

CENTER FOR NATIONAL POLICY

**“ARMING TAIWAN:
IMPACT ON ASIAN SECURITY”**

FEATURED SPEAKER:

**SHIRLEY KAN,
CONGRESSIONAL RESEARCH SERVICE (CRS)**

**RUPERT J. HAMMOND-CHAMBERS
PRESIDENT, US-TAIWAN BUSINESS COUNCIL**

**WASHINGTON, DC
FRIDAY, JANUARY 30, 2009**

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MR. SCOTT BATES: For those of you in the back, we have plenty of seats in here, so feel free to come in. And if you have to leave early, that's okay. You can walk out. You won't be disruptive, so – and for those of you in the far back, you could actually look at the TV screen in there, too, if you want.

So, ladies and gentlemen, thank you very much for coming to this event. My name is Scott Bates. I'm vice president here at the Center for National Policy. On behalf of Jennifer Collins-Foley, our executive director; our president, Tim Roemer, thank you for coming here today. And all of our staff are excited about this event.

So the real question that we're going to discuss today and we look forward to your participation in this discussion is what kind of impact on the Asian security scene do we see this arms package with Taiwan having, and what are the long term political implications for this?

So today we have two experts that are really going to give us a really full 360-degree view of this issue, one on the particulars of the deal and also what Congress' take on this might be; and also another who really knows the region quite well. Well, I see both of them here. So let me without further ado introduce our guest speakers today.

Shirley Kan is foreign affairs, defense, and trade division leader at the Congressional Research Service. Now, any of you that work on Capitol Hill or who have had access to CRS know that this is really the premier research service, I think, in the country and certainly for use by the United States Congress. When you work on Capitol Hill, if you have a question about anything, you ask CRS. And Shirley has been in this role since 1990. In particular, she has done extensive writings on Asian security issues too numerous to mention. Put her name in Google and you'll find her writings on these topics.

Actually she has very interesting background. In 1989, Shirley was on site in China during the time of Tiananmen and was able to report on this and witness some of this. I was in Beijing at the same time, so a very interesting time for anyone who was there.

She's a graduate of Georgetown School of Foreign Service and also University of Michigan is where she got her Master's, which has about one of the best Asian studies programs in America, I think it's safe to say.

We're very glad to have you here with us today, Shirley.

And to my right is Rupert Hammond-Chambers. Now, Mr. Chambers, I should tell you, although you'll find out once he starts talking, is originally from Scotland, so he has a wonderful accent. So even if you don't listen to what he actually says – (laughter)

– he’s – you can listen all day. (Laughter.) Rupert has been in the United States for 20-some years. It’s had no effect on his accent whatsoever. (Laughter.)

He has served at the Center for Security Policy in the early ’90s and since 1994 he’s been with the U.S.-Taiwan Business Council, which many of you know that organization, but for those of you that don’t, they empower American companies in Asia and they foster closer relationships between U.S. business and those in Asia as well. So we’re really fortunate to have these different and diverse views with us here today. So we’ll have our speakers talk, and then, as is our practice, open it up for questions and comments from all of you.

And if we could, without further ado, Ms. Kan. Thank you.

MS. SHIRLEY KAN: Thank you. I’m Shirley Kan and I certainly do not speak for President Obama’s administration, the Congress, or for CRS. And I’m just humbly offering some observations that I have on policy right now and also the dynamic that has been going on for the last several years between Washington and Taipei. And I’ll just have to open with the declared U.S. policy talking points.

Certainly as the designate to be the secretary of state testified at a hearing to the Senate Foreign Relations Committee, we still have a one-China policy. Nothing has changed. We adhere to the – (inaudible) – and she was very careful, too, to say that the legal basis for our policy is indeed remaining to be the Taiwan Relations Act.

Policymakers are often fond of the mantra that policy has not changed. I’m going to go into a little bit more of the details of the ups and downs and some of the possible changes, as well as continuities in our policy.

We’re going to be hearing a lot in this transitional period and as we get into the new period of a new era of U.S. leadership that policy will continue. My question is continuation of what? That’s the problem. If policies continue, what are we continuing? What is the practice that we are continuing? Are we continuing to have congressional concerns about being cut out of the process of determining arms sales? Are there going to be continuing questions about Taiwan’s credibility and Taiwan’s leadership on defense? Are there going to be continuing questions about – in Taiwan itself on the U.S. record, on credibility and commitment to assistance for Taiwan’s self-defense?

I’m not going to go into the ups and downs and ins and outs or nuts and bolts of the history that’s been going on since the breakthrough in 2001 when President Bush approved a number of significant arms sales for Taiwan. I’m just going to summarize by saying that from 2001 until 2007, for a number of reasons, there were some unexpected delays that the Bush administration did not expect in 2001 and 2002. Back in 2004, a DOD official, Richard Lawless, had already warned Taiwan at a conference that Rupert hosted that if Taiwan continues to delay the funding of defense programs and weapons programs that Taiwan itself had requested, there will be serious long-term consequences. And I’m afraid that his warning has borne out to be true.

I was asked by the CNP to discuss the notifications to Congress that took place – that last took place on October 3rd. It happened to have been the very, very last day of the House session of the 110th Congress.

I'm just going to go into this situation of what really happened and what I'll call the bailout drama. There were expectations for a very positive change in U.S. policy towards Taiwan with the election of Ma Ying-jeou and his inauguration in May. That was in 2008. However, even after Ma Ying-jeou's inauguration as president of Taiwan, the Bush administration refused to submit a number of pending notifications to Congress throughout the spring and summer of 2008. And it seriously risked running out of time, as the congressional session was due to end at the end of September.

Then we had the financial crisis. It forced the Congress to remain in town for longer than expected to pass the bailout package or economic stabilization legislation for about \$700 billion. Congress was supposed to adjourn on September 26th and the Bush administration knew the congressional schedule. And even though that happened, nothing happened in September, even after President Bush returned from the Olympic Games in Beijing.

And on September 29th, that Monday, after the original targeted adjournment, the House rejected the bailout package and the Dow plunged 777 points. It was a shock. The sideshow was that Congress was forced to remain in session for one week longer. And it was only because of that that the notifications were then formally submitted to Congress for the arms sales to Taiwan that had been pending. And the formal notifications took place on October 3rd.

And that week, the last week of September, the Congress was so frustrated that there was even legislation in the House. The House voted to require detailed briefings from the Bush administration and I would have to say that by the time it got to this point, there had been a number of requests from Congress for briefings, for information, for the notifications, for simple courtesy in answering Congress' questions, which are its mandated – a congressional role which is mandated by law in the Taiwan Relations Act.

In short, frustrations had been mounting in Congress with the administration's disregard for congressional questions, legislation, and letters, the TRA, and common courtesy unless, of course, \$700 billion were needed.

Finally, on the last day, with chaos in Congress, with the economic bailout, with the stock market plunging and the Congress about to leave town, we got the notifications from the Bush administration. However, President Bush submitted only six out of eight pending – (inaudible) – for total value of about \$6.5 billion, but it was only about half of the pending total. The administration did not submit for congressional review the pending programs for Black Hawk helicopters or the design phase for the submarines, which has been pending since the submarine program shifted in 2006. Moreover, what I call Humpty-Dumpty, the Patriot missile defense program was broken up into pieces.

Senator John McCain responded by saying that the sales had been on hold for far too long and he also urged the administration to reconsider the decision, which is separate from the pending – the notifications of whether or not to consider a sale of F-16 fighters.

So what is the legacy? I would say legacy one: there's unfinished business. There are partial notifications for pending programs and even though we are now on the last day of January, even this January the Bush administration could have notified the Black Hawk programs and could have, but did not, accept a formal request for F-16 fighters.

Legacy two, we also left with a very uncertain process. When President Bush first came into office in 2001, he ended a process that had been in place for decades – what we call the Annual Arms Sales Talks. He ended the last one in April, 2001. He replaced it with a new process of allowing Taiwan to be treated like any other foreign government in making requests to the United States on an as-needed basis. But as we saw in the refusal to accept F-16 requests, President Bush's administration was violating Bush's own policy. And now we don't have that process and we don't have the previous process.

What is the rule that Taiwan is supposed to play by? What is the process that is in place now? Is there even an objective process for U.S. consideration of what are what everyone would agree to be very serious questions with serious implications for the United States?

So I would just summarize by saying that I have concerns about not only the continuity, but there's a lot of uncertainty in place right now. We have credibility gaps in both places and we're also missing an important consensus in Taiwan itself. We have arbitrary decision-making, violations of the Taiwan Relations Act. Even if it can be disputed that there was a freeze in the notifications to Congress, I would say that there definitely only was a freeze in that the Congress was frozen out. There were violations of – some say there were not also violations of the six assurances, including consultations with Beijing.

Now, to be fair, the Bush administration was forced by Taiwan to wait years for Taiwan to get its act together to fund the programs at the end of 2007. So you would hear people in the Bush administration say, "if Taiwan forced us to wait for years, why can't it wait a few months?"

At the same time, it also seems that while what we expect Taiwan to do continues to shift and change, all expectations are not borne out. It also seems that the rules for Taiwan also keep changing. And I will just stop there and not get into too much, but if people want me to, I can follow up in what I mean by the rules keep changing.

So now what are we left with? Here are some questions for U.S. policy. Is there a new objective process for President Obama to be briefed fully by the Departments of

Defense and State on security assistance for Taiwan? Is there a new, objective process for the Obama administration to brief Congress and for the congressional role in determining arms sales in adherence with the TRA? And is there any objective process for Taiwan to make requests for security assistance? And it seems to me that with all these big questions left hanging that it might be time – indeed, overdue – for a strategic review.

We had what was then called a Taiwan policy review in 1994, 15 years after derecognition in 1979. And now, 15 more years have passed, so there's some symmetry to having a review every 15 years. And if there were such a strategic review, we might want to reassess whether or not the principles and premises of U.S. policy are now in question.

It is not just a simple question of what programs do we approve, what are the processes that are in place, are the laws being adhered to? I think there are some very fundamental questions at stake. Does Taiwan still perceive a military threat from the PRC to the extent that we had always assumed? Is Taiwan urgently wanting to upgrade its own self-defense capabilities? Is Taiwan maintaining a strong military to negotiate from a position of strength? And remember, that was always one of the important premises of why we even provide security assistance to Taiwan. Is for it to be able to engage in dialogue with the mainland.

Is the United States still supporting the goal, as President Reagan laid out in 1982, of maintaining a military balance in the Taiwan Strait? Is the United States supporting our allies and friends in Asia even as we continue very important cooperation with China? And if we are no longer urgently looking to upgrade Taiwan's self-defense for deterrence and its self-defense, then what is the policy that we have in place?

And most importantly of all, I think a lot of Americans would agree that the U.S. policy is fundamentally to avoid conflict, to avoid military intervention in the situation and that Taiwan needs to maintain its own self-defense capability. And we also have a shift in the premise, when Admiral Keating of the Pacific Command was here last summer and he said that if we were to make certain arms for Taiwan, then those – our actions would then be destabilizing. And that is – if that is indeed true, that is a major shift in the premises of our U.S. policy of how that carried out.

So when President Obama is in place, and he is now, my fundamental question, as I look back at some of the same questions that President Reagan faced, that President Bush 41, President Clinton, President Bush, and now he faces, going back definitely to President Reagan, is he fully being briefed of all the different ramifications and issues before him? And that has been a lingering question for the previous administration.

And I will just conclude by saying that we have a lot of questions for President Ma of Taiwan. He has not issued the defense policy. We still need to know what are his requirements for not just his navy or his army, but for his joint defense capabilities. The

U.S. still needs to have three things: clarity, certainty, and consensus in Taiwan about its own self-defense.

In conclusion, the U.S. dilemma today is even more acute. I will just close with the testimony in 2006 to Congress of another commander of the Pacific Command, Admiral Fallon, when he said – he testified to Congress and said he’s in a box here. He is committed to defend Taiwan if there is military aggression from the PRC, but at the same time he needs to see investment by Taiwan in its own defense capabilities to boost its own readiness levels and ability to provide for its own self-defense. And what we’re seeing today is that we’re still faced with cuts in Taiwan’s defense budget. And instead of improving urgently its readiness levels, we have a situation where Taiwan’s military is even changing the field exercises of its annual Han Kuang exercise, not annually, but to once every two years. I think these are left with some very important developments for us to ponder in this period.

MR. BATES: Fantastic, thank you very much, Ms. Kan. You raised a couple of very interesting points that I hope – well, I think we will pursue here for the year to come. This is the 30th anniversary of the Taiwan Relations Act, for those of you that remember that. And your idea of a strategic review I think is a very timely idea. I had not heard that mentioned and I think that would make a lot of sense for the new administration here and a new administration – relatively new administration in Taiwan searching for some clarity on these issues.

You also reminded us of the role of Congress, which often is overlooked, especially with the Taiwan Relations Act, and I think that that’s where the further discussion and engagement with Congress on that. So thank you very much.

One question, if I could, before we go to Rupert, is why would Black Hawks and the submarines not (included in?) the package? Was this a Pentagon decision, a political decision? Do you have any kind of hypothesis on that?

MS. KAN: I don’t think we can put the blame on the Pentagon. I think that these are very sensitive decisions that would have to go up to the level of White House. Whether or not that was decided by president, I wouldn’t know. I would just point out that they’re very, very different.

The Black Hawks would be a relatively non-controversial program. So that begs the question of why did that not get notified for Congress?

The submarine design is a whole other question, which has met with mixed reactions in Taipei. So I think it is a fair question for U.S. policymakers to ask whether Taiwan is still committed to that program or not.

MR. BATES: Okay. Searching for clarity from the Taiwanese side is important. Thanks very much. I appreciate that.

Rupert?

MR. RUPERT HAMMOND-CHAMBERS: Thank you, Scott, and the Center for National Policy. I'd like to start today with my Super Bowl pick. (Laughter). I'm not really going to. There are a lot of places to go from Shirley's excellent presentation, but I wanted to tease out a couple of things that she really hammered on consistently through her address. And one was issues and the second was process, or a lack thereof.

I was asked to talk about what we can expect from the Obama administration. I certainly profess to have no significant links with the actual administration or the run-up to its election, but certainly know a good number of the players who are involved and would offer some thoughts about what I see the Obama administration prioritizing. And please recognize that this is at some level what I hope they will do and at some level what I think they will do. And these are sort of going to come together over the next couple of minutes. It's somewhat difficult, I'm afraid, to separate those two things when you're so entrenched in the issues.

Let's start with China for a second tier. My sense is – and of course with Mr. Geithner's early statements on currency – that we are going to get strong, early focus by this government on China. I would reckon it's going to be trade and economics out of the box and actually, given the sensitivity of those issues in Congress too, that there will be a coalition of interests around Mr. Obama and his congressional colleagues on China and economic and trade related matters. But I do think that as the administration ramps up through this year and particularly as we get a team in place all the way down to the DAS levels – the deputy assistant secretary levels – what we're going to start to see is a more considered and structured position on China's military modernization and what that means for the United States. And then as a consequence, as a byproduct to that, how the government determines how it should respond in this more parochial instance, how it will respond with Taiwan's own efforts to provide for self defense.

I think also Mr. Obama is going to spend some time – not very much, he's got it on his plate – but when these issues do come up, he and his colleagues will look at what Ma and China are doing together. What are the implications of détente between the Chinese and Taiwan? Obviously at the moment, they're in the economic realm, but Hu Jintao made some very interesting statements over the Christmas period on security, and in my view touched on issues that (Bonnie?) has done sterling work on, and that's the area of CBMs, confidence-building measures.

How are those going to fit into an Obama administration's policy towards Taiwan? If China is genuinely committed to embracing this opportunity with President Ma, how is it going to embrace it substantively? How is – what is that going to mean? What is China prepared to do when the chips are down? I think that's a big question for us all. I think that's a big question for Mr. Obama. I would offer the notion that we don't know right now – that it's really not clear how much China is prepared to do, but they're going to do some things and I think Mr. Obama will be looking closely at that.

If China makes no adjustment, and we had the Chinese White Paper – I worked through some of it. I'm sure some of you read it all. But if we do have this period of economic détente between Taiwan and China and the notion that the tension has ramped down since Chen Shui-bian, but that Chinese force modernization is still growing great guns – that the production lines are still pumping things out, that the Chinese are still looking to procure technology, whether directly or illicitly; that the threat to Taiwan continues to grow. How do you reconcile, again, the economic détente with China's military posture? So I think in respect to China and Taiwan, there are some big question marks. I don't profess to have answers to that. I simply offer them as things that will be played into consideration.

I think Mr. Obama has put together a fantastic team on Taiwan. I really do. I think that the people that we've seen going in to place are just topnotch. They're experienced both in policy as well as outside of government, and I think that's important, too. You need some balance. General Jones, Admiral Blair particularly come to mind, I think separate of that Washington Post piece about Admiral Blair yesterday, which some of you may have noted, I believe him to be a very strong proponent of the relationship between the United States and Taiwan, separate of our relationship with China – that it has value in and of itself.

And I think that characterizes also the candidacies of people like Kurt Campbell and Chip Gregson, again topnotch; Jeff Bader, terrific – all really experienced, good people on Taiwan, good people on China. They've got their own relationships. They have experience in dealing with the players. They've got a sense of the personalities that they're dealing with on the other side of the Pacific and this will help them in their own deliberations, as well as they work through that difficult process of coming together as a team and working out divisions of responsibility.

I think they've got somebody to work with. I think Mr. Obama and his colleagues have somebody to work with in Ma Ying-jeou. His colleagues in Taiwan on national security I think are good. The names – people like Su Chi, the premier, I think are very good. Obviously, we have this sort of rolling process with ministers of national defense and maybe we'll get another one this year, maybe not. Who can tell? But I certainly think that the national security infrastructure that Ma Ying-jeou has put into place does offer Mr. Obama an opportunity to engage, to communicate. We're all aware that that was an issue with Chen Shui-bian and his colleagues.

So a good interlocutor – the team – Mr. Obama's team has a strong interlocutor who seems to recognize that putting the China relationship on the right track is important and yet, to play on Shirley's just fundamental point, Taiwan does not have a hope of engaging the Chinese and representing its (equities?) without robust support from the United States, and not just moral support, not just "we support Taiwan," but material support. I really think that that's an important point to make here.

What sort of early moves can we expect in the next six months? Well, here we start to get into what I would like to see as opposed to not just what I think will actually

transpire. I expect to make – the Obama government, when they engaged the Chinese, to make it extremely clear that Chinese force modernization is directly – it directly impacts the willingness of the United States to provide Taiwan with increasingly modern and sophisticated military equipment. I do believe that the Obama government is going to be very consistent on that, one, because it's absolutely right; and, two, because applying some pressure on the Chinese to take a look at this issue of its threat posture towards Taiwan has to be a goal for Mr. Obama and his colleagues over the next four years. How do you – where do you look for the pressure points with the Chinese? How do you actually get them to change their force posture on Taiwan and substantively reduce the threat, not just look at economic engagement and possibly some things on the side?

I would also expect Mr. Obama in the next several months to have – not personally, but to have a representative – whether it's Steve Young out there or Ray Burkhardt (sp) or some other person – have a discussion about priorities. What are Ma's priorities and possibly even to put some of Mr. Obama and his colleagues' early priorities in the mix and have some sort of discussion about.

I would expect arms sales to be part of that discussion. What is Mr. Ma's priorities for this and next year? What do you really want? If you've got limited resources at your disposal and we have limited political capital, what can we get done substantively? And obviously with arms sales, that truly is where the rubber meets the road. Mr. Ma, I expect, would deliver that message and that discussion and we can expect that to come back and be folded into some interagency discussion on what Mr. Obama should do on arms sales this year, clearing the deck, possibly this fall – this autumn. I would hope – I believe that it's right for Black Hawk and the remaining PAC-3 program to be notified to Congress.

You asked why you thought the Bush administration did what it did. I would candidly point to the top of the State Department, the top of the National Security Council, and Mr. Bush himself as the three principal interlocutors in the decision to quite literally just cut the package in half. It was \$13 billion, make it six and a half, I don't care how you do it. And we got this – and I think the PAC-3 situation is – the repercussions of the PAC-3 decisions that some in this room are continuing to deal with and certainly some of the industry representatives that I work with as a function of the number that was notified to Congress by the Department of State and the lack of communication between that institution and the Department of Defense on what the per unit cost would be if you reduced the total number. So process – Shirley's point on process.

So with any luck, the notification of Black Hawk, that low-hanging fruit, the remaining PAC-3. The submarines I think falls right under the heading of what Mr. Ma wants, what are his resources. If they prioritize that issue, then I'd expect serious discussion here on making the notification on phase one. If it's lukewarm, I would expect the submarine program to remain in limbo indefinitely possibly, but then a more complex behind-the-scenes discussion on whether Taiwan actually needs submarines and

if the more traditional route of procuring diesel-electric is not going to work or there isn't the interest, are there other solutions that would fill that need?

Taiwan has a number of other areas United States can be supportive over the next four years. There's the issue of the move towards an all-professional force. That's going to require debate on resources. That is extremely expensive. Is the Ma government fully prepared for what that means? What sort of impact is that going to have on procurement? Again, priorities; matching resources is what you want and what you can afford. Again, I think that's going to be a complex discussion as Taiwan moves towards an all-professional force, if indeed Mr. Ma and his colleagues remain committed to that.

Other areas, disaster relief, counter traffic – trafficking and interdiction, I think those sorts of areas where you're dealing with narcotics, WMD, and other areas that Taiwan can quietly play a role cooperating with the United States in the security realm.

The F-16 LOR and the PAC-3 – the reduced PAC-3 notification, to me are the best illustrations over the last several years for Shirley's point about the lack of a process. My best understanding is that Taiwan has attempted to submit a letter of request on three separate occasions over the last several years. In all three instances they've been told not to do it. That's unprecedented action. No other NATO or non-NATO ally gets treated in that manner. And I think it's fair to say that if we still had the arms sales process, we would at least have a process in which you could deal with that request and say yay or nay. But in the lack thereof, the process is manipulated and Taiwan's legitimate force needs are compromised as a consequence.

Whether you return to the arms sales notification process or whether you create some new process for Taiwan to have its requests digested, discussed, and then some consensus here on our end as to whether or not to proceed – I'm not sure exactly how that shakes out, but I do absolutely agree with you, Shirley, that we need to come back and understand more clearly what our process is going to be and how that process is going to be executed so that we can keep this process moving forward and not lose literally six years, which is in essence what the '01-'07 timeframe represented.

I'll quickly wrap up here with a couple of other thoughts. This is just generally. Mr. Bush and his colleagues last year talked about cleaning the slate when Ma Ying-jeou was elected. As a practical matter that did not happen. The hangover continued through until Mr. Bush departed office with his long serving colleagues and Taiwan policy regrettably continued to suffer as a consequence, and I think that was evident on October the 3rd. So building trust and a renewed consistency in the relationship generally is important, whether you're dealing with security, economics, general politics, policy, is hugely important.

And again, I think we're just going to benefit from the fact that one we've got this great team coming in. But secondly, they're not burdened with dealing with the Chen government. No disrespect for those who felt the President Chen got a bad rap. That's separate to that. That's all behind us now. The only thing that matters is many perceived

that he was difficult and that, as a practical matter, did impact our country's ability to do certain things, particularly in the last 18 to 24 months. And the Obama government will benefit simply from the fact that they don't carry that baggage anymore and should be freer to think out of the box, think creatively about ways, both to enhance Taiwan's security, but also, as was mentioned just earlier, to ensure that we remain focused on one of our core interests in U.S.- Taiwan-China relations, and that is ensuring that there is no conflict.

Thank you very much.

MR. BATES: Thank you, Rupert. Let me ask you to speculate on something. It's not really fair to ask, but I'll ask anyway, which is what would the reaction be from the PRC if there was a go ahead from both sides on the Black Hawks and the rest of the PAC-3 package?

MR. CHAMBERS: The People's Republic of China opposes all arms sales to Taiwan. It does not distinguish between something little and inexpensive and something big, expensive, and complex. They will get bent out of shape. That is their reflexive response to any issue on this matter and they won't be happy until we sever our security relationship with Taiwan materially and in every other sense too.

As difficult as this is, given that many of – particularly as you go further up the government chain, they have to deal with Taiwan and China. As difficult as this is, it's inherently in our interest, obviously – I would say obviously, to provide Taiwan this sort of material support. The Chinese oppose it because it hurts their interests; their interests being even to cut the best deal that they possibly can with Taiwan or to coerce Taiwan into a deal that undermines the long-term interests of Taiwan and I think the United States because it creates instability in the – (inaudible).

MR. BATES: Thank you.

MR. CHAMBERS: You're welcome.

(END)