  
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

**ONE HUNDRED THIRTEENTH CONGRESS  
SECOND SESSION**

THURSDAY, JUNE 05, 2014

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**UNITED STATES-CHINA ECONOMIC AND SECURITY REVIEW  
COMMISSION**

WASHINGTON: 2014

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

The Commission’s full charter is available at [www.uscc.gov](http://www.uscc.gov).

October 21, 2014

The Honorable Patrick J. Leahy  
President Pro Tempore of the Senate, Washington, D.C. 20510  
The Honorable John A. Boehner  
Speaker of the House of Representatives, Washington, D.C. 20515

DEAR SENATOR LEAHY AND SPEAKER BOEHNER:

We are pleased to notify you of the Commission's June 05, 2014 public hearing on "Recent Developments in China's Relations with Taiwan and North Korea." The Floyd D. Spence National Defense Authorization Act (amended by Pub. L. No. 109-108, section 635(a)) provides the basis for this hearing.

At the hearing, the Commissioners received testimony from the following witnesses: Ms. JoAnn Fan, Visiting Fellow, Center for East Asia Policy Studies, Brookings Institution; Mr. Rupert Hammond-Chambers, President, U.S.-Taiwan Business Council; Dr. Vincent Wei-cheng Wang, Professor of Political Science and Associate Dean, School of Arts and Sciences; Mr. William Murray, Associate Research Professor, U.S. Naval War College; Mr. Ian Easton, Research Fellow, The Project 2049 Institute; Mr. David Firestein, Perot Fellow and Vice President for the Strategic Trust-Building Initiative and Track 2 Diplomacy, EastWest Institute; Ms. Stephanie Kleine-Ahlbrandt, Director of Asia-Pacific Programs, U.S. Institute of Peace; Dr. Sue Mi Terry, Senior Research Scholar, Weatherhead East Asian Institute, Columbia University; and Ambassador Joseph DeTrani, President, Intelligence and National Security Alliance. The hearing examined economic, political, and security developments in cross-Strait and China-North Korea relations. It also assessed the opportunities and risks arising from closer cross-Strait economic integration for Taiwan and the United States, and examined Taiwan's ability to defend against military coercion by China. The hearing also addressed whether China's views and policies toward North Korea have changed in recent years and the implications for U.S. security interests.

We note that prepared statements for the hearing, the hearing transcript, and supporting documents submitted by the witnesses are available on the Commission's website at [www.USCC.gov](http://www.USCC.gov). Members and the staff of the Commission are available to provide more detailed briefings. We hope these materials will be helpful to the Congress as it continues its assessment of U.S.-China relations and their impact on U.S. security.

The Commission will examine in greater depth these issues, and the other issues enumerated in its statutory mandate, in its 2014 Annual Report that will be submitted to Congress in November 2014. Should you have any questions regarding this hearing or any other issue related to China, please do not hesitate to have your staff contact our Congressional Liaison, Reed Eckhold, at (202) 624-1496 or via email at [reckhold@uscc.gov](mailto:reckhold@uscc.gov).

Sincerely yours,



Hon. Dennis C. Shea  
Chairman



Hon. William A. Reinsch  
Vice Chairman

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# RECENT DEVELOPMENTS IN CHINA'S RELATIONS WITH TAIWAN AND NORTH KOREA

THURSDAY, JUNE 05, 2014

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

*Washington, D.C.*

The Commission met in Room 608 of Dirksen Senate Office Building, Washington, DC at 8:45a.m., Commissioners Katherine C. Tobin, Ph.D. and Daniel M. Slane (Hearing Co-Chairs), presiding.

## OPENING STATEMENT OF COMMISSIONER KATHERINE C. TOBIN, PH.D. HEARING CO-CHAIR

HEARING CO-CHAIR TOBIN: Good morning, everyone, and good morning to those online, as well. On behalf of my fellow Commissioners, I'd like to welcome you to the final hearing of the U.S.-China Economic and Security Review Commission's 2014 report cycle.

Today's hearing will examine recent economic, political and security developments in cross-Strait and China-North Korea relations.

We'll begin by taking a look at economic and political issues in cross-Strait relations. Among other topics, the first panel will discuss the opportunities and the risks of closer cross-Strait economic integration for both Taiwan and the United States.

The second panel will focus on cross-Strait military and security issues and will examine Taiwan's ability to defend against kinetic and non-kinetic military coercion by China, as well as other topics regarding the Taiwan-China-United States security relationship.

After our lunch break, we'll turn to China-North Korea relations, and that, the third panel, will conclude the hearing with a discussion on whether China's views and its policies toward North Korea have changed in recent years and the implications for the United States' security interests.

The Commission would like to thank the Senate Budget Committee, Chairwoman Patty Murray, and the Committee staff for securing this room for us today.

Now, for the introduction of our guest witnesses, Commissioner Slane.

**PREPARED STATEMENT OF COMMISSIONER KATHERINE C. TOBIN, PH.D.  
HEARING CO-CHAIR**

COMMISSIONER TOBIN: Opening Statement

June 5, 2014

Hearing: "Recent Developments in China's Relations with Taiwan and North Korea"

COMMISSIONER TOBIN: Good morning, everyone. On behalf of my fellow commissioners I would like to welcome you to the final hearing of the U.S.-China Economic and Security Review Commission's 2014 Annual Report cycle. This hearing will examine recent economic, political, and security developments in cross-Strait and China-North Korea relations.

We'll begin by taking a look at economic and political issues in cross-Strait relations. Among other topics, the first panel will discuss the opportunities and risks of closer cross-Strait economic integration for Taiwan and the United States.

The second panel will focus on cross-Strait military and security issues. It will examine Taiwan's ability to defend against kinetic and nonkinetic military coercion by China as well as other topics regarding the Taiwan-China-United States security relationship.

After our lunch break, we'll turn to China-North Korea relations. The third panel will conclude this hearing with a discussion of whether China's views and policies toward North Korea have changed in recent years and the implications for U.S. security interests.

Before we introduce our guests for the first panel, the Commission would like to thank the Senate Budget Committee, Chairwoman Patty Murray, and the Committee staff for securing this room for us today.

**PANEL I INTRODUCTION BY COMMISSIONER DANIEL M. SLANE**

HEARING CO-CHAIR SLANE: Thank you.

We are honored to have a distinguished group of panelists today, and let me introduce our witnesses.

Mr. Rupert Hammond-Chambers is the president of the U.S.-Taiwan Business Council, a position he has held since 2000. He has worked to develop the Council's role as a strategic partner to its members with the continuing goal of positioning the Council as a leader in empowering American companies in Asia.

Dr. Vincent Wei-cheng Wang is a professor of political science and an associate dean in the School of Arts and Sciences at the University of Richmond. He is the author of over 70 scholarly articles and book chapters on a range of topics, including Taiwan's foreign policy and domestic politics and cross-Strait relations.

Thank you, gentlemen, for joining us, and we'll start with Mr. Rupert Hammond-Chambers.

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

MR. HAMMOND-CHAMBERS: Thank you very much, indeed. I wish to thank the Commission for inviting me back to address you today and for taking the time and effort to focus in on the Taiwan relationship, a relationship many of us feel very strongly about, and looking at some of the Commissioners I know and some I've had the privilege of meeting today, that Taiwan is an important issue for this Commission as well.

I believe that Taiwan is an integral part of the U.S.'s role in the Asia-Pacific region. We have a longstanding legacy relationship with Taiwan that stands many, many decades, and we have strategic reasons for continuing to support Taiwan as an economic partner, as a strategic and military partner. Our national security in the Asia-Pacific Region, in my view, is inextricably intertwined in Taiwan's future fortunes. I want to thank the Commission for recognizing that and for focusing in on it.

Recognizing that we just have a brief amount of time, I want to just quickly focus on where I see the economic picture at the moment vis-a-vis Taiwan and our relationship with Taiwan, and then touch quickly on one important arms sales matter that relates to the U.S.-Taiwan Business Council.

Taiwan is at a crossroads right now economically. There is much to look at Taiwan and to welcome. If you look at its semiconductor industry, for example, as a global leader, a company like Taiwan Semiconductor is one of perhaps three or four companies in the world that has a future capable of continuing to exercise Moore's law and invest in future relationships and future technology. That's the bright side of Taiwan's future.

The tougher environment that Taiwan exists in relates to its precarious sovereignty. Taiwan is unable to engage in bilateral and multilateral trade relationships. In entities such as the Trans-Pacific Partnership, sovereignty gets in the way as a consequence of its sclerotic relationship with the Chinese, and that's a challenge that it's going to continue to face, and it's made that much more hard in the absence of really robust support from the United States.

President Ma was elected in 2008 as a response, or reaction, if you will, to the difficulties that the Chen government at that time had in its relationship with the U.S., some fair, some unfair, in my view, and equally with the Chinese, some fair and some unfair.

Ma came in with a policy of economic reconciliation, to build a consensus with the Chinese around moving the relationship forward around what many described as sort of low-hanging economic fruit, with an idea that that would build a degree of trust for the relationship that would allow then for thornier issues that might relate to political and military issues.

What we've had is relatively significant success in the economic area. However, what we haven't had, and what President Ma talked about when he launched these policies, was China first, and then as that relationship matured and progressed in a positive direction, that that would open the door for opportunities with other countries.

So we've had China first, and it's certainly made significant progress. We're in a period of really unprecedented peace and security in the Taiwan Strait, but what we haven't had is the kind of door opening that Taiwan needs in other areas in its relationships with other major trading partners.

Taiwan has signed recently FTAs with Singapore and New Zealand, but really I'm talking about a role for it in the Trans-Pacific Partnership, a role for it in FTAs with countries like India, Australia, Indonesia, and--it's just my own opinion--hopefully at a point in time where the U.S. can get back to bilateral trade agreements, one with the U.S. as well.

So what can the United States do? Well, we're in a position at the moment to help Taiwan chart a path forward in respect to its economic relationship with us and with

the region. The U.S.-Taiwan Business Council believes that Taiwan, as soon as is possible, should engage with the U.S. in a bilateral investment agreement as a bridge to the Trans-Pacific Partnership.

At the moment, we are dealing with some parochial issues related to pork, related to pharmaceuticals and private equity, but we're working through those issues. But we hope very much that the relationship economically will not return to some of the issues that we had, for example, over beef where the entire trade relationship was brought to a grinding halt for five plus years and at the expense of the much broader trade relationship over a narrow economic issue.

So we hope that this summer that the administration, Mr. Obama and his colleagues, will be able to step forward and to announce that they have reached consensus with Taiwan on launching a BIA, and that we hope that over the next 12 to 18 months, that negotiation can take place, and that then would position Taiwan as a credible second-round TPP member.

I just want to pivot my last 90 seconds to touch on arms sales for a second. We are, at the moment, in the longest period since the switch in recognition in 1979, since the U.S. has sold arms to Taiwan. This is an unprecedented moment in the arms sales relationship. As the U.S.-Taiwan Business Council has traditionally had a leadership role in the process and politics of selling weapons to Taiwan--you'll hear in your next panel the threat from some very smart and capable presenters--our job is to represent the companies, but we also play a leadership role in pushing the process forward.

What we see at the moment is that the Obama administration has only accepted a single letter of request since January 2009 for significant military equipment. That is an arms sale of greater than \$50 million that requires notification to Congress, and that was in the fall of 2009 for the F-16A/B upgrade program, which was notified in 2011, quite frankly in very challenging political circumstances in a standoff between Senator Cornyn and the Obama administration, that also involved the unsatisfied issue of the F-16C/Ds, the requirement that Taiwan still has for new equipment.

This may sound a tired issue for many, but we believe very strongly that what's happening right now is in the absence of an ongoing process in which Taiwan's force modernization, not just parts of it that don't involve arms sales, but arms sales, too, when you take a significant timeout on that process, the Chinese bank that as the new status quo, and it becomes that much more difficult to restart that process, not just in the face of Chinese opposition but also in the sense of Taiwan's budgetary ability to then play catch-up.

Thank you very much.

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

# Recent Developments in China's Relations with Taiwan and North Korea

## Panel I: Cross-Strait Economic and Political Issues

Testimony before the U.S.-China Economic and Security Review Commission

June 5, 2014

608 Dirksen Senate Office Building Washington, D.C. 20002

Rupert J. Hammond-Chambers President  
US-Taiwan Business Council

### Taiwan: Cross-Strait Economic & Political Issues

The global financial crisis of 2008 and subsequent recession hit Taiwan's economy hard, and it has struggled since to fully recover. Taiwan faces relatively low unemployment, but wage growth is flat, upward mobility is difficult, and sky-high property prices keep young adults living at home. Taiwan's citizens are confronting many of the same social challenges that their counterparts in Europe and the U.S. are also dealing with. In Taiwan, however, the recession and subsequent weak global rebound has also been coupled with a continued growth in the overall trade imbalance with and economic reliance on China.

It has now been six years since Ma Ying-jeou was elected President of Taiwan. Upon taking office, President Ma was committed to addressing that trade imbalance in Taiwan's relationship with China. He made some dramatic moves in his first two years; normalizing cross-Strait flights, opening up tourism, and launching the Economic Cooperation Framework Agreement (ECFA) with China in 2010.

Throughout this process, President Ma has sought to institutionalize a degree of stability in cross-Strait relations by normalizing commercial and cultural relations, doing so in a way that future governments of Taiwan would find difficult – and even undesirable – to roll back. He has sought to engage with China in order to reduce tensions, buy Taiwan an open-ended period of time in its cross-Strait dealings, and to attempt to provide the citizens of Taiwan with commercial opportunities in China. For China, on the other hand, the objective of this policy course is unification – to draw Taiwan into the full embrace of the PRC – an outcome rejected by greater than 80% of the people of Taiwan.

The Ma government and its Beijing interlocutors have made progress on cultural relations, and yet the main driver over the past several years has been a series of commercial agreements designed to normalize and liberalize cross-Strait trade and commerce. These agreements originally met little resistance in Taiwan due to the way they were structured, which weighted their economic benefits toward Taiwan.

Taiwan's most recent agreement with China – the Cross-Strait Service Trade Agreement (CSSTA) – was signed in the summer of 2013. The CSSTA is a fully comprehensive agreement designed to liberalize the service sector, agreeing to open 80 sectors in China and 64 in Taiwan to competition from across the Taiwan Strait. The service sectors covered by the agreement include banking, telecommunications, construction, healthcare, tourism, transportation, finance, and entertainment. The agreement again appears structured to favor the Taiwan side, and yet the feeling in Taiwan is that without a clear trade-transition package in place, the agreement will hurt smaller industries – such as travel, transportation, and printing – in Taiwan.

The signing of the CSSTA appeared to catalyze the deep angst in Taiwan, particularly among the young, over their future commercial and political fortunes – both of which seem inexorably intertwined with China's insatiable territorial ambitions. In the spring of 2014, this angst galvanized into what is known as the “Sunflower Movement,” and resulted in a 3-week occupation of the legislature and a mass-protest with over a hundred thousand Taiwan citizens demonstrating against the agreement. This display was more organic than simple political opportunism, as some have argued. The genesis of the pushback on the CSSTA – and of the broader concern over the trajectory of the cross-Strait relationship – is the seeming absence of any policies that keep Taiwan's non-China relationships, particularly the U.S. and Japan, equally as well positioned as commercial partners for Taiwan.

While President Ma has sought to institutionalize cross-Strait stability, those policies now run the risk of instead creating ongoing instability if Taiwan remains unable to similarly engage with its other major trading partners. If the concerns raised by large constituencies on the island are marginalized and/or ignored, that instability could radicalize Taiwan politics and will leave civil unrest and political violence as options for the two major political parties.

### *Forging an Economic Consensus on the Island*

Taiwan is primarily an export-driven economy, but the debate over free trade remains active in Taiwan due to significant differences in attitudes toward wealth and its creation. Both the Kuomintang (KMT) and the Democratic Progressive Party (DPP) are vocal supporters of Taiwan's bid to join the Trans Pacific Partnership (TPP), and support the reforms required to prepare Taiwan for accession to the TPP. The two parties disagree on the best way to get there, however, and that is where complications arise.

President Ma's global trade strategy sequences engagement with China as the precursor to a more active and meaningful role for Taiwan in regional bilateral and multilateral trade agreements. The underlying thesis appears sound; beginning with China and then moving on to the rest of the world helps mitigate against potential Beijing objections, based on their sovereignty claims, to expanded Taiwan participation in the global trading system.

Nevertheless, a major issue with President Ma's "China first" trade policy is how it increases the disquiet and grows the divide between the two major political parties, as the policy directly contradicts the commitment on the part of the DPP to chart a more autonomous path forward for Taiwan. In addition, while the deals signed with China so far appear to have been broadly beneficial to Taiwan, they also increase the island's economic dependence on the mainland.

Moreover, they fit neatly with China's stated intent of using economic engagement as a tool to promote political unification.

Despite the early successes for President Ma, his Taiwan-China trade policy agenda has now been all but halted, stalled as part of the debate concerning the CSSTA – as well as more broadly due to the absence of a formal mechanism to assess the efficacy of cross-Strait trade agreements prior to ratification. The KMT had planned to move the CSSTA through the Legislative Yuan this past spring, but that effort ran into a wall of popular protests, along with DPP legislative objections over the way the agreement had been negotiated and the extent to which the winners and losers of the agreement had been adequately identified. The hold-up has also negatively impacted a proposed merchandise trade agreement, which along with the services trade pact was to be signed this year as a follow-up to the ECFA.

President Ma and his allies in the KMT are likely to attempt to consummate a legislative agreement with the DPP that handles present and future China agreements – a version of fast-track authority dedicated to China-specific legislation. Such an agreement will help in addressing the ratification of trade agreements, but it will not address the underlying concerns that many in Taiwan have over the tilt toward China that has taken place since President Ma took office in 2008. Addressing those concerns will come only through an equally robust non-China foreign and economic policy that includes major Free Trade Agreements with countries like Australia, Indonesia, and India, as well as membership in multilateral agreements such as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

In 2013, President Ma tapped former Vice President Vincent Siew to assemble and lead a committee of industry leaders, NGO heads, and former government officials to focus on constructing greater economic consensus on the island. As part of his efforts, in November 2013 Vice President Siew also led a delegation of senior Taiwan industry leaders to the United States, hoping to re-energize discussions about bilateral investment. This trip was a major success, and was broadly celebrated in both the U.S. and Taiwan as an excellent first step in improving commercial ties – which could help counteract Taiwan's growing reliance on China.

As for a broader consensus on economic matters, that is likely to remain as divisive a debate in Taiwan as it is in any other major liberal democracy.

#### Risk of U.S. Misunderstanding of the Pan-Green Alliance

Taiwan's public angst over the services agreement, on stark display in the spring of 2014, is not partisan puppeteering as some have argued. Instead, it is a reflection of far deeper and broader concerns over the apparent growing imbalance in Taiwan's external relations toward China, an imbalance that is reflected both in the myriad cross-Strait agreements, as well as in statistics such as changes in overall trade flows.<sup>1</sup>

If the United States misunderstands the organic nature and source of Taiwan's growing disquiet, it will be ill equipped to properly understand the changes in Taiwan and how best to handle the priorities of future Taiwan governments.

Irrespective of which party wins the January 2016 presidential election, the presidential candidates will likely spend considerable energy arguing how to provide more balance in Taiwan's external relations. The incoming president will have less flexibility in dealings with China, and will be under more pressure to extend Taiwan's global reach.

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<sup>1</sup> See *Chart: Taiwan Trade with the U.S. and China, 1999-2013* and *Table: U.S.-Taiwan Trade, 1999-2013*

China is very different today than during the Chen Shui-bian era, when it leaned on the U.S. in an attempt to influence Chen's behavior. Now we face a China far more willing to throw its weight around both in the region and globally. If the U.S. mistakenly believes that the inability of a sitting Taiwan president to move more decisively toward Beijing's interests is a result of pan-Green partisanship – rather than due to broader concerns within Taiwan's society – then it will find itself both surprised and with limited maneuvering room.

#### The Importance of the Energy Sector

Taiwan's economy has thrived over the past several decades on the back of entrepreneurialism and hard work, and its greatest natural resource remains its people. Without enough domestic sources to meet its needs, Taiwan must import almost 98% of its energy - including fuel for its four nuclear power plants, liquid natural gas, oil, and coal.

In the post-Fukushima era, the Taiwan government has committed itself to moving away from nuclear power. However, the Lungmen Nuclear Power Plant has just been completed at a cost of almost US\$10 billion, and the demands imposed on the energy grid by Taiwan's continued growth require that the plant begin operations soon – particularly given the schedule for closing Taiwan's three other plants in the coming decade. Domestic opposition to such an outcome is strong, but not insurmountable. That said, however, the new plant may never be turned on.

Taiwan made a significant error when it chose to impose state control over its energy supplies, and the state now controls the principal energy purchaser in CPC Corporation, Taiwan<sup>2</sup> and the principal energy distributor in Taiwan Power Company (Taipower). The state subsidizes energy consumption at both the commercial and consumer level, and the resulting debt has been placed primarily on Taipower's books; its high debt to equity ratio means that the company is already bankrupt in all but name. If the Lungmen plant never begins operations, capex spending for the plant will be added to Taipower's already substantial accumulated liabilities of US\$45 billion<sup>3</sup> – throwing the utility into crisis, and presenting the Taiwan government with a bill of close to US\$55 billion.

Taiwan faces a tremendous challenge on energy, as there appears to be no strategic plan to address the island's long-term energy needs. It becomes a social issue that could potentially impact the welfare of the Taiwan populace, as well as a tremendous commercial issue that could negatively affect some of Taiwan's leading industries – such as semiconductors.

Energy is also a security concern, given the threat that China poses to Taiwan's sovereignty. In the absence of any meaningful strategic reserves, a blockade of Taiwan would leave the island with less than two weeks of viable energy production.

There are ways that may allow Taiwan to better address its energy needs. Taiwan has an overall requirement to become more involved in global organizations that provide the island with access to information and relationships that can help it properly address the needs of its people. Excellent examples of such involvement are Taiwan's observer status at the United Nations World Health Organization (WHO) and its participation in the International Civil Aviation Organization (ICAO). Taiwan's energy security is every bit as important, and participation in international organizations dedicated to energy issues could be an important step forward. Such participation includes:

Observer status at the International Atomic Energy Agency (IAEA), which would be consistent with Taiwan's WHO status

Membership in the International Energy Agency (IEA)

Membership in the World Energy Council (WEC)

There may be additional organizations that Taiwan would also benefit from joining, and that would benefit from having Taiwan as a member.

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<sup>2</sup> The government plans for CPC to be privatized by 2017, with over 55% of ownership in private hands. Nevertheless, the state will likely remain the largest shareholder, and therefore the main player in the company.

<sup>3</sup> Liao, Hwei-chu and Sih Ting Jhou, "Taiwan's Severe Energy Security Challenges," The Brookings Institution, September 2013.

Given the crucial role that Congress plays on these issues, I would counsel active and vocal Congressional support for Taiwan's inclusion in several energy based organizations. The House Committee on Energy & Commerce and the Senate Committee on Energy & Natural Resources would have important insights into how to elevate Taiwan's access to energy technology, and to ensure better integration into the world's energy infrastructure.

#### Impact of Taiwan-China Agreements on Taiwan & U.S. Companies

The Economic Cooperation Framework Agreement (ECFA), signed between Taiwan and China in 2010, included provisions for a so-called "early harvest" list, reducing tariffs on specific goods on a three-year set schedule.<sup>4</sup> The early harvest agreement was intended to help Taiwan compete in the Chinese market against ASEAN-made products, to provide market opportunities for Taiwan companies, and to help increase their market share.

In 2012, the Budget Center of the Legislative Yuan (LY) released a report that seemed to indicate that Taiwan was not seeing the types of benefits that had been promised as a result of the ECFA early harvest, but rather that China was primarily reaping the dividends of the agreement. The report stated that market share for Taiwan's early harvest products had shrunk for five consecutive years, despite the ECFA.<sup>5</sup> According to an investigation by Commonwealth Magazine in the spring of 2014, early indications had been that growth of exports from products on the early harvest list had outpaced the overall growth of exports from Taiwan to China during the designated period. However, while sales had increased, market share for those products had declined. In addition, the investigation found that some changes associated with the early harvest list had severe unintended consequences for certain products, such as the stainless steel industry dealing with alleged Chinese dumping, and small/medium agriculture and aquaculture companies suffering due to increased competition from larger, China-backed companies and middlemen.<sup>6</sup>

The United States has welcomed the reduction of cross-Strait tensions and has been supportive of increased dialogue between Taiwan and China on economic matters. An increase in political stability, along with the ability to travel directly between Taiwan and China, has been broadly beneficial. In July 2010, then Deputy Assistant Secretary of State David Shear said that "if ECFA is to be a truly successful arrangement, firms from the United States and other countries must also be able to benefit,"<sup>7</sup> and yet it is not clear how – or even if – cross-Strait agreements such as ECFA have been beneficial to U.S. and other foreign firms in Taiwan.

In its 2014 Business Climate Survey report, the American Chamber of Commerce in Taipei (AmCham) indicated that its corporate members continue to be broadly satisfied with the ECFA, even though the positive sentiment has decreased over the past few years. According to the 2014 survey respondents, 44% saw a positive or very positive effect of the ECFA on their business. A further 41% reported a neither positive nor negative effect, 6% saw some or a very negative effect, and 9% did not know or could not say. It is interesting to note that in 2011, the corresponding numbers were 57% positive, 27% neutral, 9% negative and 8% unknown.<sup>8</sup>

Transportation is one sector where U.S. and other foreign businesses in Taiwan appear to be at a disadvantage despite the economic liberalization. Cross-Strait flights are the domain of Taiwan and Chinese airlines, with U.S. and other foreign airlines on the sidelines. Direct shipping links have also been closed to foreign carriers.

#### Taiwan Arms Sales

The US-Taiwan Business Council is the leading non-government organization advocating on behalf of U.S.-Taiwan

<sup>4</sup> See *Table: ECFA "Early Harvest" Products & Industries Affected*, and *Table: ECFA "Early Harvest" Tariff Reduction Schedules*

<sup>5</sup> Lee Yu-hsin and Stacy Hsu, "ECFA benefits mostly China: report," Taipei Times, October 2, 2012.

<sup>6</sup> Chang, Hsiang-Yi, "Demystifying ECFA: The Early Harvest List, 3 Years On," Commonwealth Magazine, May 2, 2014 (No.546). [english.cw.com.tw/article.do?action=show&id=14757](http://english.cw.com.tw/article.do?action=show&id=14757)

<sup>7</sup> Shear, David B., "Cross-Strait Relations in a New Era of Negotiation," Remarks at the Carnegie Endowment for International Peace, July 7, 2010.

<sup>8</sup> American Chamber of Commerce in Taipei, "2014 Business Climate Survey," January 9, 2014. [www.amcham.com.tw/publications/bcs](http://www.amcham.com.tw/publications/bcs)

arms sales. We have played a key role in promoting what became the large arms sales packages of 2008, 2010 and 2011, and believe that ongoing arms sales are of tremendous importance to the defense and security needs of both Taiwan and the United States.

The U.S. has expressed its concerns that Taiwan under President Ma has not given sufficient priority to investing in defense, and has urged Taiwan to increase its defense budget to a level where it adequately reflects the extent of its security challenges. This has been a U.S. concern, as Taiwan cut its defense budget in 2009, 2010, and 2011 until a small increase in 2012. The 2013 budget was again reduced, as was Taiwan's 2014 defense budget. The 2014 budget corresponds to approximately 2.0% of GDP – a far cry from the campaign promise made by President Ma to maintain defense spending at 3% of GDP.

Yet since President Obama took office in January 2009, his government has accepted only one Letter of Request (LOR) from Taiwan for Significant Military Equipment (SME).<sup>9</sup> This is an unprecedented period since the switch in recognition in 1979. We are now in the longest period since 1979 in which the U.S. has not sold weapons to Taiwan, and there is little prospect of any new arms sales in the coming 12-18 months.

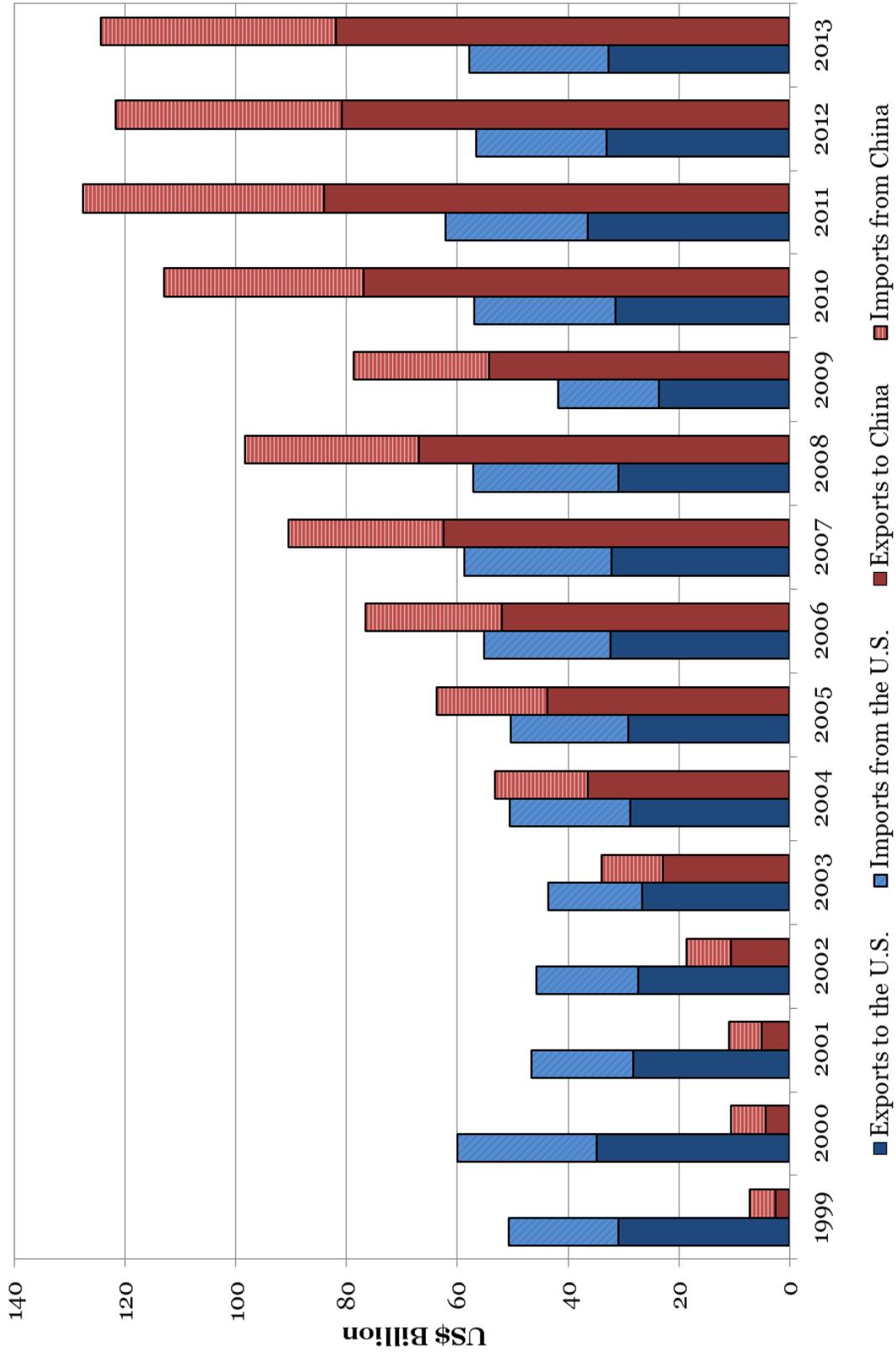
Taiwan is apparently under instruction not to submit any new LORs unless it is the “right time” to do so, which – of course – it never is. Not receiving any new LORs gives the administration the ability to truthfully state that there are no sales under consideration. By keeping programs out of the system, it ensures that Congress cannot identify programs to support and thereby make demands that they be notified. This strategy ensures that in the absence of arms sales, the

U.S. government does not have to deal with any resulting tantrums by China. The administration has apparently made the false choice between U.S.-China military-to-military relations, and selling weapons to Taiwan.

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<sup>9</sup> SME refers to a program worth over US\$50 million, and therefore required to be notified to Congress.

## Taiwan Trade with the U.S. and China, 1999-2013



Source: Taiwan Bureau of Foreign Trade (BOFT)

Table: U.S.-Taiwan Trade, 1999-2013

Year	Imports from Taiwan	Exports to Taiwan	Trade Balance
1999	35,204	19,131	-16,073
2000	40,503	24,406	-16,097
2001	33,374	18,122	-15,253
2002	32,148	18,382	-13,766
2003	31,599	17,448	-14,152
2004	34,624	21,585	-13,038
2005	34,826	21,614	-13,211
2006	38,212	22,709	-15,502
2007	38,278	25,829	-12,449
2008	36,326	24,926	-11,400
2009	28,362	18,486	-9,877
2010	35,847	26,050	-9,797
2011	41,406	25,885	-15,520
2012	38,858	24,349	-14,509
2013	37,931	25,639	-12,292

Source: U.S. Census Bureau, Foreign Trade. "U.S. trade in goods Figures in US\$ million on a nominal basis, not seasonally adjusted. [www.census.gov/foreign-trade/balance/c5830.html](http://www.census.gov/foreign-trade/balance/c5830.html)

Table: ECFA "Early Harvest" Products &amp; Industries Affected

Industry	Number of Products Included	
	<i>In China</i>	<i>In Taiwan</i>
Petrochemicals	88	42
Textiles	136	22
Machinery	107	69
Transportation Equipment	50	17
Other	140	117
Agriculture	18	n/a
Total	539	267

Table: ECFA "Early Harvest" Tariff Reduction Schedules  
China's Planned Tariff Reduction Schedule

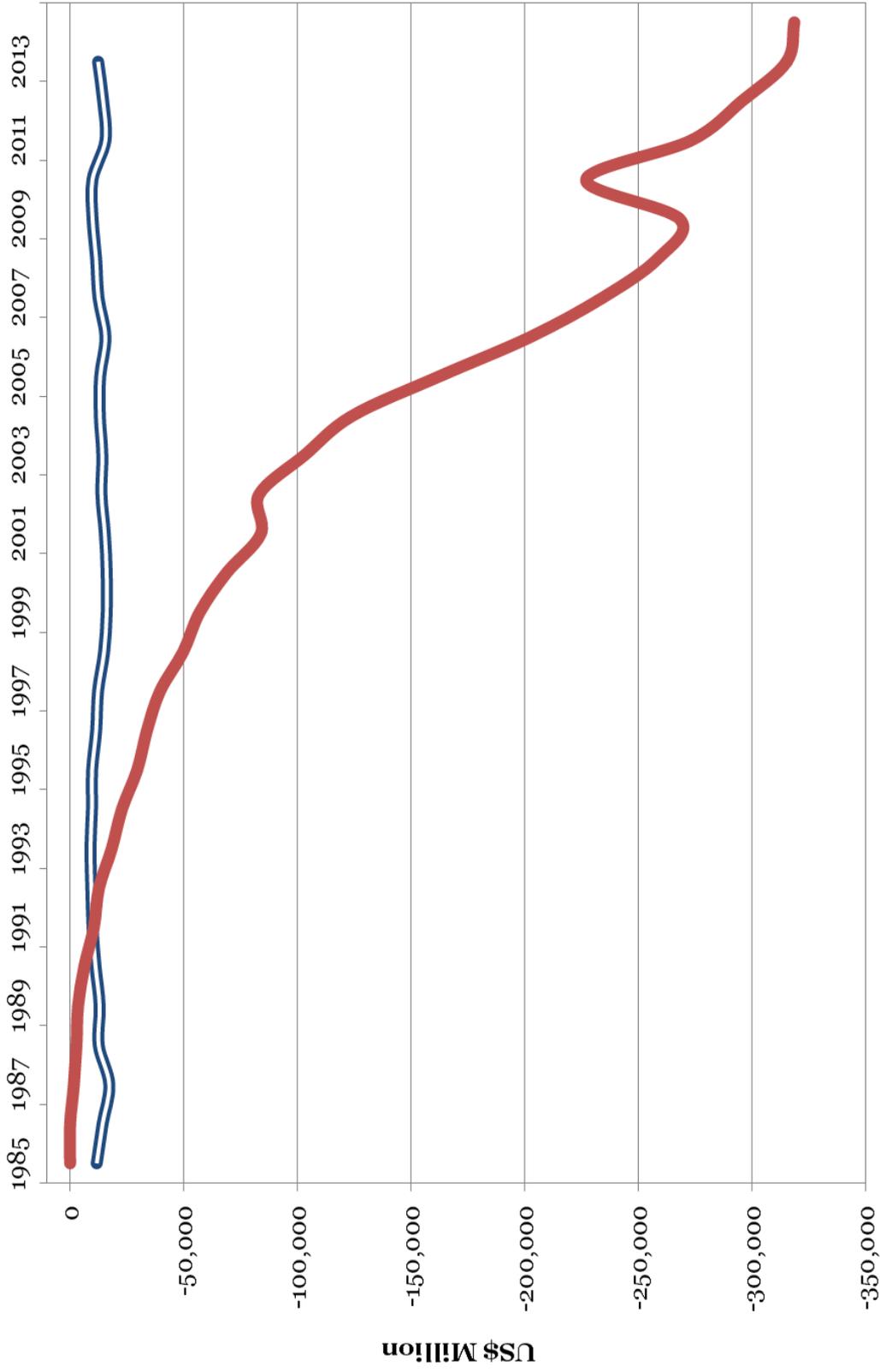
Original	Year 1 (January 2011)	Year 2 (January 2012)	Year 3 (January 2013)
0%	0%		
5%	5%	0%	
15%	10%	5%	0%

Taiwan's Planned Tariff Reduction Schedule

Original	Year 1 (January 2011)	Year 2 (January 2012)	Year 3 (January 2013)
0%	0%		
2.5%	2.50%	0%	
7.5%	5%	2.50%	0%

Source for ECFA Tables: Mainland Affairs Council & Industrial Development Bureau, MOEA. "Early Harvest List for Trade in Goods and Tariff Reduction Arrangements." [www.mac.gov.tw/ct.asp?xItem=85849&ctNode=6256&mp=3](http://www.mac.gov.tw/ct.asp?xItem=85849&ctNode=6256&mp=3)

## U.S. Trade Balance with Taiwan & China



Source: U.S. Census Bureau

**OPENING STATEMENT OF DR. VINCENT WEI-CHENG WANG  
PROFESSOR OF POLITICAL SCIENCE AND ASSOCIATE DEAN, SCHOOL OF ARTS AND  
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HEARING CO-CHAIR SLANE: Dr. Wang.

DR. WANG: Good morning. Thank you to the Commissioners for organizing this very important and timely hearing, and thank you for inviting me to testify.

My remarks this morning will focus on the risks, opportunities and implications of closer cross-Strait economic integration. I'll also try to assess the prospects of the next steps in cross-Strait relations.

I want to draw our attention to 1987 because that was a key year when President Chiang Ching-kuo of Taiwan lifted the ban on Taiwan citizens to visit the mainland. Before that there was virtually no trade between the two sides of the Taiwan Strait because that trade was actually illegal. But now 27 years later, that trickle has turned into a flood.

Last year, 2013, according to statistics, China-Taiwan trade skyrocketed to \$126.1 billion. China took in 27.1 percent of Taiwan's exports, and if you add Hong Kong, the Chinese market actually absorbed 40.3 percent of Taiwan's exports.

China is Taiwan's largest trading partner, and, in fact, is emerging quite fast as the second-largest import source as well. So pretty soon, China will be the number one export destination and import source for Taiwan.

By contrast, the United States, as recently as 1985, was the largest trading partner to Taiwan, and we absorbed 40 percent of Taiwan's exports. So time has changed. And I want to make one point. The upshot is that if we believe that trade is a very good proxy for good relationship, then in the 1970s and '80s, Taiwan was firmly in the U.S. camp. Taiwan had an export-led development strategy, which contributed to its development of its high-tech industries that Rupert talked about, and Taiwan was closely aligned with the U.S. geostrategic priorities in the Pacific.

But now, of course, China is emerging and has replaced the U.S. as Taiwan's largest trading partner. The U.S. has not done very much in this regard in the last 20 years.

Of course, Taiwan is not alone because China is emerging as number one trading partner for a lot of countries, including many of America's traditional Asian allies and friends like Japan, Korea, Thailand, Australia, and even India.

So I think in this regard, it's important to see the Obama administration's pivot to Asia, particularly a Trans-Pacific Partnership, as an attempt to compensate for some of the lost ground.

Trade with China obviously entails both opportunities and risks for Taiwan, because even though China is the number one trading partner for many countries, China has sovereignty claim over only one country -- Taiwan. So this entails a dilemma for Taiwan.

Cross-Strait relations entered an historic period since 2008 because President Ma Ying-jeou actually made it a cornerstone of his policy to improve cross-Strait relations. He approved the air links and approved the visit of mainland tourists and so on, and the two semi-official bodies, Straits Exchange Foundation and Association for Relations Across the Taiwan Strait, quickly restored their working relationship, and so far they have signed 21 agreements.

Ma has adopted a basic strategy called "First the Urgent, Then the less Urgent; First the Easy, Then the Difficult; First Economics, and Then Politics," basically a very pragmatic and sequential approach. This approach seems to have worked well until it hit a wall this March when the students occupied the legislature in a movement later known as the Sunflower Movement.

In 2010, the two sides signed the historic ECFA, the Economic Cooperation Framework Agreement. That was supposed to follow up with additional agreements in service trade, merchandise trade, dispute settlement and investment protection.

But the Sunflower Movement in many ways caught a lot of people by surprise--the

KMT, the CCP, and I would argue even the United States. In a way, it's a reaction against that kind of approach, namely a vision that began with a consensus between the two ruling parties across the Taiwan Strait, KMT and the CCP, negotiated through semi-official bodies and put to legislature with some kind of a pro forma ratification without too much public input.

So I would say that it shouldn't be a total surprise, and I would even argue that the United States unfortunately has also contributed to this because our policy has been following what I will call a "liberal assumption," basically a commercial peace thesis, which basically says that trade will lead to peace.

So as long as the two sides of the Taiwan Strait continue trading with each other, then they will be fine, and we have officially encouraged the two sides to do precisely that.

In the time remaining, I would just say that I would envision that given the Sunflower Movement, the next stage of cross-Strait additional agreements tend to be more difficult. I would predict that the cross-Strait relations enter a period of slowing down and maybe caution and patience. How much the mainland can afford to be patient remains to be seen.

I have a few recommendations for this Commission. As I mentioned before, cross-Strait relations have entered uncharted waters. For the last 35 years--I'm talking about 1979 when the United States switched diplomatic relations to the PRC and Congress enacted the Taiwan Relations Act, previously our operational concern was primarily to prevent the PRC from using force to accomplish unification, but now we have a different concern, which was barely unthinkable a few years ago: that is to say what if Taiwan willingly joined China, should anybody care; what if Taiwan is economically absorbed by China, what will be our response?

Although the U.S. role was clear before, the U.S. role is not so clear today. So my recommendations are as follows:

First, I think the United States should closely monitor the development in cross-Strait relations and assess the risks and opportunities presented by various economic, political and even security cooperation agreements between the two sides of Taiwan Strait on U.S. interests.

Second, the U.S. should maintain regular and frequent high-level dialogue with Taipei to better understand Taiwan's plans and capabilities for cross-Strait engagement and provide any necessary support to shore up Taipei's bargaining position vis-a-vis China's. It's precisely when cross-Strait relations enter uncharted water that we need to better understand and coordinate with Taipei.

Third, the United States should also allow the main stakeholders in Taiwan's young democracy to sort themselves out amid challenges such as the Sunflower Movement. We should resist the temptation to intervene in Taiwan's domestic politics and pick winners that are likely to pursue policies favorable to us.

Fourth, to prevent Taiwan's further marginalization from Asian regional integration and prevent China from unilaterally denying Taiwan's reasonable and necessary international space, particularly in the economic realm and reduce Taiwan's deepening dependence on Beijing, the United States must faithfully carry out the provisions in the Taiwan Relations Act to support Taiwan's entry or participation in the international community.

Fifth, the United States should also consider inviting Taiwan to negotiate accession into the TPP as soon as possible not only because Taiwan is a leading economy, a major trader, but also this makes good strategic sense.

Finally, the United States should also consider signing a free trade agreement with Taiwan so the multilateral approach and the bilateral approach should not be mutually exclusive. If the United States has signed FTAs with countries like Jordan, Panama, Israel and so on, none of them more important than Taiwan, then on both economic and strategic grounds, I see no reason why the United States should not pursue FTA with Taiwan.

Thank you.

**PREPARED STATEMENT OF DR. VINCENT WEI-CHENG WANG  
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OPENING STATEMENT OF MS. JOANN FAN**

**Recent Developments in China's Relations with Taiwan and North Korea**

**Vincent Wei-cheng Wang  
Professor of Political Science, University of Richmond**

**Testimony before the U.S.-China Economic and Security Review Commission  
5 June 2014**

Thank you to the commissioners for organizing this very important and timely hearing and for inviting me to testify. My remarks this morning will focus on the risks, opportunities, and implications of closer cross-Strait economic integration. I will also briefly assess the prospects for the "next steps" for cross-Strait relations.

Cross-Strait Economic Integration: Risks, Opportunities, and Implications

Before former President of the Republic of China Chiang Ching-kuo lifted the ban for Taiwan citizens to visit the mainland in 1987, trade across the Taiwan Strait was practically non-existent, as the two sides were technically still in an unfinished civil war. Whatever indirect trade that did happen went through Hong Kong. Twenty-five years later, this trickle has turned into a flood. In 2013, Taiwan-China trade skyrocketed to US\$126.1 billion (or 22 percent of Taiwan's total trade). China is Taiwan's largest trading partner, top export market (absorbing 27.1 percent of Taiwan's exports, and if adding Hong Kong, which absorbs another 13.2 percent of Taiwan's exports, the China market took in 40.3 percent of Taiwan's exports), and second largest import source (supplying 16.1 percent of Taiwan's imports and is catching up Japan's 17.6 percent).<sup>10</sup>

By contrast, in 2013 the U.S. was Taiwan's third-largest trading partner with two-way trade amounting to \$57 billion. The U.S. accounted for 10.3 percent of Taiwan's exports and 9.5 percent of Taiwan's imports. It should be pointed out that as recently as 1985, the United States was Taiwan's largest trading partner, absorbing over 40 percent of Taiwan's exports.<sup>11</sup> Since the beginning of this century, Taiwan's trade with the U.S. has been growing at a much slower pace than Taiwan's trade with China. Similar patterns exist in Taiwan's trade with other major trading partners, such as Japan. The upshot is this: If trade is a reliable proxy for closeness of bilateral relationship,<sup>12</sup> then in the 1970s-80s, Taiwan was firmly in the U.S. camp. Taiwan's economic closeness with the U.S. supported its export-led development strategy (in terms of capital, market, and technology knowhow) and solidified its politico-strategic relationship with the U.S. during the Cold War. For Taiwan, the reversal of roles between the U.S. and China as its most important economic partner represents China's ascendance regionally and globally and America's relative declining economic influence to Asian nations.

However, Taiwan is not alone in this regard. China has replaced the U.S. as the largest trading partner of such traditional U.S. Asian partners as Japan, South Korea, Australia, Thailand, Malaysia, and even India.<sup>13</sup> In a sense, the strategic rationale for the Obama Administration's Trans-Pacific Partnership (TPP) can be seen as an attempt to reestablish the closeness the U.S. once had with its major Asian partners, or at least make up for some of the lost ground.

<sup>10</sup> Author's calculation of data from the *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/tw.html>.

<sup>11</sup> Author's presentation at "The Future of U.S.-Taiwan Economic Relationship," the Heritage Foundation, Washington, DC, 5 February 2010, <http://www.heritage.org/events/2010/02/the-future-of-the-us-taiwan-economic-relationship>.

<sup>12</sup> Cf. Charles Lipson, *Reliable Partners: How Democracies Have Made a Separate Peace* (Princeton University Press, 2005).

<sup>13</sup> See <https://www.cia.gov/library/publications/the-world-factbook/fields/2050.html> and <https://www.cia.gov/library/publications/the-world-factbook/fields/2061.html>.

Whereas trade with allies may solidify security relationship, trade with enemies may entail negative security externalities – in this case, Taiwan’s largest trading partner is also its largest source of security threat.<sup>14</sup> Although former Taiwanese presidents Lee Teng-hui and Chen Shui-bian had each tried to regulate or slow down cross-strait economic relations,<sup>15</sup> cross-strait economic interdependence continued to grow throughout the late 1990s and 2000s during KMT or DPP administrations alike.

Trade was hardly the only manifestation of the growing cross-strait economic interdependence (or more accurately, Taiwan’s asymmetric dependence on China). It is estimated that about 90 percent of Taiwan’s outward investment goes to only one country – China. On any given day, an estimated over one million Taiwanese business people and their families live and work in China. This is equal to about five percent of Taiwan’s entire population.

Since 2008, however, cross-strait economic integration entered a new era. After eight years of rocky cross-strait relationship, President Ma Ying-jeou of the KMT, placed great importance to improving cross-strait relations. In addition to declaring his “Three Noes” pledge – he pledged that during his term(s) in office, he would not pursue *de jure* independence or negotiate unification, and therefore war would not be an issue<sup>16</sup> -- he approved cross-strait air links (the last of the so-called Three Links), allowed mainland tourists to visit Taiwan (first in organized tours, then also as DIYs), and restored cross-strait dialogue. Under the premise of the so-called 1992 Consensus,<sup>17</sup> the two semi-official bodies – Taiwan’s Straits Exchange Foundation (SEF) and China’s Association for Relations Across the Taiwan Strait (ARATS) quickly restored working relationship and were given new authority to negotiate and conclude a series of cooperation agreements. To date, twenty-one cross-strait agreements have been signed under the aegis of SEF and ARATS.<sup>18</sup>

Economic normalization was clearly an important pillar for the Ma Administration’s effort to normalize cross-strait relations. He laid out an incremental strategy, “First the Urgent, Then the Less Urgent; First the Easy, Then the Difficult; First Economics, Then Politics” (*xianji houhuan, xianyi hounan, xianjing houzheng*). In 2010, Taiwan and China signed a historic Economic Cooperation Framework (ECFA) with additional agreements on trade in service, trade in goods, investment protection, and dispute settlement to be negotiated and added on later. The two sides were also negotiating the exchange of representative offices (SEF’s and ARATS’ offices on each other’s jurisdiction). This approach suffered a significant setback over the student occupation of Taiwan’s legislature to oppose the ratification of the Cross-strait Service Trade Agreement (CSSTA) in March-April this year – a movement known as the Sunflower Movement.

The Sunflower Movement initially caught many by surprise – the KMT, the CCP, and the United States Obama Administration, which had officially blessed the cross-strait rapprochement.<sup>19</sup> This is because the post-2008 cross-strait rapprochement is based on the liberal assumption (also known as the commercial peace thesis or “the soothing scenario”) which holds that growing economic interdependence will create more common interests and make war more costly<sup>20</sup> and that economic engagement will lead to democracy.<sup>21</sup> Ma himself opines that

<sup>14</sup> See *Cross-Strait Economic Ties: Agent of Change, or a Trojan Horse?* The Wilson International Center for Scholars Asia Program Special Report, no. 118 (February 2004), <http://www.wilsoncenter.org/sites/default/files/asiarpt118.pdf>.

<sup>15</sup> E.g., Lee’s “No Haste, Use Caution” (*jieji yongren*) and Chen’s “Proactive Management and Effective Opening” (*jiji guanli, youxiao kaifang*).

<sup>16</sup> See his platform, “A Golden Decade – the Nation’s Vision” (*huangjin shinian, guojia yuanjing*), , <http://www.president.gov.tw/Default.aspx?tabid=1070>.

<sup>17</sup> It is doubtful that China and Taiwan interpret what they agreed to in 1992 similarly. China interprets The 1992 Consensus as *gebiao yizhong* (the two sides each verbally accepts the one China principle), whereas Taiwan interprets it to mean *yizhong gebiao* (one China, but each side has its own interpretation). Nonetheless, this ambiguous term of art allowed the KMT and the Chinese Communist Party to “agree to disagree” and move on.

<sup>18</sup> For a list of these agreements and status of their implementation, see <http://www.mac.gov.tw/ct.asp?xItem=67145&CtNode=5710&mp=1> and <http://www.mac.gov.tw/ct.asp?xItem=102611&CtNode=7526&mp=1>.

<sup>19</sup> See, for example, the speech by Deputy Assistant Secretary of State for East Asian and Pacific Affairs David Shear, “Cross-strait Relations in a New Era of Negotiation,” at Carnegie Endowment for International Peace, 7 July 2010, <http://www.state.gov/p/eap/rls/rm/2010/07/144363.htm>.

<sup>20</sup> The German philosopher Immanuel Kant considered commercial peace as one of the three pillars for “perpetual peace.” *Perpetual Peace, and Other Essays on Politics, History, and Morals* (Hackett, 1983).

<sup>21</sup> James Mann, *The China Fantasy: Why Capitalism Will Not Bring Democracy to China* (Penguin, 2007).

economic engagement with China is the best way to help Taiwan “maximize its economic opportunities and minimize its security threat.” His administration has also argued that passage of CSSTA and other follow-up economic agreements is important to opening the door for regional economic integration (such as entry into TPP and Regional Comprehensive Economic Partnership, or RCEP) for Taiwan. During the 2012 presidential debate, his DPP opponent Tsai Ing-wen described his approach as “globalization through China.” The Sunflower Movement combined an assortment of factors that opposed this soothing scenario and particular approach (from KMT-CCP consensus to SEF-ARATS negotiation with little public input to ratification by the Legislative Yuan where the KMT enjoys a large majority) – anti-globalization, anti-China, anti-Ma, anti-KMT, disappointment with representative democracy, and a sense of existential threat.

The U.S. government might have also knowingly or unwittingly contributed to this “surprise backlash.” For more than 35 years since its normalization of relations with the People’s Republic of China (PRC) in 1979, the United States has set reducing tension and encouraging dialogue across the Taiwan Strait as an important policy goal and a pillar for peace and stability in the Western Pacific region. Further, in recent years the U.S. has blessed cross-Strait economic integration. It neither sought to slow down the development in cross-Strait economic relations, nor overtly strengthened its economic engagement with Taiwan in order to offset China’s growing influence over Taiwan. Whereas in the past, the U.S. was more concerned about China’s use of force against Taiwan to force unification, today the U.S. appears either nonchalant or preoccupied about an opposite possibility: Taiwan’s absorption by China or Taiwan willingly unifying with China – a previously unthinkable scenario first raised by former Georgetown professor Nancy Tucker:<sup>22</sup> nonchalant because “our policy is working,” as economic integration has made peaceful resolution more possible than before; preoccupied because the U.S. is bogged down by other challenges in the world, such as Syria, Ukraine, and North Korea, and can really use the peace in the Taiwan Strait. Combined with the growing Chinese influence, as vividly illustrated by the trade figures, U.S. inability to elevate Taiwan’s profile in America’s bilateral (free trade agreements) and multilateral (TPP) geoeconomic strategies has caused imbalance on Taiwan’s statecraft. In a way, the Sunflower Movement was a reaction against these perceived “narrowing straits.”<sup>23</sup>

Cross-Strait economic integration has presented opportunities and risks. For Taiwan, this allows its entrepreneurial businesses, especially those occupying critical places in the regional or global production networks, to continue surviving or even flourishing in the global value chain. Since exports are still important to Taiwan, persistent trade surplus in trade with China allows Taiwan to maintain overall trade surplus and modest rates of growth. It might also lend credence to the Ma Administration’s argument that closer cross-Strait economic integration is key or prerequisite to FTAs with other nations or membership in TPP and RCEP.

For the U.S., closer cross-Strait economic integration could encourage Taiwan and China to reap common benefits, accumulate mutual trust, and even lay the material foundation for future political dialogue. It could gradually predispose a “peaceful resolution” of the impasse across the Taiwan Strait, solving a decades-old diplomatic dilemma for the U.S., and improving the chance for a more cordial U.S.-China relationship.

However, as USCC analyst Matthew Southerland aptly points out that despite their shared interests in expanding and deepening cross-Strait economic integration, Taipei’s and Beijing’s end goals are different. “Taipei seeks to leverage cross-Strait economic agreements to enhance Taiwan’s integration into the Asia Pacific economy and prevent further isolation, whereas Beijing aims to use expanding cross-Strait economic ties to bind Taiwan closer to China and make progress toward Beijing’s long-term goal of unification.”<sup>24</sup> With such fundamentally different end goals, cross-Strait economic integration also entails considerable risk. For Taiwan, its businesses in China risk three effects: hollowing out, taken hostage, and advocating unification.<sup>25</sup> Critics contend that cross-Strait economic cooperation so far has not benefited Taiwan much and follow-up agreements may actually do more

<sup>22</sup> Nancy Bernkopf Tucker, “If Taiwan Chooses Unification, Should the United States Care?” *The Washington Quarterly* 25(3)(Summer 2002): 15-28.

<sup>23</sup> See Robert Sutter, “Taiwan’s Future: Narrowing Straits,” *Asia Policy* (May 2011).

<sup>24</sup> Matthew Southerland, “Taiwan and China Agree to Enhance Communication, but Cross-Strait Economic Agreements Face Uncertainty,” U.S.-China Economic and Security Review Commission Staff Report, 29 April 2014, 4.

<sup>25</sup> Tun-jen Cheng, “Doing Business in China: Taiwan’s Three Main Concerns,” in *Cross-Strait Economic Ties: Agent of Change, or a Trojan Horse?*, 12-18.

harm than good, as it gives Beijing more leverage toward accelerating unification.<sup>26</sup> One criticism of the CSSTA was that the trumpeted benefits would go to few well-connected business tycoons or conglomerates, leaving ordinary folks further behind. To safeguard their interests, these business elites might then do Beijing's bidding, turning Taiwan's body politic much like Hong Kong's oligopolistic rule.

For the U.S., further cross-Strait economic integration could cause Taiwan to further gravitate toward China's orbit, causing Taiwan's further isolation, which ironically was caused by China's policies, and further diminish U.S. prestige and influence in the Asia-Pacific. As a starter, it would cause a serious dent in the "Pivot" or "Rebalancing" policy. Former USCC Commissioner June Dreyer points out, "Taiwan's geographic position makes it an important part of any strategy aimed at constraining the expansion of the PRC's territorial claims."<sup>27</sup> The fact that the Obama Administration's nearly total silence on Taiwan in all the key official documents defining the "Pivot" policy adds to the risk of policy adrift.<sup>28,29</sup> In sum, while economic integration may have its own logic, deliberate and decisive policy interventions can affect the pace and extent of economic integration. Further cross-Strait economic integration entails the risk of rendering Taiwan a "lost cause" and thus complicates U.S. policy in Asia.

### Whither Cross-Strait Relations

To speculate the future prospects for cross-Strait relations in the two remaining years of the Ma Administration (Ma is serving his second term and cannot be reelected), it is useful to revisit his roadmap for cross-Strait relations -- "First the Urgent, Then the Less Urgent; First the Easy, Then the Difficult; First Economics, Then Politics." The twenty one cross-Strait agreements hitherto signed indicate that the easy and the urgent are about all done -- that is, most of the "low-hanging fruits" have been reaped. What lie ahead are more difficult, politically sensitive, and arguably not as urgent -- or more likely results of positive spillover from a prolonged period of economic interaction -- such as military confidence-building measures (CBMs), peace accord, Taiwan's international participation, and negotiation of a final political settlement between Taiwan and China. Even in the economic realm, the future looks uncertain. After the Sunflower Movement, the civil society has awakened, opponents to closer cross-Strait economic integration (or at least concerned about its pace and direction) energized, and the opposition party mobilized. Rather than viewing the Sunflower Movement as an isolated unexpected episode propelled mainly by fear (loss of sovereignty, stagnation of income, uncertainty about future), it may be more useful to view it as a "safety valve" that gives early warning on an initially expedient but ultimately unsustainable path -- namely, a vision endorsed by the two ruling parties across the Taiwan Strait, negotiated between two semiofficial bodies (albeit with government officials participating talks as "advisors"), and potentially rubber-

<sup>26</sup> William Pesek, "What Has Taiwan Gotten for Cozying up to China? Not Much" *Bloomberg View* (10 April 2014), <http://www.bloombergview.com/articles/2014-04-10/what-has-taiwan-gotten-for-cozying-up-to-china-not-much>.

<sup>27</sup> June Teufel Dreyer, "What Does the US Focus on Asia Mean for Taiwan," in Shihoko Goto, ed., *Taiwan and the U.S. Pivot to Asia: New Realities in the Region?* (Wilson International Center for Scholars, 26 February 2013), 6. [http://www.wilsoncenter.org/sites/default/files/ASIA\\_130308\\_Taiwan%20US%20web%20FOR%20WEB\\_0.pdf](http://www.wilsoncenter.org/sites/default/files/ASIA_130308_Taiwan%20US%20web%20FOR%20WEB_0.pdf).

<sup>28</sup> The three most important documents defining the "Pivot" or "Rebalancing" policy -- Former Secretary of State Hillary Clinton's October 2011 "America's Pacific Century" article in the *Foreign Policy* magazine, President Barack Obama's November 2011 speech at the Australian Parliament, and Former National Security Advisor Thomas Donilon's March 2013 speech at the Asia Society -- mentioned Taiwan a total of zero times. See Hillary Clinton, "America's Pacific Century," *Foreign Policy* (11 October 2011), [http://www.foreignpolicy.com/articles/2011/10/11/americas\\_pacific\\_century?page=full](http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century?page=full); "Remarks By President Obama to the Australian Parliament," 17 November 2011, <http://www.whitehouse.gov/the-press-office/2011/11/17/remarks-president-obama-australian-parliament>; and "Remarks By Tom Donilon, National Security Advisor to the President: 'The United States and the Asia-Pacific in 2013,'" Asia Society, 11 March 2013, <http://www.whitehouse.gov/the-press-office/2013/03/11/remarks-tom-donilon-national-security-advisory-president-united-states-a>. However, Hillary Clinton, in her 10 November 2011 speech "America's Pacific Century" at the East-West Center in Hawaii, called Taiwan "an important security and economic partner," and the United States "applaud the progress...seen in cross-Strait relations between China and Taiwan..." and looked forward to "continued improvement so there can be peaceful resolution of their differences." Remarks by Secretary of State Hillary Clinton, "America's Pacific Century," 10 November 2011, <http://www.state.gov/secretary/20092013clinton/rm/2011/11/176999.htm>.

<sup>29</sup> In a paper prepared over summer 2014 for presentation at the American Political Science Association annual meeting in late August, I am examining three hypotheses for this official reticence: (1) "The Lost Cause" thesis (i.e., Pivot without Taiwan), (2) "The Fate Undetermined" thesis (i.e., Pivot, then Taiwan), and (3) "The Tacit Alliance" thesis (i.e., Pivot with Taiwan, in deed if not in word) against available evidence and assesses the positive and negative implications of the evolving cross-strait relations for the U.S. pivot to Asia as well as the U.S. policy's impact on cross-strait relations.

stamped by the legislature.<sup>30</sup>

As a condition for their withdrawal from the legislature, the students demanded, and Speaker Wang Jin-ping agreed, to postpone the review of CSSTA until a Cross-Strait Agreements Review Act is passed and a review body is established first. The wrangling over the text of the Review Act was very controversial. The government accused the opponents attempting to draft the “two states theory” into the Act,<sup>31</sup> which admittedly violates the 1992 Consensus – the political basis for all the cross-strait relations thus signed – and will not be accepted by Beijing. Cross-strait relations thus risk stagnation or even setback. The opposition party boycotts legislative sessions to consider the Review Act. Since the Review Act is the prerequisite to CSSTA and all other future cross-strait agreements, and it is not even being rationally discussed, let alone passed, CSSTA could face considerable delay. The service-in-goods agreement (CSSGA), which was inexplicably sequenced after the CSSTA, faces even bleaker prospects. Even the agreement to exchange SEF and ARATS offices, which made an important advance when Beijing in March gave in to Taipei’s insistence that henceforth SEF offices on the mainland must have the right to pay detained Taiwan citizens “humanitarian visits” – a pseudo-consular visits right, and reciprocal visits of top officials from the two sides’ ministries in charge of cross-strait policy – Taiwan’s Mainland Affairs Council (MAC) and China’s Taiwan Affairs Office (TAO) – could face delays. Other issues such as the Taiwan-proposed meeting between Taiwanese leader Ma Ying-jeou and Chinese leader Xi Jinping at this year’s APEC (Asia Pacific Economic Cooperation) meeting in Beijing, CBMs, and peace accord are even more far-fetched. Although the two sides had publicly expressed interest to sign a peace accord, the idea was fraught with problems and the suitable political window appears closing with Taiwan’s upcoming election schedules (municipal elections in November 2014 and presidential and legislative elections in early 2016).<sup>32</sup>

Although President Ma allegedly has issued a marching order to the KMT parliamentarians to pass the CSSTA during LY’s special session in late June, it is doubtful that, given his low approval rating and the prevailing charged environment, the CSSTA or the CSARA can be passed. Cross-strait relations appear entering a period of caution and uncertainty. How much patience can Beijing afford during this period would be a critical unknown. Meanwhile, the cooling-off period may offer an opportunity for the KMT and the DPP to work toward a consensus between them (such as the recent “Greater One China” idea proposed by several prominent politicians across the Blue-Green divide), as whichever party that wins in 2016 must continue dealing with China’s steadfast economic statecraft. This period can also offer U.S. decision-makers a chance to reflect on the wisdom of their liberal-inspired policy toward cross-strait economic integration.

### Conclusion and Recommendations

Until recent years, the Taiwan Strait had sometimes been seen as a potential flashpoint that could embroil two nuclear powers – the U.S. and China. The main operational concern for the U.S. for over 35 years was to prevent China’s forceful unification of Taiwan. But to manage alliance with Taiwan (entrapment vs. abandonment), the U.S. adopted the policy of “strategic ambiguity” to deter both Beijing and Taipei from taking destabilizing moves that could alter the U.S.-constructed “status quo,” while fostering conditions for exchanges and dialogues between the two. The U.S. roles were clear.

Relations between Taiwan and China since 2008 have improved so dramatically that the roles for the U.S. have become less clear. Some analysts begin to ask whether the U.S. should now be more concerned about Taiwan willingly (albeit peacefully) joining China or being economically absorbed by China. Cross-strait relations have

<sup>30</sup> The Ma Administration has argued that the signed cross-strait agreements are not treaties between states, which need the Legislative Yuan’s ratification, but agreements between two semiofficial bodies (as if they did not involve official authority), therefore they should only be submitted to the legislature after the fact for pro-forma post-facto filing (*bei cha*), rather than substantive review (*shen cha*). Even a vote is required, the KMT enjoys over two-thirds of the seats in the legislature, ensuring passage.

<sup>31</sup> The “two states theory” or “special state-to-state relationship theory” was used by President Lee Teng-hui in 1999 to describe the relationship between Taiwan and China.

<sup>32</sup> On the practical aspects of a possible peace agreement, see Phillip C. Saunders and Scott L. Kastner. “Bridge over Troubled Water? Envisioning a China-Taiwan Peace Agreement.” *International Security* 33, no. 1 (Spring 2009): 87-114, and Vincent Wei-cheng Wang, “Commentary: The Eight Dimensions of a Cross-Strait Peace Agreement,” in Chung-sen Lin and Shu-fan Ding, eds., *The Conference on the Twentieth Anniversary of the “1992 Consensus” Proceedings* (Taipei: the Strait Exchange Foundation and Institute of International Relations, 2012), pp. 137-146 (in Chinese).

indeed entered uncharted waters. While the U.S. may be less clear about its roles and may have questions about the pace and direction of cross-Strait reconciliation, it does have important interests in the development of cross-Strait relations. I will end this testimony with several policy recommendations:

The U.S. should closely monitor the developments in cross-Strait relations and assess the risks and opportunities presented by various economic, political, or even security cooperation agreements on U.S. interests.

The U.S. should maintain regular and frequent high-level dialogue with Taipei to better understand Taiwan's plans and capabilities for future cross-Strait engagement and provide any necessary support so as to shore up Taipei's bargaining position vis-à-vis China's.

The U.S. should allow the main stakeholders in Taiwan's young democracy to work out their differences and forge a common understanding and avoid intervening in Taiwan's domestic politics to pick those that are expected to pursue policies which the U.S. favors. Democracy may be messy. Taiwan's democracy has the added challenge of fending off pressure from powerful external players. The U.S. has supported Taiwan's democracy against military coercion and is watching the implications of cross-Strait economic integration closely. It should also resist the temptation to intervene in Taiwan's domestic politics, especially when public discourse during election times often involves debates over the country's relationship with China.

To prevent Taiwan's further marginalization from Asian regional integration and prevent China from unilaterally denying Taiwan's reasonable and necessary international space (particularly in the economic realm, which is critical for a trade-dependent nation like Taiwan) and deepening Taiwan's dependence on Beijing, the United States must faithfully carry out the provisions in the Taiwan Relations Act to support Taiwan's entry or participation in the international community.

The U.S. should consider inviting Taiwan to negotiate accession into TPP as soon as the current round involving twelve nations is completed. This makes not only economic sense (because Taiwan is a leading economy and a major trader) but also strategic sense (as a part of the Asia Rebalancing policy). While the U.S. understandably may still have concerns over the liberalization and opening of certain sectors in Taiwan, the U.S. can actually leverage Taiwan's interest to join the TPP in achieving further liberalizing Taiwan's economy. This will strengthen Taiwan's position in Asian regional economy by giving it a good option, which may then improve Taiwan's prospects in RCEP. That prospect makes sense, because both the U.S. and China are important to Taiwan and each leads a respective economic grouping. Taiwan can serve as a bridge between the U.S. and China.

The U.S. should also consider signing a free trade agreement (FTA) with Taiwan. The adage that FTAs are often signed for good political as much as good economic reasons applies here. In the aftermath of 9/11, the U.S. signed FTAs with Jordan, Bahrain, Oman, Israel, and Colombia for more security than economic reasons. Taiwan is economically more important than all current US's FTA partners, except South Korea. If the U.S. views Taiwan as indispensable to its Asia Rebalancing policy, then there is an added strategic imperative to conclude FTA with Taiwan.

**OPENING STATEMENT OF JOANN FAN  
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HEARING CO-CHAIR SLANE: Thank you, Doctor.

Let me introduce Ms. JoAnn Fan. She is a visiting fellow with the Brookings Institute Center for East Asia Policy Studies and a venture capitalist specializing in trade and investment in the Greater China region.

She has 15 years of experience with cross-border financing and ventures, including as assistant vice president in the Office of Chief Financial Officer at SinoPac Holdings, a regional Taiwanese financial group, and as a co-founder of Cross Web Ventures, a start-up incubator.

Welcome.

MS. FAN: Thank you, Chair Slane and Chair Tobin, distinguished members of the Commission. Thank you very much for this opportunity to offer my thoughts on the cross-Strait economic issues.

Taiwan and China have strived to institutionalize cross-Strait engagement as highlighted by recent ECFA signing. The trend of closer economic integration represents both opportunities and challenges on both sides of the Taiwan Strait, as well as the U.S., as reflects complexity of issues, such as ECFA's impact on Taiwan's economy and its trade relationships, the possibility of eventual cross-Strait political integration that may follow, and the risk of power imbalance in the triangular relationship as a result.

Today I intend to discuss three topics: assessment of cross-Strait economic activities and trends since 2008; the implication of closer economic integration for Taiwan and the U.S.; and lastly, policy recommendations and potential congressional actions.

I have provided a more comprehensive examination in my written testimony. In the interest of time, I'll get to the bottom line from the analysis, which is, as my fellow panelists have already pointed out, that the PRC has become Taiwan's largest trading partner in terms of total trade and export market as well as Taiwan's second largest importer.

80 percent of Taiwan's FDI outflows go to the mainland China. More than 70,000 Taiwanese companies have Chinese operations. More than one million Taiwanese businessmen and their families currently reside in China.

All these factors raise the degree of Taiwan's reliance on the PRC. As Taiwan grows more dependent on China for its economic performance, it would have as a result, it would have more at stake in the event of changes in either direction. This would, in turn, give the PRC more leverage over Taiwan.

For its part, ECFA was a historical event for the cross-Strait development. It is considered the first official attempt to institutionalize the existing cross-Strait economic activities under an FTA type framework. It is Ma administration's strategic choice to use ECFA as a stepping stone to advancing its market liberalization agreements with other countries.

It has so far succeeded in concluding FTAs with Singapore and New Zealand. It remains to be seen if this strategy of so-called globalization through China's route would be followed through as planned. For its own interests, China favors this trend as well and works hard to win over Taiwanese support to further negotiations.

As a result, the Early Harvest Program has positive initial assessment for Taiwan to date. It should be noted that some trade data irregularities were shown in 2012, the year of the highly-contested presidential election when President Ma was subsequently reelected.

Other negotiations are to follow the Early Harvest Program. These include investment protections, service and merchandise trade, and dispute settlement as an effort to complete the needed legal framework. There have been more than 20 such agreements to date as indicated.

While trade liberalization agreements generally encourage reforms and a more

rational allocation of resources, there are some common economic flaws among others in many of the trade agreements under ECFA to date.

That is they tend to foster a symmetric competition usually between Taiwanese small and medium enterprises, the so-called SMEs, and the Chinese state-owned enterprises, the SOEs. Trade gains are usually concentrated in a few beneficiaries and are not adequately allocated for parties involved. The harmed groups and workers appear to be left without substantial recourses or trade adjustment compensations.

In particular, the Service Trade Agreement, the STA, raised grave public concern because of its scope and implications, culminating in a 24-day, student-led, sit-in protest inside Taiwanese Legislative Yuan, the LY, and one of the biggest rallies in Taiwan's history this past March.

It is currently pending in the LY and subject to additional legislative scrutiny. As a result of the March process, deliberation on a cross-Strait monitoring mechanism was announced. It is an attempt to provide greater oversight over the negotiation process with the PRC. However, it would also risk prolonging negotiations and present additional hurdles to both the ratification of the STA and the more complex merchandise trade agreements to follow.

The end result would also serve an important signal to other countries, including the U.S., in evaluating Taiwan as a trading partner. There appears a potential economic imbalance in the triangular relationships among the U.S., China, and Taiwan as a result of the closer integration.

As Taiwan's economy grows increasingly integrated with the PRC, the economic influence of the U.S. is decreasing. This weakens the U.S.-Taiwan economic leg of the triangular relationship, which could have impacts on its other aspects of the relationship as a whole.

Some may argue that China is the bigger fish in the pond. It is then important to know that while Taiwan may risk marginalization by falling behind on trade talks, its unique position in the technology value chain and competitive collaboration with the American companies are not expected to weaken any time soon.

It is therefore in the U.S. economic interest to maintain a stable position of trade and investment influence with Taiwan and China and to ensure each leg of this triangular relationship is in balance with one another going forward.

In conclusion, I would like to echo Vincent's point regarding the U.S. assumption if trade interdependence would lead to lasting peace and stability in the Taiwan Strait. It should be noted that the U.S. should be adaptable in its policy considerations as part of its rebalancing strategy in Asia to include Taiwan in the picture.

On an economic front, as China works on a slower growth path, potential spillover effects on to its neighbor and trade partners are an inevitable consequence. Preemptive efforts to strengthen competitiveness are the right response. It is in the U.S. interests therefore to engage in, to stay engaged in the region to influence and ensure favorable balance of economic power for all parties involved.

Moreover, promotion of internal structural reforms and external market liberalization will need to go in tandem with diversification of trade relationships and partnerships in bilateral or multilateral FTAs, such as the Trans-Pacific Partnership, TPP, to which end Congress could take the following actions:

First, it could encourage the USTR to intensify negotiations for Bilateral Investment Agreement, the BIA, under U.S.-Taiwan Trade and Investment Framework Agreement.

Second, Congress could conduct regular assessment of the effectiveness in the current economic communication mechanism between the U.S. and Taiwan.

Third, I would also like to uphold Rupert's point on the importance of TPP to American leadership in Asia. Therefore, it is in Congress' interests to enact the trade promotion authority legislation to demonstrate its support to the TPP's high free trade standards.

Fourth, Congress should urge the administration to support Taiwan's accession to the TPP talks as Taiwan is an integral part of the American technology value chain and

as well as regional production supply chain.

Finally, I urge Congress to advise the administration to conduct a comprehensive policy review on Taiwan on a periodic basis. This year marks the 20th anniversary of the Taiwan Policy Review done under the Clinton administration in 1994. The dynamics in the Taiwan Strait as well as within Taiwan and its people have evolved greatly over the past two decades. It is important to update and incorporate current trends and interests into policy planning to ensure effectiveness going forward.

Thank you very much.

**PREPARED STATEMENT OF MS. JOANN FAN  
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**Statement before the U.S.-China Economic and Security Review Commission**

**Cross-Strait Economic and Political Issues**

**A Statement by**

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**June 5, 2014**

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Cross-Strait relations have marked a path of reduced tension and increasing cooperation after the election of President Ma Ying-jeou of the ruling Chinese Nationalist Party (KMT) in 2008. Taiwan's efforts to institutionalize its engagement with the People's Republic of China (PRC), particularly in trade and investment activities, presents both opportunities and challenges on both sides of the Strait, and also for the United States.

Taiwan's effort to forge mutually beneficial economic relations with the PRC under the Cross-Strait Economic Cooperation Framework Agreement (ECFA) reflects the importance and complexity of the triangular relationship. There are delicate economic, political and security issues in play in a scenario of a closer cross-Strait integration. These include ECFA's impact on Taiwan's economy and its trade relationships, the possibility of an eventual cross-Strait political integration that could follow intensifying economic cooperation, and the risk of power imbalance in the triangular relationship as a result.

This paper intends to focus on the cross-Strait economic undertakings and would address three areas as follows:

The current status and assessment of cross-Strait trade and investment flows and their trends since 2008.

The implications of closer cross-Strait economic integration for Taiwan and the United States.

Policy recommendations and potential Congressional action.

#### Cross-Strait Economic Relation

##### *Current Status*

Both Taiwan and the PRC have undertaken a systematic effort to stabilize cross-Strait relations since President Ma took office in 2008. This has helped reduce business uncertainty and foster trade and investment flows for both sides. The PRC has consequently become Taiwan's largest trading partner in terms of total trade and export market, as well as its second-largest importer. According to Taiwan's Mainland Affairs Council (MAC), Taiwan had an overall trade volume of US\$124 billion with China in 2013, growing nearly three times since 2000. During the same period, the share of Taiwan's exports to mainland China rose to 28.5 percent from 16.9 percent, while the share of its imports from China rose to 15.8 percent from 4.5 percent. The exporting share increases to nearly 40 percent when incorporating exports routed through Hong Kong. As a result, Taiwan has maintained a relatively consistent trade surplus with mainland China, valued at US\$39.2 billion in 2013.

As a small island with scarce natural resources, Taiwan has been an avid overseas investor as part of its economic development. It has become a major investor in mainland China, whose share of Taiwan's outward foreign direct investment (FDI) grew to approximately 80 percent in recent years from approximately 50 percent in the early 1990s, as estimated by the Chung-Hua Institute for Economic Research (CIER) which is a policy institute for Taiwan's government.

As Taiwan grows more dependent on investment in China for its economic performance, it would have more at stake in the event of changes in either direction. This would in turn give the PRC more leverage over Taiwan.

According to the MAC, Taiwan's approved outbound investment in mainland China since 1991 reached US\$133.7 billion by 2013. The annual amount of Taiwan's approved FDI into China peaked at US\$14.3 billion in 2011, the first year when ECFA was enacted, and growing 450 percent since 2000. This annual FDI flow then tapered downward to US\$9.1 billion in 2013.

At the sector level, the manufacturing industry in China is the top recipient of Taiwan's approved outbound investment with an accumulated value of nearly US\$107 billion from 1991 to 2013. Electronic parts and components manufacturing, in particular, has garnered the majority of Taiwanese manufacturing FDI flow. This partly reflects a cross-Strait production cluster, where Taiwanese industrial components are exported to the PRC, which has comparatively cheaper labor costs, then manufactured into final products and re-exported. In 2013, Taiwan's approved FDI in China's manufacturing was valued at \$5.1 billion, more than half of the total.

As the cross-Strait economic interaction deepens and the PRC eases access to its financial system, Taiwanese FDI in the finance and insurance sectors is also on the rise. In 2013, it became the second largest recipient sector, capturing over 20 percent of the funding with a value of close to US\$2 billion. Moreover, finance garnered the

largest average investment, with a value of US\$95 million per case.

Some could argue that these statistics may under-estimate the level of Taiwan's investment. It is not an uncommon practice for some Taiwan investors to invest in China through a Hong Kong entity or via third-party routings to avoid governmental scrutiny. Moreover, there are more than 70,000 Taiwanese companies with operations in China that could reinvest their retained earnings instead of remitting profits back home. Additionally, it is informally estimated that more than one million Taiwanese businessmen and their families currently reside in China and may also contribute to investment flows locally. All these factors further raise the degree of Taiwan's dependence on China for economic gains.

*Cross-Strait Economic Cooperation Framework Agreement (ECFA)*

The Ma government has regularly urged opening up cross-Strait economic relations. This push derives partly from the broader concern over Taiwan's becoming potentially marginalized, and less globally competitive, as an outsider in the rising trend in bilateral and multilateral Free Trade Agreements (FTA) in East Asia. For its part, ECFA was considered the first official attempt between Taiwan and the PRC to institutionalize under an FTA-natured framework the existing and mostly private cross-Strait economic activities. The blueprint for ECFA was a stated commitment to "gradually reduce or eliminate tariff and non-tariff barriers to trade" in goods and services sectors, in an effort to further cross-Strait economic integration and stability over the long run.

The first milestone of ECFA is the "Early Harvest Program." It aims mainly to reduce trade tariffs on goods, with some market access allowance in banking and other service industries, between the two sides of the Strait. Early Harvest involves 539 Taiwanese goods, covering 16 percent of Taiwan's exports to the mainland China and estimated to be close to US\$14 billion. The PRC will, in turn, receive tariff cuts on 267 Chinese products, which make up 11 percent of China's exports to Taiwan worth approximately US\$3 billion. As Taiwan already enjoys a large trade surplus with the PRC, the Early Harvest provisions appear to further enhance Taiwan's trading edge with China, at least before additional liberalization agreements in services and merchandise are built into the program as part of a completed ECFA.

The CIER has projected that ECFA, enacted in January 2011, will serve to increase Taiwan's gross domestic product (GDP) growth by 1.65 to 1.72 percentage points, to raise its export growth by 5 percent, and to create approximately 263,000 new jobs. Based on data from the International Monetary Fund, Taiwan's real annual GDP growth reached 10.8 percent in 2010, the year when ECFA was signed and before its implementation, declining in 2011 to 4.2 percent. The sharp increase in 2010 was partly due to the heightened expectation of ECFA's effect during negotiation, as well as the low GDP base figure from the preceding year due to the global financial crisis. When the Early Harvest program was put in place in 2011, Taiwan's exports to mainland China grew 9.1 percent according to Taiwan's Customs Bureau. This figure then dropped to a negative growth of 3.9 percent in 2012, the year of Taiwan's highly contested Presidential election, before recovering back to 1.3 percent in 2013. The annual growth rate of those Early Harvest exports in particular peaked in its first year of implementation at 18 percent, dipped to 3.3 percent in 2012, then rose close to 11 percent in 2013.

There are three main industry categories highlighted in the Early Harvest product list -petrochemical, steel, and electronic- and optical-related items. Other items such as agricultural and textile products comprise less than 3 percent of the Early Harvest program. Many analysts would consider the sectors covered under the Early Harvest list to be the main beneficiaries from ECFA to date. For instance, Taiwan's core petrochemical export to mainland China is diethylhexyl phthalate (DEHP), a key plasticizer in polyvinyl chloride (PVC) manufacturing. After the Early Harvest program, the market share of Taiwan's DEHP exports to China increased to 73.8 percent and was valued at US\$132 million in 2013 from 43.4 percent and US\$121 million in 2010, according to Taiwan's Bureau of Foreign Trade (BOFT). Taiwan's main competitor, South Korea, saw its market share in the same product decline to 22.9 percent from 42.6 percent and its export value dropping to US\$41 million from US\$119 million. China also became the largest exporting market for Taiwanese agricultural products in 2013, according to Taiwan's BOFT. Taiwan's agricultural products enjoy a trade surplus valued at US\$20 million in 2013 with its Chinese counterparts, a change from a trade deficit of US\$190 million in 2009. Farmed food fish products such as groupers make up 70 percent of the overall agricultural exports to China. Over 14,234 tons of Taiwanese groupers were exported to China in 2013, from 4,159 tons in 2010.

Early Harvest benefits Taiwan's finance and insurance sectors with market access opportunities in China to

establish a foothold before their potential competitors. There are eleven Taiwanese banking firms that currently have operations in the PRC as of the first quarter of 2014, as shown in Taiwan's BOFT data. Moreover, China has approved FDI from thirteen Taiwanese securities firms whose funding total is valued at US\$1.8 billion to date. Ten Taiwanese insurance companies are granted Qualified Foreign Institutional Investors (QFII) status with total investment limit up to US\$170 million.

Taiwan's CommonWealth (CW) magazine reported in April that Chinese Early Harvest-related exports to Taiwan have increased their market share to 30 percent from 24 percent before the program. This report stands against the conventional wisdom that is held by many analysts. They have suggested that Taiwan would benefit from Early Harvest since tariff cuts provide cost savings for the related Taiwanese exports, and thus increase their competitiveness and market share in China. Nevertheless, while the figures described above indicate increases in *total* exports to China, in many cases they do not represent significant increases in market share.

For example, Taiwan's stainless steel industry is included as a part of the main Early Harvest industry groups, and is a core industry in the southern city of Kaohsiung. But their own Early Harvest tariff reductions and especially overcapacity enable Chinese stainless steel producers to lower their prices by as much as 30 percent below market. This low pricing strategy in turn generates an asymmetric competitive advantage over their comparatively smaller competitors in Taiwan. Some Taiwanese producers have thus been forced into bankruptcy and their workers lost jobs. The larger and more vertically integrated Taiwanese producers are also exposed to declining orders as well as low capacity utilization – below 20 percent at one point during the Early Harvest period. In the case of cold-rolled stainless steel products, 30 percent of the production of Taiwan's top two stainless steel firms is replaced by low-cost imports from both China and South Korea, who together enjoy an annual exports volume growth of more 100,000 tons to Taiwan.

There are also preliminary signs suggesting that trade benefits may not be evenly allocated. Few Taiwanese beneficiaries, who are generally larger in size and with a more established distribution network, are positioned to realize greater economic gain as a result of the Early Harvest. This effect could be intensified in sectors with less brand recognition such as the steel industry, and lower entry barriers, such as agriculture. In case of grouper farming, much of the trade gain is reported by Taiwan's CW magazine to come from the few established producers and distributors, who have more than half of the market share in Taiwan, not the many smaller-sized domestic fish farmers. Moreover, cross-strait procurement of fruits and other agricultural products is mostly done by trading agents from both sides. There may be potential moral hazard and agency problems which would risk carving out trade gains that could have been distributed to the domestic farmers and producers.

It is a challenge at this point to assess the CIER's projection of 263,000 new jobs under ECFA since Early Harvest involves merely 6 percent of the total goods items to be included in the full-fledged ECFA negotiation and few service-sector market openings. As estimated by economics professor Lin Shun-Kai of Taiwan's National Taiwan University, Taiwan's unemployment rate would drop 1 to 2 percent points from the 4.18 percent in 2013, if those job gains occurred. According to Taiwan's National Statistics, Taiwan's nominal unemployment rate has not been lower than 3.9 percent since 2000. It should also be noted that the unemployment rate has gradually declined from its height of 5.85 percent after the global financial crisis in 2009 to the current level around 4 percent during the period of Early Harvest.

#### *Major Cross-Strait Agreements to Date*

As mandated by ECFA, several items are to be negotiated following the Early Harvest program. These include investment protection, services trade, merchandise trade, and dispute settlement. This is an effort to provide a concrete legal framework to foster trade and investment activities between Taiwan and China. There have been more than 20 cross-strait agreements signed or already in effect since the Early Harvest period.

In particular, the Cross-Strait Investment Protection Agreement (CSIPA) became effective in February 2013. CSIPA addresses the need to institutionalize an investment security mechanism and to build investors' confidence, rather than try to eliminate all risks for Taiwanese investment. CSIPA provides several types of resolution mechanism, both in official settlement and private arbitration, for investment-related disputes. CSIPA also has a notification mechanism to ensure personal safety, where the PRC officials are committed to notify the investor's family or company within 24 hours in case of non-national security related detention. According to Taiwan's Ministry of Economic Affairs, there have been 131 CSIPA-related cases reported and subsequently resolved to date.

The Cross-Strait Services Trade Agreement (CSSTA) was signed in June 2013 as part of ECFA to liberalize trade in services. CSSTA has raised great public concern because of its scope and implications, culminating in a 24-day, student-led, sit-in protest inside Taiwan's Legislative Yuan (LY) and one of the biggest rallies in Taiwan's history this March. It is currently pending in the LY, and is expected to be subjected to additional legislative scrutiny.

As I have noted in *The Diplomat*, the CSSTA aims to formalize existing business practices and lift trade restrictions between Taiwan and China. China would open a total of 80 market segments while Taiwan would liberalize 64 industries. As the smaller economy, Taiwan is expected to benefit more from China's larger market. Many observers have projected that Taiwan's financial and retail-related industries, which together compose roughly 25 percent of GDP, would emerge as the primary beneficiaries. For instance, Taiwanese securities firms would be eligible for fully-licensed operations within China's designated provinces and a maximum ownership of up to 51 percent. Taiwanese banks could offer an expanded Renminbi (RMB) service platform and open sub-branches in China's Fujian Province.

While trade liberalization encourages structural reforms and a more rational allocation of resources, in addition to broader market-opening, the CSSTA is not without economic flaws. In particular, it fosters asymmetric competition, insufficiently reflects service providers' comparative advantages, and potentially harms less competitive groups.

Taiwan's service sector accounts for almost 70 percent of its GDP. It consists mainly of small- and medium-sized enterprises (SME). This stands in stark contrast to their Chinese counterparts, who are usually larger, better-funded state-owned enterprises (SOE). For example, the Boston Consulting Group valued China's overall travel market in 2010 at US\$158.6 billion, which is mainly shared by three Chinese SOEs and their affiliates in an oligopoly industry structure. In contrast, there are over 3,000 companies competing in the US\$744 million travel market in Taiwan. This scale disparity threatens to place the Taiwanese SMEs at a competitive disadvantage.

Other domestic barriers will remain after the CSSTA's implementation. In regards to e-commerce, Taiwanese portals, such as Yahoo/Kimo and PChome, will continue to be barred from entering China. Some Chinese firms, such as Taobao.com, already operate in Taiwan without similar market restrictions. Also, local Chinese spas and hairdressers are subject to a flat-tax scheme, while Taiwanese entrants may face higher operating expenses, and thus less competitiveness, due to China's progressive income tax mechanism for external investors.

The CIER has projected that the CSSTA will increase Taiwan's GDP growth by 0.025 to 0.034 percent. The study suggests that a relatively small number of targeted beneficiaries would provide the greatest economic contribution. Many service providers are clustered in lower-entry-barrier industries, such as laundromats and printing shops, and they would inevitably feel the effects of increased competition.

The other stakeholders are the workers. Taiwan's service sector employs nearly 60 percent of its workforce. The CSSTA could potentially affect roughly 2.85 million people's livelihoods. With the average annual real salary in 2013 shrinking back to the level of 16 years ago, at around US\$14,400 in 1997 dollars, lower-skilled workers in less competitive industries are already at risk. Younger workers may be greatly affected, as many are experiencing lack of job mobility and stagnation in entry-level wages which run approximately 38 percent below norm. Additionally, unemployment rate for the 15-24 year old workforce in 2013 was 13.2 percent, approximately three times that of the overall unemployment rate. It is not clear if the CSSTA will be accompanied by trade adjustment assistance, offer grace periods to cushion the blow, or institute plans to help meet the new market challenges.

As Taiwan grows closer to China, some are concerned that Taiwan will become increasingly reliant on China as the main source for its growth; that the departure of Taiwanese manufacturing firms to China would accelerate; and that the comparatively better funded Chinese firms may become a dominating market force in certain industries when allowed to invest or trade in the smaller market in Taiwan. These fears are not entirely unfounded, as is illustrated by the stainless steel industry. Moreover, China faces slowing economic growth as it attempts to rebalance to a more consumption-driven economy, raising the system risk to Taiwan as well.

As a result of the March protest, the party leaders from the KMT and the Democratic Progressive Party announced that they intend to deliberate on a cross-Strait monitoring mechanism in an attempt to restore public trust and the government's accountability. The monitoring mechanism is envisioned to provide greater civic and legislative oversight over the negotiation processes to ensure that future pacts with China are based on equal and dignified

terms. However, it could risk prolonging the negotiation process of and present additional hurdles to both the rectification of the CSSTA and the ongoing Cross-Strait Merchandise Trade Agreement (CSMTA), if it is not managed appropriately. The end result would also serve as an important signal to other countries, including the U.S., in evaluating Taiwan as a trade partner.

There has not been a full disclosure of what the CSMTA agreement would entail. Based on preliminary information, CSMTA presents a more substantive, and thus more complex, liberalization agreement between Taiwan and the PRC. In particular, it would involve tariff reduction and some special quota arrangements for more than 6,000 merchandise items from both sides. Those items would also include 830 agricultural goods which will raise concerns from domestic producers. Given the public sentiment toward the CSSTA, it remains to be seen how the CSMTA could be concluded and in what way it would affect the cross-Strait economic dynamics going forward.

#### Implications of Closer Cross-Strait Economic Integration for the United States

In light of recent cross-Strait economic integration, there appears to be an imbalance in the triangular relationship amongst the United States, China and Taiwan. As Taiwan's economy grows increasingly integrated with and dependent on the PRC, the economic influence of the U.S. is decreasing. Should this trend persist, it could further weaken the U.S.-Taiwan economic leg and strengthen the PRC's commercial leverage on other side of the triangle. This power disparity could upset the triangular balance and create a potentially unhealthy cycle, where unfavorable economic outcomes are felt in additional aspects of the U.S.-Taiwan relationship, such as security. Furthermore, this imbalance could challenge the conventional assumption that deepening cross-Strait economic interdependence leads to peace and stability over the long run.

In comparison to the expanding American trade relationship with China, U.S.-Taiwan trade appears to be flat or declining in general under President Ma's administration. According to the Office of the United States Trade Representative (USTR), U.S. total trade with Taiwan in 2013 was US\$63.6 billion, making Taiwan the 12<sup>th</sup> largest U.S. trading partner. This figure went slightly downward from US\$64.6 billion in 2007; the year prior to President Ma assuming office. U.S. exports to Taiwan were US\$25.6 billion in 2013, off by 36 percent from US\$38.3 billion in 2007. While the PRC replaced the U.S. as Taiwan's largest export market back in 2002, Taiwan has also steadily dropped in rank to become the 16th-largest U.S. export market in 2013. U.S. imports from Taiwan were US\$37.9 billion in 2013, an increase of 44 percent from US\$26.4 billion in 2007. This in turn contributed to reversing the U.S. trade surplus of US\$12 billion with Taiwan in 2007 to a trade deficit of US\$12.3 billion in 2013. In the case of U.S.-Taiwan FDI activities, the U.S. is one of the top investors in Taiwan with its FDI stock invested valued at US\$16.5 billion in 2012.

Trade and investment data is likely to underestimate Taiwan's true significance to the U.S. economy, in light of the cross-Strait production cluster in the global supply chain. According to Taiwan's MOEA, U.S. technology companies are among the major buyers of hardware products made by Taiwan firms, which usually own production and assembly facilities in China to capitalize on cheaper labor costs. For example, while Apple's products such as iPhone and iPad are developed in the United States, they are produced and assembled by Taiwanese-invested factories in China with some components from Taiwan. The final products are then re-exported globally, including to the United States.

Additionally, Taiwan is an integral part of the global technology value chain, which in turn increases competitiveness for the U.S. companies. For instance, Taiwan Semiconductor Manufacturing Company (TSMC) is the largest semiconductor foundry in the world, and has its main operations in Taiwan. TSMC not only supplies cost-effective and reliable semiconductor components to leading U.S. companies including Broadcom and NVIDIA, but also acts as a peer outsourcing supplier to those firms such as Intel and Texas Instruments. Additionally, TSMC produces processors for device companies such as Apple.

While Taiwan may fall behind in pursuing talks with its trading partners, its unique position in the technology value chain and competitive collaboration with American companies are not expected to weaken in the near future. It is therefore in the economic interests of the United States to maintain a stable position of trade and investment influence with Taiwan and China, and to ensure each leg of the triangular relationship is in balance with the others going forward.

### Policy Recommendations

In light of the evolving dynamics in the Taiwan Strait, the United States ought to be adaptable in its policy considerations as part of its “rebalancing” strategy in Asia. Particularly, strategies concerning cross-Strait interactions and developments need to be deliberated in the regional context since they would have enduring ramifications on the neighboring countries.

From the economic perspective, as China works to adjust to a slower growth path, potential spill-over effects onto its neighboring and trade partners are an inevitable consequence. Preemptive efforts to strengthen competitiveness are the right response. It is in the U.S. interest to be engaged in the region to influence and ensure favorable balance of economic power for all parties involved. Moreover, promotion of internal structural reforms and external market liberalization would need to go in tandem with diversification of trade relationships and partnerships in bilateral or multilateral FTAs such as the Trans-Pacific Partnership (TPP).

Congress could play an important role in furthering this process as follows:

First, Congress could encourage the USTR to intensify negotiations for a Bilateral Investment Agreement (BIA) under U.S.-Taiwan Trade and Investment Framework Agreement (TIFA). The BIA, if enacted, could also serve to accelerate a virtuous cycle by the Taiwanese government to take action on additional structural reforms and further cooperation in preparation for future trade negotiations.

Second, Congress should conduct regular assessments of the effectiveness of the communication mechanism between the U.S. and Taiwan. This in part would serve to ensure that means to conduct periodic bilateral economic discussions, for both public and private actors, exist and function properly. It would also facilitate in reducing misunderstanding and increasing consensus before the two sides engage in official negotiations. This appraisal process could be pursued through hearings, briefings or reports.

Third, Congress ought to enact trade promotion authority legislation to demonstrate its support for the TPP’s high free-trade standards. This is also an important commitment to enhance American economic leadership and other vital interests in the Asia-Pacific region.

Fourth, Congress could urge the Administration to support Taiwan’s accession to the TPP talks, as Taiwan is an integral part of the American technology value chain and regional production supply chain. This support would also be a strong signal to strengthen Taiwan’s domestic support and enabling the aforementioned virtuous cycle of structural reforms.

Finally, Congress should advise the Administration to conduct a comprehensive policy review on Taiwan on a periodic basis. This year marks the 20<sup>th</sup> anniversary of the Taiwan Policy Review done under the Clinton Administration in 1994. The dynamics in the Taiwan Strait as well as within Taiwan and its people have evolved greatly over the past two decades. It is important to update and incorporate current trends into policy planning to ensure effectiveness going forward.

**PANEL I QUESTION AND ANSWER**

HEARING CO-CHAIR SLANE: Thank you all.

We'll start with our questions. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you all for being here and for our witnesses. Those who have been before us in the past, thank you for reappearing. You're brave individuals. I'm kidding.

[Laughter.]

COMMISSIONER WESSEL: I'm a strong supporter of Taiwan, so I want to start with that comment leading into the questions I'm going to ask.

Yesterday marked the 25th anniversary of the Tiananmen Square whatever one wants to call it--I call it the Massacre--and it went somewhat unnoticed here in the United States, far less than I think many had expected or had hoped for to highlight the continuing fight and American value for democracy, freedom and human rights.

And I think much of that has underlaid in the past the support for Taiwan. It's our fight to ensure that it can control its own destiny, that we stand by them.

The witnesses have all focused on trade, an issue I spend a good deal of time with, and as I recall and looked at my phone this morning, partially a product of Taiwan--it's an iPhone--I saw that our deficit, if I read the numbers correctly, was \$12 billion last year, a very divisive issue here in the United States, as you well know. The reason that many of the issues that the panelists called for--TPP, Fast Track or TPA--they've been held up significantly here in Congress because of the divisions that exist.

Challenge me, please. My argument would be to the extent that you focus on trade to try and enhance the relationship between our two countries, I think in some ways you may undermine the needed revitalization of the strength in our bilateral relationship rather than enhance it.

The American values, again, that have brought us to support the Taiwan Relations Act, to ensure with the fielding of the carrier group, et cetera, those are basic ideals that have undergirded U.S. foreign policy and the projection of power. If this becomes a trade relationship, I think you'll find, especially in light of our limping economy, that the focus will be on a somewhat one-sided relationship, that Taiwan sells \$12 billion more here than they buy from us, that if one were to go to valuated trade analysis that the WTO and others are pushing, that deficit would probably rise because of the products that go into the iPhone, et cetera, that emanate from Taiwan.

So tell me, challenge me. My view is that we should be focused on the core values that have strengthened and undergirded the U.S.-Taiwan relationship. Much of what you've said is that we should focus on economics. Please, each of the witnesses.

DR. WANG: Commissioner Wessel, I obviously agree with you. I think that Rupert used the adjective "parochial" on the focus on trade. I think our relationship with Taiwan is actually of strategic importance. Even I can make that argument based on value alone because Taiwan's democracy, however imperfect, is the only one of all the ethnic Chinese societies around the world.

Former Congressman Henry Hyde used to say or mention this point, that preserving and improving Taiwan's democracy is of strategic importance to the United States and holds the key of genuinely good U.S.-China relationship because however we can perfect this democracy will obviously not only enhance our support for Taiwan's democracy but also holds a beacon for China's prospect with democracy so I absolutely agree with you.

MR. HAMMOND-CHAMBERS: Well, one can certainly make a robust argument for the importance of U.S. leadership in the region on trade. You know, to me, I would pose to you the notion of what it would cost us to manufacture the goods that we import from Asia here in the U.S.? How much are you prepared to pay for your iPhone? One, two times, five times, ten times to have it manufactured here in the U.S.?

What would that necessarily--

COMMISSIONER WESSEL: Probably not a question you want to ask me if you want to look at what I'm wearing, but that's okay.

MR. HAMMOND-CHAMBERS: All right.

[Laughter.]

MR. HAMMOND-CHAMBERS: But the question still stands; right? You know, you want to look at just straight numbers, that's fine. You know, I'm more comfortable thinking about what it means for those of lower socioeconomic means to go into a Wal-Mart and be able to buy a broad array of products that are affordable to them because they are manufactured in the place that they can be manufactured at the least possible cost.

That to me is a poverty reducing policy that our governments, whether Republican or Democrat, have failed to ever have the kind of impact on. Trade is very, very good for the U.S. people. It's tricky because there are winners and losers, and to me the debate isn't about whether or not we should be leading on trade; the debate to me is who is dislocated by this and how can we help them make the transitions?

That is where the debate should take place, not building walls or depriving the U.S. of its historic role in leading in a whole range of areas, but essentially in trade because, big picture, I see a region at the moment where Chinese are making every attempt to challenge the institutions that we've built since the Second World War.

What will those institutions or new institutions look like if the Chinese are leading on trade? Are we happy with their economic model? How would that translate from a trade standpoint? Are we willing to accept their terms and conditions in engaging the Asia-Pacific region in trade? Are we able to give up our traditional leadership role and allow them to set the standards? I would argue no.

So for me, a robust defense of U.S. trade interests is absolutely essential. We can certainly imbed those in the deals that we do, but the focus shouldn't be on building barriers to trade to try and change the numbers that come through, however accurate those are. They should be focused on those Americans who are dislocated by the challenge of trade and help them make the transition to industries that are growing as a consequence.

MS. FAN: I'd just like to echo the points that have been made forth, which I perfectly agree with, and I'd also like to just add that an economics relationship in itself is an important cornerstone or a very comprehensive strategy to engage in Asia being a most vibrant region economically in the world so far. Even the trade data itself, as we pointed out from our testimonies, that they're not sufficient in reflecting the true significance of the relationships by themselves.

So therefore this is a way to facilitate in strategic planning going forward. It should not be treated as a stand-alone case, but it should be put into context of other interests as well to make it more effective going forward.

COMMISSIONER WESSEL: Thank you.

If there is another round I'd like to ask a question because the point was--and we can have a long and deep debate about trade--was whether trade is taking us away for what have been some jointly held views that I think have undergirded the relationship, and those are starting to weaken, and, you know, what part trade may play in supporting that is a different question, but on the next round I'll go back at it.

Thank you.

HEARING CO-CHAIR SLANE: Commissioner Tobin.

HEARING CO-CHAIR TOBIN: Great. Commissioner Wessel, I'm thinking that the idea that you put forward, Ms. Fan, and I think another one of you recommended, that our policy with Taiwan needs to be reviewed and updated and in doing that we should not forget the ideals that we share with Taiwan.

I too, like you, am a great friend of Taiwan. I find their political system invigorating, and I follow the news there.

Mr. Hammond-Chambers, you shared what was new to me, and I'm very glad to hear, that you foresee possibly this summer the President announcing, you hope, a bilateral trade agreement. Can you tell me more on that? What do you see? What do you want to see? What do you hear because you're so much closer? And then I'll come back with questions for Dr. Wang, too.

MR. HAMMOND-CHAMBERS: Thank you, Commissioner.

Where we are at the moment with this is several months ago in the early part of April, the U.S. and Taiwan held the second TIFA meeting after the relaunch, post the long freeze over beef. And it was a good TIFA meeting, solid. We made some steady progress in some important areas, including pharmaceuticals and private equity, where there had been some congressional concerns, specifically coming out of Ways and Means.

Where we are at the moment, however, is I believe it's fair to say that the Obama administration is basically supportive of the launch of a bilateral investment agreement or what, if it wasn't Taiwan, we would call a BIT, or bilateral investment treaty. It's semantics vis-a-vis Taiwan. And moving forward, however, we still are facing some congressional opposition, particularly around Ways and Means, and their concerns are focused in on these three areas I've touched on--pork, pharmaceuticals and private equity.

And those concerns, to dive down a wee bit further, are related to whether or not there's any progress being made in the TIFA process at the moment on those three issues, and then the other issue is what sort of, looking forward, what sort of potential is there for resolution or partial resolution of outstanding issues?

That's where we are right now, is as an organization working with the AmCham in Taipei, we're attempting at the moment to impress upon Ways and Means that certainly in the instance of private equity and pharmaceuticals that the TIFA process is making progress, and that there is important leverage right now with the MA government's interest in becoming a TPP member.

And what I mean by that is that in that interest we are seeing a degree of unilateral reform within Taiwan that frankly we haven't seen since the WTO accession days in the 1990s. That's very good for the U.S. because it's moving the ball forward.

We have moved nowhere on pork. Pork is a highly contentious issue in Taiwan and, frankly, President Ma's political challenges make it unlikely that he will be able to make the sort of dynamic changes he did with beef as he has done with pork.

HEARING CO-CHAIR TOBIN: And that's partly due to the parochial interests, as I understand it.

MR. HAMMOND-CHAMBERS: Absolutely. You're absolutely right.

HEARING CO-CHAIR TOBIN: And even if we provided ractopamine-free pork, it still would be an issue?

MR. HAMMOND-CHAMBERS: It wouldn't be. If we can move racto-free pork--

HEARING CO-CHAIR TOBIN: Yeah.

MR. HAMMOND-CHAMBERS: --then this issue goes away, but while, as I understand it, while racto-free pork production in the U.S. is going up rapidly--

HEARING CO-CHAIR TOBIN: Yes.

MR. HAMMOND-CHAMBERS: --companies like Smithfield are doing a really good job because the demand externally is high, there's only so fast our pork producers can move. But it is an interesting trend line to watch because the longer this issue continues to play out, the greater U.S. production in racto-free pork will be, and ability to meet the needs of our export customers will improve dramatically as well, and there's the possibility then that this as a trade issue and therefore a political issue will diminish.

HEARING CO-CHAIR TOBIN: So it sounds like there are significant hurdles on this, but I join you with the hope it will move forward.

Dr. Wang, in your recommendations, you laid out very clearly things that as we put together our report I know we'll be referring, in fact, to all of your testimony, we'll draw from what you're saying.

Specifically what would you like to see perhaps beyond TPP in terms of bringing Taiwan more into the international community? Can you give me several specifics, please?

DR. WANG: I study international organizations so one thing I found with Taiwan's entry into WTO or APAC or remaining in the ADB share one pattern, which is

that U.S. support was crucial. We know that the PRC opposition is a given, but, of course, U.S. support is necessary but not sufficient condition.

I think that it's quite remarkable. Taiwan can accomplish what it has accomplished despite the lack of free trade agreements with most of the countries, major trade partners and so on, but obviously Taiwan's continued prosperity is under strain and all the spaghetti bowl in Asia-Pacific region is bypassing Taiwan, and I think that this makes a very strong case that Taiwan should be an integral part of Obama administration's rebalancing to Asia.

I'm a little disappointed. The administration actually did not explicitly mention Taiwan. I understand why. I have a paper to try to explain why. I would just say that the United States should remind the PRC and all other international actors that Taiwan is a member of the WTO. As a member of WTO, Taiwan is eligible to sign all these free trade agreements bilaterally or multilaterally.

HEARING CO-CHAIR TOBIN: Thank you. And that would look at it systemically.

DR. WANG: Right.

HEARING CO-CHAIR SLANE: Chairman F.

CHAIRMAN SHEA: Well, thank you all for being here, and I will also say I enjoy when I go to Taiwan and have a deep appreciation for the success story that Taiwan is.

I was watching, I did see some coverage of the Tiananmen Square Massacre, the 25th anniversary, in the United States, and I was actually watching a very moving demonstration in Hong Kong, which happens annually, but they estimated as many as a 180,000, maybe it was 150 or, it was a large, large group, and it seemed that the folks were there not just to commemorate what happened 25 years ago, but also what's happening today in Hong Kong in the sense that they're kind of losing their unique political status.

And I was wondering how much do the people in Taiwan pay attention to what's going on in Hong Kong, and, you know, obviously, the Chinese government's objective in the greater economic integration is a political one. Ultimately, reunification. But my sense is that they hurt their case by clamping down in Hong Kong. I'm just curious, do people in Taiwan pay close attention to what's going on in Hong Kong? Give me a sense of that.

MS. FAN: Sure. I'll give a shot on that since I am from Taiwan. I want to say the simple answer is yes, definitely. As a matter of fact, they watch it so closely that when ECFA was first signed, it was compared to CEPA that was signed between Hong Kong and China, and in fact they are worried about what CEPA had done to Hong Kong subsequent to its signing, and some people in Taiwan would prefer not to have happen to them after ECFA.

So far it looks as if from the initial data from the Early Harvest have not indicated that that has been the case, but when the faucet is opened, it can also be turned off so that is the trick here. We certainly keep very close watch.

Just a very quick point on what Rupert just mentioned about the BIA. Coming from the investment community, I'd like to acknowledge that in terms of the private equity talks, there has been some progress about, particularly about the entry and the exit mechanism, so at least from that point of view, we have some kind of breakthrough. So thank you.

MR. HAMMOND-CHAMBERS: I would absolutely echo the point that the people of Taiwan watch very closely what's going on in Hong Kong. This goes back to the notion that the Chinese floated that the model one country/two systems that was given--was "given"--that Hong Kong has would be a model for Taiwan. The people of Taiwan flatly reject that almost to a man and woman.

One of my greatest concerns about what's going on over in Taiwan right now is the possible radicalization of China policy, and we can certainly talk more about that. It's a big thing to throw out there and then not really elaborate on, but the point I simply want to make is when you look at the public disquiet in Hong Kong over

Chinese rules, you pointed out today, as opposed to in the past, I think it's absolutely tie-able to the public disquiet that we see in Taiwan right now.

Some describe it as the Sunflower Movement. I think it runs much deeper, and it's much more organic. This isn't about one political party is a puppet-master here. This is about deep, deep concern, I think, particularly amongst the young and the middle-aged, over the trajectory of their relationship with the Chinese and what that's going to mean for them in their future. Their economic future, they perhaps have somewhat less concern about because that's what China leads with, but their political and human rights, I think, is really starting to come to the forefront.

And, finally, how able are they to actually chart that course; right? That sense of frustration that's starting to emerge over this inevitability that they're just going to be absorbed, and that they're just going to be told what to do, and in Hong Kong, while the cat is slightly out of the bag given the nature of the transition from the British to the Chinese, but in Taiwan, it is absolutely not. It's still all on the table.

DR. WANG: I don't have much to add except to say that until recently, there was an anomaly that the Taiwan and Hong Kong are very close, as Rupert mentioned, in the Chinese design. They are mentioned in the same sentence. They should be paying more attention to each other, but they didn't, but this situation is beginning to change, not only for self-interests, but also I think the people in Hong Kong realize that after 17 years of under Chinese rule that their continued autonomy and freedom, the best hope actually resides on a Taiwanese democracy functioning very well.

They can see the linkage that as long as Taiwan continues to flourish democratically and autonomously that Chinese will be more soft-handed toward Hong Kong, and the Taiwanese have this realization as well that they don't want what happens in Hong Kong to happen to them tomorrow.

CHAIRMAN SHEA: Uh-huh. Well, I would like to participate in a second round of questions. Thank you. Thank you.

HEARING CO-CHAIR SLANE: Commissioner Brookes.

COMMISSIONER BROOKES: Thank you and thank you all for your thoughts this morning.

This question is for the panel. I'm interested in your bottom line assessment of the state of U.S.-Taiwan relations. We've talked about a bunch of different things, but I was wondering if you could kind of put it all together in a comprehensive way and perhaps list where you think it's strong and where you think it's weak.

Thank you.

DR. WANG: I'm an academic so I invoke my academic freedom.

[Laughter.]

DR. WANG: Seek permission to speak frankly. The U.S. and the Taiwanese officially say that the relationship is the best in decades. Although they also say that a lot of progress has been made, they cannot mention that, thanks to diplomatic protocol.

But I already, in my testimony, alluded that there is a sense of drift, and that the relationship had been under autopilot for far too long. Even two very friendly nations, such as United States and Taiwan, which share common values, commercial interests and this historical relationship, this alliance has to be--well, call it alliance in a very loose sense--has to be constantly cultivated and managed. I don't see that.

Perhaps there is, but I don't know it from where I sit in the ivory tower. So that's why I think that there should be a high-level strategic dialogue to constantly remind us that as far as the U.S. friends and allies in the Asia-Pacific are concerned, Taiwan is probably only slightly less important to the United States than Japan and South Korea. If that is not an understanding, I don't know what it is.

MS. FAN: I would also like to echo what Professor had just mentioned about how Taiwan had been drifting along on its way without too much care from its friends, particularly from the United States. It perhaps is in U.S.'s strategic interests of thinking one way or the other to decide that to sit on the sideline when Taiwan is economically integrated into this greater China picture, but based on what we have talked about this morning, it's shown that independence in trade doesn't necessarily

lead to lasting stability and peace going forward.

So this is something that we should have a review on Taiwan again from the United States, this should be put in context as well. Particularly due to the recent Asia pivot, I think something of this thinking that along the way that Taiwan should be put in the picture of the rebalancing should come forth as well.

MR. HAMMOND-CHAMBERS: Thank you for the question.

I would associate my comments, too, with my colleagues on either side here. I see a relationship adrift at the moment. It's underwhelming frankly. On the strong side, in defense, there is actually a great deal going on. There really, really is, but-- and that's a strength, but the weakness is we stopped selling arms to Taiwan, and they're not getting appropriate access to the process at the moment. That's a significant concern.

Yes, the relationship appears to be running smoothly on the face of it, but when I say underwhelming, I mean that we hear comments about the relationship never having been better, it's predicated on the notion that Taiwan asks for very little, which we're happy to give them, and then both sides declare that everything is great.

It's back to this notion of not setting significant goals and objectives for the relationship. And then you get this notion of drift, and when you look, if we pivot and look at it coming back from the Chinese side, well, how do they look at that, how do they look at our intentions vis-a-vis Taiwan; right? We've done a number of small agreements. That's a strength. Visa waiver, for example, it's a great, really good agreement, but modest, right, but we haven't sent a Cabinet officer--we've only sent one Cabinet officer to Taiwan in 14 years--14 years.

So that's a weakness. So, you know, perhaps some might say, well, that's a mixed bag. I would say to you that we set not just modest goals, we're underwhelming everybody in what we're looking to do with the Taiwan side.

My favorite way of looking at this is that what's going on at the moment is we're pocketing peace and security in the Taiwan Strait and putting the relationship on autopilot before peace and security in the Taiwan Strait has broken out.

And, again, just as an analyst, I'm absolutely not convinced that this relationship, this new detente across the Strait, is on autopilot. I'm really concerned about what's coming down the path and the absence of significant investment on the part of the U.S. to Taiwan and telegraphing to the mainland that this remains an integral and central part of our Asia-Pacific policy and inherently in the national security interests of our country.

COMMISSIONER BROOKES: Thank you.

HEARING CO-CHAIR SLANE: Vice Chairman Reinsch.

VICE CHAIRMAN REINSCH: Thank you.

One of the questions that I guess academics debate with respect to the PRC is whether economic liberalization or reform necessitates political reform or goes hand-in-hand with political reform, and I think I'd like to ask the same question in the context of the cross Strait relationship: can you have economic integration without political integration?

MR. HAMMOND-CHAMBERS: Absolutely. I believe those two things can be kept apart. There will always be pressure on the system to push the two together, but that pressure can be resisted. It's about clarity, and it's about a willingness to say no, to draw lines.

I think what we have right now is an understanding across the Strait that economic reconciliation between the two will lead to political and military reconciliation, but that's a policy, that's an approach. If leadership in Taiwan decided to say clearly, well, that's not now our approach, we want economic reconciliation, but we're not interested in political union, whatever that might look like, that is a political choice, and that can be telegraphed. It will come at a cost, but there will be a consequent adjustment.

DR. WANG: It is possible to have economic integration without political integration. The European Union is one best example. It should be reminded--

VICE CHAIRMAN REINSCH: I'm not sure that's a good one, but go ahead.

DR. WANG: Well, but ultimately it is a political decision to allow or to inhibit the progress of economic integration, right, so I think that the Ma administration certainly is, and I'm sure that in the future, whichever party rules Taiwan, they understand that maintaining a normal, mutually profitable economic relationship with China is important because in a way it's a confidence-building measure and also to stabilize the relationship.

But what they want is to normalize the relationship, that no one in Taiwan is interested in subjugating itself under the PRC so there will be political forces to forestall that from happening. I guess your question would then be is it possible, that is, is there a physical force that will make it impossible for Taiwan to resist political union? I think it is still possible.

MS. FAN: That is certainly a great concern on the minds of the Taiwanese people as a result of ECFA, and while the simple answer is yes, this is a path that has to be treaded very carefully and monitored very carefully, especially when a small country is pitted against a huge country of several times bigger.

MR. HAMMOND-CHAMBERS: If I may, quickly, I think a better analogy for us here in the U.S. is NAFTA where you have significant economic integration between our northern and southern partners but clearly defined political and security interests that are separate.

VICE CHAIRMAN REINSCH: Isn't this question really what the demonstrations were about and concern on the part of the people, that the kind of economic integration that's presumed by ECFA and other agreements is going to lead to a political consequence that they don't want?

MS. FAN: Actually if I may add to that, I think you're right on the money on that. As the trade data showed, that if you add Hong Kong's, exports from Hong Kong, 40 percent of Taiwanese exports now goes to China plus Hong Kong, and 80 percent of Taiwanese FDI capital outflow, as I mentioned, goes to mainland China.

This is a huge leverage that China has over Taiwan. This, if played as a tool, political tool, it can, and--

VICE CHAIRMAN REINSCH: Yes, but this sort of contradicts the answers that you've all given. The demonstrators' answer seems to be the way to stop political integration is to prevent economic integration, which suggests that they do go hand-in-hand.

MR. HAMMOND-CHAMBERS: Actually I don't, that's not my interpretation of what they're trying to do. I don't believe that they're trying to stop it in place. For me, a big part of what's going on here is this notion of a sense of inevitability of a political reconciliation between the two sides.

I believe that most Taiwan people want economic upward mobility, and if that comes with, as Vincent noted, a normalized trade relationship between the two sides, that's fine. It's this notion that there's presently a political narrative that has economic integration leading to inevitable political integration, and that's where they want the narrative changed.

But I don't make the jump that that necessarily equates to ending the economic process with China, simply a re-characterization of the future of what that leads to.

VICE CHAIRMAN REINSCH: Dr. Wang, do you want to have the last word?

DR. WANG: Although the demonstration seems very confusing and perhaps even messy, I think there is actually some blessing in disguise. In my written material, I called this a cooling off period, and I think the Taiwanese people understand, even the protesters understand, that it is important to economically engage with China, but what people in Taiwan disagree may be what price to pay, and I don't think that any politician will willingly say that at the expense of your sovereignty.

So I think to the extent that the protests and so on serve as an alarm bell, it's basically like a safety valve, if you can see it that way, then maybe a period of regrouping, a reassessment of the progress of cross-Strait economic engagement so far might be good.

VICE CHAIRMAN REINSCH: Thank you.

HEARING CO-CHAIR SLANE: I want to follow up on that, and I struggle with the concept of who needs who? We have had hearings on China's inability to innovate, and one of the things that Taiwan brings to China is the ability to help them develop their high tech industries, and it's a country that embraces innovation, which is severely lacking in China, and the Chinese know they can't get to where they want to go without major innovation.

At the same time, it seems that they're making themselves extremely vulnerable when 40 percent of their trade is with mainland China, and the Chinese have exhibited over and over again that trade is a weapon for them, and so I just wonder whether you think that China needs Taiwan more than Taiwan needs China, or is it so interconnected, and where is it all next year or the next decade? Is it going to be 60 percent or 80 percent?

MS. FAN: I think as a small country with very limited resources, Taiwan relies on trade for its economic growth so it needs everyone. It needs all the trading partners that it can engage with, particularly a big market that China does have. It has positioned itself as a very important market destination.

Having said that, there is a danger that should this be used as a political tool that Taiwan may be put in this corner where it has to respond, and probably not necessarily in kind because it does not have that much of a currency to do so.

But having said that, free trade liberalization of markets are a good concept and good response to a healthy relationship as a cornerstone. As mentioned, this has to be monitored very carefully. This is not a number game where it goes 40 percent this year and 60 percent next because I think economic progress is done in tandem from both sides of the bargaining table, but having said that, China is facing slowing economic growth at the moment.

It is adjusting to its own rebalancing from the export-led economy to a consumption driven economy so itself has problems as well. So, again, the dynamics are evolving as we stay very closely in tune.

MR. HAMMOND-CHAMBERS: Well, I'd say that China definitely needs Taiwan. I would be more specific though. I would say that the Chinese Communist Party needs Taiwan. If Taiwan were to declare independence hypothetically, or whatever that might look like, some resolution of this issue that didn't have Taiwan becoming part of China would threaten the very existence of the Communist Party and its ability to lead China unchallenged.

So China needs Taiwan in that sense. In a commercial sense, Taiwan investors are--certainly as an organization, we argue that Taiwan is the most significant investor in China, and that, as you absolutely correctly note, is a concern because China--the present policy of ECFA for Taiwan, it is about normalizing the trade relationship and creating a degree of momentum around positive relations.

For China, it's got nothing to do with putting, delaying time or improving commercial relations or maybe at the margins. This is about unification or, as they would describe it, reunification. So you're absolutely right in that sense.

But from the Taiwan sense, they have very real competitive advantages in a country that still remains very central to global production, and that's a huge upside for them with all the advantages that they have culturally.

I would simply come back to a point I think the three of us have struck at, and that's now that the game in the region is multilateral trade deals, how do we get Taiwan involved in those trade deals so that that imbalance in its relationship with China can be brought more back into equilibrium, and the Taiwan side is then able to better represent its interests?

That's in our interest because a trade imbalance between Taiwan and China creates domestic instability on Taiwan, which then will result in domestic instability between Taiwan and China, and therefore increase tension in the Taiwan Strait.

DR. WANG: I would say they need each other. Just to give you one example, before 1996, the Taiwan Strait crisis, there was virtually no vested interests on the

Chinese coast about Taiwanese investment, but when the Chinese decided to send missiles to the Taiwan Strait, I don't know if the Commissioners remember that there was this very clumsy attempt by the Chinese leaders to simultaneously reassure Taiwanese investors I can shoot missiles at you, but I still want your investment!

So over the years the many local Chinese officials have actually benefited from Taiwanese investment in their provinces. So I would say if there's a military hostility happening in the future, they will be the first ones to say, please, Beijing, don't be so gung-ho, we actually need them!

I want to quote a saying from The Economist--Rupert is right that Taiwan has served as a bridge for China's reintegration into the world. So today a commissioner's iPhone in the past may be "Made in Taiwan," but today it is "Made in China by Taiwan;" right? So The Economist article says that the Taiwanese are the "foreigners" who best understand the Chinese, and they're also the "Chinese" who best understand the foreigners.

So this is the role that Taiwan has been playing. I don't think that the trade dependence will be as high as 80 percent. Right now 40 percent may be alarming, but what everybody agrees is that this scale is a little bit unbalanced now. If we add weight on the other side, then Taiwan will trade more with like-minded allies like Japan or the United States or Korea and so on. Then it won't be as high as 80 percent.

HEARING CO-CHAIR SLANE: Thank you.

We'll go to a second round. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you. Hold on one second since I want to read a quote from the Washington Post editorial this past week on President Obama's speech. I believe it was at West Point.

"Reiterating and further tightening a doctrine he laid out in a speech to the United Nations last fall, Mr. Obama said the United States should act unilaterally only in defense of a narrow set of core interests, such as the free flow of trade," which to those who argue that deepening trade relations is an important insurance policy, I guess is the best way of putting it with Taiwan.

I stand on the other side of that debate. I believe that, of course, we have to protect commerce, but there are certain basic human U.S. ideals--freedom, democracy, human rights, et cetera--that we should be fighting for.

So I want to go back to that question because you talked about policy drift. I think part of the drift is that there has been more of a focus on economics and less of a focus on self-determination and, you know, many of the basic issues that Taiwan's people future depends on. We have what's happened in the Crimea. We have Chinese activities, is probably the best way of putting it, in the South China Sea, Vietnam, Philippines, et cetera.

How do the Taiwanese look at this, and if you're trying to play to me, somebody who questions whether we should turn--and I know you're not arguing for this--but turn to have our relationship primarily about trade where it then gets into the debate about who benefits, is there a way to try and enhance the strength of the relationship as it relates to the basic rules, the basic ideals, or are we just beyond that?

Please, each of the witnesses. I'll ask you, Mr. Hammond-Chambers, to start.

MR. HAMMOND-CHAMBERS: Once more into the breach difference.

[Laughter.]

MR. HAMMOND-CHAMBERS: Okay. So, well, you're right. I can't argue for something I don't believe in. I would say that I view trade as an integral part of a much broader U.S. strategy in the region, okay, that absolutely has freedom, democracy, human rights, all part of that. I do not equate one above the other.

COMMISSIONER WESSEL: And let me also add I know your history. I don't question what your ideals are. Please understand that.

MR. HAMMOND-CHAMBERS: Yeah. Yes. Thank you very much.

The reason that, again, trade for us, I think it's in the moment, at the moment right now. Just to keep it parochially focused on Taiwan for a moment, there is a significant imbalance emerging in Taiwan right now, visually. It might have been there

for some time, but it is visually becoming more apparently to us.

We've seen it in this so-called Sunflower Movement, but it's much broader than that, this disquiet over the notion that Taiwan's people are increasingly less in control of their own fortunes, right, and you could even look at it in a number. The 40 percent; right? The trade imbalance between Taiwan and China.

And it's been noted that that is out of balance at the moment. So how do we bring both the practical trading relationship, which is significant--it employs tens of thousands of Americans--it is a very important market for us in a whole range of different ways--how do we bring that more in balance while also positively impacting the political as well as these other issues because I will go to my grave arguing that Taiwan is one of the leading beacons in the region and the leading beacon vis-a-vis China for freedom, democracy, human rights.

It is essential to U.S. policy that we argue for strong relations with Taiwan, not modest but strong relationships with Taiwan, and that we do everything possible to support that democracy because of its significance within the region. Again, we could be pushed back in lots of different ways in the region--the West Philippine Sea or the East China Sea, lots of different ways.

But in the end, to be pushed back on Taiwan, I would argue, sends a much more significant message to China about where our lines are, not just on trade-related matters but on what we equate the value of democracy, as human rights and our willingness to follow through and support legacy issues that are integral to what make us Americans; right? And our interest in seeing it.

COMMISSIONER WESSEL: Agreed. My concern is that we're being left essentially with two options: one of them is arms sales; the other is a trade agreement. And for me, there has to be something that doesn't create the divisive debate that goes, though, at the core of the values we share and why Taiwan and America, you know, share those interests and must fight together.

MR. HAMMOND-CHAMBERS: Those two issues for me are simply part of a broader package, again, whether it's rhetorically or practically in policies. Again, I'll go to my grave arguing that those two issues, however, are essential, not just to ensure that Taiwan is strong enough economically and militarily to deal with the sorts of coercion we understand that the Chinese are quite willing to place on countries.

And this is not the China that pressured the Bush administration in '06 and '07 to make Chen Shui-bian do this and that. This is China of 2014, and the China of 2014 is a very different creature indeed, quite willing to use mechanisms that we haven't seen in the past.

If things go south with Taiwan, what might that scenario look like? I would suggest to you it's going to be a great deal grimmer than it was in the middle part of the last decade.

COMMISSIONER WESSEL: Thank you.

DR. WANG: I think the U.S. support of various countries is based on many things. For example, Israel may not be the most important trading partner to the United States, but I think the United States is willing to go to great lengths to stand up for Israel.

So your question really is can we develop a positive agenda between the United States and Taiwan so much so that we can move beyond this very parochial discussion on material interests? I think a solid relationship has to be a lot more than that.

I have a simple suggestion. We praise Taiwan. We praise Taiwan more and often. We say Taiwan is actually a positive example, is an asset to the human advancement of democracy. It's the best hope of the entire, numerous Chinese population on earth that can have a democracy. We should not be embarrassed to put Taiwan in policy documents and so on. The U.S. stands for freedom and values. We should be able to say that.

And the more we praise Taiwan, the more the Chinese in Beijing will also see that Taiwan is an asset so they will treat Taiwan better.

MS. FAN: I agree with the Commissioner's view and my fellow panelists. The

increase that we've seen in cross-Strait economic integration has been causing imbalance in the triangular relationship towards China with China having the greater leverage at the moment.

So we may be looking at a tipping point where the 40 percent exporting and of the trade data and so on, where the U.S. may have a chance, may risk losing its leadership in the region, where peace and stability in Taiwan Strait is at the forefront. So it is time to reexamine the set of assumptions that we had before and to incorporate the current factors so that we can ensure that there will be a favorable balance for all parties involved.

COMMISSIONER WESSEL: Thank you.

MR. HAMMOND-CHAMBERS: Can I just add, to undertake a practical approach to what you're hearing, actually offer a solution?

I think Taiwan membership in international organizations could play a huge role in all of this, a far more expanded view of what our country is willing to support and argue for, that involves organizations that we've previously considered to be taboo, and really get Taiwan involved in those organizations and to, as Vincent noted, to make a more robust and public case and consistent case for Taiwan's involvement in these organizations. I think that would have an important impact.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR SLANE: Commissioner Shea.

CHAIRMAN SHEA: As you know, China has scared its neighbors of late in the South China Sea and also in the East China Sea with Japan. In the South China Sea particularly, the concern revolves around a map, the 9-dash line that was a Nationalist government map, and which preceded the Chinese Communist Party takeover of China.

So, you know, we've been in Taiwan, and we've heard that the agreement that the Taiwanese went into with the Japanese regarding fisheries was a very positive step, and it is a very positive step. It's about how to peaceably manage differences to make sure that both sides get some benefit, and I was just wondering is there a way for Taiwan to be more forceful in intervening?

I assume it still maintains the historic view of sovereignty in the South China Sea particularly. Is there a way for Taiwan to be more productive in this regard? I mean is it possible for the Taiwan government to renounce the 9-dash line map? What are the internal politics in Taiwan regarding that?

I know in China to do that would probably create an uproar domestically, but is there a role for Taiwan to play in the international space which we were just talking about on this issue that would be very constructive?

DR. WANG: The East China Sea Peace Initiative you mentioned was arguably one example--

CHAIRMAN SHEA: Yes.

DR. WANG: --of positive contribution Taiwan has made despite a lack of a seat at the negotiation table.

CHAIRMAN SHEA: Right.

DR. WANG: South China Sea is a lot more complicated because there are six claimant states, and the 9-dash line the Commissioner mentioned was actually based on the 1947 Republic of China 11-dash line map. Of course, the two dashes were ceded by the PRC to Vietnam, but that's another issue.

You can see how Taiwan is in a very delicate position. On the one hand, it obviously wants to work very pragmatically with other friendly nations, particularly in Southeast Asia, and considering that Taiwan still has troops on one of the largest islands, Itu Aba, or Taiping, but on the other hand, that it cannot afford being seen taking on the identical stance with the PRC. It will be seen on the wrong side.

Therefore, I think that something of the equivalent of an East China Sea Peace Initiative in the South China Sea could be a way of thinking forward for Taiwan's positive contribution, and I think that the stance by the Southeast Asian nations is also indefensible.

On the one hand, they want Taiwan to renounce its sovereignty claim. On the

other hand, they don't give Taiwan a seat at the table so this is indefensible, which we should bring Taiwan in, and we will--the United States can make a contribution simply by saying that this is a very high-stake matter because freedom of navigation and the competing sovereignty claims and the natural resources are all at play. We need to be careful. The United States opposes any unilateral use of force or threat of use of force and welcomes any positive recommendations that will contribute to peace and stability.

CHAIRMAN SHEA: So you think the United States could encourage the Southeast Asian nations to bring Taiwan into a process that examines these sovereignty claims?

DR. WANG: Right. This could be at or in addition to the current regional security dialogue mechanism. Maybe the ASEAN nations have phobia about China in the so-called ASEAN Regional Forum, ARF, but there is no reason why they cannot create an ad hoc body to talk about a multilateral approach toward managing the South China Sea problem.

CHAIRMAN SHEA: Do you think there would be an appetite in Taiwan to do that or is domestic politics difficult?

DR. WANG: I think that Taiwan probably would see this as diplomatic inroads. The double approach, namely preserving the sovereignty issue but set disputes aside and trying to jointly share and cultivate resources, is the right way to go.

MR. HAMMOND-CHAMBERS: I absolutely agree. You already mentioned the fisheries agreement, but I think the path of least resistance for Taiwan is to strike bilateral agreements with claimants on resource issues. Fisheries are a perfect example, and they could do that with the Philippines as well. It gets more complex, of course, where there are multiple countries involved.

From America's standpoint, frankly arguing for a greater role for Taiwan in these regions, I think complicates matters for us hugely. I think for us, we can simply articulate a policy that argues that Taiwan should be responsible in these debates and where it has territorial claims or such with Taiping Island, where it actually has a fairly significant footprint, that it doesn't do anything that provokes the other partners.

So a non-provocation policy with the land that they're in control of and continuing to seek ways to develop the resources in this region peacefully I think is probably the path of least resistance, and then domestically in Taiwan, as Vincent noted, it's a show stopper to actually give up those claims. Neither principal party would argue for that.

MS. FAN: I don't have much to add on the political side except that this does increase business uncertainty and risks as we have seen in the recent riots in Vietnam where instead of the Chinese manufacturers, the Taiwanese manufacturers were recognized as being part of China, and the kind of political relationship between Vietnam and China, and Taiwan becomes the victim for this particular dispute.

So it's very unfortunate, and I feel that from the Taiwanese side, however, steps that they do make will aim at reducing such business risks for its manufacturers.

CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR SLANE: Commissioner Brookes.

COMMISSIONER BROOKES: Thank you.

Rupert, could you expound upon your comment earlier about the radicalization of China policy in Taiwan?

MR. HAMMOND-CHAMBERS: Certainly. This really strikes at for me what's going on with the Taiwan electorate, and the increasing notion that there's an inevitability in the course that the people of Taiwan are on right now in the absence of choice.

And as an organization, we absolutely supported President Ma's policy in 2008-2009 of economic reconciliation with the PRC, but there was always an important second component to that, and that was that it would open the door to broader relations with other regional partners, particularly the U.S., that it would provide an opportunity for us then to do more ambitious things.

Well, that hasn't taken place, and so for me when I look at what's taking place

right now, and just as an analyst, the degree of concern I have about what was intended to be the institutionalization of a better relationship with the Chinese for me now is actually contributing to the destabilization of the potential relationship between Taiwan and China because the present course is unsustainable.

There simply isn't consensus on Taiwan for a China-only reconciliation policy that does not include relations with other countries, and if other countries are unwilling or unable to step up and open new doors for Taiwan in meaningful ways, not modestly, but meaningful ways, I would argue that we're going to get increased--the word "radicalization"--we're going to get increased radicalization on Taiwan.

For the first time that I've been doing this, and I've been doing Taiwan stuff for 20 years, we've got a large series of elections taking place in Taiwan this autumn. For the first time, I've got friends in Taiwan who are genuinely concerned about political violence in the fall. I don't know if my colleagues share that. I'll only speak for myself.

But that's what I talk about, the radicalization, this notion that the people who are voting and those that have the most to lose or don't have that direct contact with the mainland that the older generation does have a sense of hopelessness over the direction that their country is taking and the institutions that they have great pride in, their long-term viability in the face of, let's face it, increased and very heavy Chinese coercion.

HEARING CO-CHAIR SLANE: Our last question with Commissioner Tobin.

HEARING CO-CHAIR TOBIN: Thank you.

Mr. Hammond-Chambers, you chronicled the 1980s, and I think you did, too, Dr. Wang, as the time when the United States' trade was much stronger, and for some years I worked at Hewlett-Packard and IBM, and we had a marvelous number of visiting engineers, permanent engineers, exchanges going on. I know from the 1980s, the global supply chain has changed significantly, but Taiwan has fabulous educational institutions.

Is there a way that you see, Mr. Hammond-Chambers, Dr. Wang, Ms. Fan, for there to be something like what John Young did? He was the CEO back then of Hewlett-Packard and the Council on Competitiveness occurred. I see no reason why we can't have a competitive high-tech solution, not solution, but partial solution to build trade.

So if any of you could speak on that because the high-tech industry is going to continue evolving, it could be in biomedicine, which is another strength of Taiwan's, and we've got key leaders in the high-tech world who are always looking to the future. So have at it, each of you.

MR. HAMMOND-CHAMBERS: Commissioner Tobin, thank you.

It's a great question, and actually you're right there with a major initiative underway on Taiwan. Former Vice President, Vincent Siew, really I think intellectually the strongest leader in Taiwan, and there are a lot of people who absolutely get macro and microeconomics, but Vincent has the political gravitas. He's considered nonpartisan. He really is the absolute top person within the country to lead an initiative just like this.

He traveled to the United States in the autumn of last year with a high-level delegation, about 20 people, made up of chief executives from companies such as Hon Hai, Terry Gou, that make your iPhones and your iPads. That's Hon Hai. They're the ones that do the systems integration in the mainland, and argued for exactly the kind of engagement that you're articulating at the moment.

It makes a great deal of sense. I don't know if you call it Track 2, Track 3, Track 4, whatever you call it, but it can and should have a material impact, not just on the commercial relationship and addressing imbalances, but also politically as it draws the countries together strategically, and I think critically in that technology space.

We're already tight, as you well know from your past, but to draw us ever tighter, that will have a strategic impact on Taiwan's security.

Frankly, if China were able ever to do a blockade around Taiwan, it would bring the global technology supply chain to a halt. That would have national security

implications for our country very quickly.

The more we can strengthen that bond, the more we vest U.S. interests in Taiwan, and the more that has ramifications on other issues such as democracy, human rights and other issues that we want to champion vis-a-vis Taiwan.

HEARING CO-CHAIR TOBIN: And it builds on what you were talking about, the innovation component.

Dr. Wang.

DR. WANG: I mentioned the 1980s, that Taiwan was firmly in the U.S. camp. I can mention the origin of Taiwan's now-famed IT industry. It started with a transfer of license from RCA to Industrial Technology Research Institute, and you had people like Morris Chang and so on who started Taiwan's "Silicon Valley," namely Hsinchu Science Space Industrial Park.

But that was a different time because Taiwan was one of the largest foreign student groups in the United States. There was close personal contact, and China was not sending a lot of students to the United States. Now, China is the largest source of foreign students in the United States.

So I think Taiwan has a great deal of difficulty of finding a second industry to the IT that will provide two more decades of prosperity like IT did. So I think this is actually a good initiative that we can actually rekindle the human contact between the United States and Taiwan that would not only help solidify the relationship but also help Taiwan find a second source of prosperity that would lessen its dependence on China.

HEARING CO-CHAIR TOBIN: Ms. Fan, private equity, any ideas?

MS. FAN: Actually I think that the Commissioner's point was totally on the dot, and I totally agree with what my panelists here have said. And coming from the investment community, high tech has always been a very fruitful sector for us.

And the point already made, and I think the delegation that Rupert had mentioned, the CEO talks, that was the first time ever that was done, and I would hope that it will continue, and that's why I'm here to also urge that there is a review on the current communication mechanism between U.S. and Taiwan so that we don't have a disconnection between--and this should be done on both the public and private sectors, you know, first track, second track, however you want to call them, so that we can have more understanding of each other's needs, either on trade or other issues, before we go to the negotiation table because right now it seems as if every time we do talk, it's already at the negotiation table where people have different interests that they need to protect, for example, beef and pork and others.

And I feel that if we do periodic review of the communication mechanism to ensure that they are in place and that they are running effectively, this will actually reduce a lot of the misunderstanding and promote overall trade health going forward.

HEARING CO-CHAIR TOBIN: Could each of you, since we're about to close, could each of you give some thought specifically on what incentives, if any, Congress could bring to this effort to find, as you say, a second source or be in touch with our staff on that?

DR. WANG: I just noticed that there are not as many members of Congress visiting Taiwan now compared to two or three decades ago. Maybe this is actually the result of a "victim of its own success," namely there is no war in the Taiwan Strait, and so on, members would like to focus attention on Syria or Ukraine and so on.

I think that for reasons we already laid out, that it is very important to renew generations of knowledge and affinity about Taiwan.

HEARING CO-CHAIR SLANE: Thank you, gentlemen and Ms. Fan, very much. It was very, very informative and we greatly appreciate your time.

We'll stand adjourned for ten minutes.

[Whereupon, a brief recess was taken.]

**PANEL II INTRODUCTION BY COMMISSIONER DANIEL M. SLANE**

HEARING CO-CHAIR SLANE: We're reconvening for our second panel. Our second panel will examine the cross-Strait military and security issues with focus on Taiwan's ability to defend against Chinese kinetic and non-kinetic military coercion.

Professor William Murray is an associate research professor at the U.S. Naval War College. He previously served on, and qualified to command, nuclear powered submarines in the U.S. Navy. Professor Murray is the coauthor of the books *China's New Nuclear Submarine Force* and *China's Energy Strategy: The Impact on Beijing's Maritime Policies*, and he has published articles in *International Security* and many other journals.

Mr. Ian Easton is a research fellow with the Project 2049 Institute where he conducts research on defense and security issues involving the United States, China, Japan and Taiwan. Last summer he served as a visiting fellow at the Japan Institute for International Affairs in Tokyo.

Previously, Mr. Easton worked as a China analyst at the Center for Naval Analyses.

Mr. David Firestein is the Perot Fellow and Vice President for the Strategic Trust-Building Initiative and Track 2 Diplomacy at the EastWest Institute in New York.

He was a U.S. diplomat from 1992 to 2010, during which time he served at the U.S. embassies in Beijing and Moscow. Mr. Firestein is the author or co-author of three books on China, and most recently, he co-authored a major policy study on U.S. arms sales to China--to Taiwan. I'm sorry.

Thank you all for providing testimony. Before we begin, a quick reminder to please keep your opening comments to seven minutes.

Professor Murray, we'll start with you.

**OPENING STATEMENT OF MR. WILLIAM MURRAY  
ASSOCIATE RESEARCH PROFESSOR, U.S. NAVAL WAR COLLEGE**

MR. MURRAY: Commissioner Slane, Tobin and the other Commissioners, ladies and gentlemen, thank you very much for inviting me here.

I wish to emphasize that what I'm about to say are my personal opinions and not those of the Naval War College, the Navy, the Department of Defense or the U.S. government.

I'll get right to the point: there is little reason to think that Taiwan's current Navy and Air Force can remain effective as fighting forces after being subjected to a Chinese missile attack and aerial bombardment. This reality invites serious Chinese contemplation, I feel, of such attacks as a means of enabling an invasion or blockade and represents a weakening of deterrence that has to be reestablished.

I think that this deterrence has to start in Taiwan and has to have a large military component. Consequently, I advocate that rather than buying more aircraft or large ships that Taiwan should develop what I'm going to refer to as an anti-Navy and an anti-Air Force.

The purpose of such revised forces would be to convince Beijing that a Chinese invasion cannot land on Taiwan or survive if it gets there, and also that the Second Artillery's missiles and the PLA's aircraft and bombs cannot achieve or maintain air superiority over and around Taiwan.

Shifting to such forces would represent a shift towards relying on relatively large numbers of small, mobile, lethal forces that could destroy China's ships and aircraft that came near Taiwan.

I'd like to show you a few specific examples if you could go to the next page, please. Should be a picture of a group of small boats with mines on them. This is how Iran, a country which knows something about building an anti-Navy, intends to use large numbers of small boats to lay mines. Mines like these almost sank the frigate the USS Samuel B. Roberts, in 1988, and also severely damaged the USS Tripoli, a large amphibious ship, three years later.

Mines, however laid, are simple, inexpensive, lethal, and when used defensively could be highly advantageous for Taiwan.

I have another picture that I'd like to show you. This is an Iranian truck-mounted coastal defense cruise missile. Any frigate-sized warships, and most of China's current amphibious fleet, would either be destroyed or unable to perform its mission once struck by this cruise missile, as British losses to very similar weapons during the Falkland War suggests. Therefore, invading PLA ships would require advanced defenses and countermeasures that they don't currently have or be escorted by ships that did.

I have another example on the next page. This is a smaller cruise missile, which, as you can see, is so small that a pair of them are carried on this small fast-attack craft. This is an Iranian Peykaap. According to Jane's, this vessel is 57 feet long, displaces 15 tons, and can achieve speeds of 52 knots.

The insert shows the same vessel on a trailer. The importance of this is that this type of a mobile system can be easily hidden and trucked to where it's needed when it's needed. It's small, it's a unit of force that is very easily hidden, and it's lethal. It could operate from any of Taiwan's many small fishing ports, especially on the west coast.

To defend against vessels and missiles like these, China would have to master the many challenges of joint expeditionary warfare, including being able to maintain air superiority more than 100 nautical miles from its shores.

To understate, that would be a very difficult and expensive proposition, especially if Taiwan could prevent China from achieving air superiority over Taiwan. How could they do that? Because recall I said at the beginning that I feel that China's short-range ballistic missiles can destroy or ground the Taiwan Air Force.

In the past, Taiwan could rely on its fighters for this critical mission. Oh, to the

next page, please. This is a picture of a Russian system. In the past, Taiwan could rely on its fighters for this critical mission, but China's increasingly accurate short-range ballistic missiles can render Taiwan's airbases unusable and its superiority in advanced fighters and Surface-to-Air missiles, or SAMs would make short work of any Taiwan fighters that could get airborne.

In many ways, Serbia faced a similar problem against superior NATO air forces in 1999, but that conflict demonstrated that mobile short-ranged surface-to-air missiles, such as the SA-6 pictured, were highly survivable, and that they represented enough of a threat to force NATO aircraft to stay largely above 15,000 feet. This significantly hindered NATO's aircraft effectiveness and extended the conflict.

Taiwan could do the same if it would invest heavily in short-range SAM systems instead of, for example, in fighter aircraft.

Next page, please. Forces such as those I briefly discussed would in each case place China on the "bullet" end of what can be considered a "bullet versus body" competition. In each of these examples, Taiwan would risk relatively inexpensive but lethal bullets. Yet, each hit by such a bullet would cost China an expensive and valuable body.

Taiwan could afford to buy, shoot or lose in battle many bullets, but even China could not afford to buy in peacetime or lose in war many bodies without assuming enormous risks to its overall operation.

The bullets on this last page I think these are truths, and they are unlikely to change because weapon systems such as those I've described will always be able to hide in cluttered terrain and deliver lethal ordnance against targets that readily stand out against a background of empty sky or the ocean's surface.

Sea mines will always confound naval forces. China will always require air superiority, and Taiwan can prevent or contest for air superiority with mobile SAMs that cost much less than modern aircraft. These realities offer Taiwan the basis for an enduring, affordable defensive strategy that can make amphibious invasion and blockades less likely to succeed. It would likely take China decades to field effective countermeasures.

In the meantime, Taiwan would more effectively deter China from attacking. Additionally, and by no means insignificantly, this strategy would shift the burden for providing for Taiwan's immediate defense squarely onto Taiwan and off the United States. This strategy, therefore, based on an altered force structure, would allow Taiwan to defy Chinese uses of force and offers a virtuous circle of effective, affordable, stable and enduring cross-Strait deterrence which, if achieved, would benefit all.

**PREPARED STATEMENT OF MR. WILLIAM MURRAY  
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**June 5<sup>th</sup>, 2014**

**China's Relations with Taiwan and North Korea**

**William S. Murray**

**Testimony before the U.S.-China Economic and Security Review Commission**

**Asymmetric Options for Taiwan's Defense<sup>33</sup>**

**Introduction**

An armed conflict between China and Taiwan remains possible despite the past six years' improvements in cross-strait relations. China's military, which two decades ago essentially had no real capability to coerce Taiwan is now much more powerful both in absolute terms and relative to Taiwan, and continues a modernization program that is stunning in its rapidity and comprehensiveness. For China, Taiwan is nearly the foremost "core interest" over which it is unwilling to compromise, yet is willing to fight.<sup>34</sup> Little good can be said about the likely effects of such a conflict. A best case in which fighting was limited and quickly ended would deepen and harden wariness and mistrust of China in many East Asian states, and likely cause renewed arms races, exacerbated security dilemmas, and bad effects on regional stability and trade. A longer war involving other Asian powers and potentially the United States would be commensurately worse, and could conceivably escalate to use of nuclear weapons.

How might such grim outcomes be avoided? Some propose that the United States withdraw military support from Taiwan. Such an action, one advocate writes, "would remove the most obvious and contentious flash point between the United States and China and smooth the way for better relations between them in the decades to come."<sup>35</sup> Whatever the merits of this prediction (and there is no informed consensus on this),<sup>36</sup> achieving it would require a significant change to longstanding U.S. Taiwan policy. Without a dramatic forcing function or crisis, such a change seems unlikely.

A sharply different approach is implicit in the Pentagon's new Air Sea Battle concept, which seeks to enable the US to overcome Anti-Access/Area Denial forces of the sort China has been fielding.<sup>37</sup> Official sources claim that Air Sea Battle is not aimed at China. However, if the US were able to overcome Chinese A2AD, it could then rapidly defeat People's Liberation Army (PLA) forces that threatened Taiwan.

The highly-advanced conventional striking forces needed for ASB might form an effective deterrent. However, the US would have to overcome serious challenges to make such a force credible. These difficulties include the

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<sup>33</sup> This paper was originally presented on 7 September, 2012 at the Cross-Strait Relations in the Age of Globalization: Globalization-Security Linkages Conference organized by the University of London's School of Oriental and African Studies. It will be published in the conference's edited proceedings in 2014 by Routledge press as *Cross-Strait Security Relations in the Age of Globalization*. I wish to thank that conference's organizers, the resulting book's editors Scott Kastner and Monique Chu, and my colleagues Andrew Erickson, Craig Koerner, Michael Chase, Mashall Hoyler, and others who reviewed and improved this manuscript. The views expressed in this paper however, are mine alone, and do not reflect those of the U.S. Navy, Department of Defense, or any other organization of the U.S. government.

<sup>34</sup> Michael D. Swaine, "China's Assertive Behavior, Part One: On "Core Interests," *China Leadership Monitor*, No. 34, Winter, 2011, <http://www.carnegieendowment.org/2010/11/15/china-s-assertive-behavior-part-one-on-core-interests/73>.

<sup>35</sup> Charles Glaser, "Will China's Rise Lead to War? Why Realism Does Not Mean Pessimism," *Foreign Affairs*, March/April 2011. See also Bill Owens, "America must start treating China as a friend," *Financial Times*, November 17, 2009, <http://www.ft.com/intl/cms/s/0/69241506-d3b2-11de-8caf-00144feabdc0.html#axzz1RXebUtOH>.

<sup>36</sup> See, for example, Nancy Bernkopf Tucker and Bonnie Glaser, "Should the United States Abandon Taiwan?" *The Washington Quarterly*, vol. 34, no. 4, Fall 2011, pp. 23-37. <http://csis.org/files/publication/twq11autumntuckerglaser.pdf>.

<sup>37</sup> "Anti-access refers to those actions and capabilities, usually long-range, designed to prevent an opposing force from entering an operational area. Area denial refers to those actions and capabilities, usually of shorter range, designed not to keep an opposing force out, but to limit its freedom of action within the operational area." See the Joint Operational Access Concept, Version 1.0, United States Department of Defense, 17 January, 2012, p. i, [http://www.defense.gov/pubs/pdfs/JOAC\\_Jan%202012\\_Signed.pdf](http://www.defense.gov/pubs/pdfs/JOAC_Jan%202012_Signed.pdf)

prospect of helping Taiwan despite short warning, the irreducibly-long distances over which US reinforcements would have to travel, questionable allied participation and support, and the considerable difficulties involved in overcoming China's defenses. These challenges, and doubts about the willingness of the United States to engage in a war with China over Taiwan brings into question Air Sea Battle's deterrent value.

Nonetheless, some powerful interest groups would pursue this alternative. For example, the U.S. Air Force (USAF) wants to build up to 100 new Long Range Strike-Bombers optimized to defeat challenges such as those posed by China. This new plane "will carry precision-guided conventional weapons and nuclear weapons. It will be optionally manned, providing operational flexibility when planning missions of long duration or in challenging anti-access environments."<sup>38</sup> The USAF estimates it can build this plane for a 2010 unit cost of \$550 million,<sup>39</sup> but the final cost is likely to be higher. As a point of comparison, the USAF paid \$44.7 billion 1997 dollars for 21 B-2 stealth bombers.<sup>40</sup>

As indicated by the new bomber, implementing ASB would involve a wide range of costly investments. Table 1 lists some of the weapons that a 2010 Center for Strategic and Budgetary Assessments paper described as beneficial Air Sea Battle forces<sup>41</sup> and includes estimated unit costs of analogous weapons systems. Some systems useful for ASB probably should be bought in some numbers as part of normal military modernization, even if not to deter or fight China. Yet the magnitude of the costs the systems recommended by ASB advocates will probably preclude their acquisition. We should look for alternatives that can deter Chinese aggression.

One such option involves steps Taiwan can take regardless of U.S. action, to improve its defenses. Taipei faces the prospect (either singularly or in combination) of being subjected to a Chinese bombardment, a blockade,<sup>42</sup> or an invasion. Taiwan's air force and navy can no longer counter these threats, so Taipei ought to aggressively develop and field "asymmetrical forces," such as I first described in a 2008 paper.<sup>43</sup>

The key attributes of such forces would be:

low costs relative to the Chinese forces they oppose;

an ability to ride out a Chinese precision-munitions bombardment;

and high effectiveness against Chinese forces attempting to blockade or invade Taiwan.<sup>44</sup>

These weapons would survive by virtue of mobility, redundancy, hardening, deception, and large inventories made possibly by low relative costs. These attributes would make Taiwan's defense difficult for China to overcome with long range precision strike weapons, and thereby make Taiwan far less susceptible to early defeat.

Transforming Taiwan's military into such a survivable and lethal anti-force would:

offset much of China's force modernization by rendering specific classes of PRC ships and aircraft vulnerable to purpose-built Taiwan weapons;

increase crisis stability by assuring Taiwan that, even if alone, it could withstand Chinese attack for extended periods;

reduce the need for immediate US intervention and increase the probability that diplomatic pressure would persuade China to end its attack;

provide the US more time to determine if intervention was necessary, and if so, to intervene in a measured, methodical way that played to US strengths;

enhance cross-Strait deterrence by making Chinese victory more uncertain;

<sup>38</sup> Philip Ewing, "United States Air Force The Air Force's Simple, No-frills, Advanced New Bomber," *DoD Buzz*, 13 February, 2012, <http://www.dodbuzz.com/2012/02/13/the-air-forces-simple-no-frills-advanced-new-bomber/>.

<sup>39</sup> Ibid.

<sup>40</sup> See, "B-2 Bomber Cost and Operational Issues," General Accounting Office Report GAO/NSIAD-97-181, August 1997, <http://www.gao.gov/archive/1997/ns97181.pdf>.

<sup>41</sup> Jan van Tol, Mark Gunzinger, Andrew Krepinevich, and Jim Thomas, "AirSea Battle: A Point-of-Departure Operational Concept," Center for Strategic and Budgetary Analysis, 18 May 2010, [www.csbaonline.org/publications/2010/05/airsea-battle-concept](http://www.csbaonline.org/publications/2010/05/airsea-battle-concept).

<sup>42</sup> Although a Chinese blockade of Taiwan would probably entail the use of submarines as a means of enforcing a maritime quarantine, this paper focuses on the surface and air aspects of such a conflict.

<sup>43</sup> William S. Murray, "Revisiting Taiwan's Defense Strategy," *US Naval War College Review*, Vol. 61, No. 3, Summer 2008, pp. 12-38.

<sup>44</sup> As opposed to being US-styled, distantly deployable general purpose forces.

prove more affordable to Taiwan than are current big-ticket, symmetrical weapons systems like F-16 fighters, warships, and ballistic missile defenses

shift the financial burden of deterring a Chinese attack from the United States to Taiwan.

Many of the weapons systems appropriate for such a Taiwan force are unambiguously defensive and would therefore comply with the Taiwan Relations Act if made available to Taiwan by the United States. On the other hand, many of the weapons systems I recommend embody relatively simple technology. Taiwan could probably develop and manufacture many of them with little or no U.S. help.

I believe that Taiwan's democracy is worth preserving. If U.S. and Taiwan policymakers agree, they need a new military response to China's Taiwan-centric buildup. This new response must also account for Taiwan domestic politics, which have in recent years thwarted efforts to raise Taiwan's defense expenditures.<sup>45</sup> This paper offers workable solutions to address these realities.

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<sup>45</sup> See Michael Chase, *Taiwan's Security Policy* (Boulder, CO: Lynn Rienner, 2008).

### China's Military Modernization: Taiwan at the Core

Although Taiwan's future status is not the only security concern facing China, it is the most significant of all Beijing's outstanding territorial and maritime claims. China has consequently devoted substantial effort to resolve the issue on Beijing's terms. According to a 2012 Department of Defense report, "the PLA continued to build the capabilities and develop the doctrine it considers necessary to deter Taiwan from declaring independence; to deter, delay, and deny effective U.S. intervention in a potential cross-Strait conflict; and to defeat Taiwan forces in the event of hostilities."<sup>46</sup> Ballistic and cruise missiles exemplify weapons systems that can readily be used to achieve likely Chinese coercive objectives regarding Taiwan.

### Short-Range Ballistic Missiles vs. Taiwan's Air Force

Over the past decade, China has increased the size and improved the accuracy of its Short Range Ballistic Missile (SRBM) force. It has also developed a variety of warheads for these missiles, including apparently runway penetrating sub-munitions and unitary warheads.<sup>47</sup> In 2002 China had 350 SRBMs with an estimated accuracy, or Circular Error Probable (CEP) of approximately 300 meters.<sup>48</sup> By 2012 China had over 1,100 missiles deployed to units opposite Taiwan, with CEPs on the order of 20 meters.<sup>49</sup> This level of accuracy, increased inventory, and the targeting flexibility provided by multiple types of warheads means that SRBMs now provide China new options against Taiwan. For example, China can with little or no warning crater all of Taiwan's runways with SRBMs precisely delivering runway-penetrating warheads. With Taipei's fighter aircraft unable to take off and thereby "frozen" in place, subsequent SRBM and cruise missile attacks could destroy Taipei's grounded air force. A 2008 RAND study concluded that as few as 100 sufficiently accurate missiles could prevent all of Taiwan's air force from flying and destroy much of it on the ground.<sup>50</sup> Since China appears to have achieved a 20m CEP for its ballistic missiles, RAND's prediction is now probably a reality.

Taiwan could attempt to rapidly repair its runways by filling in and covering runway craters to allow aircraft protected in hardened shelters and tunnels to fly. This process, known as rapid runway repair, would likely be a losing battle since the repair of craters takes many hours, Taiwan has few runways, and China has many missiles.<sup>51</sup> Even if Taiwan's fighters could somehow get airborne, they would not long survive against the PLA's overwhelming numbers of 4<sup>th</sup> and 5<sup>th</sup> generation fighters or the PLA's land and sea-based long-range surface to air missiles (SAMs).<sup>52</sup>

<sup>46</sup> "Annual Report to Congress, Military and Security Developments Involving the People's Republic of China 2012," *Office of the Secretary of Defense*, May 2012, p. iv. (Hereafter 2012 DoD Annual Report to Congress.)

<sup>47</sup> DoD's 2012 Annual Report to Congress states that "The PLA Second Artillery Corps is modernizing its short range ballistic missile force by fielding advanced variants with improved ranges and payloads." p. 7. Evidence of what appear to be runway penetrating submunitions can be seen from historical Digital Globe satellite imagery on Google Earth dated 6 March 2007 at 40°29' 19" N, 93° 30' 01" E, and from images dated 19 October 2011 and 20 August 2010 at 39° 09' 15" N, 88° 37' 21" E.

<sup>48</sup> The CEP is the radius of a circle into which half the warheads fired at a particular aimpoint will fall. The 350 SRBM figure is from the 2002 DoD annual report on the Military Power of the People's Republic of China, pg. 1. The 300 meter CEP estimate is from Michael O'Hanlon, "Why China Cannot Conquer Taiwan," *International Security* 25, no. 2 (Fall 2000), p. 58.

<sup>49</sup> The number of SRBMs and launchers is from DoD's 2012 Annual Report to Congress, p. 29. The estimated current SRBM CEP is based on Digital Globe satellite imagery of what appears (based on the size of craters and the distance to military airfields, thus making very unlikely artillery and air-delivered munitions) to be a PLA ballistic missile testing facility on Google Earth dated 24 September 2011, at 40°29' 29" N, 93° 30' 37" E. This, and corresponding historical satellite imagery of the same location, show multiple target buildings approximately 20 meters on an edge having been destroyed by what must logically be ballistic missile warheads. The destruction of other similarly sized targets nearby strongly corroborates a 20m CEP or better accuracy.

<sup>50</sup> David A. Shlapak, David T. Orletsky, Toy I. Reid, Murray Scot Tanner, Barry Wilson, "A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute," *RAND*, Santa Monica CA, 2009, pg. 50. [www.rand.org/pubs/monographs/2009/RAND\\_MG888.pdf](http://www.rand.org/pubs/monographs/2009/RAND_MG888.pdf).

<sup>51</sup> A brochure for a US-made runway repair kit states that a crater from a delayed fused, concrete-penetrating 45 kg warhead requires at least four hours and fourteen pieces of heavy earth-moving equipment to repair. China's CSS-7 SRBMs are thought to be able to deliver a 600 kg payload, and a RAND publication (Shlapak, et. al., "A Question of Balance," p. 39) estimates that sub-munitions can make up approximately 75% of an SRBM's effective payload. This suggests that a PLA SRBM could carry ten 45 kg submunitions that would require 40 hours of effort to repair. For more on combat runway repair, see "Airfield Damage Repair Operations, Air Force Pamphlet 10-219," Volume 4, 28 May 2008, <http://www.e-publishing.af.mil/shared/media/epubs/AFPAM10-219V4.pdf>. See also the Rapid Mat Group website, <http://www.rapidmat.com/index-2.html>.

<sup>52</sup> See for example, Shlapak, et.al, "A question of Balance," pp. 72-74, 85. Their analysis, which did not consider attrition of Taiwan aircraft from PRC naval SAMs, is very pessimistic regarding Taiwan's air force wartime survival and effectiveness.

Consequently, Taiwan's air force, even if it comprised of large numbers of modern fixed wing fighters, cannot be expected to make a meaningful wartime contribution to the defense of Taiwan since it won't be able to take off. As such, it can no longer be viewed as an effective deterrent. Taiwan must find an alternate means of defeating an invasion, countering a blockade, and contesting for air superiority if cross-Strait deterrence is to be maintained and crisis stability enhanced. The Taiwan Navy would be a logical candidate for these missions.

Unfortunately however, Taiwan's Navy when in port is vulnerable to accurate PRC ballistic and missiles. A typical Taiwan warship is about 15 meters wide, which suggests that a salvo of two or three 20-meter-CEP SRBMs should have a high probability of hitting a naval vessel moored to a pier. Google Earth imagery of Taiwan's naval ports suggests that more than half of Taiwan's 26 destroyers and frigates are tied to piers on any given day.<sup>53</sup> This means that a surprise attack by a few dozen SRBMs could destroy the majority of Taiwan's large warships.<sup>54</sup>

Chinese SRBMs could likely not hit Taiwan warships at sea. But China has built large numbers of ASCM-carrying wave-piercing catamarans, frigates, and destroyers. All these ships, and most of China's older warships carry anywhere from 8 to 16 ASCMs that individually have ranges of at least 100 km. China also has an extensive inventory of land and air-launched ASCMs, to say nothing for now of the PLAN submarine force's arsenal of torpedoes and ASCMs.

Observers can speculate how effectively China's ASCMs (whether delivered via ship, or by aircraft) and the targeting system necessary to direct their accurate launch would perform against Taiwan's surface warships. Taiwan could attempt to defeat China's ASCMs by a combination of hard-kill defenses such as the SM-2 SAMs fired from Taiwan's 4 ex-USS Kidd class air defense destroyers. Soft kill measures such as electronic attack, decoys, or the employment of radar and visual obscurants can also defeat ASCMs by luring the missiles away from their targets. Such measures will likely allow Taiwan's naval forces to survive a few attacks, but Beijing has a marked numerical superiority allowing it to either whittle away or subject Taipei's navy to an overwhelming mass attack. In this competition Taiwan has to achieve perfect performance, whereas China can afford to frequently miss, so long as eventually it gets hits. This imbalance substantially favors China, leaving little room for optimism regarding Taiwan's navy's ultimate fate. Large numbers of ASCMs employed in a vicious, probably short campaign of attrition will annihilate Taiwan's navy, at acceptable cost to the PLA.

This outcome is especially likely in a scenario of a bombardment preceding an amphibious invasion, wherein Taipei's navy would have to operate for extended periods near the area being invaded. The likelihood of destruction in a counter-blockade scenario is less certain, but replenishing and rearming Taiwan's surface combatants (which only carry a handful of anti-ship weapons) would be a vexing problem since the requisite logistics ships and infrastructure would likely be high on China's target list. Meanwhile, Chinese naval and aerial forces would benefit from intact or nearly intact support infrastructure. Consequently, it appears doubtful that Taiwan's large surface combatants (like Taiwan's air force) would be a viable or effective means of breaking a blockade or sinking an armada of invading amphibious ships.

#### SRBMs vs. ballistic missile defenses

In my 2008 paper, I argued that that Taiwan's Patriot missiles could neither prevent nor greatly reduce the damage inflicted by SRBMs. Even so, Taiwan already has many Patriot missile interceptors, and the U.S. has offered to make more available.<sup>55</sup> A further expansion of Taiwan's Patriot inventory, however, would probably prove

<sup>53</sup> Taiwan also has approximately 43 missile patrol craft that would probably be more difficult for China to target and destroy.

<sup>54</sup> This assessment is derived from combat results. Specifically, no warship struck by a 165 kg warhead delivered by a subsonic EXOCET anti-ship cruise missile has retained the ability to perform its mission. HMS Sheffield was sunk and HMS Glamorgan badly damaged by single Exocet ASCMs during the 1982 Falklands War. USS Stark (FFG 31) nearly sank after being hit by two Iraqi Exocet ASCMs in 1987 and Israel's Ahi Hanit in 2006 retired from battle after being struck by a subsonic, Chinese-made C-802 ASCM, which also has a 165 kg warhead. China's SRBMs can carry a 600 kg warhead, and travel at supersonic speeds. This combination of explosive and kinetic energy would likely destroy any Taiwan warship.

<sup>55</sup> See Rich Chang, "PAC-3s Will Protect Taiwan, MND Says," Taipei Times, 21 March 2005, p. 3, available at <http://www.taipetimes.com/News/taiwan/archives/2005/03/21/2003247172>. For a detailed discussion of the Taiwan's efforts to purchase PAC 3s, see Shirley Kan, "Taiwan: Major U.S. Arms Sales Since 1990," *Congressional Research Service*, 3 March 2014, pp. 16-17.

expensive and offer limited combat utility. The combined costs of 1992, 2007, 2008, and 2012 Patriot sales total over \$8.1 billion.<sup>56</sup> Taiwan's annual defense budget over the past decade has averaged \$8.7 billion, which means that Patriots cumulatively represent an average annual Taiwan defense budget.<sup>57</sup> Such an expensive system ought to have a corresponding combat payoff, but even if Taiwan's Patriots performed as well as could be expected these missiles will likely stop no more than 323 of the 1,200 SRBMs China could fire.<sup>58, 59</sup>

This arms race between Chinese SRBMs and Taiwan's Patriot interceptors is thus one Taiwan cannot win, and cannot afford to continue.<sup>60</sup>

The net result of all these factors is that Taiwan has at best limited ability to prevent Chinese SRBMs from quickly destroying in the opening hours and days of a war fixed military targets including runways, moored ships, communications and command centers, critical radars, unhardened fuel and ammunition depots, and so on.<sup>61</sup> Despite enormous investments in active ballistic missile defenses, Taiwan cannot prevent this. It must therefore instead adjust its force structure and disposition to be able to withstand a SRBM-bombardment. This implies that Taiwan should harden what it cannot make mobile, invest in high-fidelity decoys, and build redundancy wherever necessity allows and feasibility permits. In many ways, this is taking a page from the PLA playbook, albeit with higher intensity given Taiwan's fewer alternatives and lesser strategic depth.

#### Developing Taiwan's Anti-Access/Area Denial Force – Learn from China

Taiwan's air force and much of its navy are likely no longer survivable during wartime. Yet Taipei needs the capacity to ride out bombardment, withstand a blockade, and to repel an invading amphibious fleet.<sup>62</sup> In short, Taiwan needs to develop its own anti-access and area-denial forces.

Ironically, China provides examples of how to hold a determined, powerful adversary at bay. For example, China has developed and paraded in Beijing large numbers of truck-mounted, several hundred-km range YJ-62 ASCMs.<sup>63</sup> Similar, (if shorter ranged), independently targetable truck mounted anti-ship cruise missiles—known as coastal defense cruise missiles (CDCMs), would help Taiwan prevent a Chinese invasion or counter a close blockade.<sup>64</sup> Such systems' mobility confers several important advantages. CDCMs can be dispersed and hidden among commercial fleets of similarly sized trucks, inside or behind large buildings, underneath overpasses,

<sup>56</sup> Shirley Kan, "Taiwan: Major U.S. Arms Sales" pp. 58-59.

<sup>57</sup> Shirley Kan, "Taiwan: Major U.S. Arms Sales" p. 34.

<sup>58</sup> Taiwan's Patriot interceptors might intercept and destroy a maximum of 644 (200 PAC-2 plus eventually 444 PAC-3) of the 1,200 SRBMs China could fire. However, actual intercepts will almost certainly be much lower. Accepted firing doctrine suggests that two interceptors will be fired at each incoming missile that threatens a valuable target, thereby halving the potential intercepts to 322. This level of defense would allow at best the 323rd and all subsequently-fired SRBMs to strike their targets. This number, however, is probably optimistic since the Patriot batteries themselves including especially the AN/MPQ-56 radar sets (without which the rest of the Patriot system is useless) are subject to direct attack by the PLA's 10-meter-CEP DH-10 land attack cruise missiles, Harpy and other homing anti-radiation weapons, or by other means.

<sup>59</sup> Data indicates that Taiwan spent \$8.1 billion on 644 interceptors. Each interceptor therefore has a net cost (including all ancillary equipment, and before offsets are subtracted) of over \$12 million, implying a cost per SRBM intercept of up to \$24 million. Personal discussions with Raytheon representatives (the maker of Patriots) however, indicate each PAC-3 interceptor costs about \$3million. Whatever the precise number, this remains an expensive approach to defending against a SRBM bombardment.

<sup>60</sup> Taiwan's PATRIOT interceptors could, however be very effective as a mean of denying China air superiority, especially if operated in tandem with short-range air defenses, and in a highly mobile, "shoot-and-scoot" manner, as will be described shortly.

<sup>61</sup> A Chinese bombardment of Taiwan might also target civilian infrastructure including electrical power distribution facilities, liquid natural gas offloading terminals, communication centers, or even water treatment facilities. This suggests that anti-bombardment should also be addressed through civil preparedness, which aligns well with the need for Taiwan to prepare for earthquakes and typhoons. Such initiatives could build on existing approaches, which include monthly air raid drills in Taipei.

<sup>62</sup> See James Holmes and Toshi Yoshihara, "Taiwan's Navy: Still in Command of the Sea?" Jamestown Foundation *China Brief* Vol. 10 Issue 6, 18 March 2010, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews%5Btt\\_news%5D=36167](http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=36167).

<sup>63</sup> I am unaware of an authoritative estimate of this missile's range; however its large size and inlet for a turbofan or turbojet engine imply an extended range, on the order of magnitude of at least several hundred kilometers.

<sup>64</sup> Examples of truck mounted CDCMs systems that Iran – which in some ways has defensive requirements similar to Taiwan - is fielding can be seen on a U-tube video entitled "New missile systems join Iran Navy-Sahar Urdu News 03-01-11 Tehran," which can be viewed at <http://www.youtube.com/watch?v=gsL76WJUKKw&feature=related>. Taiwan has reportedly already fielded some truck-mounted coastal defense truck-mounted cruise missiles, but the concept has sufficient promise to warrant increased investment and reliance.

bridges or trees, inside tunnels, or protected inside hardened prepared firing positions, and then driven to firing locations near an amphibious landing. China would be hard-pressed to locate and positively identify such ASCM-carrying trucks, each of which, given adequate targeting data (described below) could independently destroy PLAN warships. This would call into question the ultimate success of the invasion or blockade.

Chinese efforts to defeat CDCMs would encounter the same sort of problems the United States faced when it unsuccessfully hunted SCUDs in the Western Iraqi desert in 1992,<sup>65</sup> and in its operationally unsuccessful effort to find and destroy Serbian mobile SAM systems and tanks in Kosovo seven years later.<sup>66</sup> Simply stated, even for technologically advanced powers enjoying air superiority, it was and likely remains extremely difficult to find, positively identify, and destroy small mobile targets. Taiwan can, and should aggressively exploit this enduring imbalance between attacker and defender.

Taiwan would have to know where to aim its CDCMs. This targeting data could be provided by low-powered or commercial radars on the CDCM trucks, by radars mounted on other trucks, by fully-passive systems that can detect and provide bearings to warships' electronic emissions,<sup>67</sup> or even from small, inexpensive UAVs similar to the United States' Scan Eagle.<sup>68</sup> This mode of independent forces conducting their own targeting and employment would require a high degree of professionalism and the decentralized control of Taiwan's forces. Taiwan's military is already widely regarded for its professionalism, and therefore should certainly be able to develop and inculcate the doctrine necessary for effective decentralized execution.

A robust force of Taiwan CDCMs could threaten any PLAN vessels operating within dozens of miles of Taiwan, and would force Beijing to develop a costly program of hard- and soft-kill self-defensive countermeasures. Above all, adoption of this approach would result in China being placed on the "body" end of a "bullet-vs.-body" conflict. In this competition, Taiwan has only relatively inexpensive munitions at risk, whereas each hit kills a Chinese "body," i.e. an expensive ship.<sup>69</sup> Taipei, perhaps assisted by other powers, can make this competition even more burdensome for Beijing by fielding over time improvements such as evolved seeker technologies and terminal maneuvers. This is an arms race, and a form of deterrence, Taiwan can both afford, and win.

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<sup>65</sup> The U.S. devoted some 2,500 sorties to what became known as the SCUD Hunt, "but it did not score one confirmable kill against a mobile missile or its launcher in Iraq." Mark Thompson, Azadeh Moaveni, Matt Rees, and Aharon Klein, "Iraq: The Great Scud Hunt," *Time*, December 23, 2002,

<http://www.time.com/time/magazine/article/0,9171,1003916,00.html#ixzz21eeXO4Vj>.

<sup>66</sup> Carlo Kopp, "Surface to Air Missile Effectiveness in Past Conflicts, Technical Report APA-TR-2010-1001" October, 2010, at the website of Air Power Australia, <http://www.ausairpower.net/APA-SAM-Effectiveness.html>.

<sup>67</sup> See, for example, the description of the mobile *Kolchuga* Electronic Support Measure, at [http://en.wikipedia.org/wiki/Kolchuga\\_passive\\_sensor](http://en.wikipedia.org/wiki/Kolchuga_passive_sensor).

<sup>68</sup> *Scan Eagle* is a small "low-cost, long-endurance autonomous unmanned vehicle" that can be launched from a trailer that can be towed by a small truck or car. See the Boeing website at <http://www.boeing.com/defense-space/military/scaneagle/>.

<sup>69</sup> I am indebted to Craig Koerner for this insight and analogy.

### Large Numbers of Fast, Small, ASCM-equipped vessels and mines – Learn from Iran

Taiwan could gain a similar advantage by increasing the number of ASCMs it can deploy via high speed fast attack craft (FAC). Taiwan's fleet of thirty 33 knot, 170-ton *Kuang Hua* missile patrol craft are said to carry four Hsiungfeng II ASCMs, and Taiwan recently unveiled the first of a proposed new class of anti-ship cruise missile carrying wave-piercing catamarans that may carry up to 16 ASCMs.<sup>70</sup> These missile patrol craft all appear to be capable vessels, but the underlying concept can usefully be extended downward. Taiwan should consider the example of Iran's *Peykaap* missile patrol craft. These vessels are approximately 57 feet long, displace some 15 tons, and can achieve speeds of about 52 knots.<sup>71</sup> The U.S. Navy's Office of Naval Intelligence states that the *Peykaap* is equipped with two *Kowsar* ASCM and with torpedoes,<sup>72</sup> but recent statements and videos from Iran have identified the missile as a *NASR-1*,<sup>73</sup> which the Israelis clarified in March 2011 as being an Iranian C-704 ASCM. This missile has a range of 35 km, carries a 128 kg warhead, and is guided by a radar seeker.<sup>74</sup>

These or similar vessels' small size makes them easier and cheaper to build, so Taiwan could produce large numbers of them indigenously. Small size would also permit the wartime use of ports of all sizes, making basing and logistics less vulnerable during combat. Taiwan could easily disperse and hide these lethal craft, making them much less susceptible to a Chinese SRBM surprise attack than is its current fleet. It is one thing to destroy 26 large warships that are on average 140 meters long and 15 meters wide, and that are concentrated in three major bases. It is quite another to destroy many tens of 15-by-5-meter fast missile patrol craft that can be in many dozens of ports, that can be stored in warehouses or hidden in other secure locations including purpose-built caves or hardened "pens," and that can be launched nearly anywhere a crane and a flat-bed truck can reach. Such vessels could be sent on their attack mission individually or in groups with only rudimentary locating data, conduct extended searches with their own radars, develop final targeting data autonomously, deliver lethal ordnance from beyond effective counter-fire range, and escape at high speed to reload.

In wartime, Taiwan does not require and is unlikely to retain for long the enhanced range and endurance of frigates and destroyers. Instead, it needs to extend lethal combat power some tens of kilometers from its ports and beaches to make those waters untenable for intruding Chinese warships, including especially amphibious ships preparing to conduct an invasion.<sup>75</sup> A fleet of *Peykaap*-like fast attack craft (FAC) armed with ASCMs would be able to provide and sustain that sort of at-sea firepower.<sup>76</sup>

To maintain the coercive power of an invasion threat China would have to design and acquire systems that could defeat Taiwan's FAC before they could close to weapons-launch ranges. Likely solutions would probably require large numbers of escorts to protect the amphibious ships, sustained air superiority for supporting surveillance and attack aircraft, deep magazines of effective weapons, new doctrine, intensive crew training, fully professional crews, and robust command and control systems. In effect, China would have to master nearly every aspect of expeditionary joint warfare in order to achieve this objective. This would be difficult, time-consuming and expensive.

<sup>70</sup> These vessels will apparently cost between \$70 and \$120 Million USD each. See Lo Tien-pin and Jake Chung, "Navy christens stealth missile corvette," Taipei Times, Mar 15, 2014, p. 1.

<sup>71</sup> "Peykaap II (IPS 16 Mod) class," *Jane's Fighting Ships*, 21 February 2013, [www.janes.ihs.com](http://www.janes.ihs.com).

<sup>72</sup> "Iran's Naval Forces; From Guerilla Warfare to a Modern Naval Strategy," *Office of Naval Intelligence*, Washington DC, Fall 2009, p.6.

<sup>73</sup> See Farhad Pouladi, "Iran Says It's Begun Producing New Missile Boats," *Agence France-Presse*, 23 August, 2010, available at <http://www.defensenews.com/article/20100823/DEFSECT03/8230307/Iran-Says-s-Begun-Producing-New-Missile-Boats>,"Zolfaghar and Seraj-1 High-Speed Combat Boats," August 24, 2010, available at

<http://www.uskowioniran.com/2010/08/zolfaghar-and-seraj-1-high-speed-combat.html>. A video of the ribbon cutting ceremony of a *Peykaap*, entitled "I.R. Iran's fast attack boats production lines - Seraj and Zolfaqar (part 2)," can be viewed at <http://www.youtube.com/watch?v=bVnQp3jx2Gs>.

<sup>74</sup> "C-704 Anti-Ship Missiles Found On-Board "Victoria", Israeli Defense Forces Blog, 15 March 2011,

<http://www.idfblog.com/2011/03/15/c-704-anti-ship-missiles-found-on-board-the-victoria/>.

<sup>75</sup> FAC like a *Peykaap* are limited by high seas. However, sea or other weather conditions in the Strait of Taiwan that prevented FAC operations would also present formidable challenges to a Chinese invasion fleet.

<sup>76</sup> A 128 kg warhead-tipped cruise missile such as can be carried by a *Peykaap*-sized vessel, would probably cause levels of damage broadly consistent with that caused by the 165 kg warheads of EXOCET and C-802A ASCMs. Advanced seekers such as could be carried by a hypothetical Taiwan-designed and manufactured C-704-inspired ASCM could also choose what portion of the target it strike, thus maximizing the missile's destructive potential.

The enduring utility of defensive mining

Taiwan can also use mines to counter a blockade and repel an invasion. As the nearly fatal damage the USS Samuel B. Roberts demonstrates, even primitive mines effectively threaten warships.<sup>77</sup> In addition to being lethal, mines are also relatively inexpensive; can be emplaced by a large variety of ships, (and helicopters); are very difficult for opposing forces to detect and neutralize (especially in shallow waters); can be programmed to turn on or off under specified conditions; and can even be selective in their choice of targets.<sup>78</sup> Minesweeping and mine hunting—the unavoidable countermeasures to mines—are laborious, time-consuming and expensive undertakings that require uncontested mastery of the mined waters and airspace above it. China is unlikely to be able to achieve such a dominance of waters critical for the invasion or blockade of Taiwan, and is notably weak in all aspects of naval mine clearance and removal.

Taiwan should vigorously exploit the PLAN's vulnerability to mining; doing so confers significant advantages. Taiwan could develop and manufacture or obtain adequate mines relatively easily, and could store them in dispersed, hardened bunkers impervious to China's missiles. Given strategic or even tactical warning Taiwan could quickly place defensive minefields offshore and along likely invasion beaches, and cover or protect those minefields from Chinese mine-clearance efforts with truck-mounted CDCMs.

Mines could also channel an invading armada into kill zones that could be enforced with munitions delivered by long-range multiple launch rocket systems (which are themselves highly lethal, mobile, difficult to defend against, and relatively affordable). Invading amphibious ships would slow significantly as they attempted to negotiate or avoid Taiwan mines, and would thus increase their vulnerability to Taiwan's future CDCMs and ASCM-equipped FAC.

Taiwan could preemptively mine select areas outside its major ports as a means of preventing PLAN ships and submarines from laying or launching mobile mines intended to block these ports. Mobile, long (such as Patriot) and short-range air defenses (which will be discussed shortly) could help prevent Chinese aircraft from mining Taiwan's major ports. Exercises that demonstrated Taipei's ability to accomplish these missions might induce China to invest in a variety of countermeasures, but given the difficulties that other navies have experienced in fielding and maintain proficient mine clearing forces, such an endeavor will probably prove expensive and ultimately ineffective.

Make IADS mobile – learn from the Russians and Serbs

Taiwan should seek to preclude China from establishing air superiority, even after absorbing a bombardment that grounded or destroyed Taiwan's Air Force. To this end, Taiwan should modernize its air defense network,<sup>79</sup> and make it more survivable than it apparently is. It could do so by fielding a large number of modern, mobile short-ranged SAMs and by employing its Patriot missiles in as-mobile-a-manner as possible and devoting them to air instead of missile defense. I discuss these steps below.

Taiwan should obtain or develop and field highly lethal and mobile short range surface-to-air missile systems analogous to the Russian SA-15. This is a fully mobile, autonomous vehicle that can detect, track, and shoot relatively short-range SAMs at aircraft, cruise missiles, and even precision-guided bombs.<sup>80</sup> Mobile systems such as the SA-15, the older SA-6, or the functionally similar US SLAMRAAM are point-defense weapons with ranges typically in the low-tens of kilometers. Offsetting such limited ranges are fast set-up and take-down times, mobility, and their ability to hide. These features make them survivable even in an extended conflict against a formidable adversary, as most Serbian mobile short-ranged SA-6 SAMs were against NATO aircraft in 1999.<sup>81</sup> This results in a disproportionate effect by inducing hostile aircraft to fly above the effective missile altitude—

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<sup>77</sup> See, for example, Lee Allen Zatarain, "Tanker War: America's First Conflict with Iran, 1987-88," (Philadelphia, Casemate, 2008), pp. 190-199.

<sup>78</sup> See, for example, Gregory K. Hartmann and Scott C. Truver, "Weapons that Wait: Mine Warfare in the U.S. Navy," (Annapolis, Naval Institute Press, 1979)

<sup>79</sup> For a comprehensive description of Taiwan's air defenses, see Sean O'Connor, Taiwan's SAM Network, *IMINT & Analysis*, 5 May, 2009, <http://geimint.blogspot.com/2009/05/taiwans-sam-network.html>.

<sup>80</sup> For a detailed description of the SA-15, see Carlo Kopp, Kupol 9K330/9K331/9K332 Tor M/M1/M2 Self Propelled Air Defence System / SA-15 Gauntlet, Technical Report APA-TR-2009-0705, July 2009, at Air Power Australia, available at <http://www.ausairpower.net/APA-9K331-Tor.html>.

<sup>81</sup> Carlo Kopp, "Surface to Air Missile Effectiveness in Past Conflicts."

some 6,000 meters for short-range missiles—wherever SAMs are thought to be, thus reducing attacking pilots' ability to positively identify and accurately attack desired targets, especially those that are mobile.<sup>82</sup>

China would seek to avoid the losses that a network of fully mobile SA-6 or SA-15-like SAM batteries could exact. Countermeasures could include dedicated Suppression of Enemy Air Defenses (SEAD) aircraft that could search for and attempt to destroy elusive mobile SAM batteries (or CDCM trucks). PLA attack aircraft would have to employ suboptimal tactics such as remaining at higher altitudes, (thus reducing the PLA's ability to reliably detect, identify, and attack fleeting targets), and flying around suspected SAM sites which effectively reduces attack aircrafts' endurance. Taiwan could exploit this further by building high-fidelity decoys to deceive China's sensing systems and seduce the PLA's air-delivered PGMs.

Such countermeasures would impose significant costs on China. Each bomb allocated to a decoy extends a conflict, and every homing anti-radiation missile carried to destroy or inhibit mobile-SAM radars represents one less bomb that can destroy other Taiwan defenses or infrastructure. Furthermore, the efficacy of anti-radiation missiles is uncertain. In 1999, NATO fired over 732 HARM missiles, but afterwards determined it had destroyed only "3 of 25 STRAIGHT FLUSH radars associated with [Serbia's] SA-6 SAM systems."<sup>83</sup> This tactical difficulty in destroying mobile SAMs operated in a "shoot-and-scoot" manner significantly extended the conflict. By employing similar air defenses and tactics, Taiwan could do the same against China.

#### Why Not Submarines?

Some, including many in Taiwan, have long argued for Taiwan's need for conventionally powered submarines. Taiwan's four submarines are nearing or are well past obsolescence, leading to a number of efforts to replace them. In 2001 the United States offered to build and sell to Taiwan 8 submarines in the coming decade for over \$12 Billion. For a variety of reasons, this initiative never became viable. Other attempts at obtaining submarines were also unsuccessful, leading Taiwan in early 2014 resolved (or resigned) to build relatively small conventionally-powered submarines domestically, perhaps with outside technical assistance or foreign-supplied sub-components.<sup>84</sup>

I argue that key attributes for effective weapons systems for Taiwan are mobility, lethality, and affordability. Submarines conceptually satisfy the mobility and lethality conditions, but it is a fact that they are especially expensive ships, and are probably not really affordable to Taiwan in absolute terms. They also represent significant opportunity costs since Taiwan could build a significant number of truck-mounted anti-ship cruise missiles or other small, mobile and lethal weapons for the cost of one submarine.

Yet even setting aside affordability issues, there are other reasons to question the utility of Taiwan's submarines in many wartime scenarios. As I discussed in my 2008 article, diesel-powered submarines are generally ill-suited to anti-submarine warfare (ASW).<sup>85</sup> The primary reasons for this are their slow speeds and the acoustic stealthiness of their potential Chinese prey which would make for a very difficult and protracted undersea battle, with no clear acoustic advantage to either side. Further weakening the case for ASW is a disadvantageous correlation of forces since China has over 60 submarines, and Taiwan would likely have fewer than 10. Taiwan's submariners' ASW skills would have to be far superior to their mainland counterparts' to achieve underwater victory. This seems especially unlikely as China would probably enjoy air superiority over any waters not immediately adjacent to Taiwan, thereby increasing the risk to Taiwan's submarines from Chinese anti-submarine forces (which are admittedly currently weak, but growing). Even if Taiwan could achieve exchange ratios of six-or-more Chinese subs lost for every Taiwan sub sunk,<sup>86</sup> such events would proceed very slowly, probably over the course of weeks

<sup>82</sup> See, for example, Benjamin S. Lambeth, "NATO'S Air War for Kosovo: A Strategic and Operational Assessment," *RAND*, Santa Monica CA, 2001, pp. xvi, xvii, xxvii, 49, and 90. [http://www.rand.org/pubs/monograph\\_reports/MR1365.html](http://www.rand.org/pubs/monograph_reports/MR1365.html). Forcing the PLAAF to fly above 6,000 meters would put them well above the cloud cover that typically blankets Taiwan, further reducing PLAAF air-to-ground munitions effectiveness.

<sup>83</sup> Lambeth, "NATO'S Air War for Kosovo," pp. 62-63, 109. The SA-6 radars were mobile, the others stationary. Readers should temper these numbers by understanding that one reason for firing a HARM missile is to force defenders to turn off their anti-air radar, thus allowing the attacking aircraft to penetrate into defended airspace. Destruction of the radar is helpful, but not necessary to this tactic.

<sup>84</sup> "Taiwan considers building its own submarines," *Want China Times*, 15 March 2014, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20140305000115&cid=1101>.

<sup>85</sup> Murray, "Revisiting Taiwan's Defense Strategy," pp. 19-20.

<sup>86</sup> Such performance would also imply that Taiwan's submarines would have to benefit from accurate cueing so as to reliably

or months. Taiwan might not have that much time.

If Taiwan's subs were able to get to sea (before being struck by SRBMs in port) and get in submerged position along the future path of the invasion fleet, then they could destroy some amphibious ships with either torpedoes or cruise missiles. However, there are several issues that would tend to reduce the probability of such an outcome. Foremost among these is the percentage of Taiwan's future submarines that would be mechanically able to get to sea. Observers cannot accurately predict what this number is, but the recent experiences of South Africa which in 2012 had all three of its modern diesel submarines inoperable,<sup>87</sup> and of Australia (which can frequently get fewer than half of its fleet of six Collins-class submarines to sea),<sup>88</sup> should temper expectations.<sup>89</sup> Taiwan, like many others, would probably struggle to keep the majority if its submarines and crews ready for combat.

Any Taiwan submarines already or able to get to sea at the war's outbreak would have to transit submerged to a point through which the invasion force would have to pass. Once at such a spot, they could attack any hostile amphibious ships that passed nearby. As a practical matter, however, success in such an endeavor is not a simple or automatic outcome. Targets can be difficult to detect, classify, prioritize for attack, and discern from each other or from nearby innocent vessels. Maneuvering a slow submarine into a preferred position from which to effectively shoot faster surface targets is quite challenging, especially in very shallow and acoustically challenging water that characterizes much of the Taiwan Strait. This speed differential also means that the attacking submarine would be unlikely to re-engage any targets missed on a first chance, and would become subject to reactive attacks. One cannot know how such scenarios would turn out, but given that there would be a limited number of submarines operating against potentially large numbers of invading ships, it would be unwise to expect submarines to reliably achieve spectacular successes. Taiwan should consider other alternatives for destroying invading amphibious ships.

A more viable submarine employment option for Taiwan's future submarines would be to attack either directly or via mines PLAN warships as they left or returned to their mainland bases. Yet to do this Taiwan's subs would have to be in position off Chinese ports before or shortly after the conflict started. Since China gets to choose when to start the war, this condition seems unlikely, or requires Taiwan to have a very large submarine fleet, which it can't afford. Regardless, operating close to Chinese ports would place Taiwan submarines in very shallow water (which would be easy for China to defensively mine) and in the heart of China's significant coastal defenses. Confidently operating in such challenging combat conditions would require Taiwan's submariners to have significant peacetime experience in the same operating areas, which would be a risky endeavor. None of these issues are impossible to overcome, but they do suggest that significant risks and operational issues counsel against unreasonably optimistic expectations. Finally, an examination of charts depicting the waters surrounding China's East Sea Fleet naval bases shows that there are many alternative routes to deep water from these ports. It would take a very large number of Taiwan submarines to effectively guard each possible egress route.<sup>90</sup>

A blockaded Taiwan could choose to employ submarines in a counter-value campaign against shipping entering Chinese ports. This is certainly possible and to some extent logical, but it is unclear to what productive end. It is unlikely that the few merchant ships sunk or damaged by a handful of Taiwan submarines would affect war termination conditions. One should also consider that each merchant ship torpedoed would become a magnet for Chinese anti-submarine forces. If these responders had say, a 10% chance of detecting and successfully attacking

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locate and attack Chinese submarines. It is difficult to imagine how that cueing would be provided, given that Taiwan would likely be subjected to continuous missile and aerial bombardment, cyber attack, and intensive electromagnetic jamming of communications circuits throughout the conflict.

<sup>87</sup> Bobby Jordan, "Not one of the R8 billion arms deal submarines is operational," *The Times* (South Africa), 12 August, 2012, <http://www.timeslive.co.za/local/2012/08/12/not-one-of-the-r8-billion-arms-deal-submarines-is-operational>.

<sup>88</sup> For a condensed version of the complicated story of Australia's Collins-class submarines see "Australia's Submarine Program in the Dock," *Defense Industry Daily*, 20 April, 2014, <http://www.defenseindustrydaily.com/australias-submarine-program-in-the-dock-06127/>.

<sup>89</sup> These are admittedly extreme examples of submarine readiness issues, but they graphically illustrate the magnitude of the challenges that even advanced, wealthy countries face in keeping a modern submarine force ready for sea.

<sup>90</sup> This number can be estimated with rudimentary operations analysis. For example, there are three PLAN ESF submarine bases, each with at least two lines of egress, which would require 6 Taiwan submarines to continuously guard. Taiwan would require a fleet of 9 subs for this mission if two of every three Taiwan submarines could be kept forward deployed patrolling these avenues. If other missions were simultaneously required, Taiwan would require additional submarines.

the submarine committing the initial attack, then each Taiwan submarine could expect to make 6 or 7 attacks before its cumulative probability of being sunk exceeded 50%. This would be a campaign of moderate-to-high tactical risk with uncertain operational or strategic payoff. That insurance rates for ships entering Chinese ports would dramatically rise is true but irrelevant, since insurance for vessels entering the war zone would rise automatically anyway, and shippers would simply charge more to cover those increased expenses for vital cargoes. China can readily absorb those relatively minor costs and losses to shipping.

Another argument sometimes heard in support of modernizing Taiwan's submarine force is that a larger, more capable underwater fleet would force China to devote more resources to anti-submarine warfare. This may be so, but it is also true that China cannot reliably count on the neutrality of all other submarine forces, including that of the United States. Despite this potential threat, China's ASW forces are notoriously weak. One has to question whether a handful of Taiwan submarines would compel a dramatic change in PLAN force structure that hasn't yet been caused by the vastly more potent US underwater force.

A last rationale sometimes used to justify Taiwan's acquisition of modern submarines is that they would provide realistic training targets for Taiwan's surface and airborne ASW forces. This is also true, but it is a specious argument since Taiwan's surface forces are unlikely to survive an initial Chinese SRBM/LACM bombardment or long survive against vastly more numerous and better-armed PLAN adversaries, and since Taiwan's ASW aircraft are unlikely to have either secure airbases from which, or secure airspace in which to fly.

In summary, submarines for Taiwan offer some lethality and mobility, but those features come at disproportional cost, and would provide only marginal wartime utility. The United States should encourage, and Taiwan should insist on more affordable, lethal, and survivable alternatives.

#### Implications

Military weapons systems such as those advocated in this paper are less expensive than are some of the forces Taiwan is trying to buy such as F-16 C/D fighters, (which cost over \$50 million each), submarines, (which the United States had offered to Taiwan in 2001 at about \$1.5 billion each), and Patriot missile systems (which cost between \$3 and \$9 million each). It is difficult to accurately estimate the costs of modern short-range mobile SAM systems, but Iran reportedly purchased 29 SA-15 systems from Russia in 2005 for \$700 million, or \$24 million each.<sup>91</sup> If this is somewhat accurate, then it is theoretically possible to get two short range mobile SAM systems – which do not require a functioning airfield from which to operate or have exorbitant recurring maintenance expenses– for the cost of one F-16. Similarly, it seems reasonable to assume that a *Peykaap*-sized ASCM-equipped FAC should cost less than \$15 million, which suggests that Taiwan could build many dozens, perhaps even 100 of these for the cost of one new submarine.

Further, as Taipei continues to shift to an all-volunteer force the portion of its defense budget consumed by personnel costs will inevitably increase, leaving less money available to purchase and maintain expensive planes and ships. This can only result for Taiwan, unless it shifts its defensive strategy, in a smaller force of fewer, more expensive ships and airplanes that will inevitably become increasingly vulnerable to Chinese preemptive attacks by SRBMs, LACMs, and other long-range precision strike weapons. Even if Taiwan's legacy forces survive an initial Chinese bombardment, they are unlikely to long survive a subsequent battle of attrition against what is becoming increasingly a numerically and qualitatively superior PLA.

Consequently Taiwan's current air force and much of its navy have symbolic and operational value in peacetime, but their utility in defeating an invasion or blockade in wartime is at best suspect, and quite possibly approaches nil. They therefore cannot be, and are not an effective deterrent.

Taiwan can avoid this by developing an "anti-air force", and an "anti-navy". Key features of such an evolved, asymmetric military are large numbers of small, lethal, highly mobile weapons systems such as truck-mounted coastal defense cruise missiles, short-range vehicle-mounted surface to air missiles, mobile multiple rocket launchers, attack helicopters, sea mines, and small, fast missile patrol craft firing short-ranged cruise missiles, all of which could effectively hide or "live" in hardened bunkers when not in use. Such survivable forces are ideal for a vicious series of short-range engagements that would result in the destruction or greatly-reduced efficacy of China's attack aircraft and surface combatants, including especially Beijing's amphibious assault ships.

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<sup>91</sup> See Tor "M1 9M330 Air Defense System," at Defense Update, <http://defense-update.com/products/t/tor.htm>.

A decade ago a number of factors would likely have prevented Taiwan from seriously considering, let alone acquiring the forces recommended here. Taiwan's defense establishment was more inclined to pursue larger, traditional, symmetric weapons systems such as F-16 fighters, Patriot missile defenses, diesel submarines and P-3 maritime patrol aircraft as promoted by US arms manufacturers and associated interest groups including many in the US Congress. But things are changing. For example, Taiwan's 2013 Quadrennial Defense Review (QDR) emphasized the need to develop "innovative and asymmetric" capabilities that can target "the ... enemy's critical vulnerabilities..." and the need for "force/firepower for swifter response and greater agile maneuvers".<sup>92</sup> These and similar statements in Taipei's 2013 QDR align well with and show an evolution in thought (which is also apparent, though less pronounced in the 2009 QDR) away from large, iconic, expensive weapons systems towards those that are smaller, mobile, less expensive, and more survivable.

Still, the tendency for Taipei to seek or acquire large, expensive ships remains. Thus, Taipei is said to soon receive two recently decommissioned US *Oliver Hazard Perry*-class frigates.<sup>93</sup> Similarly, the frequent phenomenon of visiting US dignitaries advocating new F-16C/D fighters and submarines for Taiwan probably receives a sympathetic ear of at least some of the local hosts.<sup>94</sup> These somewhat conflicting indicators suggest that Taiwan's security elite are debating whether its legacy forces can provide either a resolute defense or a credible deterrent against a modernizing PLA, and what alternatives – such as those recommended in this paper – might do better.

A similar debate is occurring in the United States. Some US observers continue to advocate for the sale of F-16 C/D fighters and new submarines to Taiwan.<sup>95</sup> Nonetheless, the Obama administration appears reluctant to offer to Taiwan those weapons systems. This hesitancy could reflect a number of potential causes including Chinese opposition to such sales, a sensitivity towards the timing of a given weapons offer, or concerns over the possible compromise to China of sensitive military technology made available to Taiwan. Another and increasingly probable possibility is that there is a growing realization in Washington that traditional, symmetric weapons such as fighter aircraft and large ships have rapidly diminishing utility for Taiwan, and that their sale to Taiwan for a variety of reasons is detrimental to many US interests.

This begs the question of what instead, commensurate with the Taiwan Relations Act and other governing documents and agreements best help Taiwan and protect the United States' interests. This paper answers that question, and offers some specific weapons recommendations as well as more general characteristics of weapons that could comprise an effective, affordable deterrent for Taiwan.

It is not clear what China could do that would effectively counter such a future Taiwan "Anti-Air Force" and an "Anti-Navy." Beijing could develop a true joint expeditionary capability characterized by thoroughly-trained and exercised personnel, perfect communications, deep magazines of expensive weapons and large numbers of the craft that carry them, and a robust supporting logistics system. This would entail major Chinese shifts in military culture, including one away from conscripts toward a truly professional military, and the creation and employment of the doctrine necessary to conduct such intricately coordinated warfare. These steps, which to understate are difficult and expensive, may also ultimately prove ineffective because the possible Chinese measures outlined above do not change the fundamental physical imbalances that underpin this paper's recommended strategy.

Small, mobile, dispersed lethal weapons systems will likely *always* be able to effectively hide in cluttered terrain and deliver lethal ordnance against targets that readily stand out against a background of empty sky or the ocean's

<sup>92</sup> "2013 Quadrennial Defense Review," *Taiwan Ministry of National Defense*, Chapter 2, pp. 31, 41, 13 March 2013, <http://qdr.mnd.gov.tw/encontent.html>

<sup>93</sup> See, for example, "Taiwan to Buy Two Frigates from US: Defence Minister," *AFP*, 4 November 2012. <http://www.google.com/hostednews/afp/article/ALeqM5ha3rD9IQzdxZPiOCn9XfQzNpLmHQ?docId=CNG.2d1696c4c61d5d85d01280b913914548.3b1>.

<sup>94</sup> See, for example, "US Congressman Supports New Subs, F-16s for Taiwan," *Want China Times*, 29 January 2013, <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20130129000119&cid=1101>.

<sup>95</sup> See, for example "Import or Die: Taiwan's (Un?)Stalled Force Modernization," *Defense Industry Daily*, 1 May 2013, <http://www.defenseindustrydaily.com/taiwans-unstalled-force-modernization-04250/>; Michaela Dodge, "Top 10 To-Do List for the National Defense Authorization Act," *Heritage Foundation*, 21 May 21, 2013, <http://www.heritage.org/research/reports/2013/05/top-10-to-do-list-for-the-national-defense-authorization-act>; and Nick Zahn, "Senator Cornyn: Urgent Action Needed to Bolster Taiwan Defense," 12 February 2013, <http://blog.heritage.org/2013/02/12/senator-cornyn-urgent-action-needed-to-bolster-taiwan-defense/>.

surface. China will *always* require air superiority as a precondition to hunting and killing such elusive Taiwan weapons or conducting an amphibious invasion, and Taiwan can *always* prevent or contest for air superiority with mobile SAMs that cost much less than modern aircraft. It is *always* better to be on the “bullet” end of a “bullet-vs.-body” competition. These realities offer Taiwan the basis for an enduring, affordable defensive strategy that can qualitatively make amphibious invasion and blockades less likely to succeed, or require China to develop and maintain vastly larger and more expensive forces than it currently has. An additional benefit is that the reduced likelihood of a successful PRC invasion or blockade reduces the probability of a preparatory precision bombardment as part of a combined campaign.

Thus the ideas in this paper have the potential to render much of China’s military modernization moot, at least as far as it applies to Taiwan, and thereby force China to develop and field an entirely new approach to militarily coerce Taiwan. This would take time, possibly decades.<sup>96</sup> Adoption of the ideas in this paper would in the meantime enhance Taipei’s bargaining power during any political negotiations with Beijing, thereby increasing the chances of determining peacefully an enduring solution that was acceptable to the people on both sides of the Strait. Additionally, and by no means insignificantly, this strategy would shift the economic burden of providing for Taiwan’s immediate defense squarely onto Taiwan, and off the United States. This strategy therefore offers a virtuous circle of effective, affordable, stable, and enduring cross-Strait deterrence, which if achieved would benefit all.

#### Recommendations for Congress

Encourage Taiwan to develop or acquire, perhaps with US assistance, small, mobile, lethal weapons systems such as ASCM-equipped fast attack craft, truck-mounted coastal defense cruise missile, multiple-launch rocket systems, and short-range air defenses.

Discourage further Taiwan development of offensive weapons systems such as land-attack cruise missiles. It is unlikely that Taipei can build enough such missiles to either deter Beijing or to significantly hamper a Chinese offensive against Taiwan.

Encourage Taiwan to devote no less than 3% of its GDP to its defense.

Craft arms exports to Taiwan so as to provide a more effective conventional deterrent, and to extend the amount of time Taiwan could withstand Chinese military force without immediate outside assistance.

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<sup>96</sup> Significant, fundamental changes in modern militaries seem to take 15 to 20 years. For example, the United States required about two decades after the Vietnam War to develop the joint force that displayed its power against Iraq in 1991 and 2003. China required approximately 15-17 years developing and operationalizing its anti-navy in response to the United States’ aircraft carrier show of force during the 1995-1996 Taiwan Strait Missile Crises.

CSBA recommendation	Analogous Weapons	Unit Cost in millions
Penetrating Persistent Airborne Electronic Attack	RQ-4 MQ-4 E2-D B-2	220 <sup>97</sup> 189 <sup>98</sup> 265 <sup>99</sup> 2,100 <sup>100</sup>
Long Range Anti-ship missile	SM-6	5 <sup>101</sup>
Maritime Patrol Aircraft	P-8	275 <sup>102</sup>
Unmanned Carrier-Launched Airborne Surveillance and Strike (UCLASS) System	X-47B	? <sup>103</sup>
New Generation Bomber	B-2	550-2,100 <sup>104</sup>
Harden Guam's Andersen Air Force Base	Large Hardened Aircraft Shelters to hold 12 large or 36 fighter-sized aircraft	700 <sup>105</sup>

Table 1. Estimated Costs for Specific ASB Weapons Systems

<sup>97</sup> "Defense Acquisitions: Assessments of Selected Weapon Programs," General Accounting Office Report GAO-13-294SP, Mar 28, 2013, p. 113, <http://www.gao.gov/products/GAO-13-294SP>

<sup>98</sup> GAO-13-294SP, p. 103

<sup>99</sup> GAO-13-294SP, p. 57

<sup>100</sup> "B-2 Bomber Cost and Operational Issues," General Accounting Office Report GAO/NSIAD-97-181, August 1997, <http://www.gao.gov/archive/1997/ns97181.pdf>.

<sup>101</sup> GAO-13-294SP, p. 123

<sup>102</sup> GAO-13-294SP, p. 109

<sup>103</sup> I could not find a reliable UCLASS unit cost estimate. However, a stealthy carrier-launched and recovered aircraft that could conduct surveillance and strike should cost at least as much as non-stealthy \$200 million RQ-4 and MQ-4 which don't have to withstand the forces of carrier landings and take-offs.

<sup>104</sup> USAF estimates it can build a new bomber for \$500 million, but the B-2 cost over \$2.1 billion each.

<sup>105</sup> John Stillion, Fighting Under Missile Attack, Air Force Magazine Vol. 92, No. 8, August 2009, <http://www.airforcemag.com/MagazineArchive/Pages/2009/August%202009/0809fighting.aspx>

**OPENING STATEMENT OF MR. IAN EASTON  
RESEARCH FELLOW, THE PROJECT 2049 INSTITUTE**

MR. EASTON: Dr. Tobin, Commissioner Slane, and members of the U.S.-China Economic and Security Review Commission, thank you for the opportunity to appear before you today. It is truly a privilege and an honor to be on this panel discussing such an important issue for U.S. national interests and for peace and stability in the Asia-Pacific region.

Let me just take the next few moments, if I may, and amplify a few of the points that I made in my written statement. First and foremost, I personally believe that the Republic of China or Taiwan is and will long remain to be defensible.

I personally do not believe that there's been a fundamental shift in the cross-Strait military balance. Now, I say this because while China has a clear numerical and quantitative advantage now over Taiwan as a result of its massive military build-up, it is far less clear that the PLA could ever hope to catch up with Taiwan's qualitative advantage, and so for that reason I don't think there has been this fundamental shift.

I would hold that the cross-Strait military balance remains a dynamic one. I would hold that it is fluid, and it is not best captured by straight-line projections which would hold that sooner or later China is going to get the advantage, and I think an example of this can be found in statements made last year by Taiwan's Ministry of National Defense in which they said that they now believe that Taiwan can hold out in the worst possible case imaginable for over a month.

Now this is a significant, and remarkable improvement over just a few years back when studies and simulations on this same topic found that Taiwan might only be able to defend itself for a week or two before the United States would have to come to the rescue.

I think this reflects well upon Taiwan's development of innovative and asymmetric military capabilities. I think this reflects well upon the very difficult but very important military reforms that Taiwan has taken, and, of course, I think this reflects well upon U.S. decision-makers, which have chosen to continue in a low key fashion, but have chosen behind the scenes to continue engaging in a very robust military partnership with Taiwan and making sure that Taiwan has the training and the equipment, although that's somewhat arguable, the training that it needs to maintain its qualitative edge over China.

But, of course, none of this should diminish the threat, the military threat, that Taiwan faces. There is no other U.S. friendly democracy in the world that you can point to that faces the level of military threat that Taiwan does. There is no other country out there like this; right?

And even for the United States, of all of operational plans, all of our war plans, it's my understanding that the one that involves the defense of Taiwan is the most difficult, and so for this reason I think it's a mistake for the United States to take the lowest common denominator approach, right, to take the easy road in terms of supporting Taiwan's military because I think that's in many cases what we do.

I think instead of really investing in the hardware and software commitments that Taiwan needs from us, we've chosen to take the easy road, and I think that's a mistake.

Now let me give you some examples. In terms of hardware, Taiwan has been requesting new F-16 fighters since 2007. We have not provided that. I think that's a mistake. Taiwan has been requesting that the United States lives up to its earlier commitments to provide them with the technology that they need to develop an indigenous submarine program. Again, we have not done that so far.

I think looking into the future, Taiwan has a clear requirement for stealth fighters, for F-35s. I suspect that they don't need that capability today, but if you look five to ten years in the future, I believe that they will. The same can be said for more advanced ballistic missile defense capabilities, such as Aegis Ashore and other capabilities, THAAD, for example, and so there's a hardware component that is important, and it's important not only for its military utility, which is very real, and if

you read PLA publications, it becomes rapidly clear that the Chinese are very unsettled by arms sales to Taiwan because they really don't want to have to fight against a Taiwan that is armed with U.S. equipment.

But also for the political utility because U.S. arms sales to Taiwan are the most tangible manifestation of the U.S. position on Taiwan status as a sovereign state. The United States would not be selling arms systems, weapons systems and providing security assistance to Taiwan if we believe that Taiwan was somehow subject to the CCP government in China.

If Taiwan was part of the PRC, there's no way we'd be selling arms to Taiwan, and I think it's the political piece that's so important here, especially because Taiwan now more than ever needs the confidence not only to go to the negotiation table with China, but perhaps to step away from the negotiation table if the PRC government does not provide and does not meet Taiwan's requirements for that recognition that they deserve as a democracy.

That's the hardware component. In terms of software, I think this is where we've done a particularly bad job. I personally believe that Taiwan should be invited to bilateral and multilateral maritime and air warfare events. I believe we should be conducting ship visits to Taiwan, and I would argue that, as a matter of policy, we should allow our four star generals and admirals to go out to Taiwan and see the battlespace firsthand and to get to know their counterparts because, again, our most difficult operational plan calls for the U.S. military to fight shoulder-to-shoulder with Taiwan's military.

How can the President of the United States, this or any future president, be assured that we could seamlessly do that if we don't allow our military leaders to go out and see the battlespace firsthand? If you've not been out to the offshore islands, Kinmen, Matsu, Tungyin, Penghus, if you've not seen the 18 invasion beaches on Taiwan's west coast, and if you don't have that personal relationship, I think that's a mistake.

And the final recommendation that I would make is that I think the United States government should be putting pressure on Beijing to renounce the use of force against Taiwan. I also think the U.S. government should be doing everything in its power to try to get Beijing to unilaterally withdraw its offensive ballistic and cruise missiles, which are aimed at Taiwan.

And so I will conclude with that thought and look forward to any questions or comments that you may have.

HEARING CO-CHAIR SLANE: Thank you

**PREPARED STATEMENT OF MR. IAN EASTON  
RESEARCH FELLOW, THE PROJECT 2049 INSTITUTE**

**Prepared Statement of  
Ian M. Easton  
Research Fellow  
Project 2049 Institute  
before**

**The U.S.-China Economic and Security Review Commission  
Hearing on China's Relations with Taiwan and North Korea  
Thursday, June 5, 2014**

Chairwoman Tobin and Chairman Slane and members of the U.S.-China Economic and Security Review Commission, thank you for the opportunity to participate in this panel on cross-Strait security and military developments. This is a topic that is of critical importance to U.S. interests and peace and stability in the Asia-Pacific region. I am honored to testify here today.

Taiwan (also known as the Republic of China, or ROC) is steadily advancing its capacity to exercise military power in order to defend its national territorial sovereignty, market economy, and democratic system of government. Increasingly less constrained by institutional and technological barriers that have hampered it in the past, Taiwan has been investing in innovative and asymmetric capabilities to help offset its quantitative shortcomings in the face of a much larger adversary. The People's Republic of China (PRC) and the People's Liberation Army (PLA) still consider a future cross-Strait conflict to be their most challenging military planning scenario; and Taiwan and the United States are working hard together to make sure it stays that way.

My presentation today will focus primarily on three areas of cross-Strait security developments. First, this presentation will discuss the ROC-PRC military balance and Taiwan's military modernization program. Next, I will assess Taiwan's ability to defend against non-kinetic threats and the U.S.-Taiwan military and security relationship. Finally, my presentation will conclude by offering recommendations for how Congress might consider improving Taiwan's ability to defend against Chinese military coercion. At the outset, let me state my firm conviction that Taiwan is and will long remain defendable. Moreover, it is in the national security interests of the United States to work collectively with Taiwan, as well as with Japan and our other allies and friends in Asia, to balance against the rising power of China. A peaceful and prosperous Asia requires a strong and secure Taiwan.

The Chinese Communist Party leadership in Beijing continues to view Taiwan as its most worrisome external political and diplomatic problem. As the world's first ethnically Chinese democracy, the ROC's remarkable success story casts the PRC's oppressive political system in an unfavorable comparative light. To make matters worse for the communist party, over twenty countries around the world maintain official diplomatic relations with Taiwan instead of with China, and many countries accord Taiwan with favorable, while unofficial, diplomatic treatment. For example, over 100 countries have visa waiver agreements with Taiwan that they do not share with China. To combat what it views as a grave political threat, Beijing's strategy has been to employ a mix of coercive and cooperative measures to isolate, and ultimately subjugate, Taiwan. The most prominent aspect of China's strategy is its military build-up, which aims to intimidate the voters in Taiwan and policymakers in the United States.

#### Cross-Strait Military Balance

Today the PLA threatens Taiwan, and by extension the United States, with a massive inventory of offensive ballistic and cruise missiles, armed drones, submarines, warships, space and cyberspace weapons, and air and ground forces. Individually, none of these weapons or capabilities can tilt the cross-Strait military balance in China's favor. Each can be countered. However, if the PLA used all the tools at its disposal in a coordinated fashion, it could turn the defense of Taiwan into the democratic world's most stressful military challenge. To put it another way, no other U.S.-friendly democracy faces the level of military threat that Taiwan does.

Having said that, I personally do not believe there has been a fundamental shift in the cross-Strait military balance. Rather, the situation remains fluid and dynamic. China has improved its ability to strike important military targets

in Taiwan with missile and air attacks, and in return Taiwan has improved its missile defenses and hardened all its bases. Beijing has greatly expanded its surface and submarine fleets, and in return Taipei has developed cutting-edge cruise missiles for targeting China's ships and submarine bases. China has demonstrated its intent to develop stealth aircraft, and Taiwan has deployed radar systems capable of countering stealth.

Nonetheless, many American observers are understandably concerned that the conventional military balance is shifting, or may have already shifted, in China's favor. Some have even asserted that Taiwan could eventually become impossible to defend without nuclear weapons. Much of this fear stems from an assumption that Taiwan would rapidly lose air superiority and sea control at the outset of conflict as the result of large scale PLA missile strikes on its airbases and naval ports. Yet a review of the PLA's own writings presents a very different picture. Indeed, while its propaganda outlets spread the narrative that China could handily beat Taiwan in any conflict, the PLA's operational community views the ROC military with great respect. From the PLA's perspective Taiwan is an extremely hard target, and, thanks in large part to American security assistance, Taiwan is only getting better defended over time.

### *Evolving PLA Threat Dynamics*

True to American assessments of PLA doctrine, China's strategic missile force – the Second Artillery Force – and the PLA Air Force (PLAAF) have invested tremendous resources into developing missiles for striking fixed targets such as airbases and port facilities with cluster munitions. The volume of research and development work published in Chinese military-technical journals over the past two decades speaks to the high level of priority this technology development program has been given. But a close reading of these documents reveals that Second Artillery and PLAAF writers do not think they can deliver a “game-changing” set of weapons against Taiwan. For example, the latest engineering studies to come out of Second Artillery simulation labs demonstrate that at least 18 ballistic missiles would be required to close or “blockade” one Taiwanese airbase runway. Moreover, Second Artillery researchers conclude that Taiwan's rapid runway repair teams could have their runways operating again in as little as 75 minutes, forcing the PLA to launch numerous salvos of missiles to keep a single runway closed for long enough to make it matter.

These pessimistic views are shared by assessment teams in the PLA's General Staff Department and General Armaments Department. For example, one internal General Staff Department study in late 2008 concluded that each of Taiwan's three deployed Patriot ballistic missile defense batteries could intercept up to 24 missiles at once. If true that would mean Taiwan could intercept a total of 72 incoming missiles, which is over half of the 120 ballistic missiles China could theoretically be expected to launch in a single coordinated attack. Assuming that the surviving 48 missiles that “leaked” through were all aimed at airbase runways, and assuming they all proved to be as accurate and reliable as the PLA hopes, China could then expect to have temporarily closed two airbase runways and significantly damaged, but not closed, a third runway. Perhaps as a result, a study published last year affiliated with the General Armaments Department urged planners to prioritize the order in which Taiwanese airbases are attacked because not all can be targeted.

Reports such as these demonstrate that the PLA does not believe it will be able to obtain air superiority and sea control in a conflict with Taiwan. While this remains a long term aspiration of the Chinese military, there are no indications that I have seen that would suggest the PLA will be able to achieve its goals for Taiwan in the foreseeable future. Without the ability to dominate the air and sea domains, amphibious assault operations against an island nation like Taiwan would be disastrous. This helps explain why China's amphibious fleet has not grown since 2007. It makes little sense for any navy to spend limited resources on ships that would be rapidly sunk in combat.

### *Taiwan Defense Modernization*

Taiwan is engaged in a comprehensive program to modernize its military. To stay ahead of evolving PLA threats, the ROC military has invested heavily in air and missile defense, counterstrike capabilities, intelligence collection, and joint training. To improve its defense against China's missile forces, Taiwan has acquired the world's most powerful ground-based radar system. Developed and built for Taiwan by the U.S., this system is a next generation version of the “Pave Paws” ballistic missile defense radar used by the U.S. Air Force. It provides Taiwan with an extremely long-range, high-fidelity picture of air (and possibly maritime) activity in and around China. It also

allows Taiwan to significantly contribute to the U.S.-Japan regional missile defense shield by filling large coverage gaps that previously existed. This contribution provided the U.S. and Japan with extra warning time in late 2012 when North Korea launched a long-range rocket into the Philippine Sea. Over the next few years Taiwan will deploy seven additional Patriot missile batteries (or “fire units”) and upgrade its six indigenous “Sky Bow” missile batteries. Taiwanese military analysts forecast that these additional systems will give Taiwan the ability to intercept 800 ballistic and cruise missiles by 2016.

Recognizing that the best defense against air and missile attacks is a credible counterstrike force, Taiwan has been developing surface-to-surface missiles since the 1970s. These capabilities allow the ROC military to interdict or disrupt Chinese missile launch units before they can strike. They also give Taiwan’s president the ability to respond to PRC strikes in a proportional fashion. An internal PLA report assessed that Taiwan had approximately 200 surface-to-surface missiles deployed on the front-line Kinmen and Matzu island groups by 2005. More recent reports suggest that Taiwan has developed an innovative, ramjet-powered missile that does not travel along a traditional ballistic trajectory. In a conflict, these missiles would likely be used in coordination with Taiwan’s three squadrons of strategic ground-launched cruise missiles, which are based outside Taipei. Taiwan also has hundreds of land attack cruise missiles that it can launch from its ships, submarines, and fighter aircraft. Mainland Chinese reports suggest that the principal targets of Taiwan’s missile forces would be the PLA’s naval port facilities, air bases, command and control centers, radar stations, communications stations, and transportation nodes. They also note that Taiwan may develop penetrating warheads to destroy hardened targets such as underground command posts and hardened bunkers.

Even more important than advanced weapons are the investments Taiwan is making into high quality military personnel. Currently the ROC military is transitioning into an all-volunteer force to assure it can meet the challenges of the 21<sup>st</sup> Century battlefield. Initially, this program suffered a string of setbacks, and Taiwan’s Ministry of National Defense was not able to meet its early recruitment goals. However, according to officials at the American Institute in Taiwan, the ROC military establishment was quick to adapt and is now on track to exceed its recruitment goals for this year.

To give it a marked qualitative edge over the PLA, Taiwan sends large numbers of military officers to U.S. service academies and command schools. Thousands of Taiwanese fighter and helicopter pilots, ship crews, army soldiers, marines, and special operations personnel also receive advanced training at U.S. military bases. Moreover, Taiwanese fighter pilots continue to fly at least fifty percent more than their adversaries in the PLAAF. The rigor of pilot training, the high number of flying hours they maintain, and the advanced age of some of their aircraft have contributed to a number of pilot deaths in recent years. However, Taiwan’s high-quality training regime gives it a decided advantage over China. This is something that has become particularly important as China’s numerical superiority continues to increase and a cross-Strait “fighter gap” emerges.

PLA evaluations of Taiwan’s air defense capabilities highlight the qualitative advantage that Taiwan enjoys in the air. One General Staff Department report assessed that Taiwanese pilots are able to sortie two to three times on average per day, but are capable of organizing up to four daily sorties if needed. This assessment noted that during night-time training drills, Taiwan’s air force can launch significant numbers of aircraft on a single sortie. It also observed that Taiwan’s fighter pilots are trained to fight outnumbered, with each pair of Taiwanese fighters capable of intercepting four PLAAF fighters. To increase its tactical proficiency and operational flexibility, Taiwan maintains an entire F-16 fighter squadron at a training base in Arizona. In a conflict scenario, this squadron could rapidly deploy across the Pacific and arrive to the cross-Strait fight at whatever point it was most needed.

### *Taiwan’s Defense Strategy*

As a defensive or “status quo” state that is content with its existing territorial borders, Taiwan’s strategy is to employ asymmetric and innovative means to defend itself at the lowest possible cost. Taiwan’s security objectives are limited to deterring, or if necessary defeating, a Mainland Chinese attack. As such Taipei can achieve its strategic objective by merely inducing China to forego its efforts at conquest. By convincing China that the risks of aggression outweigh the benefits, Taiwan attains victory. Conversely, as a revisionist state that is unsatisfied with its territorial bounds, the PRC must isolate and subjugate the ROC in order to gain its strategic objective. Beijing must therefore court immeasurably greater risks and expend far more resources in the attempt. Yet by

trying to decisively outmatch a well defended Taiwan, the Chinese Communist Party is likely to defeat its own purposes and exhaust itself so much that it cannot resist the internal effects of overstrain. As such, Taiwan does not need to engage in an arms race with China. Taiwan already maintains an unusually large army and spends a larger portion of its GDP on defense than the American treaty allies Japan and Australia. Moreover, Taiwan's military modernization and defense reforms appear to be having a cost-imposing effect on China, forcing the PLA to invest heavily in expensive weapons systems to counter some of Taiwan's advantages. This dynamic works to Taiwan's benefit.

Rather than engage in an arms race, Taiwan's challenge is to meet its limited security objectives in the most strength-conserving way possible to ensure its future as well as its present. To some, it might seem that pure defense would be the most ideal strategy Taiwan could adopt, but passive defense strategies have historically proven to be dangerously fragile and often defeated. Economy of force and deterrence are best balanced in the strategy that the ROC military currently employs, based on layered defenses and high mobility counterstrikes that carry the power of quick and proportional response to aggression. To date this strategy has greatly improved Taiwan's ability to defend against a Chinese minimum warning invasion scenario – the most stressful military contingency Taiwan could one day face. In the worst possible case imaginable, Taiwan estimates that it could now “hold out” for at least one month without any outside help. This is a considerable increase over earlier forecasts that found Taiwan could only defend itself for one or two weeks. This trend reflects the positive steps Taiwan is taking to improve its national defense, and it allows the U.S. needed time to mobilize support in the event of a sudden cross-Strait conflict.

#### Non-Kinetic Threats to Taiwan and the U.S.-ROC Security Partnership

China recognizes that Taiwan will remain an extremely difficult military target as long as Taipei continues to maintain a close security partnership with the United States. To undercut American support for Taiwan, China has engaged in a large scale perception management or “political warfare” campaign that aims to shape the decisions made by Washington policymakers in a way favorable to Beijing. Much of this effort centers on persuading policymakers to re-interpret or abrogate the Taiwan Relations Act of 1979 and the Six Assurances of 1982. Beyond overt efforts in this area, China also appears to use clandestine intelligence operations as one method of undermining U.S.-Taiwan relations.

#### *Cross-Strait Intelligence Operations*

China continues a large scale effort to recruit and exploit spies within Taiwan and the United States, resulting in a situation whereby neither side can completely trust that the other has not been penetrated. For example, there have been around twenty alleged cases of Chinese espionage against Taiwan since 2004, and one or two dozen against the United States. Both Taiwan and the U.S. have succeeded in stopping many of these espionage cases before they have gone on too long—sometimes within weeks or months. American counterintelligence experts and retired government officials note that Taiwan has been equally (and sometimes more) successful at protecting military secrets and advanced weapons technologies when compared to South Korea and Japan. They also note that, while there have been a fair amount of espionage cases in Taiwan, it is not clear that large amounts of information have been lost. Our joint security measures are ameliorating the Chinese intelligence threats, but the political impact remains troubling in light of the important role joint intelligence sharing plays in the U.S.-Taiwan relationship.

Providing advanced warning of Chinese preparations for an attack on Taiwan or its principal security partner the United States, or providing warning that an attack may be underway, are almost certainly the highest priority for all Taiwanese information collection platforms. Indications and warning (I&W) is essential during peacetime to prevent China from obtaining the advantage of surprise. As has been demonstrated repeatedly over the past two decades, I&W information is especially critical during periods of crisis or limited conflict to provide strategic warning of imminent Chinese actions or escalation of armed hostilities. Taiwan's timely and reliable I&W contributes to good decision-making, allowing leaders in Taipei and Washington to take appropriate steps ranging from increasing the readiness levels of forces to activating contingency plans.

Information about Chinese activities obtained from Taiwan's early-warning radar systems is combined with information collected by other sources as a basis for action by Taiwan and U.S. decision-makers. Several

capabilities fielded by Taiwan have the potential to contribute important I&W information. Taiwan works closely with the United States to provide signals intelligence on the intentions, activities, and capabilities of China's military and security forces. Taiwan exploits a large number of land, air, and sea-based listening posts, its close proximity to China, and its world-class information and communications technology expertise to collect signals intelligence. Further advancing its favorable position in this area, Taiwan was one of the first countries in the world to establish a cyber warfare command. Its ability to penetrate Chinese cyber systems likely benefits from Taiwan's well-regarded computer hacking and computer security communities – as well as its commanding position on the supply chains that support China's electronics and computer technology industries. While direct comparative analysis is unavailable due to the opaque nature of the subject, anecdotal evidence suggests that Taiwan's computer and software engineering talent continues to outpace competition in China.

Taiwan also has a long history of leveraging its close cultural, linguistic, and economic ties to China for collecting traditional human intelligence. Western media reports generally focus on China's intelligence threat to Taiwan, while overlooking Taiwan's track-record of penetrating high-level targets in China. Since 2004, China has suffered from dozens of Taiwanese espionage cases. Taiwan's agents have included the leadership of China's Air Force Command Academy, a Central Committee member, and more. Recent examples of success include Taiwan's ability to collect detailed information on China's anti-ship ballistic missiles, drones, and airbases. Taiwan also obtained timely forewarning of China's intention to declare an air defense identification zone over the East China Sea in November 2013. This allowed the ROC National Security Council to call an emergency meeting and deliberate in advance of Beijing's declaration.

#### *Taiwan's Role in the U.S. Military Rebalance to Asia*

Taiwan has so far had an important, if low-key, role in the military component of the U.S. rebalance to Asia. Taiwan's critical geostrategic location has long made it a natural partner for the U.S. military. Further adding to its appeal, Taiwan is a liberal democracy that protects human rights and shares U.S. national values. Reflecting its importance to the rebalance, there has been a large increase in the number of military exchanges between the U.S. and Taiwan. For example, over 2,000 U.S. Department of Defense visits to Taiwan occurred last year – over 500 more than the year prior. Significant numbers of U.S. military personnel are now conducting Chinese language and cultural immersion studies in Taiwan, while others are involved in programs to assist Taiwan further develop highly specialized military skills. Programs include sniper training, rapid runway repair training, and unexploded ordinance disposal – just to name a few. The ROC military has also played an important role in supporting U.S.-led disaster relief and humanitarian assistance operations, for example by being the first responder to arrive after Typhoon Haiyan devastated parts of the Philippines last November.

Going forward, the U.S. should continue to expand and deepen its military exchanges with Taiwan as part of the rebalance to Asia. Taiwan should be renewed as a hub for training U.S. government personnel in the Chinese language and culture. Given the unique expertise and historical experiences – as well as unparalleled access to data – that Taiwan's research centers offer, they should be leveraged by American military and intelligence officers studying the PLA. Even more importantly, the U.S. Navy should conduct port visits in Taiwan – as it does regularly in Hong Kong – and invite Taiwan to the Rim of the Pacific Exercise and other maritime and air warfare events. The U.S. Pacific Command has war plans for fighting alongside Taiwan's military. To assure that these plans could be fully executed, U.S. military leaders at all levels – up to and including the Commander-in-Chief – should engage with their Taiwan counterparts as a means of building greater trust and interoperability.

#### *Advancing U.S.-Taiwan Security Cooperation*

Improving people-to-people contacts in the government is vital for a healthy U.S.-Taiwan military and security relationship. There are also many opportunities for cooperation between the U.S. and Taiwan defense industries that have yet to be realized. Taiwan is one of the world's leading consumers of American defense articles and services, in both the areas of foreign military sales and direct commercial sales. However, Taiwan's indigenous defense industry offers many innovative capabilities that could benefit the U.S. military. For example, Taiwan's *Hsiung Feng III* "Brave Wind" anti-ship missile is far more capable than any comparable system fielded by the U.S. Navy. Taiwan's new air-launched *Wan Chien* "Ten Thousand Arrows" cruise missile also appears more capable than anything comparable in the U.S. Air Force inventory. Both are world-class systems optimized for the unique threat environment that exists in the Western Pacific; and both are almost certainly cheaper than anything

the U.S. defense industry could produce on short-notice.

The Pentagon now faces a number of pressing strategic requirements in the Pacific and a fiscally austere budget environment at home. The U.S. government should seek licensing agreements with Taiwan that would allow the flow of defense technology to go both ways. Instead of treating Taiwan like a wealthy customer (as we often do), American national interests would be better served by developing a truly cooperative relationship in the defense arena. The benefits for U.S. military capabilities and the defense savings could be immense. Missile technology is just one of many areas the U.S. could benefit from Taiwan's cutting edge defense science and engineering sectors.

#### *Taiwan's Role in Air-Sea Battle*

The Air-Sea Battle concept of operations is a classified Pentagon framework for coping with the rapid spread of anti-access/area-denial capabilities. Publically available information indicates that it seeks closer cooperation between the services in order to counter the potential for a devastating enemy attack on forward-deployed forces using sophisticated, but relatively inexpensive, long-range strike systems. Air-Sea Battle also calls for closer cooperation between U.S. forces and coalition partners in forward deployed locations. Because of its strategic location and close military partnership with the U.S., Taiwan will naturally play a vital role in the success (or failure) of the concept in any future conflict involving China.

There are several indicators as to how successful the U.S.-Taiwan partnership is likely to be in shaping the future security environment in the Western Pacific. At the tactical level, the PLA's capabilities will add complexity to theater airbase and naval base defense and impose greater risks on aircraft and warships operating in contested areas. To meet these challenges, it will be imperative that American and Taiwanese investments are made into electromagnetic and laser weapons for future air and missile defense. Greater investments are also required in electronic, cyber, and space warfare so that aggressors face a layered defense that includes both kinetic and non-kinetic means. In the interim, Taiwan's development of active and passive defenses for defending against large-scale missile attacks should be emulated by other Air-Sea Battle partner nations that face similar threats, especially Japan. The remarkably high-level of resiliency built into Taiwan's east coast airbases could also make them ad hoc candidates for front-line American air units engaged in wartime dispersal operations. Going forward, the American, Japanese, and Taiwanese military planning communities should work closer together to make sure they could seamlessly coordinate operations in the event that known contingencies occur.

#### Recommendations

There are a number of ways in which Congress should consider improving the ROC's ability to defend against PRC kinetic and non-kinetic coercion. First, I recommend that Congress strongly encourage the administration to relax self-imposed limits on senior U.S. military officer interactions with Taiwan. This would benefit the U.S. and Taiwan in several important ways. It would allow flag-grade officers to visit Taiwan and get to know their counterparts and learn about the battlespace firsthand. Relying on second-hand information transmitted through distant intermediaries is not a position our generals and admirals should be put in, especially when the success or failure of a key war plan is at stake. Keeping our top military leaders blind and confused – and by extension the U.S. president who relies on their good judgments – would be a key adversary goal in a conflict. We should not be doing the PLA's work for them. Moreover, Taiwan's generals, in the absence of strong personal relationships with their American partners, could assume the worst in a conflict and take measures against the Mainland in the defense of their country that would otherwise be unnecessary. As in any relationship, trust is critical, especially when life and death and the fate of nations are at stake.

Second, I recommend Congress mandate a U.S. government policy to promote bilateral defense industrial cooperation with Taiwan. Rather than wasting finite resources on "re-inventing the wheel," the U.S. military would greatly benefit from many of the defense technologies that Taiwan already possesses. Starting with licensing arrangements that would allow U.S. defense industries to build Taiwanese systems in America, our two nations could gradually move toward joint technology development programs similar to those we have with Japan.

Third, I recommend that Congress exercise its oversight authorities to assure that the U.S. executive branch fully incorporates Taiwan into the rebalance to Asia and Air-Sea Battle. The constant pressure that Beijing puts on the

White House, the State Department, and the Pentagon inevitably threatens to make any U.S. decision regarding Taiwan difficult and politicized. Congress has a critical role to play in keeping China from shaping U.S. policy behavior in ways that do not reflect American interests and values. Nowhere is this more evident than in the Taiwan Relations Act of 1979. As we mark the 35<sup>th</sup> anniversary of that landmark piece of legislation, Congress has the opportunity to reaffirm that America will be unflinching as it meets its legal and moral obligations to Taiwan for the decades to come.

**OPENING STATEMENT OF MR. DAVID FIRESTEIN  
PEROT FELLOW AND VICE PRESIDENT FOR THE STRATEGIC TRUST-BUILDING INITIATIVE  
AND TRACK 2 DIPLOMACY, EASTWEST INSTITUTE**

MR. FIRESTEIN: Commissioner Slane, Commissioner Tobin, distinguished Commissioners, ladies and gentlemen, I'm honored to testify before the U.S.-China Economic and Security Review Commission on cross-Strait military and security issues.

The views I am expressing here today are my own except to the degree that they come from the 2013 EastWest Institute policy report, "Threading the Needle," which I co-authored with my colleague, Piin-Fen Kok.

Recent years have seen an explosion of cross-Strait ties in various fields. These increasingly dense linkages suggest to some that China and Taiwan are on an inexorable path toward reunification. Beneath the surface, however, the underlying causes of the enduring China-Taiwan rift remain unresolved.

These causes include the existential incompatibilities of the two sides' territorial claims, governing philosophies, and senses of national identity. Unless and until these core incompatibilities are reconciled, a fundamental state of tension will continue to exist between China and Taiwan.

Owing to U.S. commitments to the security of Taiwan and the region under the Taiwan Relations Act, or TRA, and other policies, this state of tension has a major bearing on U.S. interests. U.S. engagement on cross-Strait military and security issues is governed mostly by a three-pronged policy architecture consisting of the TRA, the Six Assurances to Taiwan, and the U.S.-China Joint Communique of August 17, 1982.

To the degree that an overarching objective of this architecture is to maintain Taiwan's sufficient self-defense capability, then as currently implemented, the architecture is failing both the United States and Taiwan.

Over the nearly 32-year period during which all three components of this architecture have been in place, the number of mainland-based ballistic missiles threatening Taiwan has gone from zero to nearly 2,000. Estimates of the length of time Taiwan could stave off a mainland assault have been downgraded from years or at least months to seven minutes according to one authoritative estimate presented to this Commission in 2010.

And the U.S. Department of Defense has stated publicly that the balance of cross-Strait military forces and capabilities continues to shift in the mainland's favor. All of these developments challenge important U.S. interests in the Asia-Pacific region and increase the likelihood that the United States will become embroiled in a cross-Strait conflict.

Given that the United States has articulated an abiding interest in Taiwan's security, the question I would pose to this Commission is, is this state of affairs acceptable to the United States? If so, why? And if not, then why has the United States been accepting it?

We have seen quite a few 35th birthday bashes for the TRA around this city in recent weeks. Barring some change to the current trend line, I shudder to think what the cross-Strait balance of power will look like on the occasion of the TRA's 70th birthday.

Distilled down to its essence, Taiwan's central cross-Strait security conundrum is threefold:

First, Taiwan's paramount goal is its own security, but Taiwan can neither provide for itself nor procure from the United States the level of security it seeks.

Second, with the help of the United States, Taiwan is procuring defense articles and services at an arithmetic pace while China is developing its own military capabilities at something closer to a geometric rate of growth.

And third, the arithmetic pace of U.S. arms sales to Taiwan reflects a number of fairly rigid systemic constraints--policy, political, and on the Taiwan side, budgetary--unlikely to be released in the foreseeable future while China meanwhile operates under no such constraints.

From the foregoing analysis, I conclude that the most realistic way to stem the deterioration in the cross-Strait balance of power is to address the threat side--that is the China side--of the equation.

In my written testimony, I have put forward a series of detailed proposals to Congress that collectively offer a realistic chance to do that among other things. In brief:

I recommend that Congress maintain and encourage the U.S. government to maintain its current three-dimensional legal and policy architecture. While flawed, this architecture is superior to any of the realistic alternatives.

I recommend that Congress encourage the U.S. government to continue arms sales to Taiwan at a robust level. Significantly reducing U.S. arms sales to Taiwan would be destabilizing and contrary to U.S. national interests.

I recommend that Congress encourage the U.S. government to calibrate future sales so that annual arms deliveries to Taiwan do not exceed \$941 million, in 2012 dollar terms, the quantitative level implicitly agreed to by President Ronald Reagan under the 1982 Communique but sometimes exceeded by the U.S. government.

I recommend that Congress encourage the U.S. government to unbundle arms sales notifications to Congress so as to make them smaller and more routinized. This would address an important perceptual problem that now exists around these sales without affecting the actual content of any sales package.

And I recommend that Congress encourage the U.S. government to enhance high level contacts with Taiwan within the constraints of existing U.S. policy in order to mitigate any perception of a weakening of U.S. commitment to Taiwan. No such signal is intended by anything I am proposing.

I also call on Congress to hold more regular hearings on the cross-Strait balance of power, to conduct more visits to Taiwan and China specifically for the purpose of assessing cross-Strait balance of power issues, and to tighten its reporting requirements of the U.S. government so that cross-Strait balance of power considerations are dealt with in a way that is more systematic and methodologically rigorous.

In my written testimony, I also discuss my recommendation to the Chinese government, that China pull back about one-sixth of its ballistic missile forces opposite Taiwan and dismantle the infrastructure that undergirds those armaments.

If China were to carry out this recommendation, some 300 fewer missiles would be targeting Taiwan than are at present, and Taiwan's net security position vis-a-vis the mainland would be enhanced, even if marginally.

These recommendations share several features. All would be voluntary, unilateral, roughly concurrent, incremental and reversible, as well as security-neutral or -positive relative to Taiwan.

The proposed actions on the U.S. and Chinese sides are also broadly proportionate to each other. The evidence available to me suggests that this set of recommendations presents a viable path forward on this complex issue for all three stakeholders. I believe this is why President Reagan's Secretary of State George Shultz, who presided over the adoption of two of the three documents that constitute the current policy architecture, has characterized the EastWest Institute policy study in which these ideas were first put forth as, quote, "bold and pathbreaking."

I make these recommendations in the strong belief that if implemented they would advance the interests of the United States, maintain or enhance the security of Taiwan, and be deemed acceptable to China.

If I didn't believe all three of these things, I would not be presenting these recommendations to you. I also believe that owing to an unusual confluence of the political calendars in Washington, Taipei and Beijing, we are now within a narrow window politically in which these proposals are particularly feasible. It would behoove the United States to capitalize on this moment.

I sincerely hope that the ideas that I have put forward here will be of value to this Commission and to the United States Congress, and that they will help the United States advance its national interests with respect to Taiwan and the Asia-Pacific

region.

Thank you very much once again for this opportunity.

**PREPARED STATEMENT OF MR. DAVID FIRESTEIN  
PEROT FELLOW AND VICE PRESIDENT FOR THE STRATEGIC TRUST-BUILDING INITIATIVE  
AND TRACK 2 DIPLOMACY, EASTWEST INSTITUTE**

**June 5, 2014**

**“China’s Relations with Taiwan and North Korea”**

**David J. Firestein**

**EastWest Institute, Vice President and Perot Fellow**

**Testimony before the U.S.-China Economic and Security Review Commission**

Distinguished Commissioners, Ladies and Gentlemen:

I am grateful and honored to have this opportunity to testify before the U.S.-China Economic and Security Review Commission. The panel on which I am privileged to serve as a witness – on “Cross-Strait Military and Security Issues” – focuses on a cluster of issues of great importance to the United States and to the Asia-Pacific region.

Introduction

In my nearly 18-year career as a U.S. diplomat and my almost five years as a think tank executive, I have specialized principally in U.S.-China relations. Given Taiwan’s centrality in U.S.-China relations, I have also delved deeply into Taiwan-related issues. My views on cross-Strait issues are informed by visits to and stays in both Taiwan and mainland China dating back to 1984; tours of duty in the service of the United States in both Taiwan and mainland China; intensive consultations with experts and officials in both places, as well as in Washington; and in-depth policy research, with special emphasis on U.S. arms sales to Taiwan, conducted over the last four years in my capacity as a vice president of the EastWest Institute, a New York City-based foreign policy think tank that specializes in track 2 diplomacy.

In my testimony, I will focus mostly on the following four questions directed to me by the Commission:

1. Assess the strengths and weaknesses of the policy architecture governing U.S. arms sales to Taiwan. How can the United States improve this [architecture]. Please be specific and provide actionable recommendations.
2. How has China responded – publicly and privately – to previous announcements of U.S. arms sales to Taiwan? How might China respond to future U.S. arms sales to Taiwan, such as submarines and F-16s? What political and security effects have U.S. arms sales had on the U.S.-Taiwan-China relationship?
3. Assess the potential for China to reduce its deployments of short-range and medium-range ballistic missiles and dismantle missile infrastructure opposite Taiwan. How would this affect the U.S.-Taiwan-China security relationship?
4. The Commission is mandated to make policy recommendations to Congress based on its hearings and other research. What are your recommendations for congressional action related to the topic of your testimony?

I place special emphasis on these questions because they align best with the focus of my ongoing research and consultations on cross-Strait issues; however, I will also offer some thoughts on other questions salient to an assessment of cross-Strait military and security issues, including some of the other questions posed by the Commission. I will devote the most attention to the topic of the last question – my recommendations for Congressional action.

Overview of Cross-Strait Military and Security Issues

Before addressing the specific questions enumerated above, allow me to share my broad assessment of the overall cross-Strait military and security picture and articulate a few key framing assumptions I make as I look at the cross-Strait environment. And let me also note that the views I express in this testimony are my own and should not be construed as reflecting the views or positions of any other individual or organization.

In recent years, mainland China (hereinafter, “China”<sup>106</sup>) and Taiwan have seen a dramatic improvement in day-to-day relations, with an explosion of cross-Strait linkages in many different fields, including, but not limited to, transportation, tourism, educational exchange and trade. This trend has led many analysts to conclude that an inexorable convergence between the mainland and Taiwan is taking place and that it will only be a matter of time before the linkages are so expansive and the centripetal pull so strong that reunification – presumably on the larger and more powerful mainland’s terms – becomes a foregone conclusion.

I see the situation quite differently. In my judgment, the linkages that have blossomed between China and Taiwan, while real and positive in their own right in many respects, have done nothing to ameliorate the profound and enduring differences that lie at the core of the decades-long China/Taiwan dispute; on the contrary, they may have cast these differences into even sharper relief, at least on the Taiwan side. These differences include, most fundamentally, diametrically opposing views as to whether Taiwan rightfully belongs to the People’s Republic of China<sup>107</sup>; the existential incompatibility of the juridical territorial claims of China and Taiwan more generally; China’s unwillingness to renounce the use or threat of force regarding the territorial issues mentioned above<sup>108</sup>; the existential incompatibility of the political and social systems of China (a self-proclaimed “socialist” “people’s democratic dictatorship”) and Taiwan (a self-proclaimed “democratic republic of the people, to be governed by and for the people”) as they exist today<sup>109</sup>; and sharply, and perhaps increasingly, diverging senses of national identity and values, informed by both some of the preceding factors and also other considerations.<sup>110</sup> Unless and until these core incompatibilities are reconciled, a fundamental state of tension will continue to exist between China and Taiwan, however many students are exchanged and however much trade is conducted. As deeply rooted as it is, and given the trajectory generated by existing policies as currently implemented, this fundamental state of tension could well outlive most of us in this room.

The cross-Strait relationship and its attendant military and security issues directly implicate the interests of the United States for reasons of which the Commission is well aware – but not least, because of the Taiwan Relations Act (TRA), which states, *inter alia*, that “it is the policy of the United States... to consider any effort to determine the future of Taiwan by other than peaceful means... a threat to the peace and security of the Western Pacific area and of grave concern to the United States.”<sup>111</sup> More specifically, the TRA mandates that the United States “make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.”<sup>112</sup> U.S. arms sales to Taiwan are thus a central feature, though not the only feature, of U.S. involvement in the cross-Strait security situation. In short, for reasons of both law and policy, the United States is a critical factor in the cross-Strait equation. Accordingly, there are three vital stakeholders in cross-Strait military and security issues: China, Taiwan and the United States.

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<sup>106</sup> Mainland China and Taiwan refer to themselves, respectively, as the People’s Republic of China and the Republic of China (Taiwan). In my testimony, for purposes of brevity, I will generally use the common short forms, “China” (for mainland China) and “Taiwan.” To the degree I make reference to Taiwan’s formal name, the “Republic of China,” I do so for the sake of technical clarity and do not mean to imply U.S. recognition thereof.

<sup>107</sup> Though, as a constitutional matter, the Republic of China (Taiwan) (ROC) still regards ROC sovereignty as extending to mainland China; and though the ROC nominally embraces the so-called “1992 Consensus,” which states that Taiwan accepts the geo-psychic notion of “one China” (with Taiwan being a part of that China), in actual practice, Taiwan has effectively relinquished any real claim to the mainland. China, however, has not relinquished its claim to Taiwan. This is why the question of whether Taiwan is part of the PRC is the operative question here; whether the mainland is part of the ROC is no longer in any real dispute (that is, few in Taiwan still argue that the mainland is part of the ROC).

<sup>108</sup> See, for example, Anti-Secession Law, Order of the President of the People’s Republic of China No. 34, March 14, 2005: [http://www.china.org.cn/china/LegislationsForm2001-2010/2011-02/11/content\\_21898679.htm](http://www.china.org.cn/china/LegislationsForm2001-2010/2011-02/11/content_21898679.htm). In particular, note the statement, “In the event [of Taiwan independence], or that possibilities for a peaceful reunification should be completely exhausted, the [PRC] shall employ non-peaceful means and other necessary measures to protect China’s sovereignty and territorial integrity.” Effectively, this is a “by a means necessary” doctrine.

<sup>109</sup> See Article 1 of each side’s constitution: [http://www.npc.gov.cn/englishnpc/Constitution/node\\_2824.htm](http://www.npc.gov.cn/englishnpc/Constitution/node_2824.htm); and <http://english.president.gov.tw/Default.aspx?tabid=1107>, respectively.

<sup>110</sup> In this testimony, when I use the term “national” to describe Taiwan or some aspect of Taiwan, I am seeking to speak to the issue at hand in the way that people in Taiwan would; the 23 million people of Taiwan regard themselves as hailing from a nation now commonly known as the “Republic of China (Taiwan).” As noted above, I do not mean to imply U.S. recognition of Taiwan as a nation, however.

<sup>111</sup> <http://www.ait.org.tw/en/taiwan-relations-act.html>

<sup>112</sup> *Ibid.*

Against this backdrop, and as a preface to the remainder of my testimony, I would offer the following framing points for the Commission’s consideration.

First, for reasons I will discuss in some detail in a moment, the current cross-Strait security situation – with the issues at its core still very much unresolved – is suboptimal from the standpoint of all three stakeholders. Most to the point for purposes of this hearing, it is suboptimal from the standpoint of the United States.

Second, there can be no meaningful improvement in the cross-Strait security situation without the buy-in of all three stakeholders: China, Taiwan and the United States. In the long run, there is no such thing as a “way forward” on, let alone a “solution” to, cross-Strait military and security issues that is unacceptable to one of the three stakeholders.<sup>113</sup> In this sense, the cross-Strait security equation is probably best thought of as a “systems” problem that requires a “systems approach” to address. I will come back to this point later in my testimony.

Third, U.S. arms sales to Taiwan, which China construes as a major contributor to – if not the primary source of – cross-Strait tensions, are not, in fact, the core problem in the cross-Strait equation, but rather, a derivative symptom of the much deeper problems described above. It seems clear to me that U.S. arms sales to Taiwan will continue precisely as long as the core issues remain unresolved. And thus, though the United States is clearly a stakeholder in cross-Strait issues, it is not the primary mover on them; China and Taiwan are. Similarly, strategic mistrust between China and the United States is not the primary impediment to resolution of the Taiwan issue; strategic mistrust between China and Taiwan is.

Fourth, notwithstanding the various joint statements and agreements between the sides – some of which will be mentioned later in this testimony – that suggest consensus on certain key issues, the fact is, these agreements actually paper over a fundamental difference between China and Taiwan (and the United States) on the matter of Taiwan: namely, that China’s ultimate goal is Taiwan’s reunification with the mainland on the mainland’s terms, while Taiwan’s (and the United States’) paramount goal is Taiwan’s security – and, concomitantly, the protection of Taiwan’s current political and social system – vis-à-vis the mainland.<sup>114</sup> No side in this equation sees these two goals as entirely reconcilable; this fact is at the root of the cross-Strait problem’s evident intractability.

Fifth, in my judgment, China faces a profound conundrum in its approach to Taiwan – a conundrum of which Chinese policymakers seem to me to be increasingly aware: by threatening the use of force to resolve the Taiwan issue, China deeply alienates the very people to whom it is trying to sell reunification; but if China were definitively to renounce the use of force and take military action off the table in a credible way, Taiwan would almost certainly go independent. This suggests that, from China’s vantage, an optimal approach would be to keep force on the table at the doctrinal level, but to relax, rather than ramp up, its military posture toward Taiwan in an operational, and optical, sense.<sup>115</sup>

Sixth, Taiwan faces its own conundrum: Taiwan’s paramount goal is its own security and the preservation of its cherished way of life, but, for a variety of reasons, it can neither provide the desired level of security for itself nor procure itself out of its security dilemma with the mainland through the purchase of defense articles and services from the United States, Taiwan’s only major external supplier of arms.<sup>116</sup> Or, to couch the same point in terms of

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<sup>113</sup> Here, and throughout this testimony, I will cite or adopt language, as appropriate, from the 2013 EastWest Institute (EWI) policy report I co-authored with my EWI colleague, Ms. Piin-Fen Kok, entitled, *Threading the Needle: Proposals for U.S. and Chinese Actions on Arms Sales to Taiwan*; see: <http://www.ewi.info/idea/threading-needle>, p. 44.

<sup>114</sup> Officially, the United States characterizes its goal with respect to Taiwan differently – namely, that the United States is for “peaceful resolution” of the cross-Strait issue in a manner that is acceptable to the Chinese on both sides of the Strait. But what this means in reality is that the United States is committed to the goal of ensuring that Taiwan’s chosen way of life is not jeopardized or sacrificed in a reunification scenario. After all, if the two sides’ political and social systems were identical, it is unlikely that the rift between the sides would still exist.

<sup>115</sup> I stress that, here, I am attempting to look at the issue from a PRC perspective. Needless to say, Taiwan and the United States understandably reject and repudiate the notion of China using force to resolve the cross-Strait issue.

<sup>116</sup> The two main reasons for this state of affairs are: 1) the United States does not appear to be willing or able (owing to policy, and perhaps political, constraints) to make available to Taiwan the quantity of defense articles and services that would be necessary to allow Taiwan to keep pace with the mainland in a military sense; and 2) in any case, Taiwan does not appear to have sufficient budgetary resources, or perhaps even the political will, to purchase that quantity of arms even if U.S. policy constraints were relaxed.

U.S. policy, the United States cannot arm Taiwan out of its security dilemma with China. This suggests that to attain its goal of security, Taiwan ultimately needs to address the imbalance of power it now faces not merely on the defense side, but also on the threat side – that is, on the Chinese side of the balance of power equation.

### The Legal and Policy Architecture: Strengths and Weaknesses

Having laid out my general assessment of the cross-Strait picture and shared some framing thoughts, let me now turn to the U.S. legal and policy architecture that governs the issue. Since I know the Commission is deeply familiar with this architecture, I will refrain from delving too deeply into the basic facts and instead focus mostly on my key conclusions.

There are three main components to the legal and policy architecture that governs U.S. actions relating to Taiwan: the Taiwan Relations Act, noted above (April 1979); the Six Assurances to Taiwan (July 1982); and the U.S.-China Joint Communiqué of August 17, 1982 (August 1982), which deals specifically with the contentious issue of U.S. arms sales to Taiwan. The TRA is law; the other two documents constitute, or are tantamount to, U.S. policy.

As the Commission is aware, there is an inherent tension between these three sets of commitments. As noted above, the TRA, among other things, mandates that the United States make defense articles and services available to Taiwan in such quantity as to enable Taiwan to maintain a sufficient – though undefined – self-defense capability. The Six Assurances, among other things, precludes the United States from setting a phase-out date for U.S. arms sales to Taiwan and precludes the United States from consulting China in advance of U.S. decisions about arms sales to Taiwan. And the 1982 Communiqué, in sum, states that the United States intends “to reduce gradually” its sales of arms to Taiwan and that U.S. “arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied [between January 1, 1979 and August 17, 1982].”<sup>117</sup> The latter commitment, with its use of the words “will not,” is the only concrete commitment made in the document by either side.

The tension arises principally because, at face value, the TRA’s imperative that the United States make arms sales decisions “solely upon [a] judgment of the needs of Taiwan” at least potentially conflicts with the evident clear-cut U.S. commitment under the 1982 Communiqué to refrain from exceeding certain qualitative and quantitative limits (presumably, irrespective of Taiwan’s needs).<sup>118</sup> Similarly, the 1982 Communiqué’s reference to a gradual reduction in U.S. arms sales to Taiwan over a period of time toward an undefined “final resolution” would seem to conflict, at least over the long term, with the Six Assurances’ prohibition on the setting of a date-certain for the termination of U.S. arms sales to Taiwan; after all, if you can’t set a date to end sales, then you can’t actually end the sales.<sup>119</sup>

And not only are there tensions between certain pairs of these sets of commitments, but indeed, in the case of the 1982 Communiqué itself, there are even substantial and unresolved tensions contained within a single document. For example, in the 1982 Communiqué, the Chinese characterize their paramount goal for Taiwan as “peaceful reunification,” while the United States pointedly references this goal in very different terms – namely, as “peaceful resolution”; it is almost as if each side was willing upon the other side its chosen interpretation of the other side’s views.<sup>120</sup>

One can assess this architecture at various levels and in various ways. Here are a few of the key conclusions and

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<sup>117</sup> It is important to note that the United States regards its stated intentions and commitments under the 1982 Communiqué as being conditional upon China’s “fundamental policy to strive for peaceful resolution of the Taiwan question.”

<sup>118</sup> The State Department, in testimony before the United States Senate on August 17, 1982, argued that, in fact, there was no contradiction in this regard because China’s “fundamental” commitment to a peaceful approach to Taiwan meant that Taiwan’s defense needs would naturally diminish over time. But the transcript of the testimony (*Threading the Needle*, Appendix B) makes it clear that a number of Senators were rather dubious about this line of argumentation.

<sup>119</sup> Here again, the State Department argued that the words “final resolution” referred to the U.S.-China dispute over the issue, not to the arms sales themselves. But Senators expressed some skepticism about this explanation, as well. See *Threading the Needle*, Appendix B.

<sup>120</sup> See *Threading the Needle*, p. 41, footnote 72 for a fuller discussion of this point.

assessments generated from my research and my consultations in Beijing, Taipei and Washington.

At a basic level, two strengths of the current architecture are the architecture's ambiguity and its staying power and consistency over more than three decades. By not defining many of the key terms and concepts with more precision – e.g., “sufficient self-defense capability” (TRA), “...over a period of time to a final resolution...” (1982 Communique) – the architecture generates the desired “strategic ambiguity” and makes it possible for the United States to avoid being pinned down to certain positions.<sup>121</sup> In a sense, the architecture works because it is imprecise enough to grow and “bend” with time and developments.

The architecture's ambiguity contributes directly to its staying power and fairly consistent application over more than three decades – a second major strength. Whether one agrees or disagrees with the policy, whether one likes or dislikes it, the fact is, U.S. policy on Taiwan – as governed by the three-pronged policy architecture discussed above – has been remarkably consistent over five presidencies (Reagan, Bush, Clinton, Bush, Jr. and Obama) and across partisan lines in both the White House and in Congress. This staying power and consistency, coupled with the consistency of China's doctrine and policies, has at least resulted in broad predictability surrounding cross-Strait military and security issues.

Perhaps the most significant success of this architecture is that, whatever its weaknesses (to be discussed below), it has created a context within which Taiwan itself, China-Taiwan relations, and U.S.-China relations have been able to develop and blossom despite profound differences between the sides over several major issues. As I wrote with my co-author, Piin-Fen Kok, in 2013 in reference to the 1982 Communique, arguably the most cryptic of the three documents:

*“The two sides employed ambiguous, even awkward, grammar and language to allow each side to walk away from the agreement with justification for its own view. In this sense, the Communique became a kind of ‘Rorschach test;’ each side saw in it what it wanted to see. The United States saw in the agreement a stated commitment by China to a peaceful solution to the Taiwan question; the Chinese saw in the agreement a stated commitment by the United States to gradually reduce, and ultimately zero out, its arms sales to Taiwan. Strictly speaking, however, in neither case had the signatory unconditionally agreed to these things. To the extent that the Communique enabled the United States and China to kick the can down the road on the real issues and, in the meantime, build the bilateral relationship, it largely succeeded.”<sup>122</sup>*

But this brings us to the architecture's weaknesses. Here, there are two key points to make.

The first is that whatever the strengths and merits of this policy architecture, the fact is, neither the United States nor China has adhered to all of it consistently. The most straightforward case is that of the 1982 Communique.<sup>123</sup>

The quantitative limits set forth in the Communique, while not computed in concrete terms within the document itself, actually represent a quantifiable, knowable number. In our research on this issue, we calculated that number – that is, the upper limit to which the United States committed when it agreed that “its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China.” As noted earlier, the “recent years” referred to in this clause means the period between January 1, 1979 and August 17, 1982, the date of the 1982 Communique. This is a very finite period and therefore a very finite data set, and the “level” in question is a matter of open-source record. In our research, we compiled the publicly available data on U.S. arms deliveries to Taiwan, adjusted the numbers for inflation (using 2012 dollars), and then generated – for the first time, to our knowledge – a specific dollar figure for the cap referenced in the 1982 Communique. That figure came to \$941 million in 2012 dollars. Using inflation-adjusted numbers so as to facilitate an apples-to-apples comparison of the data over time, we then assessed U.S. arms sales from 1982 to 2011, the last year for which we had a full set of data at the time we were crafting our analysis, against that figure.

<sup>121</sup> China's architecture – including the 1982 Communique, but also including China's Anti-Secession Law – provides China similar wiggle room.

<sup>122</sup> *Threading the Needle*, p. 47.

<sup>123</sup> Being a joint statement, the 1982 Communique constitutes part of both the U.S. and Chinese policy architecture; hence, the reference to China in this paragraph.

In 15 of the 30 years in question, the United States delivered arms to Taiwan in excess of a reasonable construction of the quantitative limit it had signed onto in 1982 – that is, in excess of the inflation-adjusted figure of \$941 million.<sup>124</sup> For years, the Chinese have protested, publicly and privately, what they have regarded as the United States’ failure to adhere to its own stated policy. It turns out, they were right.<sup>125</sup>

But China’s own record of adherence to the 1982 Communique is also problematic. Assessing China’s performance under the Communique is necessarily a more subjective undertaking, since China did not allow itself to be pinned down with nearly the level of specificity that the U.S. side accepted in 1982, but it is still possible to make a defensible judgment. Having expressed at least an implied commitment to “a fundamental policy of striving for peaceful reunification of the Motherland,” it is my view that China has on numerous occasions deviated from that course and resorted to other than peaceful means to advance its objectives vis-à-vis Taiwan. The most obvious examples are the Chinese missile tests of 1995 and 1996 – which probably did more to galvanize Taiwan public opinion in opposition to the notion of reunification than any other single thing China has done in the last 25 years; the passage of the Anti-Secession Law of 2005, which codified into law the longstanding Chinese policy that any substantial move toward Taiwan independence would be met with force; and, above all, the ongoing deployment of a large and growing number of short- and medium-range ballistic missiles in the Chinese provinces opposite Taiwan.

In short, as we wrote in our report on U.S. arms sales to Taiwan, “both the United States and China, in different ways and for their own reasons, have, at times in the last 30 years, been in non-compliance with key provisions of the 1982 Communique; in practice, though not in theory, the 1982 Communique is effectively defunct.”<sup>126</sup> And thus, one major weakness of the current U.S. architecture is that neither the United States nor China is consistently adhering to one key component of it.

The second point to make is even more fundamental: if the ultimate aim of U.S. policy toward Taiwan, as expressed most directly in the TRA, is to protect Taiwan from the mainland (e.g., “to enable Taiwan to maintain a sufficient self-defense capability”), then, clearly, the policy is failing.

By virtually any meaningful measure, Taiwan has seen its net security position vis-à-vis the mainland deteriorate steadily and dramatically over the last three decades, as China’s military has developed and its posture toward Taiwan has hardened. In 1979, when the United States derecognized the Republic of China in favor of the People’s Republic of China – and when the TRA was adopted – the mainland had no ballistic missiles targeting Taiwan. Today, there are between 1,600 and 2,000, depending on which authoritative estimate you believe.<sup>127</sup> Whereas in 1979, Taiwan’s “self-defense capability” was sufficient to allow the island to stave off a conventional mainland assault indefinitely and indeed possibly even prevail in a such a conflict or at least fight to a stalemate, today, estimates of the length of time it would take for Chinese military forces to subjugate Taiwan range from one month<sup>128</sup> to seven minutes.<sup>129</sup> And the U.S. Department of Defense (DoD), in one of its recent Congressionally-

<sup>124</sup> Of the 15 years in which the United States exceeded the limit, fourteen of those years were the years from 1992 to 2006; 2003 was the sole exception. The United States also (slightly) exceeded the limit in 1988.

<sup>125</sup> The Chinese were right with respect to the issue of quantity, as measured in dollar terms. The issue of quality is less clear-cut. I should note here that, privately, U.S. officials generally do not contest that the United States has at times been in non-compliance with the terms of the 1982 Communique. What they do say, however, is that to the degree that China is in non-compliance with its commitments under the Communique, then, in effect, “all bets are off”; Chinese non-compliance, in this view, releases the United States from its own stated commitments. (Presumably, the reverse is true, as well.) This point is consistent with the State Department’s testimony before the U.S. Senate on August 17, 1982. For more on this point, see *Threading the Needle*, pp. 36-37. See also footnote 12 of this testimony, above.

<sup>126</sup> *Threading the Needle*, p. 45.

<sup>127</sup> See *Threading the Needle*, pp. 28-31, for more details on China’s missiles, including citations of a number of authoritative unclassified sources on this topic. In our report, we estimated the number of missiles to be about 1,700 as of 2012, but the figure is likely higher today.

<sup>128</sup> See <http://www.taipeitimes.com/News/front/archives/2014/03/07/2003585056>. Earlier this year, Taiwan’s defense minister, Yen Ming, told Taiwan’s legislature that Taiwan could withstand a Chinese attack for one month without outside assistance.

<sup>129</sup> See <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA524332>. On March 18, 2010, Taiwan affairs expert Mark Stokes, of the Project 2049 Institute, testified before this Commission that “every citizen on Taiwan lives within seven minutes of destruction, and they know that.”

mandated reports on “Military and Security Developments Involving the People’s Republic of China” observed that “the balance of cross-Strait military forces and capabilities continues to shift in the mainland’s favor”<sup>130</sup> – a view held virtually unanimously by experts on cross-Strait military and security affairs, including in Taiwan. Indeed, the DoD report is putting it mildly. It fairly can be observed that never in its history has Taiwan had such an array of concentrated and potent military might arrayed against it as it does today.

In light of these facts – and I don’t think any serious observer of cross-Strait military affairs disputes them – if the main objective of U.S. Taiwan policy is to help Taiwan maintain a self-defense capability geared toward the only force in the region with both the capability and potential intent to attack Taiwan, then I think we are forced to draw one of two conclusions: either there is no correlation between the U.S. government’s actions and Taiwan’s net security position vis-à-vis the mainland, or worse, there is an inverse correlation. I would view either of these conclusions as sobering, deeply troubling and reason for pause.

But of course, it is not just Taiwan’s interests that we are talking about here. In the final analysis, this Commission, the U.S. Congress and the administration must be concerned only with advancing U.S. interests. And here, too, I believe our policies are failing. Most fundamentally, the sharp deterioration in Taiwan’s net security position vis-à-vis the mainland is not in U.S. interests, as, in my judgment, it is destabilizing and it increases, however marginally or even significantly, the possibility of a conflict between the mainland and Taiwan – a conflict into which the United States might well be drawn, one way or the other. A lesser, but still real, concern is the question of what message this state of affairs sends to U.S. allies and partners in the region about the U.S. ability to maintain a stated military commitment.

In short, the U.S. policy architecture, while displaying some notable strengths, does not seem to be performing optimally, at least as currently implemented. It is not because of U.S. policies, per se, that Taiwan is now in a vastly weaker position relative to the mainland than it was two generations ago. But it is fair to say that U.S. policies, as implemented, do not seem to be able to keep pace with events in the region, particularly the rapid and well-documented development of China’s military capabilities. To put it in simple terms, the United States is selling arms to Taiwan at an arithmetic pace, while China’s military capabilities are developing at something closer to a geometric trajectory. On these terms, this is a game that the United States and Taiwan cannot win. And thus, I believe we need to try a new approach. I will lay out one possible new approach in my recommendations.

#### Chinese Public/Private Responses to U.S. Arms Sales

The Commission posed a question about Chinese public and private reactions to previous announcements of U.S. arms sales and asked how China might respond to future U.S. arms sales to Taiwan, including perhaps submarines and F-16s. It also asked what political and security effects past sales have had on the U.S.-Taiwan-China relationship. Let me address these questions here.

China’s public reaction to announcements of U.S. arms sales to Taiwan has been quite consistent over the years. Unfailingly, the Chinese have issued strong statements condemning the sales, reiterated their principled position that Taiwan is an inalienable part of China, rebuked the United States for interfering in the domestic affairs of China<sup>131</sup>, chastised the United States for failing to live up to its earlier pledges and commitments, and, often, taken certain retaliatory measures, such as canceling military-to-military exchanges. Additionally, Chinese government spokesmen have often contended that U.S. arms sales to Taiwan “hurt the feelings of the Chinese people,” a set-piece phrase generally reserved for use in a few particular circumstances. In recent years, there has often been an additional refrain from China: given the encouraging trend line in cross-Strait relations – with the explosion in linkages, people-to-people contacts, trade, and so on – why continue to sell arms in any case? On the whole, Chinese public reaction to U.S. arms sales to Taiwan has been predictable and fairly measured.

I believe that the United States’ sale of arms to Taiwan is an enormously sensitive issue for the Chinese leadership

<sup>130</sup> [http://www.defense.gov/pubs/pdfs/2011\\_cmpr\\_final.pdf](http://www.defense.gov/pubs/pdfs/2011_cmpr_final.pdf), p. II.

<sup>131</sup> In this context, Chinese officials frequently argue that the very existence of the TRA constitutes undue interference in China’s internal affairs and they call for its repeal.

for a number of reasons. Most fundamentally, the Chinese leadership seems to believe that “losing Taiwan” would be a policy failure of such catastrophic proportions in the eyes of the Chinese populace that it would effectively spell the end of Communist rule in China. There is also a concern that the loss of Taiwan might set off a domino effect within China, spilling over into other restive regions, such as Xinjiang and Tibet. The very fact of U.S. arms sales to Taiwan – an action that the Chinese can and do protest vehemently but can do nothing to stop – is, frankly, humiliating to Chinese leaders; the periodic announcements of sales are a bitter reminder that, whatever China’s juridical claims may be, the fact is, China does not control Taiwan. And the element of cross-Strait ideological rivalry – which has emerged since the 1990s, as Taiwan, in sharp contrast to China, has blossomed into a full-fledged and vibrant democracy and which now overlays and colors the issue – also makes Chinese officials very uncomfortable.

Chinese assessments of the military utility of U.S. arms sales to Taiwan have evolved over time. In the past, Chinese officials routinely expressed anger at the United States for providing advanced weapons systems to Taiwan in what the Chinese regarded as a violation of a U.S. commitment under the 1982 Communiqué to a qualitative cap. More recently, however, Chinese argumentation has gone in a different direction. Now, Chinese officials, as well as experts, point out that U.S. arms sales to Taiwan have, at best, a negligible impact on Taiwan’s self-defense capability, owing to China’s much improved capabilities, and thus generate political downside for U.S. relations with China while generating little if any upside for Taiwan’s defense capabilities. As the argument goes (in sum), “It’s a lost cause, so why continue to sell arms to Taiwan?” That said, there is a higher level of sensitivity to certain weapons systems, and I will come back to this point in a moment.

Private Chinese reaction to U.S. arms sales to Taiwan has generally been more textured and nuanced than public reaction. Privately, Chinese experts recognize that U.S. arms sales to Taiwan are mandated by U.S. law and that they are not going to stop anytime soon. These experts understand, though do not generally agree with, U.S. reasoning for the sales, but acknowledge that change will take time. They also wonder aloud whether U.S. arms sales to Taiwan are driven mostly by the commercial interests of defense contractors. But within broad parameters, they see U.S. arms sales to Taiwan as a manageable irritant in China’s relationship with the United States and they don’t get as vexed about the issue as the Chinese government does at the official level.

Before turning to the question of submarines and F-16s, let me say a few words about the effects past sales have had on U.S.-Taiwan-China relations. There are three different components to this question – that is, three different bilateral relationships at issue; I will take up each one in turn.

In terms of U.S.-Taiwan relations, I think the answer is fairly straightforward. The sales have generally brought the United States and Taiwan closer, notwithstanding occasional wrangling, and some real debate, over various aspects of U.S. arms sales to Taiwan. Perhaps most fundamentally, Taiwan views the sales as a tangible expression of the United States’ deep and special commitment to Taiwan and a source of confidence for Taiwan in its dealings with the mainland. There is also a sense that, on the aggregate, the arms and services provided by the United States help Taiwan maintain its defense capability in important ways, even if Taiwan is on the losing side of a long-term shift in the cross-Strait balance of power. But there also have been differing views on a number of issues associated with arms sales to Taiwan and some of those spats have made their way into the press. On the whole, however, the net effect of U.S. arms sales to Taiwan is positive, in my view.

With respect to U.S.-China relations, the picture is very different. On balance, the U.S. sale of arms to Taiwan is a net negative – and significant trust-drainer – in the U.S.-China relationship. As noted above, China views the sales as a symbolic slap in the face, even if it has more recently downgraded its assessment of the actual impact of the weapons and services delivered to Taiwan on the cross-Strait balance of power. In recent years, arms sales announcements have often resulted in Chinese decisions to suspend military-to-military exchanges and other defense consultations, and have had a deleterious, though generally not long-lived, impact on the tonality of the relationship.<sup>132</sup> In a longer term sense, however, I would not necessarily characterize U.S. arms sales to Taiwan as having a particularly disruptive impact on the relationship. Though China often warns that continued arms sales

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<sup>132</sup> Indeed, analysts generally regard China’s reaction to the last U.S. notification of arms sales to Taiwan, a \$5.9 billion package announced in September 2011, as relatively muted overall, presumably because the Chinese did not want to create excessive turbulence in the relationship just a few months before Xi Jinping’s long-awaited February 2012 visit to the United States; Taiwan President Ma Ying-jeou’s campaign for re-election in early 2012 might also have been a consideration.

will damage the bilateral relationship, my sense is that the long-term damage has actually been rather minimal.

One thoughtful U.S. observer has noted that this is because of a principle that might be termed “no sub-optimality”: for China to somehow “punish” the United States for selling arms to Taiwan, it would have to do something differently than it had been doing – meaning that either China’s previous policy posture was suboptimal from the standpoint of China’s interests, or the punitive action China is now taking is suboptimal from the standpoint of China’s interests. I would tend to agree that Chinese leaders focus dispassionately on what they see as their long-term interests, and thus, the notion that they would, for example, undertake an action that is not in their interests merely to “punish” the United States seems implausible to me. And thus, I find this argument fairly compelling. But I also note that it doesn’t capture all the scenarios – for example, cases in which China could optimize trade policy by, say, buying planes either from Boeing or Airbus; and choosing to buy from Airbus owing to a dispute with the United States over arms sales. But the “no sub-optimality” argument misses the larger point, referenced earlier: that under current U.S. policy (as well as the policies of other players), Taiwan’s net security position is deteriorating sharply, with negative implications for U.S. interests in the Asia-Pacific region.

The third piece of the puzzle is the Taiwan-China relationship – how have U.S. arms sales to Taiwan affected the cross-Strait dynamic? The answer to this question depends on which aspect of the relationship one is looking at. In terms of economic, trade and cultural relations, it seems abundantly clear that U.S. arms sales have, in any case, not impeded the robust and dramatic development of cross-Strait ties. I think it would be hard to make the case that there is causality between the arms sales and the development of cross-Strait relations, because one would have to control for many other factors in the equation, but it would be hard to contest the fact that cross-Strait ties have blossomed even as the United States has sold arms to Taiwan.<sup>133</sup> In terms of the military and security side of the equation, however, as noted earlier, even with U.S. arms sales, the balance of power across the Strait has continued to shift steadily in recent years in favor of the mainland, to the detriment of Taiwan.

The Commission asked about the possible effects of a U.S. decision to sell to Taiwan submarines and/or F-16 fighters. These weapons systems start to move into an area of much greater stated concern for China – partly because of the capabilities of the systems and partly, and perhaps even more importantly, because of the symbolism associated with such sales. The submarines and the more advanced F-16 fighters (e.g., F-16 C/Ds), which successive U.S. administrations have thus far declined to make available to Taiwan, would represent, to both China and Taiwan, a ramping up of U.S. political support for Taiwan. China would no doubt view such sales with a jaundiced eye, while Taiwan would welcome them, at least within the constraints of its own fairly limited defense procurement budget. Though I am not an expert on military hardware in the way that other witnesses might be, my sense is that the Chinese government is more concerned about the submarines than they are about the F-16s, as the submarines cross a clearer qualitative line in the minds of some observers; the *Defense Industry Daily*, for example, characterizes submarines as “the ultimate conventional deterrent against [sea] invasion.”<sup>134</sup> And as for the F-16s, Chinese – as well as U.S. – experts have pointed out that by the time the planes, if sold, become operational in Taiwan, they will essentially already be outmoded and perhaps a generation or more behind China’s fighters.<sup>135</sup>

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<sup>133</sup> Interestingly, though, the recent blossoming of cross-Strait ties happens to coincide with not just the presidency of Ma Ying-jeou, as has often been pointed out, but also, with a sustained multi-year period of U.S. arms sales to Taiwan at levels that are in compliance with the U.S. commitment under the 1982 Communique. See *Threading the Needle*, Appendix D. Again, it would be very difficult to disaggregate out the multiple possible correlations.

<sup>134</sup> See <http://www.defenseindustrydaily.com/taiwans-unstalled-force-modernization-04250/>. The relevant passage is worth citing in full: “The problem is that without air superiority as cover, no Taiwanese surface navy can expect to survive, in order to maintain control of the seas around Taiwan. [A] good submarine force is the classic military solution. Submarines are capable of either destroying efforts to cross the strait, or strangling Chinese trade as it moves through Southeast Asia’s key choke points. Modern missiles give them vastly longer offensive reach, and modern submarines are very difficult to find and target once they put to sea. For a nation like Taiwan, they’re the ultimate conventional deterrent against invasion.” Submarines’ imperviousness to ballistic missiles makes them particularly problematic from a Chinese standpoint. This article also points out that the United States no longer produces non-nuclear submarines; the United States could help Taiwan build its own diesel-electric submarines, however.

<sup>135</sup> This is true even for planes with C/D capabilities; the planned upgrade of Taiwan’s 145 existing fighters to the C/D level of capability will take a decade or more to complete. To amplify the point further, a senior Department of Defense official once told me that any F-16s sold to Taiwan are effectively “one-mission aircraft”; as he explained it, the runways from which the planes would take off in a conflict scenario wouldn’t be there when the planes returned from their mission, owing to the massive

### Potential for China to Reduce its Missile Deployments Opposite Taiwan

The Commission has asked me to assess the potential for China to reduce its deployments of short- and medium-range ballistic missiles opposite Taiwan and to dismantle the infrastructure associated with these missile forces; and also, to assess the impact of such a move on the U.S.-Taiwan-China relationship.

It is well-documented that China has deployed substantial missile assets in the southeast part of the country, opposite Taiwan. The missile forces, which public sources indicate include five short-range ballistic missile (SRBM) brigades and one medium-range ballistic missile (MRBM) brigade, are evidently geared toward a Taiwan scenario. In all, since 1991, China has deployed some 1,600 to perhaps as many as 2,000 ballistic missiles in the four provinces closest to Taiwan: Zhejiang, Jiangxi, Fujian and Guangdong.<sup>136</sup>

To be clear, the nearly 2,000 ballistic missiles currently deployed in southeast China are by no means the only weapons China possesses that could be brought to bear on Taiwan. But they nonetheless merit attention for a number of reasons. First, they constitute a formidable and potent force arrayed against Taiwan that, as mentioned earlier, one well-credentialed U.S. expert has testified before this Commission could destroy every citizen in Taiwan in seven minutes. Second, the short-range missiles, in particular, are relatively easily disaggregated from the totality of China's force posture as being particularly geared toward a Taiwan scenario – to a degree that other forces and armaments are not. Third, and perhaps most importantly, the Chinese leadership itself has put the missiles in play as a possible bargaining chip in the context of the cross-Strait military equation; indeed, this may well be the reason that China has driven up the numbers of missiles to such a degree.<sup>137</sup> And Taiwan, for its part, has referenced the missiles in the context of political negotiations, as well.

The idea of a kind of grand bargain, in which China reduces its missile deployments opposite Taiwan in exchange for the reduction and even termination of U.S. arms sales to Taiwan, is not new. In 2002, President Jiang Zemin put this idea on the table during a visit to the Crawford, Texas ranch of then-U.S. President George W. Bush. As reported in the media at the time, the idea was that China would make a modest adjustment on missiles in exchange for a reduction, and ultimately, a termination of U.S. arms sales to Taiwan. Similar proposals were put forward subsequently in the course of high-level interactions between Chinese and U.S. defense officials, but the United States never took up the idea, instead, referring the Chinese to Taiwan for these types of discussions.

From the U.S., standpoint, there were three conceptual problems with President Jiang Zemin's "Crawford Initiative." First, there was the fundamental issue of non-negotiability. As a matter of U.S. policy – specifically, the Six Assurances – the United States cannot consult China regarding future arms sales to Taiwan. So the notion of a quid-pro-quo was inherently problematic from the start and doomed to go nowhere.

The second conceptual problem was that of proportionality. The Chinese proposals have generally called for the complete termination of U.S. arms sales to Taiwan in exchange for a modest adjustment to China's missile posture. Even if the U.S. government were not constrained by policy on the issue of negotiability, however, the fact is, the proposals put forward by the Chinese were not proportionate; the proposed U.S. action was substantial, whereas the proposed Chinese action was relatively inconsequential.

A third problem pertained to the presumed lack of permanence of the Chinese action; mobile missiles that China might "roll back" today can easily be "rolled forward" again tomorrow, thus quickly and relatively inexpensively negating the value of the earlier gesture.

For these reasons – but principally, owing to the non-negotiability of the issue – the "Crawford Initiative" never

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Chinese ballistic missile strikes that would occur in such a scenario.

<sup>136</sup> China's missile deployments opposite Taiwan began in 1991. The development and production of these missiles began some years earlier, in the 1980s, for a number of different reasons, including as a response to several important political developments in Taiwan (e.g., the lifting of martial law, the legalization of political parties, democratization, the political rise of Lee Teng-hui). See also *Threading the Needle*, pp. 28-32.

<sup>137</sup> Military affairs experts make the point that the marginal utility of each ballistic missile beyond the first 1,000 or so begins to decrease significantly in the Taiwan context.

went anywhere.

Against this backdrop, let me now share a few thoughts on the potential for China to reduce its deployments of short- and medium-range ballistic missiles opposite Taiwan and to dismantle the infrastructure associated with these missile forces.

A little earlier, I stated that I believe that U.S. policy toward Taiwan is failing Taiwan and failing the United States. Here, let me add that the policies in place regarding Taiwan – including on the Chinese side – are also failing China, and it is for this reason that I believe there is a real willingness on the part of China to make a positive move on missiles – under a particular set of circumstances.

Earlier, I noted China's central conundrum: for profound ideological reasons, it cannot – and will not ever – renounce the use of force to resolve the Taiwan issue. But in my judgment, Chinese officials are coming to the realization that the present course – in which China inexorably ramps up its military posture toward Taiwan – is not viable either. More to the point, I sense that Chinese officials are beginning to realize that excessive reliance on the threat of force – plainly implied in China's missile posture toward Taiwan, as well as in other ways – actually sets China back in terms of advancing its own stated goal of reunification.

My study of Taiwan public opinion over about 20 years indicates that very few people in Taiwan favor reunification with China; and, even more strikingly, a substantial swath of the Taiwan public continues to support outright independence notwithstanding China's stated policy that a serious move toward independence would be met with force. Closer inter-linkages between the mainland and Taiwan have not, in fact, translated into increased support in Taiwan for reunification; the data suggests the opposite may be true.<sup>138</sup> President Ma Ying-jeou, who has taken a softer line on the mainland than his predecessor, President Chen-Shui-bian, has seen his favorable ratings drop to a level comparable to those of the now imprisoned Chen. Indeed, President Ma's unpopularity suggests that the possibility of a Democratic Progressive Party (DPP) return to presidential power in 2016 is very real; and indeed, the DPP has already experienced a major rebound in local elections. And of course, the Sunflower Student Movement in Taiwan, centered around opposition to the passing of the Cross-Strait Service Trade Agreement, bespeaks a high level of wariness in Taiwan about even closer trade ties with China and their implications for Taiwan workers. I believe that a growing number of Chinese observers see these data points and realize that China's official "feel-good" narrative of a rapidly unfolding cross-Strait convergence may not capture the whole story.

Against this backdrop, it is my considered judgment that China is more prepared to take meaningful action regarding its force posture toward Taiwan than it has ever been before.

As the Commissioners may know, I co-authored a policy study that put forward 10 recommendations designed to reduce U.S.-China tensions and mistrust over the issue of arms sales while keeping faith with the people of Taiwan and maintaining or enhancing Taiwan's net security position.<sup>139</sup> One of the recommendations my co-author and I made pertained to Chinese missile deployments:

*"China should demonstrate its commitment to the 'peaceful resolution of the Taiwan question' by unilaterally, voluntarily and verifiably undertaking the following actions relating to its short- and medium-range ballistic missile posture in southeast China: maintain all missiles in garrison (their current default position); redeploy one of the five short-range ballistic missile brigades under the PLA's 52<sup>nd</sup> Base further inland and out of range of Taiwan; and dismantle the physical infrastructure of that brigade, including but not limited to launchers, missile depots and rail and road facilities."*<sup>140</sup>

<sup>138</sup> For a succinct overview of recent polling data on Taiwan sentiment regarding independence, reunification and similar questions, see <http://www.taipeitimes.com/News/editorials/archives/2014/02/11/2003583222>.

<sup>139</sup> A core, stated principle of our study was that any way forward on U.S. arms sales to Taiwan must result in "no decrease to Taiwan's net security position." See *Threading the Needle*, p. 53.

<sup>140</sup> *Threading the Needle*, pp. 50-51. I address this recommendation at this point in my testimony, rather than in the "Recommendations" section to follow, because it is the topic of this particular section of my testimony and, also, it is a recommendation to the Chinese government, not the U.S. government or Congress -- and thus it is not actionable by this Commission. My "Recommendations" section focuses on recommendations I am making to the Commission, Congress and/or the U.S. government.

While the notion of recommending that China take actions on its missiles is by no means new – Taiwan, for example, calls upon the mainland to remove all missiles in southeast China as a precondition for political talks – we have, in fact, added some new elements that greatly enhance the real-world feasibility of this proposal.

The proposal is realistic – it is in the realm of the doable. We propose unilateral action rather than joint or coordinated action with the United States; this solves the problem of non-negotiability alluded to earlier. We propose that China undertake its action broadly concurrently with comparable actions that we recommend the United States take, also unilaterally (to be described below); this addresses the domestic politics in play, at least to a degree. This combination of “unilateral” and “concurrent” gives rise to a new procedural principle for dealing with this issue in U.S.-China relations: “concurrent unilateralism.” This principle has resonated widely in China.<sup>141</sup> With this recommendation, we are also proposing a very incremental change; by design, it is a modest step in the right direction, not a radical move. And similarly, the proposal is such that it can be reversed fairly easily. If China embraces this recommendation and doesn’t like what the United States does in its own unilateral action (if it takes one), then China can simply go back to the status quo ante relatively easily. Importantly, the proposal is also broadly proportionate to our recommendation to the United States.

I should note here that the proposals we have made to China and to the United States take into account the “systems” nature of the problem at hand, alluded to earlier. No one actor, acting individually, can generate an improved status quo around the cross-Strait military equation. Actions generate reactions and policies prompt policy responses. Only by looking at the situation holistically, as a systems problem, can sustainable progress be generated. Our recommendation to the Chinese government, described above, is a part of a systems approach.

As to the degree of Chinese receptivity to our proposal, I would characterize the Chinese with whom we have met as having been intrigued by and open-minded about our ideas. Indeed, I think the fact that our report garnered testimonials from a former top-level PRC Foreign Ministry diplomat, as well as prominent thought leaders at four major Chinese government-affiliated think tanks, suggests that we may be on to something. The former senior Chinese diplomat, for example, said of the report, “This is the most objective and balanced study I’ve seen a U.S.-based think tank produce on this politically charged topic.”<sup>142</sup>

Assessing the impact of this move, if made by China – presumably in the context of comparable gesture by the United States, to be discussed below – is fairly straightforward. In short, I think all three bilateral relationships in question – that between the United States and Taiwan, that between the United States and China, and that between Taiwan and China – would benefit to one degree or another. In terms of the U.S.-Taiwan relationship, a reduction in the number of Chinese missiles pointed at Taiwan would reverse a worrying trend and, however marginally, improve Taiwan’s net security position. While it would be easy, and accurate, to argue that a reduction of, say, some 300-plus missiles of the approximately 1,700 estimated to be deployed in southeast China would have at most only a negligible impact on Taiwan’s security, the rebuttal would be that at least it’s a step in the right direction for a change.

In terms of U.S.-China relations, I think such a move would be welcomed by the administration. Again, the U.S. government would be under no illusion that the move changes the overall balance of power, but a reversal of a decades-long ramping up of China’s missile posture in southeast China would, I believe, be viewed as a significant good-faith gesture on China’s part and an indication of China’s seriousness about reducing cross-Strait military tensions and about its reconsecrated commitment to pursuing a “fundamental policy of striving for peaceful reunification.”

As for Taiwan-China relations, though the move, I think, would be viewed quite understandably with some skepticism in Taiwan, it would also be viewed on balance as constructive – a small but noteworthy step in the right

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<sup>141</sup> See, for example, <http://world.huanqiu.com/interview/2014-02/4829899.html>; this interview of me by China’s *Global Times*, which is closely tied to the Chinese Communist Party, leads with the headline: “U.S., China Should Embrace ‘Concurrent Unilateralism.’” Chinese media coverage, including official media coverage, of our ideas has been uniformly neutral-to-positive.

<sup>142</sup> *Threading the Needle*, inside cover. Notably, we also received a testimonial from a former Taiwan vice foreign minister. Indeed, to my knowledge, our report is the only report on the topic of U.S. arms sales to Taiwan ever to garner testimonials from former senior officials from Taiwan, China and the United States.

direction. Looking at the matter from China's vantage, it would likely generate slightly improved perceptions in Taiwan of China's strategic intentions toward Taiwan.

#### Policy Recommendations/Recommendations for Congressional Action

In this section of my testimony, I will share with the Commission my recommendations for congressional action.

As a preface to my recommendations, let me make two points. First, though Congress legislated the foundation for U.S.-Taiwan relations and thus, in many important ways, U.S. engagement with Taiwan and China around cross-Strait issues more generally, today, most of the day-to-day decision-making authority on these matters now rests with the U.S. executive branch. For example, it is the prerogative of the executive branch, not Congress, to work with Taiwan to finalize the details of arms sales packages, whereupon the agreed-upon list is then notified to Congress. In the absence of congressional objection within 30 days, the U.S. administration may proceed with the announced sales of arms. Congress is therefore a factor in the decision-making, but not the principal driver of that decision-making. But because of Congress' integral role in creating the platform for modern-day U.S.-Taiwan relations and because of Congress' ongoing interest in and strong bipartisan support for Taiwan, Congress unquestionably plays a major role – one larger than its formal role in arms sales decisions would suggest – in Taiwan policy. It is with the above considerations in mind that I make the recommendations I do to Congress.

Second, I make the recommendations I do in the strong belief that these recommendations, if implemented, would advance the interests of the United States of America; if I felt that the suite of recommendations I am making today undermined the interests of the United States, I would not be making them. Furthermore, I wouldn't be making these recommendations if I felt that any of them would result in a decrease in Taiwan's net security position; in fact, I believe that these recommendations, if implemented in full, would make Taiwan more secure – and that is important because the security of this long-time all-weather friend and vital partner of the United States serves the interests of our nation. But let me also say, I believe that the recommendations I am making are also acceptable to, and also advance the interests of, China, which is the third critical stakeholder in cross-Strait security issues and which is also a profoundly important partner of the United States. If I felt these recommendations were non-starters for China, then, frankly, I wouldn't be wasting the Commission's time with them, because as I said before, there can be no way forward on cross-Strait security issues without the buy-in of all three stakeholders. Again, this is a systems problem, and it requires a finely-tuned, holistic policy response. And that is what I believe I am presenting to you today.<sup>143</sup>

With that said, let me now turn to my recommendations for Congressional action, along with a few words of explication about each.

Recommendation 1: *That Congress maintain, and encourage the United States government to maintain, the existing legal and policy architecture governing the issue of U.S.-Taiwan relations and U.S. arms sales to Taiwan – namely, the Taiwan Relations Act, the Six Assurances to Taiwan, and the U.S.-China Joint Communiqué of August 17, 1982.*

The architecture has both strengths and weaknesses, and is sometimes honored in the breach, but over three decades, it has generated a remarkably enduring, if delicate and even precarious, equilibrium around an exceedingly complex and sensitive issue. If implemented with greater precision and care, this architecture can allow for the better status quo that I believe is achievable on cross-Strait military and security issues. After much study of this architecture and with a good on-the-ground sense for the results of its implementation, my assessment of this body of policy is akin to Churchill's famous assessment of democracy as a form of government: it's far from ideal, but it's probably better than any of the realistic alternatives.

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<sup>143</sup> It is important to reiterate that I present these recommendations, along with the recommendation to the Chinese government discussed earlier in the testimony, as a unitary package. The key recommendations to the U.S. government will not be as easily implemented, as a political matter, without the Chinese also acting upon our recommendation to the Chinese government; and the reverse is true, as well. Though the actions I am proposing here are all completely voluntary and unilateral, it is probably best that they be undertaken broadly concurrently, so as to reinforce each other and generate positive tonality and momentum. Of course, I cannot control what the U.S. or Chinese governments do in response to these proposals; but I repeat that these recommendations will attain maximum feasibility and effectiveness only if both sides act upon them, albeit unilaterally.

Though this recommendation may sound so basic as to be pedestrian – essentially, “keep doing what you’re doing” – I offer it cognizant that there is an emerging debate in China policy circles as to the continued utility of the TRA and, presumably, its close cousin, the Six Assurances.<sup>144</sup> But I also make this recommendation painfully aware that “on the TRA’s watch,” Taiwan has seen its security position relative to the mainland deteriorate alarmingly, probably to the lowest relative level that it has ever been. We have just had a spate of 35<sup>th</sup> birthday celebrations for the TRA across this city, and indeed, a round of Congressional testimony on the subject, as well. Unless we make some changes in how we conduct our security cooperation with Taiwan, I shudder to think what the cross-Strait balance of power will look like when it comes time to celebrate the TRA’s 70<sup>th</sup> birthday. Again, though, the problem is not in the legislation itself, but in its implementation; I will come back to this in Recommendation 3.

***Recommendation 2:** That Congress encourage the United States government to continue to sell defensive arms to Taiwan for the foreseeable future, within the constraints of existing law and policy.*

This second recommendation flows naturally from the first. I regard U.S. arms sales to Taiwan as stabilizing and as a force for good for Taiwan and for cross-Strait relations, at least when viewed from a U.S. (and Taiwan) perspective. I believe they should continue indefinitely at a robust level in the general range of recent years’ sales; any dramatic decrease in arms sales to Taiwan under current circumstances would, I think, be destabilizing and harmful to the interests of the United States. While it is often pointed out that U.S. arms sales to Taiwan are mandated by law, it is also worth flagging that they are also explicitly permitted under the 1982 Joint Communiqué, to which China is a signatory. I understand why China objects to these sales as a matter of principle, but I believe that China does not fully appreciate or “own” the impact of its own actions on Taiwan threat perceptions and Taiwan and U.S. decision-making. Most fundamentally, unless and until the underlying issues in the China/Taiwan dispute are resolved, U.S. arms sales to Taiwan will continue. Arms sales, while a significant factor in the cross-Strait military and security picture, are a symptom of the enduring tensions, not the root cause. It is within China’s and Taiwan’s power to generate a cross-Strait context in which lower levels of arms sales are viewed by Taiwan as necessary, but we are not there yet, and until we get there, continued U.S. arms sales to Taiwan make sense for the United States.

***Recommendation 3:** That Congress strongly encourage the United States government to calibrate arms deliveries to Taiwan in a way that the total dollar amount of arms provided to Taiwan in any given year does not exceed the inflation-adjusted peak-level of U.S. arms supplied to Taiwan in the 1979-1982 period, as stipulated in the 1982 Communiqué. This would mean unilaterally setting a voluntary annual cap on U.S. arms deliveries to Taiwan of \$941 million (in inflation-adjusted 2012 dollars).*

This is the central recommendation of this suite of recommendations to the United States; it is the principal counterpoint to our recommendation to China on its missile deployments. These two recommendations – our recommendation to the United States to voluntarily cap its arms deliveries to Taiwan at \$941 million and our recommendation to China to maintain its Taiwan-oriented ballistic missiles in garrison, withdraw one SRBM brigade out of range of Taiwan, and dismantle the physical infrastructure that ungirds that brigade – collectively constitute the heart of what has come to be termed our “cap and cut” proposal. Let me make a few points about this recommendation.

First, this “cap” recommendation is grounded in the premise, noted earlier, that the United States cannot arm Taiwan out of its security dilemma with the mainland. Since 1979, the United States has delivered to Taiwan’s shores an average of \$1.16 billion in arms each year (in inflation-adjusted terms).<sup>145</sup> Taking out the four out-lying

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<sup>144</sup> One of the Six Assurances was that the United States would not alter the terms of the TRA; more than any other pairing among the three documents at the heart U.S. policy toward Taiwan, the TRA and Six Assurances are by far the most mutually reinforcing.

<sup>145</sup> See *Threading the Needle*, Appendix D. To my knowledge, our report is the only repository of this inflation-adjusted data available, a point made by the Brookings Institution’s Richard Bush, a renowned Taiwan affairs expert, who stated earlier this year at the Wilson Center, “This [report] is a really valuable resource. It pulls together a lot of very useful information. ... It’s all here. ... So, this study will be one of those things I put on the shelf of books and reports that I need to get to in a minute’s notice.” See <http://www.wilsoncenter.org/event/threading-the-needle-us-arms-sales-to-taiwan>.

years in the 1990s in which annual U.S. arms deliveries to Taiwan topped out in excess of \$2 billion and \$3 billion (twice each), the average of U.S. arms deliveries to Taiwan in the other 29 years for which we analyzed the data was \$968 million. However one might look at the data, whether including or excluding the outlying years' figures, the clear conclusion one must draw is that, under existing U.S. law and policy and under existing U.S. political sentiments, the enduring bipartisan consensus, in both the White House and Congress, is that the United States should deliver to Taiwan's shores about \$1 billion worth of defense articles and services per year. Evidently, there generally isn't an appetite for much more than that over any long period of time. And yet it is also very clear, and well documented by the U.S. Department of Defense among many others, that this level of arms deliveries is insufficient to enable Taiwan's defensive capabilities to keep pace with China's rapidly developing offensive capabilities – hence, the emphatic tilting of the balance of power in China's favor that we have seen in recent decades. In the simplest of terms, the U.S. supply of security is no match for the Chinese supply of threat. And thus, for Taiwan to be secure, it, working with the United States as appropriate, must address this security dilemma on the threat side. If the supply of security can't readily be increased, then it is necessary to try to reduce the threat.

Having studied this issue in some depth and consulted about it intensively and extensively in Taipei, Beijing and Washington, my conclusion is that U.S. policies – specifically, arms sales – are not getting the United States closer to its goal making Taiwan more secure; and China's policies – and in particular, China's massive missile deployments opposite Taiwan – are not getting China closer to its goal of “peaceful reunification,” and thus, this may be an opportune moment to adjust both policies, unilaterally, in carefully calibrated, incremental and reversible ways.

From a U.S. and Taiwan standpoint, the adjustment in U.S. arms deliveries to Taiwan would be negligible and would have no material impact, in its own right, on Taiwan's ability to defend itself. The voluntary cap of \$941 million – which represents existing, current U.S. policy, just fully articulated – is not much less than the 33-year historical average of \$1.16 billion or the 29-year average (without the four outlying years) of \$968 million. The proposed voluntary cap of \$941 is just \$75 million a year shy of the overall historical average and \$27 million shy of the average when outlying years are factored out. In other words, this is a very, very modest and incremental adjustment – a difference of just a few percentage points. Moreover, given that since 2007, the United States has, in actual practice, delivered arms to Taiwan annually at levels below this cap, under this proposal, U.S. arms sales to Taiwan could actually increase relative to recent years. The cap is thus not unduly confining relative to actual recent U.S. arms deliveries.

This cap, by itself, will not affect the balance of power equation one way or the other. But it is my considered judgment that if the United States were to make this move – and make it unilaterally, not in consultation or coordination with China, as that would be prohibited under existing U.S. policy, which I support – China would make its own unilateral move on missiles. I believe there is a real opening on this issue in Beijing at this time. And it is that action, rather than the U.S. action, that would, in fact, have a positive impact, even if marginal, on Taiwan's security. Needless to say, the fewer ballistic missiles pointed at Taiwan, the better. But perhaps even more importantly, these two unilateral moves, taken together, could generate some positive momentum for even more consequential steps toward improved cross-Strait relations and an easing of cross-Strait military tensions – something that is in the interests of all three parties.

In short, if both of our companion recommendations were adopted, Taiwan would come out the better for it, U.S. interests would be advanced and China would be an important step closer to its original “peaceful” path. Everyone wins.

To be clear, this is not a “deal.” What I am proposing is unilateral action on the part of the United States and unilateral action on the part of China. In both cases, the actions would be entirely voluntary, incremental and easily reversible. If the United States takes an action and doesn't like what it subsequently sees on the Chinese side, then it can easily go back to its original footing with no harm done; and if China takes an action and doesn't like what it subsequently sees on the U.S. side, it can do the same. The steps outlined here are designed to be incremental and easily reversible; and let me say again, by design, they are not meant to change the balance of power radically and, indeed, they don't do that. But if implemented, these recommendations would enhance Taiwan's security position, even if only marginally, and could open a new horizon for meaningful movement forward on cross-Strait issues.

One further point with respect to this recommendation: we now find ourselves within a narrow window generated by a fortuitous confluence of the political calendars of the United States, Taiwan and China. In the United States, we have a second-term president who is released from the pressures of reelection. In Taiwan, President Ma is also in his second term; and, if I may add, his favorable ratings are so low that he can take bold policy decisions – such as supporting “cap and cut” – because, frankly, there is no longer much downside risk to such decisions. Low poll numbers, beyond a certain threshold, can be liberating that way. And to state the case more positively, and more politically, getting China to scale back its missile deployments opposite Taiwan would be a significant policy achievement and would give President Ma’s party, the Kuomintang (KMT), a tangible achievement to cite when debating mainland policy with the DPP in the 2016 campaign. And third, in China, we now have a new top leadership that is just over a year into what is expected to be a 10-year tenure of office. I believe that, in the Chinese system, politically, it is easier to get big and bold things done when you are eight or nine years out from the next political transition than it would be toward the end of the ten years; and again, whatever the political calculus in China, change on this issue will be particularly difficult if you have first-term presidents in either the United States, Taiwan or both – and there will be first-term presidents in both places beginning by January 2017. So, again, this is the moment, and I hope we seize it.

*Recommendation 4: That Congress encourage the United States government to unbundle future Taiwan arms sales notifications to Congress (“Congressional notifications”) and instead submit such notifications on a regular, predictable and normalized schedule, thus mitigating the perception of major spikes in the sales of U.S. arms to Taiwan created by bundled notifications.*

As the Commission is aware, in recent years, the U.S. government has opted to “accumulate” lists of arms to be sold to Taiwan, bundle them together and then issue less frequent, but larger dollar-value, notifications to Congress. The idea, to put it simply, is akin to tearing off an adhesive bandage quickly rather than slowly – just get it done and get the pain behind you. Given that Chinese reaction to announcements of U.S. arms sales to Taiwan have sometimes been harsh, at least rhetorically, the notion of doing fewer announcements is understandable. But under this approach, the dollar value of announced U.S. arms sales packages to Taiwan has soared to record heights. Just since 2008, for example, we have seen announcements of U.S. arms packages totaling \$6.4 billion, \$6.2 billion and \$5.9 billion – the latter two occurring as recently as 2010 and 2011, respectively. These figures – which represent intended and approved future sales but not actual deliveries – create a public diplomacy problem for the United States because they make U.S. arms sales actions seem more substantial and aggressive than they actually are. For example, based on the above numbers, a senior Chinese policymaker or U.S. affairs thought leader in Beijing not deeply familiar with the somewhat arcane process<sup>146</sup> involved in these decisions might conclude, erroneously, that the United States has “sold” to Taiwan – and thus delivered to Taiwan – some \$18.5 billion worth of arms just since 2008. In reality, when one looks at the data on *deliveries* for those years, such a conclusion probably overstates the problem by a factor of two or three. By issuing more frequent, but smaller-scale, notifications, the United States can perhaps mitigate some of the public diplomacy problem without affecting the content of the sales at all. In a sense, it is a question of packaging and marketing. This approach might also sensitize the Chinese – including the Chinese public – to the sales to a greater degree than is the case now with less frequent, larger notifications.

*Recommendation 5: That Congress signal, and encourage the United States government to signal, the United States’ continued unwavering commitment to preserving and promoting extensive, close and friendly commercial, cultural and other relations with Taiwan, including by enhancing senior-level exchanges with Taiwan within the constraints of the United States one-China policy.*

The Commission posed a question about other ways, besides arms sales, for the United States to advance security cooperation with Taiwan. This recommendation addresses that question.

The “cap and cut” proposal I have laid out here is designed to enhance Taiwan’s security and thereby advance U.S. interests, albeit, in a way that is palatable to China. It is predicated on the idea that less can be more – namely, that by delivering slightly fewer arms (in dollar terms) to Taiwan annually, relative to the now 34-year historical norm, the United States can help precipitate an overall threat reduction for Taiwan because of the

<sup>146</sup> See *Threading the Needle*, Appendix C for a detailed description of this process.

Chinese response that, in my view, would likely be generated. Unless one understands the cross-Strait equation as a systems problem, as I have discussed earlier in this testimony, this approach may seem counter-intuitive. Moreover, some may interpret even a slight downward adjustment relative to historical norms as signaling a weakening of U.S. commitment to Taiwan.

To ensure that a possible modest reduction of annual arms deliveries is not seen as a weakening of U.S. resolve – and make no mistake, it should not be – I propose that, concurrent to embracing the voluntary cap I have recommended, the United States enhance its high-level contacts with Taiwan within the constraints of existing U.S. law and policy. The fact is, the president of the United States has considerable latitude in interpreting what types of interaction between U.S. government officials and Taiwan representatives can and cannot occur. For instance, there was a time when U.S. Foreign Service officers had to go through the fiction of “resigning” from government service before they could be assigned to the American Institute in Taiwan (AIT), the United States’ de facto embassy in Taiwan; they would be “reinstated” to the Foreign Service upon departure from Taiwan. About 20 years ago, that practice was abandoned. That is an example of the latitude the U.S. executive branch has to deal with these types of matters. Similarly, some Cabinet-level visits to Taiwan have occurred, while other Cabinet members are effectively prohibited by U.S. policy – specifically, the U.S. “one-China policy” – from visiting Taiwan.

I believe there is room for upward adjustment in U.S. engagement with Taiwan within the constraints of the U.S. one-China policy and I hope Congress will encourage that upward adjustment.<sup>147</sup> It is very important that a possible decision to cap annual arms deliveries at \$941 million not be seen as a weakening of U.S. commitment to Taiwan.

***Recommendation 6:** That Congress conduct regular hearings, at least once per session, on the specific topic of the cross-Strait balance of power and the degree to which U.S. law and policy are or are not advancing Taiwan’s security relative to the mainland.*

I understand that Congress periodically conducts hearings on U.S. policy toward Taiwan, the Taiwan Relations Act and related topics. My concern is that these hearings are not methodically examining the relationship between U.S. law and policy on the one hand and Taiwan’s actual security position on the other. The very sharp deterioration in Taiwan’s net security position relative to China we have seen over the last three decades – a deterioration documented in the U.S. government’s own public assessments of the cross-Strait security environment – should raise some serious concerns; and yet, frankly, we continue to plod along on the same course. My hope is that Congress, through the regular hearings I am recommending, will examine, and drill down on, the relationship between U.S. policies and Taiwan’s security position relative to the mainland in a more systematic and methodical way than we have seen thus far. Ascertaining the U.S. government’s definition of “sufficient self-defense capability” would be just one worthy goal of these hearings.

***Recommendation 7:** That Congress organize, at least once every two sessions, Member and/or staff visits (“codels” and “staffdels”) to China and Taiwan with the primary objective of fact-finding regarding and assessing cross-Strait balance of power issues.*

When dealing with the cross-Strait issue, I believe it is important to solicit and truly hear the input of people on both sides of the Strait. Regular visits – at least once every four years, and preferably more frequently – to both China and Taiwan with special focus on this particular issue would help ensure that Congress has the input it needs, apart from the testimony of U.S. government witnesses and U.S. analysts, to make well-informed decisions and assessments relating to cross-Strait affairs.

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<sup>147</sup> As noted earlier, I support the existing U.S. legal and policy architecture governing the issue of Taiwan. I should note that this architecture also effectively includes the U.S.-China Joint Communiqués of 1972 and 1979 – the other two of the “Three Communiqués” that, along with the TRA, are generally regarded and cited by U.S. officials as constituting the foundation for contemporary U.S.-China relations and U.S. policy toward China and Taiwan. The other two Communiqués are referenced in the 1982 Communiqué, which means that by embracing the 1982 Communiqué, one also embraces the other two. In these Communiqués, the U.S. articulates its “one-China policy,” which I believe is the most viable framework within which for the United States to advance its interests relative to cross-Strait affairs.

Recommendation 8: *That Congress amend, as appropriate, existing legislatively mandated U.S. government reporting requirements to ensure that cross-Strait balance of power issues are covered specifically, adequately and regularly.*

It is often observed that you can't evaluate what you can't measure. As I see it, one of the problems in our nation's approach to the cross-Strait security situation is that we have not established a clear metric against which to assess the performance of our policies. From time to time, Congress invites the State Department and other U.S. government agencies to testify on cross-Strait issues, the efficacy of the TRA and related topics, but what I think is lacking in these exchanges is a clear-cut benchmark for empirically assessing the cross-Strait balance of power equation. Currently, U.S. government reports take up the topic of Taiwan, but it does not appear to me that we have an established, consistent methodology in place for making data-based assessments that are comparable year-over-year. To put it another way, if a U.S. government official says that the Taiwan Relations Act, or U.S. policy toward cross-Strait issues more generally, is effective, on what basis is that judgment being made? How is the U.S. government measuring Taiwan's self-defense capability and how is it making the judgment that it is "sufficient?" What is the empirical evidentiary basis for such assessments? I believe this recommendation addresses these important questions and, if implemented, would give Congress a better set of benchmarks than are currently available to make informed judgments about the efficacy of U.S. policy.

### Conclusion

In conclusion, I believe that, with some adjustments, the United States can enhance the performance of its policy architecture so that the following goals are achieved: 1) important U.S. interests relative to Taiwan and the peace and security of the Asia-Pacific region are advanced; 2) Taiwan is made more secure; and 3) mistrust between the United States and China is reduced modestly and relations between the two nations are improved. There is no need for a change in existing U.S. law or policy; and indeed, I support existing U.S. law and policy on this issue. There is, however, a need for a change in how that law and policy is implemented. I believe the "cap and cut" proposal I have laid out in this testimony offers the most viable way forward in this regard.

In short, it is possible to "thread the needle": to move forward on the cross-Strait issue in a way that simultaneously conforms to existing U.S. law and policy, takes into consideration China's concerns, and keeps faith with the people of Taiwan and enhances their security. It is my sincere hope that the policy ideas I have put forward in this testimony will be of value to the United States Congress and help the United States advance its key national interests with respect to Taiwan and the Asia-Pacific region.

Thank you so much again for this opportunity to testify before you. I hope you will consider me, and the EastWest Institute, a resource for the Commission on China-related matters in the months and years ahead.

**PANEL II QUESTION AND ANSWER**

HEARING CO-CHAIR SLANE: Thank you, all of you, and we will start with Commissioner Brookes.

COMMISSIONER BROOKES: Thank you very much. Thank you for your thoughts.

I wanted to focus in a bit on Mr. Easton's commentary testimony. If I heard you correctly, you said that there was no shift in the military balance across the Strait; is that correct?

MR. EASTON: I would argue that there has been a clear--

COMMISSIONER BROOKES: I mean just is that correct; did I get that correct?

MR. EASTON: I do not believe there's been a fundamental shift.

COMMISSIONER BROOKES: Okay. I wanted to make sure I had that correct before I went further, but what do you base that on? It seems to be at strong variance with the reports we've seen out of the Pentagon for many, many years now, 12 or so years. So I was interested to hear what you had to say about that in terms of what you're basing that on, and I would also like to hear from Mr. Firestein and Mr. Murray as to whether they agree with your assessment.

Thank you.

MR. EASTON: That assessment is based upon my read of a large volume of PLA literature. There's a large number of General Staff Department, General Armaments Department, and Second Artillery Department reports where they talk about what they think they'd be capable of doing vis-a-vis Taiwan, and they talk about where they see the direction going in the Taiwan Strait.

They simulate this. They war game it out. And based upon their own assessments of their capabilities in conjunction with Taiwan's military, Taiwan's, their National Defense University has released a number of Chinese-language reports, hundreds and hundreds of pages of reports that they've done, looking at the effects of ballistic missiles, the ways they can counter them, and the whole spectrum of capabilities. This gets at both the quantitative piece and the qualitative piece because, of course, China's military modernization program has given it a clear numerical quantitative advantage over Taiwan.

It's incredible, but in terms of quality, if you look at the quality of Taiwan's military, and in particular the folks in Taiwan that are trained here in the United States, because virtually all of Taiwan's fighter pilots, certainly all their F-16 pilots go through extensive training at Luke Air Force Base in Arizona--their special operations community. Taiwan actually has a larger special operations community than mainland China.

They have well over 10,000 special operators. Their version of Army rangers, their frogmen or Navy Seals, they train here with us, and so that means that they get the best quality training in the world, and if you look at Taiwan's move towards an all-volunteer force, I believe that gives Taiwan a significant edge over the mainland Chinese military, which really struggles in terms of maintaining high levels of high quality training just by its very nature: it's a Leninist military force.

And so I would agree with you that there's been a clear numerical shift, but I think it's far less clear that there's been a qualitative shift, and I understand that folks at DoD might disagree with that, but when you read the Chinese literature and you look at what they think they're capable of doing, the picture does not look as good for them as perhaps we sometimes think it does.

COMMISSIONER BROOKES: Can I have thoughts from Mr. Murray and Mr. Firestein, please?

MR. MURRAY: Well, as you can tell, we don't agree, and I have a different perspective. Primarily, I think that a decade or two ago, well, just over ten years ago, the average Circular Error Probable, or the radius in which half of the warheads would fall if they're aimed at a specific point, was 300 meters for the Chinese Second Artillery from open source unclassified information.

And now if you look at Google Earth, as I mentioned in my written testimony, I think you can be convinced quite easily that it's significantly better than that and on the order of magnitude of 20 to 30 meters for their warheads. So a warhead that is going to land 50 percent of the time within 20 to 30 meters of what it's aimed at, this represents about a hundred-fold power increase. It's an order of magnitude, and it's a square relationship so it's a hundred times better.

And this turns to the Second Artillery Force, which I think is a world-class military institution, into something that can conduct the types of warfare that the United States and NATO has been able to conduct for the last couple decades, which is long-range precision strike.

And long-range precision strike does fundamentally change warfare. We saw it in the way that Saddam's army was taken apart. We've seen it in other ways as well, and now China can do it. This is a fundamental and nonreversible change in the security relationship across the Strait, in my opinion.

MR. FIRESTEIN: I would just add that, first of all, I certainly have a lot of respect of the credentials of both of my fellow witnesses. I also very strongly disagree with Mr. Easton's assessment and agree with Mr. Murray's assessment and agree with many years of DoD assessments that, in fact, there has been a significant and profound shift in the balance of power that can be documented I think in many different ways.

That doesn't take away from the points that Mr. Easton is making with respect to the caliber of Taiwan's forces in certain regards, but I think on the whole it's undeniable that there has been a shift in the balance of power that has been very deleterious to Taiwan.

I would also just cite two particular points. In 2010, Mark Stokes, the Executive Director of Mr. Easton's organization, said to this Commission "every citizen on Taiwan lives within seven minutes of destruction, and they know that." That's the testimony of Mark Stokes, who is quite a renowned expert on the issue of military issues in the cross-Strait region.

To my ear, that assessment and Mr. Easton's assessment that there hasn't been a fundamental shift in the balance of power are not reconcilable because that wasn't true -- what Mr. Stokes said -- 20 years ago or 30 years ago. And, secondly, Mr. Easton makes the point that -- I believe citing the comments of the Taiwan Minister of Defense, Mr. Yen, who recently stated in testimony, I believe, before the Legislative Yuan in Taiwan -- that Taiwan could indeed last one month or perhaps longer, but I think his words were "at least one month" without outside assistance.

Twenty or 30 years ago, Taiwan could have lasted many months, if not years, relative to the mainland's power projection and delivery capabilities at that time. So I would just reiterate that I think the facts show that there has been a steep decline in the net security position of Taiwan relative to the mainland, and I do disagree with Mr. Easton's assessment.

COMMISSIONER BROOKES: Thank you.

HEARING CO-CHAIR SLANE: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen, and I have a number of questions so it will probably go over into a second round.

First of all, I'd like to ask a question for anyone who has views on this, China has doctrinally looked at asymmetric warfare, and cyber, as we have all seen, has been a huge component of that. So has space, et cetera. How does the cyber domain fit in a China-Taiwan scenario? Is Taiwan looking at that as a disabling technology? Are Chinese forces so informationalized that they're at risk there, or are they still moving up the ladder, if you will, that cyber is not going to disable as much their capabilities?

Do any of you have comments on that?

MR. EASTON: Let me try that one. I think for Taiwan, again, this is an area where there's a very real threat. In the same way that U.S. forces worry tremendously about Chinese cyber operations, Taiwan does as well.

The qualitative, again, the qualitative advantage that Taiwan has in this area is that they have had cyber warfare units since the mid-'90s, and they actually stood up

the first--as far as I know--the world's first cyber operations command in 1999. So they have significant capability in this area, and I can tell you based upon my anecdotal evidence, having worked at a Taiwanese software company for a period of time, that in that company, all the best engineers were based in Taiwan, and they were all Taiwanese, and all the easy jobs were outsourced to mainland China.

And then based upon interviews that we've conducted at our Institute with folks in the cyber security community here in D.C., they're working very closely with their counterparts in Taiwan, again, based upon Taiwan's qualitative advantage in this area.

Now that is not to say that there's not a very real threat, and, again, I think China is improving in this regard--

COMMISSIONER WESSEL: I'm also asking the obverse, which is China asymmetrically believes that their capabilities in cyber can disable or deter/deny the U.S. Does Taiwan view that similarly as an asymmetric benefit for them vis-a-vis the Chinese?

MR. EASTON: There is no question that it is.

COMMISSIONER WESSEL: Okay.

MR. EASTON: And one example of this can be just seen in talking to some military officers in Taiwan, and they say the first thing that we would do if we were attacked in a massive seven-minute type fashion is we would just shut our communications off with mainland China, and suddenly you would have ten to 20 million middle class urban workers in China that would not get their paycheck that month.

Folks in mainland China are paid by corporations based in Taipei. You cut off that communication connectivity, and all of a sudden China has got a very serious problem of urban workers who now have no source of income, and, again, this is based upon interviews that we've conducted, and this is also based upon anecdotal evidence, having seen this firsthand in the headquarters of a Taiwanese software company in Taipei.

COMMISSIONER WESSEL: I may sell my stocks in those companies after your testimony.

[Laughter.]

COMMISSIONER WESSEL: Mr. Firestein, a question for you regarding your--the recommendations, and as you, I think, noted, said both pathbreaking and feasible.

With China's what I think some believe might be rising nationalist tendencies, activities, as you know, the South China Sea, Vietnam and the Philippines, activities with Japan, et cetera, how realistic is it that China will undertake what you're suggesting? It seems their lower growth projections would lead them in the opposite direction.

MR. FIRESTEIN: Commissioner, thank you for the question.

It's a very good question. I believe that at some level, the leadership of China recognizes that their current course is not viable, and I think the principal conundrum that China faces with respect to Taiwan is as follows. They know that if they rely on the threat of force that is very clearly implicit in missile deployments and many other respects that they are alienating the very people to whom they're trying to sell reunification.

I think they also know, if I may be candid, that if they take force off the table and renounce force, that Taiwan will probably go independent tomorrow. So they're in a delicate balancing act. I think this is one of the reasons, but not the only one, that they don't renounce force, but at the same time I think they recognize, looking at a number of data points in Taiwan, that their current course is not getting China closer to China's own stated objective, which is, quote, "peaceful reunification of Taiwan with the mainland."

They look at things like recent polls that show that notwithstanding the increasing density of ties between the mainland and Taiwan, that support for reunification is going down, not up, that support for independence or a kind of de facto independence that Taiwan enjoys now is on the rise.

They see that the Democratic Progressive Party is very possibly in a position to return to presidential power in 2016, and a number of other data points that I believe make Chinese policymakers cognizant that a posture in which they are threatening Taiwan aggressively with substantial numbers of ballistic missiles opposite Taiwan is not going to get China to its own goal.

For that reason, above all, I believe that China would be receptive to a scenario where they have, if you will, a face-saving way to back off of this very aggressive military posture, not out of altruism, by the way -- and let me be very clear, not out of altruism -- but out of a sense that their own interests can be served by scaling back some of the missile deployments.

And it is my considered judgment, Commissioner, and members of the Commission, that under the right circumstances, it is feasible that China would consider a modest scaling back of missiles opposite Taiwan, and I say that based on two to three years of extensive consultations in the mainland as well as in Taipei and here in Washington.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR SLANE: Mr. Firestein, what can the United States do to encourage the Chinese to initiate this radical step?

MR. FIRESTEIN: Commissioner Slane, thank you very much.

I indeed agree that the issue is a systems issue. No one side can take action that will be decisive on its own. One has to consider the policy responses and positions of all three stakeholders--Taiwan and the mainland and the United States.

To answer your question, I believe that if the United States were to recommit itself to its own stated policy, the policy that is already on the books -- in this particular case, the 1982 Joint Communiqué with China -- that if the United States were to deliver arms to Taiwan, consistent with our own stated policy, that that would be a move perhaps taken unilaterally by the United States, that would give China an opening to make a similar unilateral move with respect to its own deployments.

Why do I stress the word "unilateral"? Because I support the Six Assurances, as I do the TRA, as I do the Joint Communiqué. As I said, I support the current architecture. And the Six Assurances does not permit the United States to negotiate arms sales or consult with the Chinese in advance of arms sales. I support that position, and so I think it's important that both the United States and China act unilaterally.

It is my belief that if the United States were to unilaterally make a very modest and incremental adjustment to arms deliveries to Taiwan to bring the implementation of our policy into conformity with the theory of our policy, that that would be seen as an opening for the Chinese to be able to say internally within the leadership and to the Chinese people that the circumstances permit a scaling back of Chinese missiles targeting Taiwan.

And while the two moves would not be linked and would not be part of the deal, they're not in a vacuum, and I think that we have to be cognizant of that holistic systems aspect of the problem.

HEARING CO-CHAIR SLANE: Thank you.

Commissioner Shea.

CHAIRMAN SHEA: Thank you all for being here. I have a question for Mr. Easton and Mr. Murray and then for Mr. Firestein.

Let's start with Messrs. Easton and Murray. Now my understanding, Mr. Murray, is that it's silly to sell--your view is that it's silly to sell F-16C/Ds and submarine technology to China because they can be easily obliterated in a--

COMMISSIONER WESSEL: Taiwan.

CHAIRMAN SHEA: Taiwan. Excuse me. Because they can be easily obliterated in a first strike. Is that correct?

MR. MURRAY: I would put more nuance on it than that, but--

CHAIRMAN SHEA: I'm not a nuance person.

MR. MURRAY: Well, normally I'm not either, but--

[Laughter.]

MR. MURRAY: --but on something like this, I have to be. Let's say it's essentially correct, but I'd take issue with the submarine, but we can come back to that if you need to.

CHAIRMAN SHEA: Okay. And Mr. Easton, do you feel it makes sense to sell Taiwan F-16C/Ds and submarine technology because you feel they could survive an initial attack?

MR. EASTON: Oh, there's no question they would survive.

CHAIRMAN SHEA: What's the basis for that?

MR. EASTON: Taiwan has been fortifying all of its airbases in a very big way, since 1979. They have entire mountains that are hollowed out and fortified to resist ballistic missile attack and cruise missile attack and any other attacks you could imagine.

At the outset of any conflict, the vast majority of Taiwan's air forces that are not in the air or on emergency alert are going to be inside of mountains or inside of concrete bunker systems, which are made to resist the warheads that they know are on Second Artillery missiles, and they know exactly how large those warheads are and they know what those warheads are capable of doing, which means that they can defend against them.

And then in terms of, and I know that Mr. Murray would agree with this assessment because he's written it, and he's done a very good job looking at some of these issues, and I've learned a lot from it. I think where we differ is really on airbase issue--the runways--because this has been identified by Second Artillery literature as the potential weak point for Taiwan.

To mitigate that, Taiwan has invested tremendous resources into rapid runway repair capabilities. They're able to repair a runway that's been hit by a ballistic missile four times faster than the U.S. military, according to PLA assessments, according to their reports. They're also able to operate from five highway strips, some of which we helped them design back in the '70s, that you could actually land a C-130 on. They're made to sustain that.

And so through a combination of dispersal, rapid runway repair, and a number of other measures, including launching aircraft on very short runways because if you reduce the amount of weight on the aircraft, instead of needing a 900-meter runway to take off, you can move that down to 500 or 400 meters, and that greatly complicates the PLA's attempts to then ground their air force.

CHAIRMAN SHEA: Thank you.

Mr. Murray, do you have a rebuttal?

MR. MURRAY: I do.

[Laughter.]

MR. MURRAY: I think it's incredible that the Taiwan military can repair a runway faster than the United States by a factor of four. I have a report in front of me written by one of my students, and he calls it "An Idiot's Guide to Air Field Damage Repair," and it's unclassified, and he went through all of the information. It takes four hours or more to repair a crater that's made by a 500-pound bomb, and it requires a hundred airmen to do it and almost 50 pieces of heavy earth moving equipment.

As far as I know, Taiwan has that. They also have other forms of rapid runway repair, but it takes a longer time to fix a runway to a given level of performance than 17 minutes or whatever the number is.

The issue of using highway strips is factually true, but I think it's not operationally significant. If you're flying off a highway, you don't have your repair facilities near by. A force wouldn't have the armaments nearby. It would be a very low sortie rate, and I don't think it could make a very big difference.

The craters that we're talking about are enormous. A thousand pound bomb in an Iraqi runway created a hole that was 30, 20 to 30 feet deep, and 70 feet wide, and we created some with air-delivered munitions that were 135 feet across. These aren't going to be filled in less than an hour. They're going to be filled on the magnitude of

days, and that's from one warhead.

CHAIRMAN SHEA: Okay.

MR. MURRAY: That warhead is also traveling probably at supersonic speeds. The Chinese warheads will be coming in at supersonic speeds, and if I remember correctly, a CSS-6 carries a thousand kilogram worth of payload. It's going to make a mess.

CHAIRMAN SHEA: Mr. Easton, you want to--

MR. EASTON: I brought to the hearing several documents to share with Mr. Murray.

[Laughter.]

MR. EASTON: And if you'd be interested, I'd be happy to share those. The Second Artillery has been conducting a really world-class assessment of Taiwan's capabilities. They watch Taiwan exercise this, and Taiwan exercises it constantly.

They've exercised it with the U.S. Air Force in Nevada. They also have U.S. Air Force-- what they're called Red Horse teams--go out to Taiwan and help them with this capability. Taiwan is constantly exercising, and in terms of whether you need two hours or four hours, the issue is from the PLA's perspective, they're going to get their aircraft up in the air again in a hurry, and then their assessments, the General Staff Department's assessments, is that each pair of Taiwan F-16s or Mirage 2000s can intercept and take out twice the number of PLA Air Force fighters, and that's a real problem for them.

Taiwan also has an incredible ability to affect China's own airbases in Fujian Province, and if you look at the hardening activity that's gone on in China, it's significant and it's important, but it just pales in comparison to the investments that Taiwan has made in this area.

Taiwan earlier this year, one of their IDF wings down in Tainan revealed that they have--and this has been known for a long time that they're working on this technology--they have what is possibly the world's largest standoff weapon system for cratering runways. And it actually is far more capable than anything the PLA has demonstrated outside of their ballistic missiles.

But even here, I would disagree with the notion that they can get their CEPs down to 20 or 30 meters. The Second Artillery's own requirement, as they've published in many authoritative documents, is 100 meter CEP, and they would not be launching unitary warheads of the likes of which Mr. Murray described. These would be submunitions. They would be much smaller.

Taiwan is very clear on this point, and Taiwan is prepared to deal with this. And, again, the reason it would take the U.S. Air Force so long to repair a runway is because we assume that we need 5,000 meters to launch aircraft. Taiwan doesn't make that assumption. They prepare and they train to launch aircraft on runways that are 50 meters.

CHAIRMAN SHEA: Okay.

MR. EASTON: Or 600 meters. That makes a significant difference in terms of how many ballistic missiles then does it take to crater that runway and keep it closed for a very long period of time.

I can tell you the Second Artillery is not confident at all that they can deliver on this. It's certainly a future goal of theirs.

CHAIRMAN SHEA: Uh-huh. Okay.

MR. EASTON: But they haven't gotten as far as sometimes we fear that they have.

CHAIRMAN SHEA: Thank you. I didn't get to ask Mr. Firestein my question so I'm hoping I can do that in a second round.

HEARING CO-CHAIR SLANE: Sure.

CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR SLANE: Commissioner Tobin.

HEARING CO-CHAIR TOBIN: Thank you, gentlemen, for not just the oral testimony, but your written documents. I think it's such rich material that we, as a

group of commissioners, will look at for our recommendations, digging into it and talking about it together.

Even though there are differences here, I'm wondering, and I will direct this to Mr. Firestein and Mr. Easton, if we assume that what Mr. Murray has proposed, asymmetric options for Taiwan's defense, it seems to me we're differing in terms of how capable Taiwan is. Could both you, Mr. Firestein and Mr. Easton, tell me if we were to implement this, and if it put the burden of payment into Taiwan's, isn't there a way that some of the differences here in a way go away? Why not take this path, if you follow my question?

MR. FIRESTEIN: Commissioner Tobin, thank you.

Just a few words in response. Nothing that I'm proposing contradicts what Mr. Murray is proposing.

HEARING CO-CHAIR TOBIN: Yes, I understood that too.

MR. FIRESTEIN: And, indeed, so I agree with the premise of your question that the ideas that I'm putting forward are consistent with and could be applied in tandem with those that Mr. Murray is putting forward. And I certainly respect his expertise and the judgments that he's made.

I think the one conceptual point that I would make is that in a sense Mr. Murray and Mr. Easton are looking at one side of the ledger, and I'm looking at another side of the ledger.

HEARING CO-CHAIR TOBIN: Absolutely. Diplomatic.

MR. FIRESTEIN: So they're talking about how do you increase the supply of security, if you will, and I'm trying to talk about how do you reduce the supply of threat.

And I think those two things can and should occur in tandem. I think both of those are things that the United States should support, which is why I am for arms sales and for robust levels of arms sales, broadly consistent with what we've done in recent years and with our historical norms with some very modest adjustments.

But it's also why I believe that we have to look at the threat side of the equation as well. My fundamental assumption is that the United States cannot arm Taiwan out of its security conundrum with China, that we can't solve the problem only on one side of the ledger. I think we have to attempt to solve the problem on that side, but we also have to look to the threat side of the ledger to try to get China to reduce the threat to Taiwan, not only because that's a good thing for Taiwan and above all for U.S. interests, but also because that could create an opening for more substantive movement forward on the core issues that truly are at the heart of the cross-Strait problem.

And let me reiterate, I think the core issues are not fundamentally military. All of the hardware and all of the military issues are emblematic and symptomatic, I would say, of much deeper rifts between China and Taiwan, and so I think part of the value of the ideas that I'm putting forward is that they can help bring about a new status quo, which perhaps will be more conducive to movement forward in a way that people on both sides of the Strait can accept and embrace to solve the underlying issues, which give rise to all of the military issues we've discussed.

HEARING CO-CHAIR TOBIN: And let me just add that you make a very powerful point about timing on this, and we should not miss the opportunity, given the different election cycles.

MR. FIRESTEIN: Thank you, Commissioner.

HEARING CO-CHAIR TOBIN: Mr. Easton.

MR. EASTON: Well, I agree. The fundamental issue is political; it's not military. And that's why it's so important that we use all the political leverage that we have as a nation that's at our disposal to pressure Beijing to unilaterally renounce the use of force against Taiwan and to unilaterally withdraw all the missiles and all the offensive weapon systems that China has pointed at Taiwan.

Now, Mr. Firestein pointed out my colleague Mark Stokes had said that all citizens on Taiwan realize that within seven minutes, that's true, and it cuts both ways because of the citizens in Fuzhou and elsewhere in Fujian, and Guangzhou, and

Shanghai share the same problem because Taiwan also has many of these same capabilities, and in some regards they're better.

It's a political issue, though; it's not a military. The political issue fundamentally is about the desirability of greater political unification. The people of Taiwan, Taiwan's democratically elected presidents and governments, have made it crystal clear that they do not see that as a desirable outcome. They don't want unification with China.

Now, the PRC government has also made it crystal clear that its strategic aim is to subjugate the ROC government, the ROC's territory and people under its rule in some way, shape or form, and they're willing to use force and kill people to do that, and I think for that reason, it's in the U.S. national interest not to deal with the Chinese, not to do tit for tat, and not to reduce our arms sales or cap our arms sales and hope that they do something nice in response, but to deal with them in the fashion that their behavior merits.

And that would be to call upon them and to shame them in the international community and say your offensive behavior and your deployment of offensive weapon systems against Taiwan is unacceptable, and we do not support it, and so I think that's where I would disagree with the proposal on capping arms sales.

HEARING CO-CHAIR TOBIN: Okay. Let me--

MR. EASTON: The Taiwan--one last point.

HEARING CO-CHAIR TOBIN: Go ahead.

MR. EASTON: I'm sorry for going on. The Taiwan Relations Act is explicit that the United States will base its arms sales to Taiwan completely and solely upon the threat that China poses to Taiwan, and so if we cap the arms sales to Taiwan at a time when that threat is increasing, what signal does that send to the region?

How does U.S. maintain credibility after doing that? I think it would be a policy disaster. I think there's a lot of good things in there. I enjoyed reading the EWI report, but I think if you look at the political ramifications of that over time, they could be very serious.

HEARING CO-CHAIR TOBIN: Mr. Murray, can you tell us the extent to which this has been discussed broadly in Washington?

CHAIRMAN SHEA: And in Taiwan.

HEARING CO-CHAIR TOBIN: And in Taiwan, too? Thank you, Commissioner Shea. And what responses there are?

MR. MURRAY: Well, the written testimony I provided was actually a refinement of something I had first written in 2008, and that for reasons that will always remain mysterious to me, that did get a lot of attention, both in Washington and in Taiwan.

So I think that there is a rigorous, vigorous debate in both Taipei and in Washington as to what is the best way that Taiwan's military should be configured to best provide an effective deterrent across the Strait. I think that debate is ongoing. I see signs of change on a fairly regular basis, even in the title of the 2013 QDR in Taiwan, which was "Asymmetric and Innovative Defense."

I think we'll continue to see more shifting towards this because I think the evidence of what China is preparing to be able to do is overwhelming, and that the things that I am recommending are just lessons from recent wars, and reflections of fundamental physical realities that will drive Taiwan to shift towards this type of a force. I hope it happens fast enough so that China doesn't say "let's roll the dice."

HEARING CO-CHAIR TOBIN: Uh-huh. Thank you very much.

MR. MURRAY: Yes, ma'am.

HEARING CO-CHAIR SLANE: Vice Chairman Reinsch.

VICE CHAIRMAN REINSCH: Well, Commissioner Tobin asked most of my questions, but I'll just pursue one more element. I thought what Mr. Murray is proposing is interesting. I don't want to say unconventional. I'm not enough of an expert, but it's certainly outside the mainstream of thinking about the best way for Taiwan to defend itself.

So, I would just ask Mr. Easton and Mr. Firestein to approach Mr. Murray's

proposal simply from a military point of view. Do you think it's effective? Do you think it can be effective and achieve the goals that he's described or is it simply the wrong approach?

MR. EASTON: I think in many regards it is the right approach, and that's why it's been so popular in Taiwan. I think Mr. Murray is being humble here. His report in 2008 went to the very highest levels of government in Taiwan. It was discussed and debated, and Taiwan's military did actually follow many, if not all, of the recommendations that he described in terms of developing incredibly robust shore defense and other passive defense capabilities, and for the scenario which he lays out, it's an excellent plan.

The issue is that there are a whole spectrum of possible scenarios that Taiwan has to defend against. That would be very good for a few of those potential scenarios. It does not cover the entire spectrum. To cover the entire spectrum, you need air power, you need air superiority, you need control of the sea, and I believe that Taiwan has it, the PLA believes that Taiwan has it and would be able to maintain it, and I think we should be doing everything in our power to make sure that it continues to stay that way.

So, in other words, I think that it's more than, it's very good, but it's not sufficient, and I think it also gets to the political piece that Mr. Firestein was talking about. This is not fundamentally a military dispute. This is a political dispute.

VICE CHAIRMAN REINSCH: Right. I get that. Let's move on. Mr. Firestein, can you talk about the military aspect of it?

MR. FIRESTEIN: Thank you, Commissioner.

Just very briefly, I would largely concur with Mr. Easton's assessment of Mr. Murray's work. I don't profess to be a deep hardware expert. I've looked more at the policy side of the issue. That said, I've certainly read Mr. Murray's paper carefully, and it's my sense that his ideas represent some good and innovative ideas to address the issue on the Taiwan side of the equation.

But I would reiterate that I believe we have to address the issue on both sides of the equation.

VICE CHAIRMAN REINSCH: Understood. That's very helpful.

Mr. Murray, just one small question. Part of your proposal involves mines and laying mines. What are the implications for normal commercial sea traffic if Taiwan does that?

MR. MURRAY: Thank you for the question, sir.

I'm happy to amplify a little bit. My concern is that mines would be used defensively so that if Taiwan received irrefutable warning that an invasion was occurring or about to occur, they would mine the likely beaches. The amphibious ships would have to go to those areas to disgorge their troops and equipment, but those waters would be mined.

Now, the mines can be made simple like the Iranian mine that I showed you or they can be made fairly sophisticated so that they disarm after a given amount of time, but they wouldn't be placed lightly. A nation wouldn't do this on a whim. It would do it with irrefutable, hard evidence.

VICE CHAIRMAN REINSCH: How long does it take to place the number that you think need to be placed under those circumstances?

MR. MURRAY: I hate to tell you this, sir, but of course, it depends. It depends on how many small boats and how many mines and how many areas have to be mined. The masters of this appear to be the Iranians so I would look at their example and how many small boats they have, how many mines they can put and the different ways that they're working to get mines in the water.

They're very smart. They're well funded and they're motivated and they're clever. That's a tough adversary.

VICE CHAIRMAN REINSCH: There are some interesting ironies here. You're sort of suggesting that the Taiwanese take their advice from the Iranian navy.

MR. MURRAY: Yes, sir, and, of course, there's a little bit of a subtext there that

I'm making, and I'll make it explicit. And that is, for goodness sake, if Iran can do this, certainly Taiwan can. If Iran can make a pretty impressive anti-navy, I think that Taiwan can as well. In some ways, both are faced with a similar problem; a much stronger navy that they have to hold at arm's length.

VICE CHAIRMAN REINSCH: Thank you.

MR. MURRAY: Yes, sir.

HEARING CO-CHAIR SLANE: I'll start with the second round. Mr. Firestein, let's assume that the United States sent the message that we were going to adhere to the 1982 Communiqué. Can you talk about the political receptiveness in Taiwan and what your thoughts are about that?

MR. FIRESTEIN: Commissioner Slane, thank you. It's a very good question.

And understandably, our good friends in Taiwan certainly pay a lot of attention to any discussion about the 1982 Communiqué, which is not the part of the three-pronged architecture that they like the most, to put it that way.

So understandably, it's a delicate issue from the Taiwan perspective. The consultations that I've had suggest that a number of things--number one, the Taiwanese, the Taiwan officials that I have spoken to -- and also think tank executives, scholars, analysts, on both sides of the Taiwan partisan aisle, by the way -- agree that with my fundamental assessment and an assessment made by others that the balance of power is deteriorating from a Taiwan standpoint.

They accept that as a premise. They accept that the current system, whatever the system is in its totality, is not working well for Taiwan because their sense is that Taiwan, and I very much agree with Mr. Easton's point, certainly the spirit of the point, no democracy in the world is under the kind of military pressure that Taiwan is.

That wasn't true 25 years ago or 30 years ago in the same way that it is true now, by the way, for Taiwan, which is why I suggest that, as the DoD and others do, that there's a real slippage. So they agree with the premises.

I think that there are concerns about any notion of the United States voluntarily placing a modest cap on any sales to Taiwan. I wouldn't understate those concerns, but I think that what I encountered was a kind of pragmatic viewpoint, that is basically summarized by the following statement:

What we're doing now isn't working very well so we need to try something new to enhance Taiwan's security because the current system where the U.S. provides arms and defense articles and services to Taiwan at arithmetic levels that are pretty consistent is not matching up well with China's geometric military growth, and they perceive that they're on the losing side of the equation.

So I think I wouldn't be overstating it to say that there is some openness to looking at whether this proposal -- which I think Taiwan officials recognize as very modest and very incremental, also easily reversible -- if it can deliver the goods and if it can deliver greater security for Taiwan because of China's unilateral actions in response, then that's something that I think there is an openness to even as there is a level of caution.

But one other point I would make, Commissioner Slane, and members of the Commission, is that I think it is notable that the report that I co-authored and the EastWest Institute put forward late last year garnered a very important testimonial from Taiwan, namely, a former Taiwan Vice Foreign Minister, who came out and--it's in the report itself--said that this is "a must read," and it would not be easy or I think possible to get a testimonial from a former top ROC or Taiwan diplomat if there wasn't some merit to the ideas from a Taiwan perspective.

Let me also point out that a former Secretary of State has endorsed the report, a former National Security Advisor to the President has endorsed the report, and other distinguished former members of the Joint Chiefs of Staff here in the United States and others have endorsed the basic ideas, in one case referring to them as "a solution set in the sensible center."

And I think the last point I would make, and apologies for the length, is that I think we have to recognize that we the United States cannot unilaterally get Taiwan out

of its conundrum, much as we would like to. And I'm very supportive of that goal, but I recognize that we can't do it on our own because there are three critical players. The United States and Taiwan are two of them, but China is the other one whether we like it or not.

And so we have to take actions that are feasible from the standpoint of all three stakeholders, and I believe that this set of ideas meets that criterion.

HEARING CO-CHAIR SLANE: Thank you.

Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, gentlemen.

A quick question, first, Mr. Murray, the force enablers, the assets you were talking about, mines, the cruise, short cruises, et cetera, does Taiwan have indigenous capabilities in many of those regards, or would that be subject to arms sales?

MR. MURRAY: Thank you.

Your inclination is correct. Taiwan does have some of these already in their inventory. They do have some mines. They do have some coastal defense cruise missiles. They have some short-range air defenses and mobile air defenses.

What I'm advocating is that some of the resources--the money--I hate the word "resources." Let's call it money. The money that Taiwan spends, I think, could be enhanced. They could spend more on these systems and less on the iconic weapon systems that indicate U.S. support to them. That's one reason that they like these large weapon systems, F-16s, submarines--

COMMISSIONER WESSEL: Right.

MR. MURRAY: --Patriots, ships.

COMMISSIONER WESSEL: So, but in terms of the mines, and you said they have some in inventory, where does that inventory come from? Do they have indigenous?

MR. MURRAY: Oh, yes, sir. I apologize.

COMMISSIONER WESSEL: They do. Okay.

MR. MURRAY: Yes, it is indigenously built.

COMMISSIONER WESSEL: Okay.

MR. MURRAY: So they have the ability to make more.

COMMISSIONER WESSEL: Okay. In terms of current tensions in the South China Sea, and when you look at Chinese activities, do you see a change in their posture vis-a-vis Taiwan? Meaning, we're currently in a status quo, I'd say, with Taiwan right now. That may be wrong. For each of the panelists. Or do you see that this is sort of a wait-and-see type approach?

MR. MURRAY: I don't know how the decision-makers in Taiwan view it, but to me it's a marked change in Chinese behavior, and if I were in Taiwan and responsible for their defense, I'd be extremely concerned about it.

COMMISSIONER WESSEL: Okay. Mr. Easton and Mr. Firestein?

MR. EASTON: There was a narrative a few years ago that said that if things cooled down across the Taiwan Strait, and China was no longer as worried about Taiwan, that Chinese behavior would improve. That clearly has not happened.

And I think this reflects a broader trend that we're seeing with a very revisionist China, not just vis-a-vis Taiwan, but also against Japan, against Vietnam, against the Philippines and others, and so I think that's very concerning.

COMMISSIONER WESSEL: So you see a rising threat?

MR. EASTON: I do.

COMMISSIONER WESSEL: Okay. Mr. Firestein.

MR. FIRESTEIN: With respect to the question of China's behavior in the South China Sea, I think -- and for that matter in the East China Sea -- I think there certainly is cause for concern. No question about that.

I'm not so sure that necessarily translates into a fundamentally or even materially different policy toward Taiwan, per se. So I think that we can draw a line between the two sets of activities and say that there is very alarming behavior occurring in certain theaters, but I don't think that China's fundamental position with respect to Taiwan has changed concurrent to or as a result of those other behaviors.

COMMISSIONER WESSEL: Thank you.

Did you have another comment, Mr. Murray, on that?

MR. MURRAY: No.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR SLANE: Commissioner Brookes.

COMMISSIONER BROOKES: Thank you.

Two questions for the panel if you'd all opine on these two questions. Do you believe that the risk of conflict across the Strait is increasing, decreasing, flat or something else? And you've brought up some interesting ideas regarding confidence and security building measures, but, of course, there has to be some sort of appetite either in Beijing or Taipei for such things. Do you see any sort of interest in moving forward on political or--I'm sorry--confidence and security building measures on military issues?

Thank you.

MR. FIRESTEIN: Commissioner, thank you very much for the questions.

First, with respect to the trend line for the risk of conflict across the Strait, my personal assessment is that it is increasing for one main reason, and that is, in my judgment -- which again is similar to Mr. Murray's judgment, and that of the Department of Defense for many years, and others -- we see a greater and greater imbalance in power between the mainland, on the one hand, and Taiwan on the other.

I regard that as destabilizing. I regard that as unfortunate from the standpoint of U.S. interests to say nothing of Taiwan's interests and problematic. And because there is a greater imbalance, in my judgment, looking at international relations generally, you often see conflict scenarios erupt in situations in which the imbalances become so great as to be destabilizing or to, in a sense, end whatever equilibrium was there earlier.

So, in short, I think there is a rising trend toward the possibility of conflict. I'm not saying that I believe conflict is imminent because I don't, but I don't think it's flat, and I don't think it's declining.

With respect to your second question, in terms of confidence building measures, I think that's the right kind of phrase to use to describe the type of measures that I'm talking about. I do believe that there is at least -- and I would not overstate this, because I have a lot of respect for the views of my good friends in Taiwan -- that there is at least an openness intellectually to looking at these options that we've put on the table, these policy ideas.

I'm not going to say that there's tremendous enthusiasm, but I'm also not going to say that there is an absolute "never in a million years will we do this." I think there is an openness with a sense of caution or tempered by a sense of caution.

In Beijing, I believe there actually is an openness to these ideas. I believe that this is not because of any altruism on Beijing's part, but rather a sense that their current policies are not serving them well. The fact is, in my estimation, with each passing year, Taiwan is that much further removed from any possibility of reunification with the mainland, in my estimation.

I think every public opinion poll on the topic that has been conducted looking at Taiwan sentiments with respect to unification would bear that out with very few exceptions, but the overwhelming preponderance of the data suggests that time is not on China's side, and that time is on Taiwan's side. That may be one of the reasons why China is ramping up its military assets and missiles to the staggering degree that they are.

So, because China's policies, in my judgment, are not allowing China to advance its own interests as it sees them, I think there is an openness and an opening in Beijing to adopt new ideas that would be acceptable to all three parties in this issue.

MR. EASTON: I would also agree that the risk of conflict is increasing over time or at least we can forecast that it is likely to increase but perhaps not for the same reasons. Some would say that time is on China's side because China's comprehensive national power is growing exponentially over time.

I think China is actually getting weaker in some regards over time in terms of political stability, in terms of a slowing economy, in terms of the fact that there are now on average something like 300 riots in China a day. I'm fairly certain that China's top Communist political leadership spends 99 percent of their day thinking about internal problems that they have and not about the U.S. or Taiwan or external issues.

But to the extent that they might in the future, if they were to have listened to their PLA, I think that they would be sobered by the findings of authoritative studies that have been conducted for years now and simulations that they've run for years now on what they would expect that they would have to face in a Taiwan Strait crisis.

I think the reality is that if China was to engage aggressively against Taiwan, China would lose everything. In terms of the CCP's political control, I think it would shatter. I do not think that they could bear the pressure that would be induced upon them by having a military campaign that they very likely would not win, and so I think the instability could stem from misunderstandings and desperation taken at a time when, as Mr. Firestein pointed out, many of the trend lines are not in China's favor, and taken at a time when there is perhaps growing desperation in Beijing.

Now, that's just speculative, but if there's conflict, I believe it's not going to be because of some cold rational calculation that now China has the decisive military advantage over Taiwan. I think if there's a conflict, it's because of this perception gap that folks in Beijing at a desperate time think that the U.S. does not have the resolve or the will because we backed down on arms sales and other visible manifestations of our national policies and our beliefs vis-a-vis Taiwan's importance, its intrinsic value to the region.

And I think those areas are areas that we risk perhaps inducing some miscalculation on Beijing's part.

COMMISSIONER BROOKES: Mr. Murray, my questions again were the risk of conflict and the appetite or interest in confidence and security building measures.

MR. MURRAY: Yes. Thank you very much.

I can't improve on the second answer that Mr. Firestein gave. He's much more authoritative on this than I could hope to be so I'd defer to his answer, which sounded sensible to me.

I agree with my co-panelists that I think that the risk of conflict is rising. How fast, how close does it get to some kind of a break point, I really can't assess, but I believe the risk of conflict is clearly rising.

COMMISSIONER BROOKES: Thank you.

HEARING CO-CHAIR SLANE: Chairman Shea.

CHAIRMAN SHEA: This question is for Mr. Firestein. This is the one I wanted to ask before. With all due respect to you, I guess to Secretary Shultz who called your idea "pathbreaking," and I guess you called it "radical," I'm having trouble seeing this and particularly why this might be a good deal from Taiwan's perspective.

I mean as I understand your proposal, and let me preface it by thanking you for bringing this proposal to our attention because we need folks like you thinking creatively, but you cite that there are 2,000 missiles in Southeast China aimed at Taiwan, nearly 2,000, and other missile forces can be brought to bear elsewhere in China, in the case of a conflict. That was the highest--that was the highest missile number I've ever, ever read. I thought it was 14 or 16 is what I typically read.

So you're suggesting we'll cut that by one-sixth. So that's still about 1,600 missiles aimed at Taiwan, which is quite threatening, and then you're saying that the Chinese, the military imbalance is growing geometrically, not arithmetically. And then you want to cap arms sales to Taiwan.

I think the one benefit from a Taiwanese perspective I see is that there be annualized, regularized consultations with the United States, which bring a little more transparency and consistency to that, to the arms sales process, which I think would appeal to the people, the government of Taiwan, but I don't see this as particularly, you know, you don't talk about Navy, Air Force, I mean the entire, cyber, the entire military capacity.

You want to give up 300 missiles, still have 1,600 at Taiwan, and cap arms sales to Taiwan. It just doesn't seem to me pathbreaking or--correct me. Tell me how I'm wrong.

MR. FIRESTEIN: Thank you, Chairman Shea.

Just a couple points in response. You know, I think your response is very understandable to me. The idea that we're proposing is in some ways not intuitive because it basically starts from the premise that you have to take a step back in order to make a couple of steps forward.

We've been very clear in the writing that we've done and the discussions we've had on this proposal, that it's not designed to change the balance of power picture across the Strait. It doesn't do that. It's not designed to do that.

What it's designed to do is to stop the hemorrhaging and to create a pause in a set of actions and a sense of momentum that is very one-sided and very lopsided in favor of China and that is working to Taiwan's detriment.

Every year, according to the Department of Defense and many others that have looked at this question, there are more missiles in Southeast Asia, either targeting or effectively targeting Taiwan than there were the year before. Whether that's 1,600, 1,700, 1,800 -- because China is so untransparent in these issues, it's hard to know for sure -- but I can share the data that we use to generate our numbers.

The point that I would make is, I think we have to do something to change the narrative and to stop that trend from continuing for another five, ten, 15 or 35 more years. That's why I believe there is value to creating a set of circumstances that stops the deployment of missiles, scales it back somewhat, at the same time as there is a very modest capping of U.S. arms deliveries to Taiwan, and if you look at the numbers in question, and if you look at the actions that I'm proposing relative to the overall force postures of both sides, in this particular case, China is giving more than it's getting.

Now one other point that I want to make is that we settled on the figure of \$941 million. This is a figure generated from the 1982 Joint Communique, which I've referenced. It is inflation adjusted into 2012 dollars, and that's what President Reagan agreed to in 1982, arguably with certain conditionalities applying.

If you look at the last five years for which we had data when we were crafting our proposal, from 2007 to 2011, '07, '08, '09, '10 and '11, in those five years, not once did we actually reach the level of \$941 million. So relative to recent past practice, what we're talking about is not only not a cut, it actually is a number that one could increase to relative to the last five years for which we had data and still be honoring the commitment that we made.

The final point I would make is that there is a joint statement, a joint communique called the 1982 Communique between the United States and China, in which China commits to -- in the U.S. view, commits to -- a peaceful course of action on Taiwan, and the United States commits to certain limitations on arms sales.

In our judgment, that is my co-author's and my judgment, neither side has effectively or consistently adhered to the terms of that agreement. It is our judgment that Taiwan's security interests and America's national interests would be best served if both sides went back to those commitments because both sides have abrogated them, and I don't think anyone contests that.

But if both sides went back to the commitment of 1982, as well as the TRA and the Six Assurances, all of which I support, that, on the aggregate, that would generate a positive, I would say a marginal but positive movement for Taiwan's net security position relative to the mainland.

It's partly real at a marginal level. It's partly symbolic, but above all, politically it creates a different tonality, a different narrative, and an opportunity for more substantive discussions between the mainland and Taiwan on their own terms and on terms that are acceptable to both sides to engage in discussions and move the needle even further.

CHAIRMAN SHEA: Okay. Thank you very much.

HEARING CO-CHAIR SLANE: Commissioner Tobin.

HEARING CO-CHAIR TOBIN: Thank you.

These are two questions for Mr. Easton. You talked about assessments by the PLA of their own capabilities. How trustworthy or valid do you think they are--those assessments? And the second question is how could the United States DoD reports on the cross-Strait military balance be improved?

MR. EASTON: Dr. Tobin, thank you for those very good questions.

I think you just made two very good points. First of all, we need to improve DoD assessments, and one of the ways to do that, and it's obvious, is to get our four star admirals and generals out to Taiwan. Currently, they're not allowed to go. We are shooting ourselves in the foot by not sending our best and brightest military minds to Taiwan to get to know the battlespace firsthand and to meet their counterparts on Taiwan.

And as a result, you have much lower level, non-flag grade officers making assessments about Taiwan's capabilities, which may or may not be true. We just don't know because we don't have our best military minds over there. So I think this is a self-inflicted wound, and it would be easily repaired if we, if folks in the policymaking community allowed them to go because we've never made the commitment not to do this as a matter of policy. This is just something that we imposed upon ourselves.

I also think we should be doing ship visits and should be inviting folks in Taiwan out to bilateral or multilateral military exercises, including air-maritime warfare events, and then we can see what they can do because the PLA seems to think that they can do a lot, and the PLA is watching Taiwan constantly in the same way that Taiwan is watching the PLA constantly.

The reason that I think that both publicly available and some internal PLA assessments of Taiwan's capabilities are credible is because they're embarrassing. When the PLA or the Chinese propagand machine tells you we can take out Taiwan in a day, I'd watch out because that's part of this broader narrative.

When the PLA says it, I'd watch out because that's part of this broader narrative. That's propaganda. That's a propaganda ploy, that we're much stronger than you think we are so back off. When you look at their internal assessments conducted by their professional military experts, and I have books written by teams at the General Staff Department, the General Political Department, their folks at their NDU, their Academy of Military Science, that have all reviewed this and stamped their approval on it, and it's embarrassing for them that they cannot deliver on some of these things that they've promised to deliver on, that their missiles are still that far off the mark when ten years ago we thought they were going to be down to sub-50 meter CEPs.

That may not be the case. And if you talk to imagery analysts that look at their ballistic missile tests out in the western deserts of China, you can see that more often than not, they're still missing, and they're missing by a wide margin.

HEARING CO-CHAIR TOBIN: I think we'll have to finish up--because I know we're getting close to our time limit.

MR. EASTON: Sure.

HEARING CO-CHAIR TOBIN: Thank you.

MR. EASTON: Thank you.

HEARING CO-CHAIR SLANE: Well, we're concluding our second panel. You guys have been terrific and have all given us a lot of food for thought here.

So thank you very, very much, and we appreciate everything that you've done for us today.

[Whereupon, at 11:55 a.m., the hearing recessed, to reconvene at 12:53 p.m., this same day.]

**PANEL III INTRODUCTION BY COMMISSIONER KATHERINE C. TOBIN**

HEARING CO-CHAIR TOBIN: Good afternoon, everyone. The third and final panel of today's hearing addresses whether China's views and policies towards North Korea have changed in recent years and the implications for U.S. security interests.

Let me introduce our three panelists. I'm going to provide more detail than usual because the credentials of our witnesses here are truly impressive and I think important for all those in the audience and those online to understand.

First, Ms. Stephanie Kleine-Ahlbrandt is the director of Asia-Pacific Programs at the U.S. Peace Institute. Prior to holding this position, she set up and ran the Beijing office of the International Crisis Group for five years. At the International Crisis Group, a major focus of her work was China's policy toward North Korea.

During her career, she's also held positions with the Council on Foreign Relations and the United Nations.

Before that, she was seconded to the OSCE Mission to Bosnia and Herzegovina where she investigated genocide and other human rights violations for the United Nations in Rwanda. She's written extensively on China's foreign policy.

Dr. Sue Mi Terry is a senior research scholar at Columbia University's Weatherhead East Asian Institute. Previously, during her career in the U.S. government, she served as a senior analyst on Korean issues in the CIA's Directorate of Intelligence, as director for Korea, Japan, and Oceanic Affairs at the National Security Council, and also as Deputy National Intelligence Officer for East Asia at the National Intelligence Council.

Her research focuses on East Asia, particularly Northeast Asia security and the United States-Northeast Asia relations. She studies North Korea's evolving nuclear strategy and potential for instability and the politics and foreign policy of South Korea.

Dr. Terry worked at the National Security Council under both President George W. Bush and President Obama, and is a top-rated Korean language linguist.

Ambassador Joseph DeTrani is the President of the Intelligence and National Security Alliance. Previously he held a number of senior positions in the Office of the Director of National Intelligence, including senior advisor, Director of the National Counterproliferation Center, and the North Korea mission manager.

During his career in the U.S. government, Ambassador DeTrani also worked at the Department of State as both the Special Envoy for the Six Party Talks, and was the U.S. representative to the Korea Energy Development Organization.

Like Dr. Terry, he also worked at the CIA, and I have to say that I first met Ambassador DeTrani on C-SPAN, and it's good to meet you in person today.

Thank you all. We would like you to be aware that you need to keep your remarks to seven minutes so that we have time for our questions, which I don't think is going to be a problem this afternoon. But if we could, let's start with Ms. Kleine-Ahlbrandt.

**OPENING STATEMENT OF MS. STEPHANIE KLEINE-AHLBRANDT  
DIRECTOR OF ASIA-PACIFIC PROGRAMS, U.S. INSTITUTE OF PEACE**

MS. KLEINE-AHLBRANDT: Commissioner Tobin and other distinguished members of the Commission, thank you very much for inviting me here today to testify on China's relations with North Korea.

The views I express today are my own and do not necessarily reflect those of USIP, which does not take policy positions.

United States policy towards North Korea aims at achieving verifiable steps towards denuclearization, which China says it wants too.

The U.S. believes that the best way to accomplish this is through targeted financial measures and conditional engagement. Beijing disagrees. It argues that Pyongyang needs security assurances, encouragement for economic reform, and that this might produce a willingness in the long-term on Pyongyang's part to revisit its nuclear weapons program.

Meanwhile, Pyongyang's nuclear stockpile continues to expand, missile delivery systems are being improved, the danger grows of spreading nuclear weapons technology, and threat to U.S. allies increases.

Clearly the U.S. tactic of trying to persuade China to come over to its approach isn't having the desired effect. The idea that China can and will compel Pyongyang to give up its nuclear weapons cannot be the basis of sound U.S. policy.

Following North Korea's third nuclear test, Western officials and analysts interpreted President Xi Jinping's stronger emphasis on denuclearization as a sign of a policy shift and greater convergence between U.S. and Chinese national interests.

But this shift in rhetoric did not translate into any measures to press North Korea to denuclearize or to in any sense change Chinese priorities on the Peninsula.

While China does not want a nuclear North Korea, what it wants even less are scenarios such as war, the collapse of the regime, or a reunited Peninsula which allows a U.S. presence on its border.

Even when Chinese analysts believe that North Korea's weapons build-up damages its strategic interests, they think that North Korea is simply trying to guarantee its security in the face of existential threats from the United States. And in this regard, they cite examples such as Iraq, the NATO operation in Libya, and now Ukraine as evidence that renunciation of weapons of mass destruction would only result in regime change.

Beijing arguably maintains an interest in the survival of the North Korean regime for its own domestic legitimacy. At a time when President Xi Jinping is working to bolster his Party standing through ambitious anti-corruption measures and a bold economic program, the last thing he needs is the failure or collapse of a Communist regime next door.

And these fears are exaggerated by the fact that the Chinese see the fall of Myanmar to Western values as another country on China's border that's now falling into the Western camp.

China sees the nuclear issue as just one component of its broader bilateral relationship with North Korea, which is based on a policy of sustaining the country to integrate it more fully into the international economy. Chinese officials see economic engagement as part of a long-term process that will ultimately change North Korea's strategic calculations with regard to nuclear weapons.

To be sure, there is not much affection left between China and North Korea, but Chinese mistrust of the United States remains the primary obstacle to meaningful U.S. cooperation on the Peninsula. When China looks at North Korea, it does so through a geopolitical strategic lens featuring U.S.-China competition at its core.

Consensus amongst analysts in Beijing is that the U.S.-led block is using North Korea as a pretext to deepen its Asian alliance, its Asia rebalance, to strengthen regional alliances, move missile defense and military assets to the region, and expand military exercises.

As a result of this mismatch of strategic views between China and the U.S., the very tools being used by both sides are arguably contradictory. Whereas Washington sees diplomatic isolation as essential, China sees diplomatic engagement and dialogue as necessary.

Where Washington sees economic sanctions as the best way to deal with the Peninsula, China sees economic cooperation and support as the best way to move forward.

And finally, where the U.S. sees deterrence as important, China sees security assurances as necessary.

So in this situation, what can actually be done? Well, there are no good options, only a series of tradeoffs. The basic choice for U.S. policymakers is between trying to change China's perception of its self-interest, which is highly unlikely, applying more pressure on China in return for its reacting more strongly to things like any new long-range missile launches or nuclear tests. Beijing could agree conceivably on some new increment of punishment after a nuclear test, ballistic missile flight test, or space launch.

Or attempting to find a more collaborative approach that draws on China's interests in engaging in North Korea alongside continued U.S.-led multilateral pressure.

An option currently being debated in Washington is whether the U.S. can impose Iran-style sanctions on North Korea and whether the United States could at least fully implement the range of existing measures that it already has against Pyongyang that are not being fully exploited.

The problem with this is that if we think we can pressure China to do the right things through sanctions that seriously harm China's interests, it could easily make the breach between us and China on both North Korea and other issues even worse.

There should be more pushback when China does not deliver on sanctions instead of downplaying the differences, an approach that has not resulted in better cooperation from China.

So, for example, when the U.S. starts out with a list of 40 entities that it wants to sanction, and China whittles it down to three, Washington could point out that gap and work with other countries to try to sanction those entities instead of declaring victory.

Washington could also increase criticism of China for permitting North Korea to use its airspace, land border and waters to transfer illicit items to other countries, clearly in violation of U.N. Security Council resolutions.

Another possibility would be to forge a more joint approach. If China insists on continuing with its approach of cutting back items with military relevance all the while deepening investments in infrastructure and resource extraction, perhaps the U.S. could accept this in return for stricter implementation of dual-use trade controls and implementation of existing sanctions.

The United States could also expand efforts to get as much information about the outside world as possible into North Korea. This happens through multiple channels: radio and Internet; investments in Internet censorship evasion technologies; transmittal of DVDs, CDs, computer thumb drives and other means. Kim Jong-un fears this more than sanctions.

The United States should also support limited targeted engagement with North Korea, carried out by NGOs and certain U.N. agencies. At the very least, people-to-people exchanges, including the long delayed reciprocal visit by the National Symphony of North Korea, should be encouraged rather than blocked. Such initiatives serve the purpose of transmitting information to the North Korean people about the outside world.

Finally, forging close trilateral cooperation amongst the United States, the Republic of Korea and Japan is absolutely essential to achieving U.S. objectives on the Korean Peninsula. Tensions between Seoul and Tokyo are undermining U.S. strategic interests in the region, as Washington struggles to present a united front in dealing with a nuclear North Korea and dealing with China's rise.

In short, much more needs to be done to facilitate cooperation and trust with and between these two vital allies.

Thank you very much for your time.

**PREPARED STATEMENT OF MS. STEPHANIE KLEINE-AHLBRANDT  
DIRECTOR OF ASIA-PACIFIC PROGRAMS, U.S. INSTITUTE OF PEACE**

Testimony before the U.S.-China Economic and Security Review Commission  
Hearing on China's Relations with North Korea  
June 5, 2014

Stephanie T. Kleine-Ahlbrandt  
Director of Asia-Pacific Programs  
United States Institute of Peace

Commissioner Tobin and Commissioner Slane, and other distinguished members of the Commission: Thank you for your invitation to testify before you today on the topic of China's relations with North Korea. The views I express today are my own and do not necessarily represent those of the U.S. Institute of Peace, which does not take policy positions.

United States policy towards North Korea aims at securing verifiable steps toward denuclearization, which China says it wants, too. The U.S. believes that the best way to achieve this is to increase pressure on Pyongyang through targeted financial measures and conditional engagement. Beijing disagrees. It argues that Pyongyang needs security assurances and encouragement for economic reform, and that someday, these might produce a willingness on Pyongyang's part to give up its nuclear weapons.

Pyongyang's nuclear stockpile continues to expand, the North continues to improve its missile delivery systems, the danger of weapons-of-mass-destruction (WMD) exports grows, and the threat to U.S. allies increases. One year after the Sunnyslands Summit and prior to an expected fourth North Korean nuclear test it is important to ascertain whether, and to what extent, China is actually willing to help resolve the North Korea nuclear problem. What are Chinese priorities towards North Korea? Have Chinese perceptions of North Korea changed since the third nuclear test? How does North Korea factor into Beijing's perception of its own security? To what extent does the U.S.-China relationship affect China's North Korea policy? Is there any convergence in Washington and Beijing's strategic goals, priorities and tools for dealing with North Korea? What does this mean for future U.S. policy? After seeking to answer these questions, my testimony concludes that the idea that China can and will compel Pyongyang to give up its nuclear weapons cannot be the basis for a sound U.S. policy.

China's perspective on denuclearization

Following North Korea's third nuclear test in February 2013, Western officials and analysts interpreted Xi Jinping's emphasis on denuclearization – including in his Summit meeting with President Obama at Sunnyslands – as a sign of a policy shift and greater alignment between U.S. and Chinese national interests.<sup>148</sup> Eager to promote the prospect of gains for the United States from better relations with Beijing, Chinese diplomats have sometimes sought to reinforce that impression. But this shift in rhetoric did not result in China's re-ordering of priorities, nor did it translate into measures to press North Korea to denuclearize.<sup>149</sup> While China does not want North Korea to have nuclear weapons, it wants instability

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<sup>148</sup> Numerous Western journalists, analysts and officials made such claims. "Former top U.S. official: China getting fed up with North Korea," *Foreign Policy*, 5 April 2013; Mark Landler, "Detecting Shift, U.S. Makes Case to China on North Korea," *New York Times*, 5 April 2013; "China says 'very firm' with North Korea on nuclear program: Kerry," Reuters, 1 July 2013; "Obama says China getting tougher on North Korea," AFP, 18 June 2013; Sangwon Yoon & Henry Sanderson, "Chinese and South Korean Leaders in Accord on North Korea," *Bloomberg*, 27 June 2013.

<sup>149</sup> This reassessment was based primarily on Xi Jinping's articulation of "three insists" to North Korean Vice Marshal Choe Ryong-hae when he visited Beijing in May 2012 as Kim Jong-un's personal envoy ("insisting on the denuclearization of the

on its periphery even less.

From Beijing's perspective, denuclearization is a long-term endeavor, which first requires Pyongyang to receive security assurances that create stability around it.<sup>150</sup> Chinese conventional wisdom holds that no amount of pressure will induce Pyongyang to give up its nuclear weapons program without fundamental concessions from the U.S. Even when Chinese analysts<sup>151</sup> believe that North Korea's weapon procurement activities threaten to undermine China's strategic interests, many in Beijing believe that North Korea is simply trying to guarantee its security in the face of external threats from the U.S. Therefore, Chinese analysts believe it is up to Washington to address the root cause of the North Korea nuclear problem by easing Pyongyang's security concerns; they say, "The one who ties the knot is responsible for untying it (解铃还需系铃人)."<sup>152</sup> The types of concessions include: diplomatic normalization, a peace treaty, and the lifting of sanctions – none of which are likely.<sup>153</sup> Without these concessions, Beijing argues that imposing punishing pressure on North Korea to denuclearize would weaken the regime and decrease stability – the proposed solution would make the primary problem worse. Instead Chinese officials have recommended that the U.S. first focus on nonproliferation or a testing moratorium.<sup>154</sup>

China prioritizes stability over denuclearization because of a vastly different perception than the U.S. of the threat posed by a nuclear North Korea.<sup>155</sup> While North Korea's nuclear tests and other nuclear developments are viewed in China as inimical to its national interests and regional security and stability, Beijing does not see North Korea's actions as directly targeting China. Beijing's biggest worries are the possibility of military confrontation between North Korea and the U.S., regime collapse, or North Korean reunification with South Korea leading to a U.S. military presence north of the 38th parallel. Beijing also worries that collapse or Korean unification could lead to unrest amongst the over one million ethnic Koreans in its northeastern provinces, which would be aggravated through a flood of refugees. There are also concerns that a reunified Korea could make territorial claims on China's

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peninsula, insisting on maintaining peace and stability on the Peninsula, and insisting on solving relevant issues through dialogue and consultation") Xi then made similar statements, respectively, to Presidents Obama and Park. Vice President Li Yuanchao reiterated the "three insists" during his July visit to Pyongyang. While Western analysts have construed the listing of denuclearization as the first "insist" as a reorganization of Chinese priorities, Chinese analysts say that the "three insists" only represent a verbal clarification of long-existing Chinese policy and do not imply that denuclearization overrides stability as a goal.

<sup>150</sup> According to one analyst, "while denuclearization is a goal, it will be long-term, and cannot come at the price of stability." Stephanie Kleine-Ahlbrandt, "[China's North Korea Policy: Backtracking from Sunnylands?](#)", 38 North, 2 July 2013. According to another analyst, "We need to work on a large package, a macro solution. We should use security guarantees to exchange for abandoning the nuclear program. In the process, we cannot easily persuade the DPRK to abandon weapons grade materials but at least we can ask it to freeze its nuclear programs and activities." Stephanie Kleine-Ahlbrandt, "[China's North Korea Policy: Backtracking from Sunnylands?](#)", 38 North, 2 July 2013.

<sup>151</sup> The phrase "Chinese analysts" is used in order to protect sources. It includes Chinese government officials, government-affiliated think tank representatives, and some academics who regularly advise the government and are familiar with its thinking and positions.

<sup>152</sup> In addition to creating the problem, Chinese analysts believe the U.S. has missed opportunities in the last two decades by neglecting the issue.

<sup>153</sup> A long list of U.S.-provided security reassurances over the last two decades have had no impact on Pyongyang's or Beijing's policies of blaming Washington. See Victor Cha, *The Impossible State, North Korea Past Present Future*, Random House, 2012. From the perspective of North Korea's *sŏn'gun* (military first) ideology, no U.S. security assurance would ever be credible.

<sup>154</sup> In the words of a Chinese analyst, "Denuclearization is a long-term objective: getting North Koreans to agree to a testing moratorium would be a better solution." Interview with author, May 2014.

<sup>155</sup> Beijing's policy is still based upon the strategic priorities, in descending order, of "no war, no instability, no nukes" (不战、不乱、无核). Chinese experts emphasize that while these three principles reflect China's policy priorities vis-à-vis North Korea, they also reflect interim steps as part of an incremental process to re-engage North Korea on nuclear disarmament. The three character pairs are seen as having a strong logic and causality, the former being a prerequisite of the latter. Mathieu Duchatel and Philip Schell, "[China's policy on North Korea: Economic Engagement and Nuclear Disarmament](#)," *SIPRI Policy Paper No. 40*, Dec. 2013.

Yanbian region based on the boundaries of the ancient Korean kingdom of Koguryo, which extends into present-day China. In the minds of leaders in Beijing, support for Pyongyang helps to ensure a friendly nation on China's northeastern border, and provides a buffer zone between it and democratic South Korea, which is home to 28,500 U.S. troops. While Beijing would prefer that North Korea renounce its nuclear program, it can more easily stomach a de facto nuclear North Korea strategically aligned with Beijing than war or collapse. The execution of Jang Song-Thaek, the husband of North Korean leader Kim Jong-un's aunt known for his close ties to China, only exacerbated Chinese concerns about the viability of the Kim regime, making it more averse to punitive measures. Beijing has since asserted that the regime is again "stable," the purge having helped Kim Jong-un solidify his position, with an improving economic and food situation.<sup>156</sup> Yet Beijing continues to shield North Korea from stronger economic sanctions and other more punitive measures.

China sees the nuclear issue as just one component of its broader bilateral relationship with North Korea<sup>157</sup>, which is based on a policy of sustaining the country and seeking to integrate it more fully into the world economy.<sup>158</sup> Chinese officials describe economic engagement as part of a long-term process that will ultimately alter North Korea's strategic calculus regarding the role of nuclear weapons.<sup>159</sup> China believes that its own "opening and reform" experience offers North Korea an example of how such a process increases the likelihood of state and Party survival.

But after three decades of coaxing Pyongyang to implement economic reform, including inviting all three Kims to tour China's special economic zones, there are no signs that North Korea has been willing to undertake structural reforms to spur genuine national economic growth. Kim Jong Il feared that instead of leading to Chinese-style economic growth, reform in North Korea would engender an East German-style collapse. Kim Jong-un has shown himself to be just as resistant to economic reform as his predecessors.<sup>160</sup>

Promoting economic exchange with North Korea is also integral to Beijing's policy to ensure stability and economic development in its Northeast "rust belt" region of 100 million people, where high unemployment and inequality has been a source of past unrest. In large part due to China, including startling growth in bilateral trade, North Korea's economy continues to show steady improvement since 2009.<sup>161</sup>

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<sup>156</sup> Interviews with author, May 2014.

<sup>157</sup> *Beijing learned a lesson when its strong reaction to the 2006 nuclear test damaged bilateral relations, and has since deliberately separated its economic and political relationship with Pyongyang from the nuclear issue.* "[Shades of Red: China's Debate over North Korea](#)," *Brussels: International Crisis Group Report N°179, November 2009*, pp. 5-8; 15-17.

<sup>158</sup> According to one official, "China has no reason to abandon its whole relationship in exchange for a single issue." Interview with author, May 2014.

<sup>159</sup> According to one analyst: "Since 'the perfect goal' of denuclearization cannot be achieved in the short term, we will need to identify phases for how to achieve it. That comes down to how will we increase North Korea's perception of security. Chinese want to see North Korea change sŏn'gun (military first), improve people's livelihood, and that's why China signed up to the Special Economic Zones. It's quite challenging for North Korea to strike a balance between the military and economy. If they can slightly tilt towards economic development, they can do what China did in the 1980s. Such a change can be cultivated. How to make North Korea feel slightly secure is vital. We have to 'induce' Pyongyang to denuclearize." Interview with author, June 2013.

<sup>160</sup> Reforms would require Kim Jong-un to abandon the command economy and renounce the very same state ideologies and political legacies of his father and grandfather, which form the basis of his own legitimacy. So instead of opening up its system, North Korea has engaged in "mosquito net reform," such as that in Rason and other special economic zones, where the goal is to attract foreign investment while preventing contagion of outside influence; creating controls so that in Kim Jong-il's words, "not even a mosquito could get through." Stephanie Kleine-Ahlbrandt, "[North Korea: Open for Business?](#)" International Peace Institute, 13 January 2012.

<sup>161</sup> "[North Korea's external trade reaches record high](#)," NKNews, 22 May 2014. [Despite North Korean Political Risks, Sino-DPRK Trade Shows Stable Growth](#), Scott Snyder, *Asia Unbound*, 26 March 2014. Go Myong-Hyun, "Economic Improvement in North Korea," Asian Institute for Policy Studies Issue Brief No. 58, 10 June 2013. Marcus Noland, "[Hugely important: North Korea running a current account surplus?](#)" *North Korea: Witness to Transformation*, Peterson Institute for International

Beijing also arguably maintains an interest in the survival of the North Korean regime for its own domestic legitimacy. As Xi works to bolster the Communist Party's standing through an ambitious anti-corruption campaign and economic reform plans, he would hardly welcome a global spotlight—or worse, Chinese public attention—on the failure of a communist regime next door. Collapse across the border of a government that China fought to preserve at the cost of hundreds of thousands of lives, including the son of the PRC's founding leader, Mao Zedong, might cause the Chinese public to further probe its own government, especially at a time when liberal intellectuals have called for political reform alongside Xi's ambitious economic changes.<sup>162</sup>

Compounding China's reluctance to turn against North Korea is the growing demand by Asian coastal states for a stronger U.S. role in the region (primarily due to Chinese assertiveness in maritime disputes); and the perceived “fall” of Burma/Myanmar to Western political values (a country which not long ago counted China as its only friend). China doesn't want to be surrounded by countries that have transitioned into Western-friendly regimes. So while the value of North Korea as a military buffer against the U.S. and its allies—in the age of long-range strike capabilities and U.S. naval dominance—can be debated, North Korea's viability is still politically important to Beijing.

Ultimately, as Chinese officials publicly indicate willingness to cooperate with the United States, they privately say that there is not much Beijing is willing or able to do to curtail North Korea's nuclear weapons program. Beijing still does not want—nor does it feel able within the confines of its policy of “no instability” and “no regime change”—to implement punitive measures that might push North Korea to relinquish its nuclear weapons or to withdraw its economic safety net. Indeed, the belief is that such attempts could decrease stability and make the situation worse.

#### Beijing's threat perception

Despite longstanding historical and ideological ties between Beijing and Pyongyang, there isn't much affection left between the two nations. North Korea remains highly suspicious of China and resents its larger neighbor the more it depends on it for survival. North Koreans believe Beijing has betrayed the communist cause by turning capitalist and making deals with the West. As a result of this distrust, North Korea doesn't even allow China, a defense treaty ally, to observe its military exercises.

Beijing grudgingly tolerates its wayward neighbor, which it sees as both a strategic liability and an asset—a necessary evil. It perceives the relationship as one between a patron and client where the client is unruly and ungrateful. According to China's hierarchical view of international relations, smaller powers should cede to its will.<sup>163</sup> Pyongyang doesn't. But larger geopolitical calculations—in which the U.S. is central—dictate that China's interest in maintaining the North Korean regime and a divided peninsula is not contingent on good relations with Pyongyang.

Chinese mistrust of the U.S. is the primary obstacle to cooperation with the United States on North Korea. China's understanding of American motives is the primary determinant of Chinese decisions about how to evaluate and respond to North Korean threats.<sup>164</sup> When China looks at North Korea, it does so through an East Asian strategic lens with growing rivalry with the United States as the focal point. Despite its interests being seriously harmed by North Korean behavior, Beijing believes that Washington and its allies pose a larger threat to China's strategic interests than Pyongyang does.

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Economics, 18 March 2013.

<sup>162</sup> These ideological considerations take a particular importance for China's ties with North Korea because the Party's International Liaison Department, rather than the Foreign Ministry, has traditionally served as the chief Chinese interlocutor, although that is shifting.

<sup>163</sup> Nathan, Andrew J.; Scobell, Andrew, *China's Search for Security*, Columbia University Press, 2012, p. 26

<sup>164</sup> Nathan and Scobell, *op cit*, p. 90.

Consensus amongst analysts in Beijing is that the U.S.-led bloc is using North Korea and tensions in the South and East China Seas as excuses to deepen the Asia rebalance, strengthen regional alliances, expand military exercises and move missile defense and military assets to the region. China is increasingly uncomfortable with long-standing U.S. defense relationships with countries around China's periphery (including South Korea, Japan, Taiwan, the Philippines, Vietnam, Thailand, India, Pakistan, Afghanistan, and Kyrgyzstan).<sup>165</sup> From the Chinese perspective, China-North Korea relations are intrinsically part of Sino-U.S. geopolitical competition in East Asia.<sup>166</sup> As long as China continues to view the U.S. with such strategic mistrust and suspicion, a fundamental shift in its policy toward North Korea remains unlikely.

Chinese policymakers believe that Washington's rigid policy towards North Korea and its military deployments and exercises are as much to blame for instability in the region as North Korea's intransigence, and actually exacerbate the threat of nuclear proliferation.<sup>167</sup> Following North Korea's sinking of the South Korean naval vessel the *Cheonan* on 26 March 2010 and the shelling of South Korea's *Yeonpyeong* Island on 23 November 2010 China's initial reaction was to dismiss international calls to pressure North Korea and instead criticize the U.S. and South Korea for the military exercises held in response, which it viewed as a more serious threat to both its own and regional security than the North Korean provocations.<sup>168</sup>

Many Chinese analysts worry more about another North Korean conventional attack on South Korea than a nuclear test. Not only do they believe that a conventional provocation has a higher likelihood of sparking conflict now than in 2010, but given their belief that the ultimate U.S. aim is to change the regime in North Korea, a provocation could be used by Washington to accomplish this.

Underneath all of this, Chinese diplomats worry that North Korea will turn on them by cutting a deal with Washington, or at least thaw relations, which could lead to a hostile state on the border aligned with the U.S. Especially since the downturn in China-North Korea ties, China is concerned that applying pressure could backfire, with North Korea deciding to use the U.S. or other countries to plot a course independent from Beijing.<sup>169</sup> One Chinese analyst said that because of the division of labor in dealing with North Korea where China plays "good cop" to the U.S. "bad cop," there was concern about the reaction Beijing would get if China also turned into a bad cop.<sup>170</sup>

In part for this reason, China has expended significant diplomatic energy trying to revive the moribund

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<sup>165</sup> In Beijing's perception, its periphery also includes the United States whose presence poses the largest single challenge to China's security: "Even though the U.S. is located thousands of miles away, it looms as a mighty presence in China's neighborhood, with its Pacific Command headquarters in Honolulu; its giant military base on the Pacific island of Guam (6,000 miles from the continental U.S., but only 2,000 miles from China); its dominating naval presence in the South and East China Seas; its defense relationships of various kinds around China's periphery [...] and its economic and political influence all through the Asian region. If the vast distances that separate the United States from China prevent China from exerting direct military pressure on it, the same is not true in reverse." Nathan and Scobell, op cit, p. 5.

<sup>166</sup> Author interview with Seong-hyon Lee of Stanford University Shorenstein Asia-Pacific Research Center, May 2014.

<sup>167</sup> Lora Saalman, '[Why Beijing stands by Pyongyang](#)', Carnegie-Tsinghua Center for Global Policy, 20 February 2013.

<sup>168</sup> The July and December 2010 exercises were also an unwelcome source of domestic pressure, as Netizens criticized the government's weak response to them. 專家解讀 美霸權讓半島局勢惡化》[Expert interpretation: U.S. hegemony worsens the situation in the Peninsula], Hong Kong Wen Wei Po Online, 25 November 2010.

<sup>169</sup> Kim Jong-un has been trying to set a course for greater independence from Beijing. Things got off to a rough start for China and North Korea immediately upon Kim Jong-il's death. China nevertheless rallied on behalf of Pyongyang, calling on key Western and regional countries to support stability, providing significant food aid and sending Vice Foreign Minister Fu Ying to Pyongyang. Chinese state media supported the transition with highly positive coverage—to the point that it came under domestic criticism for painting too rosy a picture of bilateral relations. Despite China's economic and political support, Kim Jong-un rebuffed early invitations to visit China, and instead sent high-ranking officials to Singapore, Indonesia, Laos, Vietnam and Burma/Myanmar to try to drum up investment. Stephanie Kleine-Ahlbrandt, "The Diminishing Returns of China's North Korea policy," *38 North*, 16 August 2012.

<sup>170</sup> "[China's North Korea Policy: Backtracking from Sunnylands?](#)", op cit.

Six Party Talks, which last convened in 2008. While Western diplomats had hoped the process would ensure that China would exert pressure on North Korea to change course, Beijing had different hopes. China prioritized the talks because as Chair, it was guaranteed a central role in setting international policy toward the DPRK. Beijing never expected that the talks would resolve the issue, rather, the process kept negotiations open and lessened the possibility of crises escalating, while allowing Beijing to exert control over the international response by ensuring interaction with and influence over all parties. According to a senior MOFA official, China's primary goal with the Six-Party Talks was to "keep them talking and not fighting." China also used the talks as a forum to blame other countries' policies, South Korean domestic politics or the Japanese focus on the abduction issue, for the failure to rein in Pyongyang.<sup>171</sup>

Chinese analysts joke that the names of the two top officials responsible for the Six Party Talks, Wu Dawei (武大伟), and Xu Bu (徐步), are homonyms in Mandarin for "no big movement" (无大为) and "slow steps" (徐步). In one decade of the process, the DPRK conducted two underground nuclear tests, four long-range missile flight tests, torpedoed a South Korean naval patrol boat and shelled a South Korean island, without ever losing China's political and economic support.

One of the primary motivations for Beijing to get tough with Pyongyang is concern about U.S. "shows of force" such as B-2 and B-52 flights over South Korea, combined exercises with allies, and missile defense measures. The U.S.' taking these actions has been successful in getting Beijing to agree to limited sanctions and to take other tactical measures following Pyongyang's provocations. But they also reinforce the suspicion that the U.S. is using tensions on the Peninsula as a justification to expand its regional military presence. Given Chinese strategic culture and the perspectives shaping Chinese understanding of U.S. policy, Chinese analysts are prone to interpret American actions almost anywhere in the world as secretly directed against China.<sup>172</sup>

Chinese experts also view other countries' renunciation of their nuclear-weapon pursuits at the hands of the U.S. as tantamount to regime change and collapse.<sup>173</sup> In support of this view, they often cite the 2003 invasion of Iraq and the North Atlantic Treaty Organization (NATO) operation in Libya in March 2011. Since the Ukraine crisis, Chinese analysts regularly invoke that case as further evidence that the model of security for disarmament is a failure.<sup>174</sup>

Moreover, Chinese analysts say that Washington's handling of Ukraine is evidence of the relative weakening of U.S. power. This fits with a general perception in Beijing that a U.S. decline is happening faster than they expected, while China's rise is faster than anticipated.<sup>175</sup> As such, China feels more confident in resisting pressure from Washington on North Korea than just a few years ago. This combines with Xi Jinping's more active role in defending Chinese interests around the world than his predecessors.<sup>176</sup> Chinese analysts say that Beijing will continue to challenge whatever constitutes

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<sup>171</sup> In China's eyes South Korean President Lee Myung-bak's repudiation of his predecessor Roo Muh-Hyun's North Korea policy obstructed progress in the Six-Party Talks because it "irritated" North Korea. Chinese analysts also believe that former Japanese Prime Minister Junichiro Koizumi's requirement that the resolution of abduction issues be a precondition for normalizing relations between Japan and North Korea also stalled progress at the Six-Party Talks and tied the hands of U.S. as well.

<sup>172</sup> "Chinese see their country as heir to an 'oriental' strategic tradition that dates back thousands of years and that is pacific, defensive minded, and non-expansionist. They consider China's approach to interstate relations ethically fair and reasonable, and they attribute the existence of this unusual approach to the fact that China is a continental power that was historically agrarian and sedentary. In contrast, they see Western strategic culture as militaristic, offensive minded, and expansionist, growing out of the experience of maritime powers that are mobile and mercantilist." Nathan and Scobel, p. 91.

<sup>173</sup> Lora Saalman, "Balancing Chinese interests on North Korea and Iran," *The Carnegie Papers*, Carnegie-Tsinghua Center for Global Policy, April 2013.

<sup>174</sup> Interviews with author, May 2014.

<sup>175</sup> Stephanie Kleine-Ahlbrandt, "[From Japan to the U.S., China embarks on a bolder foreign policy](#)", CNN, 25 November 2013.

<sup>176</sup> Chinese nationalists and Netizens continue to demand that the government use its growing international heft to more actively defend China's global interests through more directly interventionist means. Xi is likely to continue making efforts to deliver;

Washington's "red line" in East Asia, hoping to change it gradually by testing American focus and resolve. All of which gives North Korea more breathing room.

At the same time, many in Beijing have come to believe that the U.S. is willing to live with a nuclear-armed North Korea. After President Obama declared a "red line" on chemical weapons in Syria, Chinese strategists speculated about what a similar red line might constitute in North Korea. Their guesses varied from proliferation to miniaturization capability. According to one analyst, "so far the Obama administration has achieved nothing towards the goal of denuclearization. If I were North Korea, judging from the cases of Libya, Syria, or Ukraine, my idea is that that I would still have a 4<sup>th</sup> or 5<sup>th</sup> chance."<sup>177</sup> Chinese analysts have dubbed "strategic patience" as "strategic ignorance." Yet China is more comfortable living with this than any harder-line strategy, as it gives the appearance that Beijing is cooperating with the U.S. by engaging in dialogue, supporting UN resolutions and publicly rebuking Pyongyang from time to time.

China also tries to make use of North Korean behavior to increase its leverage over the U.S. and ROK and its influence in the UN.<sup>178</sup> Chinese strategists regularly question whether the U.S. would consider trading support for regional allies embroiled with China in maritime sovereignty disputes in the East and South China Seas—China's top foreign policy challenges—in exchange for more cooperation on North Korea.<sup>179</sup> If the U.S. continues to try to "contain China," one analyst stated, Beijing will feel less "encouraged" to be tough with Pyongyang.<sup>180</sup> With reference to President Obama's April 2014 trip to Japan and the Philippines, another analyst said, "If you really want China to focus on the DPRK nuclear issue you need to be quiet in criticizing China on every single island issue. China has a policy of dealing with those islands with the relevant countries, not with U.S. involvement."<sup>181</sup> At the same time, China is so preoccupied with thwarting Japan—with its U.S. alliance—that coaxing North Korea into concessions recedes in comparison as a regional priority.

#### New tactics, old strategy

Beijing was angry and disappointed with Pyongyang following the space launches and third nuclear test in 2013. Leaders were surprised by the suddenness and volume of Kim Jong-un's threats, especially when compared with his more calculating father. Beijing interpreted North Korea's acts as a "slap in the face" given its efforts at the time to restart the Six Party Talks as well its stern warnings issued to the North not to proceed. Adding to this was fear that the test would invite U.S. involvement, and the fact that the timing couldn't have been worse: during Beijing's once-in-a-decade leadership transition, which saw signs of fierce factional struggles.<sup>182</sup> The leadership needed to spend time on domestic issues as opposed to international crises, and it was already in the midst of a major crisis with Japan over the Senkaku/Diaoyu islands. Moreover, the third nuclear test took place during the Chinese New Year, the country's most important holiday, when officials try to take their longest vacation of the year.

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and in so doing will de facto end the traditional Chinese policy of non-intervention. Stephanie Kleine-Ahlbrandt, "[From Japan to the U.S.: China embarks on a bolder foreign policy](#)", op cit.

<sup>177</sup> Interview with author, May 2014.

<sup>178</sup> According to one analyst, "The Korean nuclear test is only a game among big powers. This is China's best opportunity to negotiate with the U.S. on issues like Central Asia, Pakistan, the South China Sea and Tibet. China should use the opportunity well." "[Shades of Red: China's Debate over North Korea](#)," op cit., p 8.

<sup>179</sup> According to one Chinese analyst, "South China Sea and East China Sea issues are more threatening to China than North Korea. Problems in those areas could really hinder China's development and maritime strategy. The problem is that the U.S. is using the South China Sea and East China Sea to advance its pivot, so China has to push back 'one island at a time'; China has to use maritime disputes to break through U.S. containment." Interview with author, May 2014.

<sup>180</sup> "[China's North Korea Policy: Backtracking from Sunnylands?](#)", op cit.

<sup>181</sup> Interviews with author, Beijing, May 2014.

<sup>182</sup> "China seals Bo's fate ahead of November 8 leadership congress", Reuters, 28 September 2012. "China faces new scandal over crash of a Ferrari," The New York Times, 3 September 2012.

Beijing therefore felt it had to respond strongly. It issued robust warnings; emphasized the importance of denuclearization; demonstrated solidarity with South Korea; supported tightened UN Security Council sanctions, devoted significant energy to resuming the Six Party Talks, and allowed another vibrant internal debate on North Korea.<sup>183</sup> Chinese diplomats openly vented their frustration with U.S. diplomats.<sup>184</sup>

There were also more open conversations in Beijing about North Korean provocative behavior and how to deal with it. There was a more concentrated search than in earlier years for more effective instruments to restrain North Korea, by exploring different ways of encouraging Pyongyang to fall into line. But no consensus was reached on viable options that might produce results without risking a change to the status quo, which was seen as worse.

In the end, China's moves remained tactical, short-term and reactive, aimed at trying to rein in Pyongyang's provocations and bring it back to talks, as opposed to decisive punitive steps with a view to bringing about denuclearization. These tactical adjustments were termed by analysts as, "meting out rewards and punishment accordingly" (奖惩分明). China's motive was to convey disappointment with Pyongyang in order to deter further provocations, which it believed could drive the U.S. to upgrade regional missile defense deployments and step up military exercises in the region. Western analysts interpreted Chinese moves—especially the more strident rhetoric and internal debate—as a sign that the China was moving closer to the U.S. position. But these were not accompanied by any broader shift in policy or strategic priorities. Chinese analysts explained Xi's sterner rhetoric was due to his bolder and blunter manner: a "change of leadership style rather than policy."<sup>185</sup>

After reacting to the third nuclear test, Beijing soon fell back on its usual playbook: once Pyongyang walked back its hostile rhetoric, China tried to bury it as quickly as possible by playing up non-threatening DPRK action as a positive step forward. Beijing appealed to the United States to loosen conditions for returning to talks with Pyongyang. President Xi Jinping then angered the U.S. by dispatching Vice-President Li Yuanchao to Pyongyang in July 2013 where he attended North Korea's military parade marking the 60th anniversary of the end of Korean War.<sup>186</sup> The presence of such a high-level Chinese official next to Kim Jong-un on the podium inspecting parading soldiers and a missile arsenal while Pyongyang celebrated victory in the Korean War was a potent symbol—especially so soon after the third nuclear test. The decision showed that China's pique over North Korea's actions earlier in

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<sup>183</sup> While there have also been sporadic reports of fuel and food cut-offs, Chinese officials insist that any reductions have been minimal and in line with their practice over several years of sending symbolic messages of displeasure to the regime by sometimes making slower deliveries or minimal cuts for a short period of time ("just to send our signal"). Chinese officials insist that these moves are designed not to have any affect on stability or viability of the regime, as the amounts are very small and North Korea's food situation is becoming better; so "what we do for now for is just to make a gesture." These fluctuations fall within the same traditional practice of China's ongoing calibration of assistance to North Korea; on occasion it sends less food, sends poor quality food, demands above-market prices for grains, and the like. The moves are all completely reversible. According to one analyst, China always ensures that there is enough "for survival" of the regime but not necessarily to make Kim Jong-un too comfortable or enable him to dramatically improve the economic situation. Interviews with author, May 2014. On trade, there are similar fluctuations but over time the trend has been for trade figures to go up; in addition to the huge amount of trade that happens in the grey market uncouncted in official statistics.

<sup>184</sup> For months after Sunnylands, Chinese and U.S. diplomats held relatively productive discussions, which included the exchange of several white papers. While both sides came to agreement on the need for denuclearization beyond Yongbyon, the necessary actions and timing to achieve that goal were never agreed upon. Beijing suspended the process following the execution of Jang Song-thaek.

<sup>185</sup> Interview with author, May 2014.

<sup>186</sup> Born in November 1950, weeks after China sent troops to join the Korean War, Li Yuanchao's name originally used characters which meant "to help North Korea" (李援朝). He since has changed the last two characters to different homonyms (李源潮). This issue was widely discussed by Chinese Netizens at the time of his visit to Pyongyang (but avoided by state media). Many speculated that the choice of Li was a deliberate reminder of the China-North Korea traditional friendship and signaled Beijing's intention of providing continuing assistance to Pyongyang.

the year didn't preclude it from moving relatively quickly again to shore up the bilateral relationship.

#### Internal debates and the actors who decide their outcome

While the fundamentals of Beijing's North Korean policy remain unchanged, there are a greater variety of views on North Korea now than before. Robust internal debates take place between those proposing a stronger line against Pyongyang and those who support the continuation of substantial political and economic support. Signs of such discussions were evident after the first nuclear test in 2006, with another debate following the 2009 provocations, and again following the 2013 nuclear test. Although many in the West point to these debates as a sign of a policy shift, Beijing's basic strategic calculations remain unchanged. As one high-level Chinese diplomat said during the 2009 debate, "Our mindset has changed, but the length of our border has not."<sup>187</sup> The 2009 debate ended with then-Premier Wen Jiabao's "goodwill trip" to North Korea to mark the sixtieth anniversary of diplomatic relations on 4 October 2009, when he brought a high-powered delegation with a wide range of opportunities for economic engagement with nary a mention of the denuclearization issue.<sup>188</sup>

A notable difference between the 2009 and 2013 debates was increased criticism of the U.S. in 2013, with more voices critiquing the Chinese government for permitting a situation in which the U.S. could use North Korea to strengthen its military presence around China.

There are several reasons for the continuing gap between domestic criticism and government policy on North Korea. Space for media, experts and academics to argue has been expanding, especially for those in the 'abandonment school' who are often liberal intellectuals and academics who have more freedom to speak than those directly involved in policy.<sup>189</sup>

Indeed, despite the increased internal criticism of North Korea, traditional voices and institutions continue to dominate government policy thinking. One institution that exerts significant influence on North Korea policy is the People's Liberation Army (PLA)—whose shared military history with the country and distrust of U.S. military power makes it a supporter of the traditional line. Even though the PLA has frustrations with North Korea—exemplified by the fact that it is not permitted to observe exercises of the Korean People's Army—the 1961 Sino-North Korean Mutual Aid and Cooperation Friendship Treaty remains intact. Assuming that recent reports about leaked Chinese military contingency plans for North Korea are real, it is not surprising that they make reference to how North Korean political and military leaders should be given protection from another "military power" (the U.S.).<sup>190</sup>

The Communist Party of China's (CPC) Central Committee's International Liaison Department (ILD), in charge of party-to-party diplomacy<sup>191</sup>, has also played a key role in North Korean policy-making.<sup>192</sup> While it used to be the main facilitator of relations with North Korea, relations between the ILD and Korean Workers Party have been strained.<sup>193</sup> There has also been an attempt to achieve "normal state-to-state relations" by having the relationship managed through the Ministry of Foreign Affairs

<sup>187</sup> "[Shades of Red: China's Debate over North Korea](#)," *Brussels: International Crisis Group Report N°179, November 2009*.

<sup>188</sup> "[Shades of Red: China's Debate over North Korea](#)," op cit., pp. 15-17.

<sup>189</sup> An instructive case was that of Deng Yuwen, deputy editor of *Study Times*, a weekly journal of the Central Party School. In an op-ed piece on 27 February 2013, he argued that China's strategic alliance with North Korea was "outdated" and that the wayward ally was no longer useful as a buffer against United States influence. He was removed shortly afterward following a call from the Foreign Ministry to the Communist Party's Central Party School. Jane Perlez, "Editor suspended for article on North Korea," *New York Times*, 1 April 2013.

<sup>190</sup> Julian Ryall, "[China plans for North Korean regime collapse leaked](#)," *The Telegraph*, 5 May 2014.

<sup>191</sup> Relations between the CCP International Liaison Department and Korean Workers Party have been strained since 2013.

<sup>192</sup> Sunny Lee, "[Analyst: Who Controls China's NK Policy?](#)" *The Korea Times*, May 19, 2011.

<sup>193</sup> Political ties were frozen following Vice President Li Yuanchao's visit to Pyongyang in July 2013 for the 60<sup>th</sup> anniversary of the end of the Korean War.

(MFA).<sup>194</sup> The more moderate Ministry is generally relegated to a more subordinate, implementation role, and thrusting it into a more prominent role in relations with North Korea does not seem to have reaped any better results. Officials privately lament that the MFA doesn't have the necessary channels or access, certainly nothing on par with the ILD, making it difficult to engage in effective diplomacy with Pyongyang. All of these actors furthermore operate in an environment characterized by consensus decision-making and bureaucratic inertia.

Finally, frustration with North Korea generally reflects a generational divide, with younger persons taking to the Internet with stark criticism while older, more conservative citizens still dominate policy circles. Given that China's youth overwhelmingly view their neighbor with pity and contempt, one cannot rule out these opinions altering future policy. But for now, there is still a significant gap between how Chinese people feel about North Korea and what their government is willing to do.

#### Policy tools: economic engagement over sanctions

In addition to divergence in strategic approach, the U.S. and China differ in their preferred tools to promote North Korean nuclear disarmament. Whereas Washington sees diplomatic isolation, economic sanctions and deterrence as essential, Beijing sees diplomatic engagement and dialogue, economic cooperation and security assurances as the preferred ways to induce a change of mindset in Pyongyang, which could lead to denuclearization in the long term.

Beijing engages in a balancing act in the UN, supporting sanctions in the hope that they might restrain the U.S. and its allies and encourage North Korea to return to talks; while at the same time negotiating to weaken the sanctions to mitigate damage to the North Korean regime.<sup>195</sup> This effort has involved long hours of negotiation over loopholes, clauses limiting the scope of inspections, and carve-outs to prevent disruption to commercial activities and economic linkages.<sup>196</sup> Beijing also consistently emphasizes that implementation must be proportionate, moderate and aimed only at bringing the sides back to talks, not at undermining or weakening the regime.<sup>197</sup> China's dislike of sanctions partly derives from its own experience of being the object of them.<sup>198</sup>

China's implementation record has been underwhelming not only throughout the history of UN sanctions against North Korea<sup>199</sup>, but even after UNSC Resolution 2094 (2013) which Chinese officials

<sup>194</sup> Interviews with author, April and May 2014.

<sup>195</sup> In Resolution 2094 restrictions against the North, including efforts to block the opening of North Korean banks abroad if they support weapons purchases, are limited by a "credible information" clause, which allows a government to say that it lacks the information needed to assess the situation or apply the sanctions. On Resolution 1718 after the first nuclear test in 2006, Beijing negotiated away any threat of military action against the North and ensured that inspections of DPRK cargo were not mandatory on member states. In Resolution 1984 after the second nuclear test in May 2009, China weakened the articles on cargo inspections.

<sup>196</sup> Both SC Resolutions 1718 (2006) and 1874 (2009) explicitly state that they do not prohibit member states from engaging in economic development and humanitarian activities in North Korea – which is how Beijing defines its economic interactions.

<sup>197</sup> According to one Chinese analyst, "when we implement UN sanctions, we need to take into consideration the security concerns of the North Koreans as well." "[China's North Korea Policy: Backtracking from Sunnylands?](#)", op cit. After voting in favor of Security Council Resolution 2094, Chinese Foreign Minister, Yang Jiechi stated, "We always believe that sanctions are not the end of the Security Council actions, nor are sanctions the fundamental way to resolve the relevant issues." Jane Perlez, "[China says it won't forsake North Korea, despite support for U.N. sanctions](#)," *New York Times*, 9 March 2013.

<sup>198</sup> Beijing had sanctions imposed by the USSR in the 1960s because of its nuclear program, by the U.S. until the 1970s and after 1989 (Tiananmen), and in the 1990s for missile sales to Pakistan. The U.S. has continued to enforce the sanctions restricting advanced technology transfers.

<sup>199</sup> In 2012, it was discovered that the transporter-erector-launchers (TELs) for the DPRK's Hwasŏng-13 (KN-08) displayed during a military parade were made in China. Melissa Hanham, [North Korea's Procurement Network Strikes Again: Examining How Chinese Missile Hardware Ended Up in Pyongyang](#), NTI, 31 July 2012. China blocked any mention of this issue by the UNSCR 1874 Panel of Experts in their reporting on sanctions implementation. Mark Hibbs, "[China and the POE DPRK Report](#)," *Arms Control Wonk*, 2 July 2012. One month later, 445 graphite cylinders were seized on a Chinese ship in Pusan, South Korea

privately admitted was the first sanctions resolution they were making a genuine effort to implement.<sup>200</sup> According to a Western diplomat, the Chinese implement sanctions “to the letter” but not the spirit of the resolutions.<sup>201</sup> In cases where Beijing has taken high-visibility measures—such as issuing of a list of banned “dual-use” exports to North Korea—Chinese diplomats have been subsequently unwilling or unable to provide evidence of implementation, despite repeated requests. And the widely touted 7 May 2013 Bank of China closure of North Korean Foreign Trade Bank (FTB) accounts was more symbolic than substantive.<sup>202</sup> The move had not been ordered by the government, other state-owned financial institutions did not act similarly, and almost all financial transactions were already being undertaken outside major Chinese banks through third countries, Chinese local banks, or by skirting the banking system altogether. Bank of China had previously severed interaction with North Korea in 2005 after the Banco Delta Asia action and meetings with U.S. officials.<sup>203</sup> Nor did Beijing interpret the FTB as a target under Resolution 2094, but rather the bank was formally sanctioned by the U.S. Treasury via Executive Order 13382, which froze its assets in the U.S. and prohibited U.S.-based entities from transacting with it.<sup>204</sup>

With regard to bilateral economic relations, sanctions have driven business more underground in a grey market that is difficult to track. Chinese private firms have been expanding their interactions with North Korean state trading companies inside of China’s national economy, improving the commercial well being of North Korean regime elites back in Pyongyang. These Chinese private firms have significantly bolstered Pyongyang’s ability to procure dual-use components.<sup>205</sup>

### Recommendations

Because Beijing and Washington have such divergent viewpoints and priorities, there seems little likelihood of achieving common policies toward North Korea. China shares neither the U.S. priority on denuclearization nor its desire to accomplish peaceful reunification of the Korean Peninsula. Pressure from the United States is not likely to change the fundamentals of China’s policy. The idea that China can and will *compel* Pyongyang to give up its nuclear weapons cannot be the basis for sound U.S. policy.

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in May when it was determined that they appeared to be missile parts bound for Syria. Louis Charbonneau, “Suspected North Korea missile parts seized en route to Syria in May”, Reuters, 14 November 2012. Generally speaking, “China constitutes a large gap in the circle of countries that have approved UNSC Resolutions 1718 (2006) and 1874 (2009) and are expected to implement them”. “Report regarding North Korea Sanction Implementation-II”, Congressional Research Service, 8 October 2010. See also Mary Beth Nikitin et al., “[Implementation of U.N. Security Council Resolution 1874](#),” memorandum to Senator Richard G. Lugar (R-IN), 8 October 2010. China has also repeatedly failed to adequately inspect DPRK land and sea shipments through its territory.

<sup>200</sup> Interviews with author, July 2013, May 2014. “[China’s North Korea Policy: Backtracking from Sunnylands?](#)”, op cit.

<sup>201</sup> Interview with author, May 2014.

<sup>202</sup> It is believed that there was no money in the Foreign Trade Bank’s (FTB) accounts when they were closed. The U.S. had long pressed China to take direct measures against the FTB, and unilaterally sanctioned the bank in March. Washington had sought multilateral sanctions against the FTB, but China had opposed sanctions at the UN.

<sup>203</sup> See Juan Zarate, *Treasury’s War*, New York, 2013. Banco Del Asia held significant North Korean accounts, but was driven into bankruptcy when the U.S. named it an entity of money-laundering concern. Depositors and clients fled fearing the bank would lose correspondent relations with U.S. financial markets.

<sup>204</sup> The Bank of China operates in the U.S. and would have been vulnerable under Section 311 of the Patriot Act had it continued dealings with the FTB. “Fire on the City Gate: Why China Keeps North Korea Close”, International Crisis Group, 9 December 2013, p. 8-9.

<sup>205</sup> *Contracting private Chinese companies to serve as middlemen to facilitate “cargo laundering”—a creative process of disassembling components and moving them through different logistics routes—enables North Korean state trading companies to utilize commercial shipping containers. Monetary rewards would offer a double payday for some Chinese companies, who could collect the commission fee from a North Korean client as well as the reward for anonymously providing a copy of the freight insurance to local authorities in busy Southeast Asian ports.* John S. Park, “[The Leap in North Korea’s Ballistic Missile Program: The Iran Factor](#),” NBR, December 2012.

The basic choice for U.S. policymakers is therefore between trying to change China's perception of its self interest and attempting to find a more collaborative approach that exploits the advantages of China's engagement efforts and U.S.-led multilateral pressure. It is possible for the U.S. to raise the stakes on Beijing for failing to bring more pressure to bear on Pyongyang. But given the great number of strategically important issues on which U.S. and Chinese cooperation is essential, it would not be wise to push the bilateral relationship to the breaking point in an effort to bring about a fundamental change in Beijing's approach.

Fortunately, it should be possible to get China to do more on the coercive side of the equation while still accepting that Chinese and U.S. approaches to the goal of denuclearization will inevitably differ.

The U.S. should be able to persuade China to act more strongly to deter or respond to any new DPRK long-range missile launches or nuclear tests. Beijing might agree, for example, to some new increment of punishment after any nuclear test, ballistic missile flight-test or space launch. The U.S. could unilaterally complement such Chinese moves by strengthening enforcement of export controls on dual-use items and other targeted sanctions.

U.S. legislation that imposes "Iran-style" sanctions against firms that do business with North Korean entities that have been found to be engaging in the transfer of items and technology that could support North Korea's missile program ballistic missile trade, as well as the banks that makes those business transactions is also possible. Even absent additional legislation, the U.S. has a range of existing measures and authorities that it has not fully implemented against Pyongyang.<sup>206</sup> Targeted financial measures are largely self-executing; responses are quick and require little additional official pressure. Banks and businesses become reluctant to engage with North Korea for fear of their own reputation and losing access to the U.S. banking system. The President has the authority to dramatically expand the range of banks and companies deemed of "special concern" for money laundering purposes; this in turn would generate uncertainty for all companies dealing with those entities and banks in particular.

China holds the key to implementing sanctions on North Korea. The U.S. should consider pushing back when China does not deliver on both the letter and spirit of existing sanctions, by more publicly pushing China to enforce sanctions. When the U.S. starts with a list of 40 entities to sanction and Beijing eventually agrees to three, Washington could choose to point out the gap and work with other countries to try to sanction those entities, rather than declare victory. Washington could also increase public criticism of China for permitting North Korea to use its airspace, land border, and waters to transfer illicit items to other countries in violation of UN Security Council resolutions. Criticism from the United Nations has not been forthcoming because China manages to consistently block mention of incidents of non-compliance by the UNSCR 1874 Panel of Experts in their reporting on sanctions implementation. Downplaying obstacles has not resulted in better cooperation, and has arguably made the Chinese more comfortable in doing less.

The United States should continue to intensify its military and counter-proliferation activities by stepping up missile defense cooperation and combined exercises with Japan and South Korea. These actions have been successful in getting Beijing to agree to limited sanctions and take other tactical measures following Pyongyang's provocations, but not more.

Another potential route is for the United States to attempt to forge a joint approach with China. If China insists on continuing with its "acupuncture" approach—cutting back on items with military relevance while deepening investments in infrastructure and resource extraction—perhaps the U.S. could accept this in return for stricter implementation of dual-use trade controls. Two tracks have always existed in North Korean sanctions: stopping military and dual-use trade; and punitive measures involving luxury goods, the latter ostensibly with the aim of trying to make it more difficult for Kim Jong-Un to reward his loyalists. This approach has not been successful given that China's preferred approach is to entice the North Koreans into cooperation by deepening economic ties. The options are either to redouble U.S. efforts to attempt to persuade Beijing to engage in a more punitive overall trade strategy—a nearly hopeless goal—or to discuss with it trading stricter enforcement of dual-use export controls and the like in return for a less punitive overall economic sanctions regime.

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<sup>206</sup> See Bruce Klingner, "[Time to go beyond incremental North Korean sanctions](#)", 38 North, 29 April 2014.

The United States could expand efforts to get as much information about the outside world as possible into North Korea through multiple channels; radio and internet broadcasting, investments in internet censorship evasion technologies, transmittal of DVDs, CDs, computer thumb drives, and other means. Kim Jong-un fears this more than sanctions.<sup>207</sup> More openly seeking regime change—or at least a major change in the regime’s policies and priorities—is another potential option.<sup>208</sup> While the current approach is aimed at inducing change in North Korea’s behavior, many in the U.S. government have become convinced that this is likely to be impossible under the current regime. However, shifting to an outright strategy of regime change—an approach that China categorically rejects—would represent a significant shift in the diplomatic framing of U.S. policy towards North Korea. It would have very serious implications for any U.S.-China cooperation on North Korea as well as on the larger bilateral relationship.

The United States should consider supporting limited, targeted engagement with North Korea, carried out by non-governmental organizations and UN agencies such as UNICEF. At the very least, people-to-people initiatives, including the long-delayed reciprocal visit to the United States by the national symphony of the DPRK, should be encouraged rather than blocked.<sup>209</sup> Such initiatives serve the purpose of transmitting information to the North Korean people about the outside world. They can also address some purely humanitarian concerns in the areas of public health, child welfare, nutrition, and education. They have the added advantage of enhancing U.S. understanding of the North Korean state and may provide early warning of significant changes in North Korea’s policies and priorities.

Finally forging close trilateral cooperation among the U.S., the ROK, and Japan is essential to achieving U.S. objectives of denuclearization and peace on the Korean Peninsula. Tensions between the ROK and Japan are undermining U.S. security interests in the region as Washington struggles to present a united front in dealing with a nuclear North Korea and rising China. Important steps have been taken in recent months to try to encourage reconciliation between Seoul and Tokyo, but there is still more that must be done to facilitate mutual trust and cooperation between these two vital U.S. allies. And while Washington does not want to be placed in the position of mediating the difficult territorial and historical issues which have undermined relations between the President Park and Prime Minister Abe administrations, neither can the United States afford to allow the current impasse to linger indefinitely.

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<sup>207</sup> Scobel and Nathan, op cit.

<sup>208</sup> Chinese analysts see the U.S. as possessing potent ideological weapons and the willingness to use them. “Democracy” and “human rights” are ideas that are accepted everywhere, and the U.S. has gained an outsized ability to define what these ideas mean. Scobel and Nathan, op cit.

<sup>209</sup> The World Food Program, in partnership with other UN agencies, private international aid organizations and the Red Cross, should resume carefully monitored food aid deliveries to the DPRK, with an emphasis on trying to reach some of the estimated 120,000 men, women and children incarcerated in the North’s prisons. The U.S. should also provide more support to some of the best work being done by NGOs on the ground and rather than try to stifle North Korea’s middle class, the U.S. could selectively target individuals for engagement. Frank Jannuzi, “[Engage, Don't just Name and Shame.](#)” 38 North, 26 March 2014.

**OPENING STATEMENT OF DR. SUE MI TERRY  
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DR. TERRY: Thank you, Commissioner Tobin and other members of the Commission, for this opportunity to testify before you.

As you are well aware, China is North Korea's main, now almost sole, patron, a key source of food, fuel and arms. China has historically supported North Korea virtually unconditionally. It has sustained the Kim dynasty now into the third generation in the hope of ensuring a friendly nation on its northeastern border that would provide a buffer against U.S. forces stationed in South Korea.

China's top priority has always been avoiding regime instability, which would raise the risk of American troops to advance to the Yalu River and potentially of North Korean refugees flooding into China.

Today, however, there is an increasing debate among China scholars and Korea experts and watchers regarding whether China has fundamentally changed or China's special relationship with North Korea has shifted or changed. This question appears especially pressing because of North Korea's third nuclear test in February 2013, and the very dramatic execution of Jang Song-taek in December of 2013.

Both events have infuriated Beijing. Nuclear tests obviously contribute to regional insecurity, and Jang Song-taek's loss has been painful for China because he was an important liaison between Beijing and Pyongyang, and he was a man that Chinese leaders were used to dealing with.

Despite increasing expressions of discontent and debate among the Chinese leaders in Beijing about the future of China and North Korea alliance, I believe, however, that Beijing's core interests, goals and policies towards North Korea have fundamentally not changed--yet.

However much the government of Xi Jinping is frustrated with North Korea's actions and is very displeased with Kim Jong-un or we think he obviously dislikes Kim Jong-un, but it has not changed significantly in terms of policy or its present strategy of supporting Kim Jong-un and the present strategy of supporting the status quo on the Korean Peninsula. Any changes that we might have seen recently, I believe, that are coming out of Beijing are purely rhetorical and tactical.

There is perhaps room to explore whether more significant shifts are possible in the future, but they have not yet materialized. Some analysts point to various examples, such as China signing on to tougher U.N. sanctions after North Korea's third nuclear test or reports of Beijing cutting off crude oil shipments to North Korea in the first three months of this year, although reporting on that is contradictory.

Or Xi Jinping having had a very successful summit with President Park Geun-hye in Beijing when he had still yet to meet with Kim Jong-un anywhere. So people point to these shifts as potential change from Beijing, but in my view, they are not signs of fundamental reorientation of China's policy. They are simply an attempt by Beijing to pressure Kim Jong-un to not undertake maybe further provocations, including staging a fourth nuclear test.

Despite signing on to stronger sanctions last year, China's enforcement of sanctions today still remains less than impressive, and in fact despite various signs of displeasure, China's bilateral trade or so with North Korea has steadily increased in recent years, in 2013 China's trade with North Korea grew by over ten percent from 2012 to hit \$6.5 billion, which accounts for almost 89 percent of North Korea's overall trade in 2013. North Korea's exports to China jumped also during the same period, while imports from China increased 5.4 percent to over \$4 billion.

This growth in China-North Korea trade, overall trade, appears to have endured also the shock of Jang Song-taek's execution last December. So for these reasons, I fear that even in the event of a fourth nuclear test, which the North Korea regime appears to be preparing for, I believe China's response will be more of the same, that is China will commit to, in theory, to international efforts to sanction North

Korea, but will refuse to fully enforce such steps for fear of destabilizing the North.

In short, China will continue to seek incremental changes in the North while working to prevent regime collapse. So the key question for us then is this: are there any events that can threaten China's national interests enough to force it to alter its fundamental outlook towards North Korea? Unfortunately, thus far, I think there is little evidence that anything short of a real threat of war on the Korean Peninsula or impending regime collapse that would change Beijing's calculus.

Certainly, I don't believe--no amount of lecturing from Washington will cause Beijing to do anything that is likely to destabilize the North Korean regime, but if this is the bad news from our perspective, I would like to wrap up my opening comments with a few bits of good news.

One bit of good news is that while Beijing's foremost interest is in regime stability, it also still has an interest in nuclear-free Korean Peninsula, and it clearly does not want nuclear North Korea in the border to continue to stir trouble with Japan, South Korea and the United States. So Beijing will continue to maintain limited but intermittent pressure against Pyongyang to end its series of provocations to the extent that it does not clash with Beijing's primary priority which is regime stability.

One other positive bit of news is that following Jang Song-taek's execution and the purge of senior cadres associated with him, Beijing may no longer view the Kim regime under the very mercurial, impetuous and untested young Kim Jong-un as at least as being as stable as in the past. If Beijing worries that current regime is no longer sustainable--this is not yet--but eventually, it may be more willing to engage in substantive discussions with Seoul and Washington about what comes next, a subject that has been taboo thus far.

Instead of standing by and hoping that China will change its policy towards North Korea on its own, U.S. should be working hard behind the scenes to help make China understand that continuing to provide the Kim Jong-un regime in North Korea, the Kim family dynasty, with a virtual blank check is a strategic liability for China. We still must continue to work to convince the Chinese leadership that North Korea with a new reformist regime or in the long run a unified Korea with a democratic government would be in China's interest.

Of course, this is a very tall order, but we could perhaps even offer to address Chinese concerns about unification by promising not to station U.S. troops in a unified Korea, something that we might not be allowed to do anyway under unified nationalist Koreans.

Reaching obviously such an understanding with Beijing is a long shot to be sure, but only by initiating such talks do we have any hope of causing China to rethink its reflective support for North Korea.

Thank you.

**PREPARED STATEMENT OF DR. SUE MI TERRY  
SENIOR RESEARCH SCHOLAR, WEATHERHEAD EAST ASIAN INSTITUTE, COLUMBIA  
UNIVERSITY**

**Testimony of Dr. Sue Mi Terry  
Senior Research Scholar  
Weatherhead East Asian Institute  
Columbia University**

**Testimony before the U.S.- China Economic and Security Review Commission  
June 5, 2014**

Co-Chairs Daniel M. Slane and the Honorable Katherine C. Tobin and distinguished members of the Commission, thank you for the opportunity to testify before you today on the topic of China's North Korea policy. I request that my full testimony be submitted for the record.

China is North Korea's main, and now almost sole, patron left in the world. China is North Korea's most important ally, biggest trading partner, and key source of food, arms, and fuel. By some estimates, Beijing provides some 80 percent of North Korea's consumer goods, 45 percent of its food, and 90 percent of its energy imports. Sino-North Korean trade accounts for nearly 90 percent of North Korea's global trade, while official Chinese investment accounts for almost 95 percent of foreign direct investment in the North.

China has historically supported North Korea virtually unconditionally and has sustained the Kim dynasty, now into the third generation, opposing harsh international sanctions on North Korea in the hope of ensuring a friendly nation on its northeastern border that would provide a buffer between China and the democratic, pro-American South Korea, where some 28,500 American troops are stationed. China's top priority has been avoiding regime instability leading to regime collapse in North Korea which would raise the risk of American troops advancing to the Yalu River and secondarily of an influx of North Korean refugees into China. So determined has China been to stand behind North Korea that it has even acquiesced in its pursuit of nuclear weapons program and its provocative actions against the US, Japan, and South Korea. China's relationship with North Korea has long been said to be "as close as lips and teeth" and "sealed in blood."

Today, however, there is an increasing debate among many Korea and China watchers regarding whether China's "special relationship" with North Korea has changed over the past few years and whether we are finally seeing a shift in China's North Korea policy. This question appears especially pressing now following Pyongyang's third nuclear test in February 2013 and the dramatic execution of Jang Song-taek in December 2013. Both events have infuriated Beijing, the former because it contributes to regional insecurity, the latter because Jang Song-taek was, in addition to being Kim Jong-un's uncle and the second most powerful man in North Korea, an important liaison between Pyongyang and Beijing. He was a man that Chinese leaders had gotten used to dealing with.

Even before North Korea's third nuclear test and Jong Song-taek's execution, there were signs of the Pyongyang-Beijing relationship souring. For example, during the last years of Kim Jong-il, there was increasing unhappiness among Chinese leaders with North Korea's hard-line stance which has tarnished China's international image. North Korea's unwillingness to undertake Chinese-style economic reforms has also been an implicit rebuke to the "market-Leninist" course chosen by China's leaders over the past three decades. The state-owned Chinese media have permitted discussions of the appropriateness of Beijing's policy toward North Korea and the pros and cons of applying greater pressure on its desperate neighbor.

Nonetheless, despite increasing expressions of discontent and debate emanating from Beijing, I don't believe Beijing's core interests, goals, and policies toward North Korea have changed—yet. However much the regime of Xi Jinping is frustrated with North Korea's actions and dislikes Kim Jong-il, it has not yet implemented a change from its present strategy of supporting the status quo on the Korean Peninsula. The changes we have seen to date from Beijing are purely rhetorical and tactical, but there is room to explore whether more significant shifts are possible. So far they have not materialized.

What, then, of the changes we are seeing? One of the most significant is China ceasing to export crude oil to North Korea during the first three months of this year. China had previously cut off oil shipments in February, June and July of 2013, but apparently this was the first time that oil exports have been cut off for three consecutive months. This is cited by some analysts to suggest that a Chinese reorientation is under way vis á vis North Korea. There is little reason to think, however, that this presages a wider Chinese abandonment of North Korea. More

likely it is simply an attempt by Beijing to pressure Kim Jong-un not to stage a fourth nuclear test. While China has never cut off oil exports for three straight months, it has taken other steps in the past to express displeasure with North Korea's policies—without ever abandoning its general support for the North.

Another development that, according to some analysts, suggests a fundamental shift in Chinese thinking is that China signed on to tougher UN sanctions last year after the third nuclear test, which included a provision requiring states to inspect any North Korean cargo that was suspected of transporting items prohibited by previous sanctions against the North. Previously, China voted in favor of United Nations Security Resolutions 1718 and 1874 sanctioning of the North Korean regime for its 2006 and 2009 nuclear tests, and Resolution 2087 sanctioning North Korea for a satellite launch in December 2012. The problem is, China's enforcement of the sanctions to date has been less than impressive and its track record has been criticized by independent experts for failing to properly implement them.

Those who see China shifting also point to the fact that President Xi Jinping has met with South Korean President Park Geun-hye on numerous occasions, including a highly publicized summit in Beijing in June 2013.

Significantly, Xi has yet to meet with Kim Jong-un.

Yet, despite all these signs of displeasure, China's bilateral trade with North Korea has steadily increased in recent years. China's recorded 2013 trade with North Korea grew by over 10 percent from 2012 to hit \$6.5 billion. North Korean exports to China jumped 17.2 percent during this same period, while imports from China increased 5.4 percent. Most importantly Chinese oil exports to North Korea increased 11.2 percent between 2012 and 2013—from 520,000 tons of crude oil to 578,000 tons.

This growth in China-North Korea overall trade appears to have endured the shock of Jang Song-taek's execution last December. In January 2014, the first month after Jang's death, trade between China and North Korea increased roughly 16 percent when measured against January 2013. In February, trade jumped 15.9 percent over the level from February 2013 to reach \$546 million.

For these reasons, I fear that, even in the event of a fourth nuclear test, which the North appears to be preparing for, China's response will be more of the same. That is, China will commit to international efforts to sanction North Korea but will refuse to fully enforce such steps for fear of destabilizing the North. In short, China will continue seeking incremental changes in the North while working to prevent a regime collapse. Signs of more fundamental change in Chinese policy would include an oil cut-off lasting considerably longer than three months and the serious implementation of international sanctions on the North—something we have yet to see.

Are there any events that can threaten China's national interests enough to force it to alter its fundamental outlook towards North Korea? Unfortunately, thus far there is little evidence that anything short of a real threat of war on the peninsula or impending regime collapse would change Beijing's calculus. Certainly no amount of lecturing from Washington will cause Beijing to do anything that it is likely to destabilize the North Korean regime and thus create the potential for Korean unification resulting in the creation of a single state dominated by the existing, pro-Western government in Seoul.

If this is the bad news from the American perspective, there are also a few bits of good news. One bit of good news is that Beijing clearly does not want a nuclear North Korea on its border stirring up trouble with South Korea, Japan, and the United States. Thus Beijing will maintain limited and intermittent pressure on Pyongyang to end its series of provocations. While Beijing's foremost interest is regime stability, it also has an interest in a nuclear-free Korean Peninsula and it will pursue that goal to the extent that it does not clash with its primary priority.

Another positive bit of news is that, following Jong Song-taek's execution and the purge of senior cadres associated with him, Beijing may no longer view the Kim regime as being as stable as in the past. Beijing is also well aware that Kim Jong-un's half-hearted economic reforms, such as the "June 28 economic measures" allowing farmers to keep part of their yields (the state will take 70% of the target production and the farmers will get 30%), have largely failed, and that the North is unlikely to launch significant economic reform in China's image.

The North remains mired in poverty and repression, and it is led by a mercurial, impetuous, and untested young leader. If Beijing worries that the current regime is no longer sustainable, it may be more willing to engage in substantive discussions with Seoul and Washington about what comes next—a subject that so far has been taboo. Last month, a Japanese media outlet, Kyodo, reported on an apparently leaked official Chinese document detailing contingency plans in the event of North Korean regime collapse. I have no way of verifying whether this report is authentic or not as the full report has not been published by Kyodo. Even based on the limited details that have been reported so far, I have some doubts about the authenticity of this document. But if the report is indeed genuine and it was deliberately leaked by the Chinese People's Liberation Army (PLA), as Kyodo claims, it shows Beijing is likely more concerned now than in the past about the stability of the North.

If the report is authentic, it could be a signal from Beijing to Pyongyang that its patience is wearing thin and that

the North should act carefully and not push too far. The document could be an attempt by the PLA to reinforce Chinese Foreign Ministry warnings against North Korea conducting a fourth nuclear test and “causing turmoil at China’s doorstep” while giving the Foreign Ministry the leeway to repudiate the existence of such a document (which it recently did). Moreover, given the recent demotion of a top military officer Choe Ryong-hae, who acted as Kim Jong-un’s personal envoy to China last year, and the dramatic execution of Jang Song-taek, the previous envoy to Beijing, the leaked document, if true, might be an indirect way for Beijing to signal its growing frustration at the lack of direct channels to Pyongyang as well as with Kim Jong-un’s overall behavior.

Whether the Kyodo report is authentic or not, this leak will undoubtedly further infuriate Pyongyang, whose ties with China are already strained. There have been reports that North Korea hung signs denouncing China in one of its premier military academies, criticizing China as a “turncoat and our enemy.” Whether this is true or not, the North’s position has long been to use China, not to trust it. The North was chagrined when Beijing established diplomatic relations with South Korea in 1992. In recent years, Sino-North Korea relations were further strained after China joined in supporting UN Security Council sanctions resolutions over North Korea’s strong protests. Kim Jong-un also must be unhappy that he has yet to be received in Beijing when President Park has already had a successful visit with Xi.

While Beijing’s core strategy toward North Korea has not changed, the strains between Beijing and Pyongyang and Beijing’s worries over the increasing possibility of instability in the North suggest there is an opportunity to launch more serious talks with China to take advantage of its concerns. Instead of standing by, hoping that China will change its policy toward the North on its own, the US should be working hard in behind-the-scenes talks to make China understand that a unified Korea—or at the very least a North Korea with a new, reformist regime on the Chinese model—could be in its interest as well as ours and that continuing to provide the Kim family dynasty with a virtual blank check is a strategic liability for China. Reaching such an understanding with Beijing is, to be sure, a long shot, but I believe it is more feasible now than in the past.

The US can initiate a tripartite discussion between Washington, Seoul and Beijing over what vision each of these actors has for the future of the Korean Peninsula. The US could assuage China’s main security concerns by pledging not to deploy our troops north of the 38<sup>th</sup> parallel even if Korea were unified. We could even pledge to withdraw our troops altogether from the peninsula in the event of unification if that’s what it takes to win Chinese support for such a path forward. A unified, nationalist Korea might insist on the removal of US troops in any case.

Although such a move might feel jarring in Washington, it would not be a foreign policy setback. If anything, the departure of U.S. forces and the rise of a unified and democratic Korea would represent a happy culmination to the long U.S. commitment to the peninsula, which began in the dark days of the Korean War. The United States could still hedge against Chinese expansionism from its bases in Japan and Guam, and it would undoubtedly maintain good relations with a reunified Korea, just as it does with a reunified Germany.

Seoul, for its part, could assure Beijing that a unified Korea would have a good relationship with China. Seoul could emphasize to Beijing that the new Korea would likely to become an even better trade partner, and given its desire to avoid a hostile relationship with its giant neighbor to the north, it would likely triangulate its foreign policy between Beijing and Washington.

The odds of a breakthrough with Beijing are, at the moment, slim. But the initiation of such talks, and their continuation over an extended period, could increase China’s comfort level with regime change in North Korea and could eventually pave the way for Beijing to dramatically scale back or even end its subsidies to Pyongyang. As a half-way step toward unification, the U.S. and South Korea could try to convince China of the need to back a reformist leader in the North as an alternative to the third generation of Kims to rule with Stalinist brutality. Finding such a leader who would be acceptable to the North Korean elites would, of course, be very difficult, because Kim has made sure to eliminate any potential rivals. But, even if it is hard to imagine how the current ruler of North Korea could be replaced with a more moderate alternative, at the very least engaging in conversations with China about a post-Kim North Korea would be a positive step forward. Absent such discussions, the prospects of a fundamental shift in Chinese policy toward North Korea are practically nonexistent.

Obviously initiating such discussions is first and foremost an executive branch responsibility—it is a job, in particular, for the State Department and the NSC with lesser roles for the Department of Defense and the Intelligence Community. But Congress can do its part by pushing for such talks and perhaps even trying to initiate its own informal dialogue with Chinese legislators and other Chinese leaders. Private citizens, especially former policymakers, can engage in Track II discussions of their own. It will take a significant amount of time and effort

to try to nudge China's strategic orientation away from the Kim regime in North Korea but as the Chinese proverb has it, "A journey of a thousand *li* must begin with a single step."

In the meantime, the US should keep the pressure on North Korea to make it pay a price for its transgressions against international norms—even at the risk of destabilizing the North and making its collapse more likely. As I argue in a forthcoming *Foreign Affairs* article, Korean unification is a goal to be desired not feared. Its costs can be managed and its benefits would be substantial. It would lead to the rise of a new, democratic, and whole Korea that would become an economic powerhouse by combining the North's natural and human resources with the technological savvy and financial resources of the South. This is an end state that is far more favorable to the interests of all of the neighboring states, including China, than the continued existence of North Korea as a highly repressive "hermit kingdom" armed with nuclear weapons and ballistic missiles.

The US and its allies should enhance missile defense systems around the Korean Peninsula (including in Japan and at sea), introduce more air and naval assets into the region, and stage more frequent and more robust U.S.-South Korea joint military exercises, while also enhancing counter-proliferation measures including the interdiction of all North Korean ships and aircraft suspected of complicity in sanctions violations, criminal acts, arms sales, or nuclear and missile proliferation.

Washington and Seoul should also enhance their sanctions regime on the North. Washington, unilaterally if need be, should hit the North hard by trying to cut off all the regime's illicit sources of revenue, especially drug-smuggling and currency-counterfeiting, while also expanding financial sanctions aimed at ending all banking transactions related to the North's weapons trade, and halting most grants and loans. This would effectively freeze many of the North's overseas bank accounts, cutting off the funds that the leadership has used to secure fine Cognac, smart phones, Swiss watches, and fancy flat-screen television sets so valued by the North Korean leadership. The 2005 Banco Delta Asia case (in which the U.S. Treasury imposed sanctions on a Macao-based bank that was being used by the North Korean leadership) showed that the U.S. can act effectively to freeze North Korean assets in other countries. Congress can take the lead on this, as it has on Iran sanctions, by passing legislation that the administration will be forced to implement.

Such sanctions, to be sure, would be more effective with more Chinese cooperation. Such cooperation, however, is unlikely to be forthcoming in the short term unless the Chinese are presented with financial disincentive in continuing their financial dealings with North Korea. The US should still act in concert with its allies to contain the North Korean threat while patiently working toward a reorientation of Chinese policy which is what it would take to permanently end the threat from North Korea.

Certainly such steps are more likely to yield results than engaging in more dialogue with the North in the hope that its leaders can be talked into giving up their nuclear weapons. The aim of any dialogue should be tactical—to manage the relationship, to keep the North Korean crisis from tipping into all-out conflict, and to slow down or to cap the North's nuclear program. Talks with the North can serve limited but important purposes such as intelligence gathering, delivering warnings, conveying positions and exploring differences. But Washington and Seoul should abandon the unrealistic hope that negotiations with the North could lead to its denuclearization. Even if there is a deal, Pyongyang would never accept the strict verification requirements needed to make sure that it was keeping its part of the bargain. Rather than pursuing such an unrealistic goal, the US would be better advised to implement tough sanctions while working patiently to reorient Chinese policy towards the North.

**OPENING STATEMENT OF AMBASSADOR JOSEPH DETRANI  
PRESIDENT, INTELLIGENCE AND NATIONAL SECURITY ALLIANCE**

MR. DeTRANI: Thank you, Commissioner Tobin and Commissioner Slane and colleagues. Thank you for the invitation.

Let me say China's perceptions of and policies towards North Korea, in my view, have changed in the past three years. When Kim Jong-un succeeded his father, Kim Jong-il, in December of 2011, there was guarded optimism that the younger Kim would indeed pursue economic reforms and a policy conducive to reconstituting the Six Party Talks process.

Unfortunately, as we've seen, Kim escalated tension appreciably in the region affecting all countries, certainly to include China, when they launched their missiles in April and December of 2012 and conducted a nuclear test in February of 2013. These actions resulted in additional U.N. Security Council resolutions that imposed much more stringent sanctions on North Korea, indeed sanctions that China supported.

Soon after the February 2013 nuclear test, there was gradual but apparent move on the part of Beijing to restrict inter-banking arrangements with North Korea. I think we saw this very clearly when China declared that the Bank of China would cease doing business with North Korea's Foreign Trade Bank, and that was in line with the extra sanctions that were imposed on North Korea.

North Korea's bilateral trade with China during the past year, as was mentioned, was approximately \$1.3 billion with North Korea exporting more textiles and significant quantities of coal and non-ferrous metals to China.

It was also mentioned the crude oil shipments to North Korea have ceased over the last three months. I believe this is a bookkeeping issue. I just can't imagine China cutting off crude oil shipments to North Korea. 70 percent of the crude oil requirements come from China, and that would be major. So I don't really see this as an issue, as we speak, although it's one of the levers that China has with North Korea.

The December 2013 execution of Jang Song-taek, as was just mentioned, this is Kim Jong-un's uncle. He was the former de facto number two in the government of the DPRK, and his execution had to be viewed by China and its leaders as a provocative and unfriendly message to China given the close personal relationship Jang Song-taek had with China and its leaders.

Media commentary in China subsequent to Jang's execution and to the missile launches and nuclear tests were very, very critical of North Korea and its new leaders, calling for China to reevaluate its relationship with the provocative and ungrateful North Korea.

When the late Jang Song-taek visited China in August of 2013, as an emissary of Kim Jong-un, he had warm and productive, as we know, meetings with China's leaders, Premier Wen Jiabao, Hu Jintao, a number of free trade zones were agreed upon with the sense that North Korea was prepared to establish and move and implement a bold economic reform movement, possibly similar to China's economic reform movement under Deng Xiaoping.

This did not happen. North Korea did not embark on a bold economic reform movement as anticipated. What did happen, as we've all seen, was the removal of Jang Song-taek from leadership positions and his eventual public humiliating arrest and announced execution. What followed was the removal of and purge of hundreds of officials close to Jang and sympathetic to Jang's more liberal approach to resolving North Korea's economic problems and international isolation.

The execution of Jang Song-taek must have a profound, and I emphasize a profound, impact on China's leaders who viewed Jang as a rational and objective leader, someone they could deal with.

Although China is complying with international sanctions on North Korea, the long border in the northeast of China with North Korea has at times been porous, permitting luxury goods and other proscribed goods to enter North Korea. Recent reporting indicates that China is more closely monitoring the border with North Korea

to prevent the passage of these materials, thus as more countries join the Proliferation Security Initiative, North Korea will be denied the ability to transfer and receive proscribed materials by shipping vessels, necessitating when possible the transfer of these items over land, thus transiting China's northeast provinces bordering North Korea.

Closing this border to such transfers will cause the leadership of Pyongyang significant pain. China over the years has not exported weapons to North Korea. Spare parts for helicopters and planes are provided, in addition to aviation fuel. The military-to-military relationship between China and North Korea, which technically should be close given the Korean War and China's important role in the war, has not been extensive, although China over the past few years has worked hard to establish closer military relations with North Korea.

The security services of both countries have good working relationships. However, it's the Chinese Communist Party that has the closest relationship with China working through the Korean Workers Party. There are routine visits to Pyongyang by the International Department Minister, Wang Jiarui, and his sessions with the leadership in North Korea represent a close party-to-party relationship.

The authenticity of reported leaked Chinese documents detailing contingency plans in the event of regime collapse, in my view, are very, very questionable. China is concerned about stability, as was mentioned, in North Korea. Indeed, any form of instability in North Korea will have a profound economic and social impact on China given their long contiguous border and likely spillover into China of large numbers of refugees from North Korea.

Indeed, also, the nuclear weapon issue, loose nukes and so forth. Instability in North Korea would be profound for China. There are no indications that this country, however, has experienced any element of instability. In fact, Kim Jong-un appears to be in total control of all elements of governance in the North with no discernable opposition.

But North Korea is opaque, and I emphasize is opaque, to the outside world. There is so little that we truly know about the interworkings of the government and its leadership. The U.S.-China relationship is deep and comprehensive. In that context, North Korea and its nuclear weapons program is of concern to both countries, and indeed since April of 2003 when China convened the meeting in Beijing between North Korea, the U.S., and China to discuss the need to resolve North Korea's nuclear programs, that was the beginning of the establishment of the Six Party process.

Both countries have been working diligently since then. So you see China in April of 2003 was so instrumental in getting the Six Party process going, and I believe this is where China can weigh in in a significant way.

China, as was just mentioned, like the U.S., wants North Korea to dismantle its nuclear weapons in a comprehensive verifiable manner. China realizes that if the North retains and continues to enhance its nuclear weapons arsenal, Japan, South Korea, Taiwan and possibly other countries in the region will seek their own nuclear weapons capability.

A nuclear arms race in the region is likely. This nuclear arms race is not in China's interest, but for China, which has a Peace and Friendship Treaty with North Korea, ensuring that they maintain good relations with a stable North Korea is a critically important objective. Given China's unique relationship with North Korea, Beijing has been encouraged to more effectively use that unique leverage with Pyongyang to get them to cease escalation of tension and eventually to implement the September 2005 Joint Statement.

Let me just indicate here, and I think this is an important part of it here, things are very tense. There is no question about it. But as I mentioned before, in April of 2003, when things were extremely tense, when North Korea was reprocessing spent fuel rods, they threw the IAEA out, they left the NPT, it was China that stood up and convened the three countries, and got the Six Party process underway.

Reporting has it they cut off fuel shipments to North Korea for a number of days

prior to North Korea coming to these April 2003 discussions. That's an interesting data point.

Kim Jong-un has been in power for over two years and he has not visited China to meet with the leadership in Beijing. This is very unusual. Kim's father, Kim Jong-il, visited China often and routinely met with China's leaders. A visit of Kim Jong-un to Beijing to meet with President Xi Jinping and other leaders could help convince Kim that he should change tack and cease escalating tension.

Movement in this direction would be especially appropriate now, as was just mentioned, after Chinese Foreign Minister Wang Yi's meeting in Seoul on 26 May and the likely visit of President Xi Jinping to Seoul during the next year, which will be a second state visit. As we just mentioned again, Park Geun-hye had visited Beijing, and this would be a visit of Xi Jinping to, if you will, to South Korea.

I would suggest, my personal view, and Congress has a lot of impact in this sense, that Congress reinforce the approach with a "Sense from Congress," a message to China, that the U.S. encourages China to join the Proliferation Security Initiative, which China is not a member of. There are over a hundred countries.

And to enforce in a very aggressive way all U.N. sanctions imposed on North Korea, and in the interest of world peace, for President Xi Jinping and other leaders, but certainly President Xi Jinping and those closest to him, to meet with North Korea's Kim Jong-un and to request the release of Kenneth Bae for humanitarian reasons, and to convince Kim Jong-un that it is in North Korea's interests to cease any additional nuclear tests and missile launches and to return to negotiations to implement the September 19, 2005 Joint Statement, which speaks to denuclearization on one side, but for the North, a path to legitimacy, to the North, security assurances, economic assistance and eventually relations with the United States and other countries once bilateral issues are resolved.

Thank you.

**PREPARED STATEMENT OF AMBASSADOR JOSEPH DETRANI  
PRESIDENT, INTELLIGENCE AND NATIONAL SECURITY ALLIANCE**

**China's Relations with Taiwan and North Korea  
Ambassador Joseph R. DeTrani  
President, Intelligence and National Security Alliance (INSA)  
Testimony before the U.S.-China Economic and Security Review Commission  
June 05, 2014**

Chinese perceptions of and policies toward North Korea have changed significantly in the past three years. When Kim Jong Un succeeded his father, Kim Jong Il, in December 2011, there was guarded optimism that the younger Kim would pursue economic reforms and a policy conducive to reconstituting the Six Party Talks (6PT). Unfortunately, however, Kim escalated tension appreciably with the U.S. and other countries in the region when they launched missiles in April and December 2012 and conducted a nuclear test in February 2013. These actions resulted in additional U.N. Security Council Resolutions that imposed more stringent sanctions on North Korea; sanctions that China supported. Soon after the February 2013 nuclear test, there was a gradual but apparent move on the part of Beijing to restrict inter-banking arrangements with North Korean banks, with a reported decrease in bank credit transfers from Chinese banks to North Korean banks. Over the past few months, China's crude oil shipments to North Korea have ceased, according to published data. If true, this would be significant; however, I doubt that China would cease crude oil shipments to the North for such an extended period. Personally, I think the yearly figures of crude oil shipped to North Korea probably will be on par with prior years. China provides North Korea with over 70% of its crude oil requirements, thus any decrease in shipments of crude oil will have a major impact on North Korea, causing significant economic pain. Food aid from China to North Korea reportedly decreased, with predominantly corn, not rice, shipped, but at lower quantities.

North Korea's bilateral trade with China during the past quarter was approximately \$1.3 billion, a slight decrease from previous years, with the North exporting more textiles and significant quantities of coal and nonferrous metals to China. A good portion of this trade was between private companies in China and North Korea. Interestingly, the use of dollars and the Chinese Renminbi (Yuan) appears to be the preferred currencies in North Korea, not the Korean Won. The significant increase in Chinese tourists to North Korea accounts, in part, for the greater use of the Renminbi.

The December 2013 execution of Jang Song Thaek, Kim Jong Un's uncle and the former de facto number two in North Korea, had to be viewed by China's leaders as a provocative and unfriendly message to China, given the close personal relationship Jang had with China and its leaders. Media commentary in China, subsequent to Jang's execution and to the missile launches and nuclear test, was very critical of North Korea and its new leader, calling for China to re-evaluate its relationship with a provocative and ungrateful North Korea. China's leaders privately must have shared this sentiment, given the increased tension on the Korean Peninsula caused by North Korea's nuclear and missile provocations and vitriolic pronouncements.

When the late Jang Song Thaek visited China in August 2012, as an emissary of Kim Jong UN, he had warm and productive meetings with China's leaders – Premier Wen Jiaobao and President Hu Jintao – and others. A number of free trade zones were agreed upon, with the sense that North Korea was prepared to establish and implement a bold economic reform movement, possibly similar to China's economic reform movement under Deng Xiaoping. This did not happen. North Korea did not embark on a bold economic reform movement as some anticipated. What did happen, to the surprise and chagrin of China and others who follow developments in North Korea, was the removal of Jang Song Thaek from leadership positions and his eventual public, humiliating arrest and announced execution of Jang. What followed was the removal and purge of hundreds of officials close to Jang and sympathetic to Jang's more liberal approach to resolving North Korea's economic problems and international isolation. The execution of Jang must have had a profound impact on China's leaders who viewed Jang as a rational and objective leader; someone they could deal with.

Although China is complying with international sanctions on North Korea, the long border in Northeast China with North Korea has at times been porous, permitting luxury goods and other proscribed goods to enter North Korea. Recent reporting indicates that China is more closely monitoring the border with North Korea to prevent

passage of these materials to the North. Thus as more countries join the Proliferation Security Initiative (PSI), North Korea will be denied the ability to transfer and receive proscribed materials via shipping vessels, necessitating, when possible, the transfer of these items over land, thus transiting China's Northeast Provinces bordering North Korea. Closing this border to such transfers will cause the leadership in Pyongyang significant pain. Indeed, if China was willing to join PSI, it would be a powerful message to Pyongyang confirming Beijing's commitment to sanctions enforcement. The decision of the Bank of China to cease doing business with North Korea's Foreign Trade Bank was in line with recent international sanctions imposed on North Korea and a powerful message confirming Beijing's unhappiness with North Korea's nuclear provocations.

China over the years has not exported weapons to North Korea. Spare parts for helicopters and planes are provided, in addition kerosene for aircraft fuel. The military-to-military relationship between China and North Korea, which technically should be close given the Korean War and China's important role in the War, has not been extensive, although China over the past few years has worked hard to establish a closer military relationship with North Korea. This became obvious a few years ago when Kim Jung Il had a stroke and China was concerned about regime stability and succession. At that time it appeared that the PLA started to work harder at establishing closer military-to-military relations. The security services of both countries have good working relations, but similar to the military, it wasn't particularly close in the past. The former Chinese Politburo Standing Committee member responsible for security, Minister Zhou Yung Kang, visited North Korea last year, indicative of China's interest in insuring a good working relationship between the security services of both countries. The Chinese Communist Party apparently has the closest relationship with North Korea, working through the Korean Workers Party. Routine visits to Pyongyang by International Department Minister, Wang Jia Rui, and his sessions with the leadership in North Korea represent a close party-to-party relationship between China and North Korea.

The authenticity of reported leaked Chinese documents detailing contingency plans in the event of regime collapse is questionable. China is concerned about stability in North Korea. Indeed, any form of instability in North Korea will have a profound economic and social impact on China, given their long contiguous border and the likely spill over into China of large numbers of refugees from the North if things unraveled in the North. Also complicating such a scenario is the issue of nuclear weapons and fissile materials in the North. Locating and retrieving these loose nukes has to be another concern of China, and others, if there is instability in the North. With the execution of Jang Song Thaek and the reported purge of those officials who were appointed by Jang or sympathetic to his more liberal line, it would be fair to assume that there may be elements in the North not happy with these recent developments and the eventual actions these individuals eventually could take that could lead to a period of tension and possible instability in the North. There are no indications that this currently is the case. In fact, Kim Jung Un appears to be in total control of all elements of governance in the North, with no discernable opposition. But North Korea is opaque to the outside world; there's so little that we truly know about the inner working of the government and its leadership.

The U.S. - China relationship is deep and comprehensive. It encompasses all issues that have impact on the national security issues of both countries. In that context, North Korea, and its nuclear weapons programs, is of concern to both countries and, since April 2003, when China convened a meeting in Beijing between North Korea, the U.S. and China to discuss the need to resolve the North's nuclear programs and thus established the Six Party Talks (6 P/T) process, both countries have been working diligently together to resolve this issue.

China, like the U.S., wants North Korea to dismantle its nuclear weapons in a comprehensive and verifiable manner. China realizes that if the North retains and continues to enhance its nuclear weapons arsenal, Japan, South Korea, Taiwan and possibly other countries in the region will seek their own nuclear weapons capability. This nuclear arms race is not in China's interest; it's not in the U.S.'s interest; it's not in any country's interest. But for China, which has a Peace and Friendship Treaty with North Korea, insuring that they maintain good relations with a stable North Korea is a critically important objective for Beijing. Thus China maintains that putting too much pressure on Pyongyang that could lead to instability in the North is not an approach China will pursue. A peaceful, negotiated settlement to the North Korea nuclear issue is China's policy line. Unfortunately, however, this approach to a peaceful resolution has not been successful. Given China's unique relationship with North Korea, Beijing has been encouraged to more effectively use their unique leverage with Pyongyang to get them to cease their escalation of tension and eventually to implement the September 2005 Joint Statement that commits North Korea to comprehensive denuclearization, in return for security assurances, economic assistance and eventual normal relations with the U.S. and other countries, once other extant bilateral issues are addressed

and resolved. China maintains that they are using their levers; that they are exerting sufficient pressure on North Korea to get them back to negotiations; that other countries, like the U.S., also need to do more to resolve these issues with North Korea. China maintains that exerting too much pressure on North Korea could be counterproductive, resulting in a tense and unfriendly China- North Korea relationship that will then deny China access to North Korea; access that hopefully will eventually succeed in moderating the North's behavior.

Maintaining good bilateral relations is in the interest of China and the U.S., especially as it relates to North Korea and the myriad of issues that must be resolved with Pyongyang to insure peace and stability on the Korean Peninsula. As mentioned, China also wants North Korea to denuclearize. Their approach, however, is based on their own national security calculus. The U.S. has been fair and objective in expressing our concerns about a North Korea that retains and enhances its nuclear weapons and missile delivery systems. It is obvious China realizes that if this issue isn't resolved, there will be a nuclear arms race in the region. That it's possible that some of these nuclear weapons and nuclear materials could be proliferated to other state and non-state actors, intentionally or unintentionally. Thus time isn't on our side. North Korea is building more of these weapons and missiles. China's efforts have not succeeded. The efforts of the U.S. and others have not succeeded. More needs to be done. This is the dialogue that the U.S. and others are having with China, while hoping that China sees that it's in their own interest to do more to convince the new government in Pyongyang that they need to cease their provocations; they need to cease escalating tension, for fear that North Korea will go too far and the consequences (from the U.S. and others) would have profound effects.

As previously mentioned, China in April 2005 convened a meeting in Beijing between North Korea, China and the U.S. Prior to convening this meeting, reporting had it that China's crude oil shipments to North Korea had been suspended for a few days, supposedly due to mechanical issues. Whatever the reason, this was a period when North Korea was reprocessing spent fuel rods from their reactor in Yongbyon, for the fissile material necessary for nuclear weapons. They had left the NPT and expelled the IAEA monitors from Yongbyon the months just prior to this April meeting in Beijing. Things were tense and China was successful in getting the North to the table and established a Six Party Talks process to resolve these issues with North Korea. A bold move of this type appears necessary at this time. China is the only country that has influence with North Korea; the only country that has the leverage with North Korea to get them to halt their provocations while they come to the table with China to discuss a road ahead. That road will entail a number of issues that have been discussed with North Korea for the past 20 years. In reality, China is the only country that can influence the new leadership in Pyongyang.

Kim Jong Un has been in power for over two years and he has not visited China to meet with the leadership in Beijing. Kim's father, Kim Jong Il, visited China often and routinely met with China's leaders. A visit of Kim Jong Un to Beijing to meet with President Xi Jin Ping and other leaders could help convince Kim that he should change tack and cease escalating tension. Exposing Kim to the leadership in Beijing and exposing him to China's successful economic reforms would be powerful and potentially helpful in reestablishing a negotiated process that results in the denuclearization of the Korean Peninsula and a North Korea that ends its self-imposed isolation and addresses the economic and human rights issues that affect all the people in North Korea. Movement in this direction would be especially appropriate now, after Chinese Foreign Minister Wang Yi's meetings in Seoul on 26 May and the likely visit of President Xi Jin Ping to Seoul during the next few months. This would be Xi's fourth meeting with President Park Geun Hye since he took office, and it would reciprocate the official state visit of Park Geun Hye to China earlier this year. This is in sharp contrast to the absence of any meeting of President Xi with Kim Jong Un, since Kim succeeded his father in December 2011.

Congress could reinforce this approach with a "Sense of Congress" that the U.S. encourages China to join PSI and enforce all U.N. sanctions imposed on North Korea and, in the interest of world peace, for President Xi Jin Ping to meet with North Korea's Kim Jong Un to request the release Kenneth Bae for humanitarian reasons and to convince Kim Jong Un that it is in North Korea's interest to cease any additional nuclear tests and missile launches and to return to negotiations to implement the September 19, 2005 Joint Statement that commits North Korea to comprehensive and verifiable dismantlement of all of their nuclear weapons programs, in return for security assurances, economic assistance and eventual normal relations, when other bilateral issues, related to human rights and illicit activities are also resolved.

**PANEL III QUESTION AND ANSWER**

HEARING CO-CHAIR TOBIN: Thank you, Ambassador. Thank you, all.

In terms of questions, let me start with Chairman Shea.

CHAIRMAN SHEA: Thank you very much. This was extremely interesting and your written testimony was very useful and interesting as well.

Maybe a series of questions. In the Chinese calculus is the fact that North Korea holds a couple hundred thousand people in these gulags-- political prisoners--ever a consideration in their thinking towards North Korea?

I mean is the fact that they're supporting a country that holds a couple hundred thousand people in gulags, many for political, most probably for political offenses, some because their father or mother did something wrong, or their grandfather or grandmother did something wrong, is that ever a consideration in Chinese foreign policy towards North Korea?

MR. DeTRANI: Let me just start it, and I'll look to my colleagues. But let me just say that in our negotiations with North Korea and certainly in the Six Party process, we've told the Chinese very clearly, as we told indeed the North Koreans, that these issues, the gulags, the humanitarian issues need to be resolved. There needs to be clarity, transparency and a benchmark towards resolving these issues if North Korea ever wants to normalize relations with the United States.

So China knows very clearly, as indeed Pyongyang knows also, that this is a central part of the bilateral negotiations that would ensue between various countries, but in this case, the United States and North Korea. So China knows clearly this is important to the U.S.

CHAIRMAN SHEA: I know it's the U.S. position. I'm wondering if there are people, in your research, are there people in China who think this is a big concern?

MR. DeTRANI: People in China follow this because of the, obviously the emigration issue, the spillover and so forth. So I do believe that the People's Liberation Army and others do follow the gulag situation in North Korea. They probably know where they are. They probably know the numbers of people in there and so forth, and it is of concern to them.

DR. TERRY: Well, I don't believe it's a priority or a serious concern for Beijing-

CHAIRMAN SHEA: That's fine.

DR. TERRY: --at all. There's some hundred--U.N. Commission on Human Rights report came out with about 80,000 to 130,000. I thought the number was higher. My estimation was about 200,000 political prisoners that are in these gulags. Some of the political prison camps, such as Hwasong is an extremely large camp, maybe 540 square kilometers. It's like three times the size of Washington, D.C.

You're absolutely right. But is this a top priority for Beijing? I don't think so. If it was, they would treat even North Korean defectors in a better way. In addition to the gulag situation, the way the Chinese treat the North Korean defectors in repatriating back to North Korea when they know that they are going to go through really harsh conditions so I don't think its humanitarian concerns is something that Beijing is concerned about right now.

MS. KLEINE-AHLBRANDT: I would argue that it thinks about this issue strictly in relation to stability. So China has been pressing North Korea unsuccessfully to undertake limited Chinese-style economic reform so that it can continue its system and never have to change the political system.

Chinese regularly complain to me that, you know, he doesn't feed his people, and the Chinese regularly play with some of the assistance. They charge above market prices for food. They never cut off fuel. That's absolutely inaccurate. They play with fuel. They deliver it through tankers. They do it more slowly. They do small things to annoy and send messages to North Korea, but never with the intention of affecting stability.

But they want North Korea to provide for its people so there will be stability;

right?

CHAIRMAN SHEA: Uh-huh. Right.

MS. KLEINE-AHLBRANDT: And the other element to this is the refugee element. So if those people would otherwise become refugees, if there's any way in which the gulag situation is preventing that, China will also see that from a strategic position.

But the COI, the recent COI, and China's reaction to it should answer your question.

CHAIRMAN SHEA: COI?

MS. KLEINE-AHLBRANDT: The Commission of Inquiry.

CHAIRMAN SHEA: Okay.

MS. KLEINE-AHLBRANDT: Led by Justice Kirby. The Chinese vociferously have thrown it out, and so obviously China is averse to accepting any kind of criticism of human rights of other countries given the obvious correlation with how that could be played in China's disfavor.

CHAIRMAN SHEA: Just help educate me. I have just a few seconds left. South Korea has a huge trading relationship with China, but China is also the patron of this country that has a gulag system for Korean people, also this country threatens South Korea, what do South Koreans think about China? I mean it's--

MS. KLEINE-AHLBRANDT: The problem is that there's actually a rapprochement taking place. The South Koreans are now pressuring us to lessen our conditions to return to talks with North Korea under Chinese pressure. So you've probably been noticing the sort of ROK-Chinese relationship and how it's flourishing.

CHAIRMAN SHEA: Right.

MS. KLEINE-AHLBRANDT: And that's something we need to follow.

CHAIRMAN SHEA: On the trade and--

MS. KLEINE-AHLBRANDT: And it's on everything, and the South Koreans are very susceptible to that. And we're getting a position--Japan, there's also an issue. There's this new deal. It's not likely it will necessarily go through, but Abe speaking about moving or doing a visit to Pyongyang. This is why in my last point, we need to worry about that.

But if anything, we need to worry about South Korea moving away from the U.S. position and moving closer to the Chinese position because they discuss things like, well, the U.S. isn't going to do anything anyway, its strategic patience, this type of thing.

CHAIRMAN SHEA: Dr. Terry, did you want to add something?

DR. TERRY: I think South Korea policy has always been a hedging policy between Washington and Beijing. Obviously, South Korea has close alliance relationship with the United States, but China is South Korea's largest trading partner so it has that economic interest.

So South Korea's policy will continue to remain that way, and President Park since she came into the office, she has had a closer relationship with Beijing. She had a successful summit with Xi Jinping in Beijing, and I think Xi Jinping is supposed to visit Seoul I think this month.

MS. KLEINE-AHLBRANDT: Yes.

DR. TERRY: And, you know, this is also at the expense of South Korea's relationship with Japan souring in the last two years or so.

MS. KLEINE-AHLBRANDT: That's right.

DR. TERRY: President Park is yet to have a proper summit with Prime Minister Abe even though they had a trilateral. So there is a closer relationship between South Korea and China since President Park came into office as well.

MR. DeTRANI: The only point I would make, sir, is that obviously they have bilateral issues with each of the countries as it affects North Korea, certainly the U.S., South Korea, Japan. We talked about Japan, the abductee issue; South Korea also, POWs, and separated families; the United States, human rights, illicit activities.

But the central issue is denuclearization. North Korea's nuclear programs, they--

and this has always been key. As long as we all as a team focus on that because that is a key issue, and certainly these other issues need to be resolved also, but I think if I were sitting in Pyongyang, I would love to do my best to try to put a wedge between as many of those five other countries as possible. So cohesion is so important in this equation.

CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR TOBIN: Commissioner Slane.

HEARING CO-CHAIR SLANE: I referenced this at the last hearing we had. I saw graffiti when I was over at Wall Street a few months ago, and the graffiti said that the "French aristocracy didn't see it coming either," and when you start assassinating generals, do you feel like he might be at risk, that one of the generals may assassinate him?

MR. DeTRANI: Let me just say this, Commissioner Slane. As I indicated, there's no indication that Kim Jong-un is under any pressure. He is in charge. But he has removed--he has moved about 80, 70 percent of his senior military officers. So if I was in Pyongyang, I'd be a little nervous right now. He moves people very quickly.

There's no indication of unrest --but he's removed quite a few individuals, but also those who supported and those who were appointed by Jang Song-taek, the gentleman you're referring to, sir. That was a very major move, that brutal execution, so it's a very strong message to others in North Korea. So, but, again, no indication that Kim Jong-un is under any pressure, and indeed he is showing that he is in charge, but he has made some very, very significant moves which leave a lot of people nonplussed.

DR. TERRY: I would just say that while there is no evidence that Kim Jong-un is facing any kind of threat, and that's absolutely true, and it seems, it appears that Kim Jong-un is firmly in control, but what Jang Song-taek's very public removal and execution have shown is that not all is well in North Korea, and the very public and dramatic way that this was done--usually we would expect Jang to disappear, have a car accident or go away somewhere and just kind of be purged somewhere, he has been purged before, but the very public way this was done, it shows me that we basically don't know what's going on fully inside North Korea.

We're also the last ones to know. There's no way to predict a coup coming because by the time we're aware of a coup plotting, then Kim Jong-un is aware of coup plotting, and the coup plot would have been foiled.

But that said, I believe because we don't know what the elites are thinking and regime intentions is one of the hardest things to really understand, we cannot be confident, and if I was a North Korean elite and I just saw what happened to Jang Song-taek, his uncle, second-most powerful man in North Korea, who was married to his aunt, I would sort of be planning a long-term, you know, get out of North Korea plan. So just because the elites are staying quietly now, I don't think we should draw some sort of conclusion that all is well in North Korea. And I'd be worried about long-term stability in North Korea.

MS. KLEINE-AHLBRANDT: I also hesitate to get into the tea leaves, and I agree that it's impossible to really predict the future. What is clear is that our policies have been predicated on the fact for a long time that this regime can't last. "How can it last? Look at how they treat their people like that." They have--and yet it's really, you know, a drop in the bucket for China to keep them going. So you always have that dynamic.

There's two ways of looking at Jang Song-taek's execution, you know, using it to send a message to others or, you know, also bolstering some of the frustration, which we do know about, with Kim Jong-un's rule, and, you know, the problem is the Chinese tell me, and they told U.S. officials, this was a move to consolidate his power and it's stable.

Then when you push them on stable for how long--two weeks, a month? A really great expert who travels regularly, he says today.

[Laughter.]

MS. KLEINE-AHLBRANDT: So, you know, and the reality is none of us have predicted any of the major, whether, you know, the best analysts in the world. So what we know is the regime is stable until it's not. And what, and in that context we spoke a bit about contingency plans. I am almost certain China would potentially enter into discussions about securing WMD. Beyond that, the scenarios are so linked to protecting whatever regime from the United States, from you, that I think we're, it will be a very long time before we have any actual conversation with the Chinese about meaningful reactions to contingencies beyond WMD securing, beyond securing WMD.

We hope for that all the time, and we assume it's coming, and the conversations, essentially what we do, we can signal to them what our intentions are, but even if we guarantee them we're not going to do X, Y and Z, do you think the Chinese trust that? That's what I laid out in my testimony. Why would they trust anything because all they've seen for the last decade is one administration does one thing; it's completely reversed in the next administration.

So the Chinese now are not asking questions about this administration; they're asking about what the next administration will do. They're also probing us on what is your red line. So you have a red line on chemical weapons in Syria, what is it on North Korea? And I get things like, well, if I were North Korea, I'd say I'm fine for a fourth or fifth test.

So they're probing these types of things, but they don't have confidence that there's a linear progression in U.S. policy, and all of these things make them very reticent to openly discuss any kinds of contingency plans, and from the ones leaked, you can see what their main concerns are. It's protecting the Peninsula from the United States.

MR. DeTRANI: Could I just add one point on that? And excellent comments from my colleagues. We saw going back into March last year through June when North Korea was threatening the U.S. with preemptive nuclear strikes where they had a YouTube of taking out New York City with a nuclear weapon, and then we had exercises, and then we had introduced B-52s and then the B-2s which went into the exercise and so forth. That was a powerful message.

And, of course, the announcement that we would be reinforcing missile defense in the United States. A very powerful message not only to North Korea, but I think also to China, that the U.S. will tolerate so much, but when we're talking about protecting the homeland and our allies and our partners and so forth, that's powerful.

I think that was a powerful message to North Korea, and I think China is also sharing that message or shared that message with North Korea, but is very sensitive to that message, is don't go too far, Kim Jong-un. There's a limit to what you should be doing here. So it's not just looking at the element of potential instability, which as we indicated we don't see it, this issue here. It's doing something that goes beyond the pale, and then the consequences would be overly grave.

MS. KLEINE-AHLBRANDT: Can I just add something on that? Arguably, the greatest motivation for Beijing to take steps to pressure North Korea comes from our taking moves, sending high ticket items over South Korea, what the Chinese call shows of force, which directly undermines China security environment.

It's effective in getting them to support sanctions. It's effective in getting them to make moves to rein in Pyongyang and to try and prevent future tests, but it's never gotten the Chinese to do anything more meaningful, long-lasting than that, and arguably, it feeds into the entire narrative that I spoke to you about where the Chinese see the U.S. using this as a pretext to do all sorts of things.

Now, the problem is that you can't, it's a conspiracy theory. The Chinese believe that U.S. actions anywhere in the world are pretty much aimed at China. There is no way you can actually argue against that, but I do think that it's important that the main leverage that we have over China is by doing things that directly through military action directly undermine its security environment.

And whether that's a sustainable policy, whether that will deliver the types of moves that we're really looking for over time is questionable.

HEARING CO-CHAIR SLANE: Thank you. I want to come back to this on the next round.

HEARING CO-CHAIR TOBIN: Okay. Commissioner Brookes, please.

COMMISSIONER BROOKES: Thank you. Thank you all for your testimony. Do any of the panelists actually believe that North Korea is interested in denuclearization?

[Laughter.]

DR. TERRY: I don't. Do you?

MS. KLEINE-AHLBRANDT: "Pyongjin." Do you know about "Pyongjin"? I mean it's a policy in North Korea whereby they pursue both economic development and nuclear weapons. And our argument is that North Korea will never have economic development with nuclear weapons, and their argument is that nuclear weapons are the sine qua non for economic development.

The fact that they've enshrined it in their constitution certainly doesn't help, but the question now is, is there a doable deal? Now when I talk to my Chinese counterparts, particularly the ones that were responsible for the Six Party process over years, they scratch their heads, what's the doable deal? Is there something? And they themselves can't come up with what deal there is.

MR. DeTRANI: Can I add to that, please, Commissioner Brookes?

COMMISSIONER BROOKES: Please.

MR. DeTRANI: At this moment now, I would agree. Denuclearization--North Korea is not committed to dismantling their nuclear weapons program. They're going to retain it, and they've said that. They've said it very clearly.

However, it was just mentioned a minute ago, we do have September 19, 2005 Joint Statement where Kim Jong-il in Beijing and outside of Beijing committed to comprehensive verifiable dismantlement of all their nuclear programs, and we at that time had talked about uranium enrichment also in there, in exchange for legitimacy, economic aid, security assurances, and ultimately light water reactors and normal relations.

So there is a document out there that Kim Jong-un's father signed up to because it was his decision to sign up to the September 2005 Joint Statement. So that's there. That's operative. It was sold to Hu Jintao, President Hu Jintao and others in China--

COMMISSIONER BROOKES: There's also the '92 agreement, too.

MR. DeTRANI: Also the '92 agreement.

COMMISSIONER BROOKES: Before they--

MR. DeTRANI: That's exactly right. But at this moment, as we speak now, that is, they've indicated that they're not going to implement that and they're going to retain their nuclear weapons. So the bar is really that much higher at this moment.

COMMISSIONER BROOKES: Have they, you already addressed this, but have the Chinese ever shared what they thought the price was for North Korea to denuclearize?

MS. KLEINE-AHLBRANDT: It's complete collapse of the regime. Some Chinese analysts believe that to apply, first, there's the few that believe that denuclearization is not possible, and of those that believe that it's even possible, they believe that the pressure necessary to achieve anything close to it would end the regime, which to them is a worse outcome than a nuclear North Korea, de facto nuclear North Korea, strategically aligned with Beijing.

COMMISSIONER BROOKES: Okay.

DR. TERRY: North Korea has also pursued nuclear weapons program since the '50s and '60s and '70s and it's their priority goal. Their utmost priority is regime survival, but they truly believe that only through nuclear weapons program that the regime can survive. I think they've drawn all kinds of wrong lessons from Libya case, the Libyan case, as well as Iraq, and I believe complete denuclearization is off the table.

I think what we're now talking about is freezing the program. We can then negotiate then moratorium on the program, but it's not--

COMMISSIONER BROOKES: Of course verification is always the--

DR. TERRY: And then the problem is exactly that. It's after--even if there is such a deal, I think a string of broken promises, and when you look at North Korean history, it's always we break down in the verification phase.

MS. KLEINE-AHLBRANDT: Can I just add that we're on the route now to an economically viable nuclear North Korea because the reality is China is--the trade balance is going up, and what Dr. Terry said, it's not even close to what's going on. The borders are completely open. There's a gray market. There's state companies that run back and forth.

China has an interest, arguably as much of an interest in engaging with economic cooperation with North Korea to maintain regime stability as it does to maintain stability in its own rust belt in the northeast, which has been subject for years to labor unrest and the like. So it has a huge policy to develop that.

North Korea, including infrastructure projects, including tapping into mineral wealth, et cetera, is part of China's need to stabilize that restive region and militarily important region. So this goes beyond just North Korea.

COMMISSIONER BROOKES: So denuclearization is down the list from Chinese priorities?

MS. KLEINE-AHLBRANDT: Very down, and in that context, when China is trying to make all these inroads, and there really is a really faithful belief that through economic engagement, the penny will one day drop, and there's no way they can resist it anymore, and then that's the best way into--and so if we were constantly trading food aid, et cetera, the thing that North Korea wants is, as much as possible, they resent China the more they have to depend on China. So to the extent to which they could diversify in any way, and that's part of the tensions.

When Kim Jong-un came in, he reached out to every single country but China. The Chinese couldn't even get to him. It's changed. Now China doesn't want him to visit because it's a liability given what he's done since he's come in. But he would trade anything.

And so you have to watch Russia closely. Russia is getting more in on the act because of the deteriorating relationship between us and Russia, Japan and the like. North Korea would prefer not to have to rely on China, but as long as that's an option, what's the impetus?

They would be happy to have a peace treaty. They would be happy to have sanctions lifted. These are the kinds of concessions that the Chinese throw around saying that this is what you need to do to reassure the insecurity of North Korea, and the Chinese get from the North Koreans things like Saddam (Hussein), if he had not given up his nukes, he would still be in his palace.

And then the Chinese adopt that, and then that's their argument to us, how are you going to deal with this?

MR. DeTRANI: You know, Commissioner Brookes, let me just say on the nuclear point with China, if North Korea retains its nuclear weapons as they are now, and they continue to enhance those programs, and there's talk about a moratorium and so forth, but the assessment is--it's out there in the public--six to 12, and they have a robust uranium enrichment program and so forth. This is not a North Korea, in my estimation, that the leadership in Beijing can be comfortable with because certainly Seoul, Tokyo, Taipei and others are just not going to sit there and say that's fine, that's just fine.

This makes the likelihood of a nuclear arms race not only real, but the element of proliferation with that because we've seen what North Korea has done with Syria at al-Kibar. We've seen how they've proliferated, certainly what they've done with Iran on missile technology and so forth.

How could any country, certainly a neighboring country, because the spillover goes into China in significant ways, be comfortable with a North Korea with the nuclear arsenal it has now and their path forward?

And I think China understands also that countries are not just going to walk away from the sanctions and say, okay, let's, as the North Koreans would say, let's treat them as Pakistan. This is not going to happen because the sanctions are going to be there

and they will be implemented, and North Korea will be a pariah state, and relying on one, China, as it was mentioned, Russia will come back in. Putin is talking about that now. They've relieved ten billion of their \$11 billion debt, but I think to people who have worked this issue, it's problematic that Russia is going to be much of a player as China is with North Korea.

DR. TERRY: I would just say that China might not be comfortable with it, but what can really be done about it? I don't think China is willing to do what is necessary to achieve denuclearization because we, even Washington have difficulty in trying to get anything done, so unless China is completely going to cut off fuel and oil, as well as trade, which they're just not going to do, I don't think they're willing to pay that price of instability for denuclearization.

Also, in the limited things China can do, does China really have leverage over North Korea? Maybe in some limited way, but that's a question for all of us to answer, too, to what extent does China really have leverage over North Korea?

MS. KLEINE-AHLBRANDT: Just to quickly add, China is arguably more frustrated with North Korea now than ever before. They are livid, the, "not comfortable with" is to the extreme. But what we do in the West is we see that and we think, ah, they're changing; they're coming over. The reality is that they are frustrated, this is such a headache for them, but they have after all of these nuclear tests had huge internal reviews.

After the third nuclear test, they had a large internal discussion on what new instruments there are to restrain these guys because, as Ambassador DeTrani said, their worst case scenario is a nuclear arms race where the ROKs and the Japanese go nuclear, but they actually trust that we're going to prevent that from happening.

But the assertion that the frustration level leads to any change in policy, let alone a change in policy closer to the United States, is not to recognize China's bottom line fundamental strategic priorities, which, as I said, revolve around the United States and not North Korea.

COMMISSIONER BROOKES: So would it be fair to say that China has instruments of influence in North Korea, but the challenge is being willing to exercise them at the expense--

DR. TERRY: [Nods affirmatively.]

COMMISSIONER BROOKES: The other thing I would point out is that in terms of the proliferation issues, am I wrong in that China has perhaps turned a blind eye to proliferation activity from North Korea to Iran in the past? I've seen press reports on this, about flights over China from North Korea to Iran.

So the questions about their concerns about proliferation issues, I question. North Korea has been a nuclear state now for eight years at least. We've not seen a nuclear arms race in East Asia, not to say that one couldn't break out.

So, I just wanted to point those things out based on some of the testimony here. Anybody has any comments on that, I'll open it up to your thoughts?

MR. DeTRANI: Commissioner, let me just say on that, on Iran, on the missile, that's how North Korea makes its money; right? I mean they don't have anything--so they sell. And hopefully they don't sell any nuclear materials or nuclear weapons and so forth though they got pretty close with al-Kibar in Syria. There was something there.

But I think when countries have seen--and that's why the Proliferation Security Initiative is so powerful, it's prevented, it's preventing North Korea from selling those missiles and those missile parts now because these countries, were all together on that, and that's why we're saying, China, be a part of it, be a part of the Proliferation Security Initiative.

So there was a financial reason for that initiative. It's proliferation but in a different context. But now what we're getting into is the nuclear side, and we're getting together with countries that may have nuclear capabilities and now missile delivery systems, that's powerful, and we're talking about non-state actors out there who are looking for whether it's nuclear weapons or devices or fissile material and so

forth.

So now you have not only state actors, you have non-state actors out there. This is exponential where this could go with the whole question of a nuclear issue. So I can't imagine Beijing, and those who are advising Xi Jinping and others, are not sensitive to those developments. I think it's a little different now in 2014 than it was ten years ago.

COMMISSIONER BROOKES: Weren't there representations from the U.S. State Department to the Chinese about these missile shipments?

MR. DeTRANI: No question.

COMMISSIONER BROOKES: There's obviously a relationship between Iran and North Korea at a number of levels, but weren't there representations made about these flights, and the Chinese were made aware of it, and they decided not to interfere?

MS. KLEINE-AHLBRANDT: There might have been representations, but the Chinese, if you just look at the record of sanctions and their negotiation and limitation, they've deliberately carved out all of these flights.

I've been to North Korea many times. If you fly Air Koryo into North Korea from Beijing, it takes longer and longer before you can get off the runway. No one knows what's in those flights. That's deliberately carved out.

So, what we generally do we come to China, say we've got this evidence, what they do is they ask us, can you give us more? Obviously because they want to learn about how we gather intel. And then it depends on at what level it goes because if it's border stuff, it's not Ministry of Foreign Affairs that necessarily has control because the whole system is compartmentalized.

But those types of carve outs have been deliberately put in things that transit, as I said, land, air, et cetera, there are flights to Tehran several times a week. I mean telling China it goes over their airspace, lots of other things go over their airspace, and the Sanctions Implementation Committee in the United Nations that's responsible for reporting on violations is consistently not including those in its reports because of pressure from China.

So you always hear "a third country", and it's usually China.

COMMISSIONER BROOKES: Yes.

HEARING CO-CHAIR TOBIN: I think we'll--

COMMISSIONER BROOKES: Can I keep going?

HEARING CO-CHAIR TOBIN: Round two. You're first on round two or you're early on in round two.

Let me jump in to say just when, after reading your testimonies, the picture starts to get clear, then we listen today to your testimony, and it becomes even more complicated.

As I listen, Ms. Kleine-Ahlbrandt, you're basically saying China will not be moved unless it's a regional lack of security; right?

MS. KLEINE-AHLBRANDT: [Nods affirmatively.]

HEARING CO-CHAIR TOBIN: And they will not move on the nuclear area because they think that's what we want to be done.

And then as I listen to Ambassador DeTrani, that's the area you think most important for us to grapple with, all of us, and you mentioned the rogue countries that can get access or maybe even already have access.

Does China, Ms. Kleine-Ahlbrandt, have any sense of how insecure it is now, and if you have rogue states that can affect them as well?

MS. KLEINE-AHLBRANDT: That's absolutely the case. As I said, China is apoplectic about North Korea, but they cannot find a solution that allows them to rein in North Korea. I mean frankly the things that really tee off the Chinese are what they see as a slap in the face, is that they went and asked Kim Jong-un several times do not test, and then not only did he test, he didn't give them a lot of advanced notice.

This is a respect issue. It's Confucian. He's a generation behind Xi Jinping. It's not necessarily because it violates international law. Once there's a provocation coming from Pyongyang, they don't react to it. They wait to see what the United States

does, and then they react. So it's not that the Chinese aren't very worried, very upset, frustrated to the hilt, this is like the biggest headache. They call it a headache issue.

But they haven't found a way to rein in North Korea's behavior, they are simply so afraid of applying more pressure, particularly after Jang Song-taek, and particularly because they're almost pining for Kim Jong-il. We never thought we would pine for Kim Jong-il, but in terms of the unpredictability and the volume of threats that they got and the sort of inability to calibrate it, they're at a loss, but that makes them even more risk averse in terms of doing anything on proliferation. Definitely China cares about proliferation, but they don't care as much as the United States, and frankly they use that for leverage.

HEARING CO-CHAIR TOBIN: You know, it's interesting, it almost leads me to the concept China sometimes thinks of itself as the big dog in the world or certainly the big dog in the region, and they know how to turn trade on and off when they're annoyed with other countries, you would think that they could help take care of this Excedrin headache.

MS. KLEINE-AHLBRANDT: Well, they are, actually right now.

HEARING CO-CHAIR TOBIN: Okay.

MS. KLEINE-AHLBRANDT: All of these reports about fuel cuts frankly are not accurate, but they are playing with different ways of getting in a little bit less fuel, taking a little bit longer, taking land routes —etc. but the fuel still gets in because at the bottom base, it's hard to explain how much they care about the existence of that regime.

HEARING CO-CHAIR TOBIN: Yes.

MS. KLEINE-AHLBRANDT: For so many reasons. So they're not going to cut it off completely. That will not happen, but within China's limited tool box, which they think is possible to use without pushing the regime to the hilt. Another thing is that they frankly stay up at night worrying about Pyongyang cutting a deal with the United States and leaving them in the cold.

So what they think right now is why should we help you guys change the regime so that you can have Americans on our border, and we'll be cut out? Because the relationship is so bad with Kim Jong-un, it makes them even less willing to exercise pressure that we ask them to exercise because they know in their heart of hearts the North Koreans resent them. The North Koreans would rather be with anyone but China. They think that China has sold out to the capitalist system, and goes with America on all sorts of these things.

They know that the North Koreans with any other option would go for it, and that's why they've invested so much time in trying to resuscitate these moribund Six Party Talks, which they've never believed would ever solve the issue. It simply kept the parties talking, and left China with the ability to control the international response.

HEARING CO-CHAIR TOBIN: I'll have more questions in the second round. Let me start with Chairman Shea.

CHAIRMAN SHEA: We've heard some really interesting adjectives here-- apoplectic, livid, arguably frustrated--and I understand the Chinese don't want a situation where the Korean Peninsula is dominated by an entity that's friendly with the United States. But is there a tipping point? Do you think there is a tipping point where North Korean behavior will be so bad that the Chinese just cannot put up with it?

And it doesn't necessarily mean regime collapse. It might mean the Chinese putting in a regime that they can live with. Is that something that is possible?

MR. DeTRANI: Well, let me just say, when you say a tipping point, I think there may have been a tipping point a few months ago when North Korea was threatening the U.S. with preemptive nuclear strikes and we introduced B-52s and B-2s in the region. I think there was a tipping point there.

I don't think it's an accident we're not seeing a fourth nuclear test also at this moment because I think the sense was maybe a few months ago there would have been and there could still be.

I think China is at that tipping point. But when you talk about change, what are

the levers that China has? The tipping point is that they use what they have, and I cited in April of 2003, and we talked about it here, they have fuel, the crude oil that goes into North Korea, if China cuts that off, but they're not going to cut it off totally. I mean they're playing with the books right now so it doesn't mean anything.

But they cut it off for about three days going back to 2003, and the effect was everyone came to the table, and we got the Six Party process going. So, you know, I really think China is concerned about these issues, and they want to see it succeed. But when you talk about putting another regime in and regime change and so forth--

CHAIRMAN SHEA: That's pure speculation.

MR. DeTRANI: No, I just don't think China is there. I don't think, one, they have the knowledge of the country; they don't have the access in the country. I don't think they want to go there. I think they see they could get this resolved in a more meaningful predictable way than going into the unknown.

DR. TERRY: I think it's good that I'm sitting in the middle.

[Laughter.]

DR. TERRY: Because I think we have two positions here. I think Ambassador DeTrani kind of sees a little bit more of China, there's movement in China, it's not going to happen. What I'm saying, it's not now but potentially in the future, and that's how I'm going to address your tipping point.

I think the bar for the tipping point is extremely high. So China has to feel like there is an imminent threat such as a conflict on the Peninsula, and only then are they going to do something about it, where North Korean provokes with some sort of military action, South Korea responds, and it will escalate into some sort of a conflict or a war.

Or I think if the Chinese felt that there was actual instability that's going to occur, they will do everything they can to prevent instability from occurring, and everything to prevent regime collapse from occurring.

When I used to work in the government, we used to do all this scenario contingency planning and scenario playing out, China will do everything it can to prevent it, but when they saw it as something that's inevitable, that regime instability is inevitable, then they're not going to necessarily go all out because they have to worry about its relationship with a future unified Korea, and right now China has a good relationship with South Korea.

We just talked about how that's even getting closer to China, if there's something inevitable, China does not want to then deal with a unified Korea that's going to be upset with China. China wants that unified Korea to lean towards China.

So I think the bar is very high, but I do see us potentially getting there, particularly after Jang Song-taek's execution, and when we really don't know what is going on internally in North Korea, we all think Kim Jong-un is in control, but we don't really know all the details of what's going on.

If the Chinese actually felt that one day this could all come undone, I think there's a possibility of us being able to get into a discussion with them.

MS. KLEINE-AHLBRANDT: I think an actual tipping point scenario is where there is a test along China's border. There's a huge one million Korean, ethnic Koreans, and in some way threatens China's domestic stability. The one way that you can get China quickly to a tipping point is anything that threatens its domestic stability, which is why I pointed out earlier, the fall of a Communist regime could empower those that are saying to Xi Jinping, why only economic reform? That goes back to domestic legitimacy.

But I think it's important to make a point here. 2003, 2006, in 2006 after the nuclear test, China actually learned a major lesson. There was a big debate. Everyone said it's finally happening. That's what I'm trying to argue against, this sort of "when is it going to happen? China has to turn around. They have to come to our view." There was a huge debate, and essentially the Chinese learned a lesson: if they punish the North Koreans that hard, their bilateral relationship takes a hit.

So what they did is they deliberately separated out the nuclear issue from the

bilateral issue. Wen Jiabao paid a goodwill visit in October 2009, and that was the turning point. He went with all sorts of economic packages, nary a mention of denuclearization.

So on the one hand, China's frustration with North Korea is this high, but what's happened at the same time, China's mistrust of the U.S. is higher. I was just at the Shangri-La Dialogue. It was a blood bath. So when you're looking at it, that's happening, but people aren't realizing that the whole rebalance, I mean have you noticed how tense the relationship is right now between the U.S. and China? It's hugely tense.

And the Chinese consistently ask me, you want us to do something on North Korea, when are you going to stop your exercises with Japan? When are you going to pull back in South and East China Sea? We're at a high pitch in terms of tensions in the bilateral relationship.

So any level of frustration in Beijing is drowned out by that because, as I said, that's what they care about more.

CHAIRMAN SHEA: Could I just ask a real quick question?

HEARING CO-CHAIR TOBIN: Yes.

CHAIRMAN SHEA: My understanding is that a lot of people in South Korea are very weary of Korean unification because of the costs that would be imposed on them, and could someone say something about that?

DR. TERRY: Yes, it's particularly with the younger generation. Overall, the South Korean government, and the whole generation is very concerned about the high cost of unification. It will cost, similar to the German unification, \$1.9 trillion. I think the estimate now is some \$2 trillion for Korean unification over the course of 20 years. It's prohibitively expensive so people are very concerned about that.

But still with the older generation who went through the Korean War, who used to have like my grandparents kind of generation, there is still this longing of Korea needing to be unified. But as they are dying off and the younger generation is coming on, they have no experience of the unified Korea, the Korean War. They have no experience of any of that except their very privileged lifestyle.

You will see, Commissioner Tobin, when you go to Korea, Seoul, soon. Because the Park government is aware that the Korean people are losing interest in unification, I'm not sure if you're aware, but there has been a renewed focus on unification coming out of Korea last year. She called unification a bonanza. She gave this very pro-unification speech in Dresden, Germany, which is a very symbolic choice.

And so there's sort of a renewed focus on trying to reeducate the public on the benefits on unification.

CHAIRMAN SHEA: Thank you.

HEARING CO-CHAIR TOBIN: Let me just interject a question on that last point, and then continue on with the others. Is she doing that to ready the Peninsula for what she sees as inevitable, kind of the way East Germany and West Germany was done? Or why is she doing that if there's not the present will among her people?

DR. TERRY: Well, I think in the aftermath of Jang Song-taek's execution within the South Korean government there has been an increasing sort of awareness and potential fear that this collapse could happen, instability could happen in North Korea, so there is a renewed need to prepare for it.

But the first step of that is getting the people on board. I mean there is a whole Ministry of Unification in South Korea, and there are a lot of agencies that are focused on these issues, but if the people are not behind it, you're not going to be able to sell it to the public.

HEARING CO-CHAIR TOBIN: Thank you.

Vice Chairman Reinsch.

VICE CHAIRMAN REINSCH: I wasn't going to ask anything, and then Commissioner Shea got me thinking back to some questions that I had last time we discussed this, which was a couple of years ago, I think.

[Laughter.]

VICE CHAIRMAN REINSCH: And I didn't get any good answers then, and I'm not expecting any now, but I'll ask the question anyway. I'm interested in the mechanics of a regime change. Supposing--let's just hypothesize--that the Chinese reach the tipping point that you're describing, and they decide that something needs to be done, and I don't mean something like cutting off the oil or something that will pressure the existing regime into doing what they want or being more compliant, but they decide that there needs to be a change of government.

How would they go about implementing that? Can they go about implementing that?

MR. DeTRANI: You know when I think of a tipping point for China, I think of a tipping point of them going into Pyongyang and sitting down, in this case with Kim Jong-un, and saying this is what you're going to have to do. You're going to have to listen to us because you're tethered to us; you're going to have to listen. And they dictate and they dictate.

It's not a question of ignoring Kim Jong-un and not having him visit and giving him any face or anything. It's dictating and saying you're going to do it because you need us. You need us and you need to behave and so forth. That's how I see a tipping point. I do not see how—in my personal view—I do not see a tipping point of China going into North Korea to effect regime change or anything of that.

One, my personal view is I don't think they're capable of doing that. Two, I think the uncertainties are massive. It's not only the refugees. You have loose nukes. You have a lot of other things going on there. Why would you want to do that when you have all this, when you have all these levers, and they're so dependent on you for their survival, you can do things without going to that extreme. So I don't see a tipping point going in that direction. I just don't see that at all.

DR. TERRY: I would agree with that. If, in the fantasy world, if they were able to, if they had to choose somebody, there is an older Kim, Kim Jong Nam that I think still in Macau, who fell out of favor because he visited Disneyland in Tokyo with his father, but one time he was a serious contender to succeed, and he is more reform-minded or known to be brutish.

But I mean there are a lot of risks, and I don't see how the Chinese government would be able to really effect that leadership change. It's very difficult to do.

MS. KLEINE-AHLBRANDT: I think it's pretty much impossible that you would have a scenario in which China was trying to go in and change the regime. For one, part of the reason for the rapprochement with Russia is about all this Color Revolution stuff. China doesn't know what it's doing.

How would it even approach that? It doesn't know what's going on in Pyongyang, and it goes against every single strategic priority that I've laid out earlier. They fear all sorts of things--chaos. They fear KPA going crazy. They fear people grabbing stockpiles of weapons, running into the bushes or going across the border.

Their biggest fear is that the United States will use any pretext of any kind of chaos or instability in North Korea to come and change the regime themselves. So it would be essentially China trying to do something, which would be an invitation in their minds for the U.S. to come in and change the regime to something. But with that said, China is definitely open to a new North Korean regime as long as it's pro-China. That is their bottom line.

VICE CHAIRMAN REINSCH: Well, right. What do you think about Ambassador DeTrani's scenario where they basically come in and give orders?

MS. KLEINE-AHLBRANDT: Impossible. North Koreans won't listen to orders from the Chinese.

DR. TERRY: It's not impossible if Beijing says there is no more trade, no fuel, no food. I mean 45 percent of North Korea's food comes from China, some 80 percent of consumer goods come from China, 90 percent of the energy import comes from China. But would China do that? I think we have established that China is very unwilling to do that.

VICE CHAIRMAN REINSCH: Well, right, I was hypothesizing a different view.

I understood the unlikelihood of that.

MR. DeTRANI: And China doesn't want to go that way. They don't want to go that way for obvious reasons because what China tells us very clearly, and it makes sense what they tell us, is at least they do sometimes listen to us, and we have some ability to communicate because, you, the United States and others, you have no ability to communicate.

If we're too hard on them, they will turn us off, and it was just mentioned a minute ago. They will turn us off, and they'll go their own way, and then no one could even potentially moderate their behavior. Is this the scenario you want?

MS. KLEINE-AHLBRANDT: But also what's in it for Kim Jong-un? So China, I don't want to go down this scenario because these are scenarios that actually lead to misunderstanding about what China is willing to do, but if they were to go in and say no more food, no more fuel, then what? Kim Jong-un wouldn't see that as a direct threat from China and launch some kind of crazy provocation?

I mean in that case, they become the target of the threat, which is what they're trying to avoid, particularly in a scenario where they know they are deeply unpopular in North Korea, and that there's nothing more the North Koreans would like to do than a great deal with Japan, a sunshine deal with South Korea, get in touch with Myanmar, Indonesia, and any other country that will deal with them.

VICE CHAIRMAN REINSCH: Thank you.

MR. DeTRANI: The last comment on that, though, is in my view, North Korea is not suicidal. The leadership in Pyongyang is not suicidal. They're not going to do something that's going to generate something that's inimical to their interests and their survivability.

MS. KLEINE-AHLBRANDT: The problem there is the "lash of the tail" theory, which is that they obviously are not going to be suicidal, but there's all sorts of scenarios in which they believe that they're under threat and they have no other choice, and so lash of the tail means an illogical use of some kind of weapons because they don't see any other alternative.

VICE CHAIRMAN REINSCH: Thank you.

DR. TERRY: Japan, World War II.

MS. KLEINE-AHLBRANDT: Japan, World War II. Thank you.

VICE CHAIRMAN REINSCH: Thank you.

HEARING CO-CHAIR TOBIN: Commissioner Brookes, I promised to get back to you. Yes.

COMMISSIONER BROOKES: I'm going to pass.

HEARING CO-CHAIR TOBIN: Okay. I am going to say that you have encouraged us to keep thinking very hard on this, and we might be in touch with you over the summer as we work on our recommendations because it is extremely difficult when you put all these pictures together. So, let me thank you, Ambassador DeTrani, Ms. Kleine-Ahlbrandt, Dr. Terry. We deeply appreciate your testimony.

What you've shared with us will lead to that report that I mentioned. We're grateful to all the witnesses today. My fellow commissioners and I have got a much better sense of where things are this morning with Taiwan, and it makes that problem look pretty easy, doesn't it, compared to North Korea. Each of these relationships requires very careful balancing and each balancing act has huge implications for us.

Before we close, Commissioner Slane had to catch a flight, but both he and I want to recognize the excellent work and team work of Matthew Southerland, and I want you to stand, Matthew.

[Applause.]

HEARING CO-CHAIR TOBIN: Katherine Koleski and I think she's over here; right. And Nathan Beauchamp-Mustafaga.

[Applause.]

HEARING CO-CHAIR TOBIN: They worked closely with us and with our witnesses to make the hearing today possible. So colleagues and guests, we stand

adjourned.

[Whereupon, at 2:17 p.m., the hearing was adjourned.]