

**“Taiwan and the Sino-American Relationship:
Thoughtful Management, Consistent Attention”**

U.S. Senator Dianne Feinstein
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It is an honor to appear before you today at this seminal moment in U.S.-China relations. As we are gathering, Chinese President Hu Jintao is in Washington on his first official visit.

While it is not clear if any major breakthroughs ensued from this morning's meeting between President Hu and President Bush, this was another important opportunity for both sides to communicate their broader intentions and look for areas of cooperation based on mutual interests.

The “rise” of modern China is one of the most remarkable transformations the world has ever seen. It is truly a testament to Chinese history, Chinese culture, and the Chinese people themselves.

I remember well my first visit 27 years ago, when, as the Mayor of San Francisco, I traveled with my husband and a small delegation to Shanghai to establish the first Sister City of its kind between the U.S. and China.

Everywhere we looked, the poverty and debilitation from the Cultural Revolution and the machinations of the Gang of Four were evident.

A great pall hung over the nation. The quantity of goods and food previously available to one had to be shared by five people. The atmosphere was gray and fearful. Conversations were difficult. Infrastructure was debilitated. Art and culture was sublimated to political philosophy.

This past November, I had the opportunity to travel to China and participate in celebrations marking the 25th Anniversary of the San Francisco-Shanghai Sister City relationship.

And while I have visited every few years since I was Mayor of San Francisco – the ongoing development and modernization never cease to amaze me. No large country on earth has changed more than China in the last 30 years.

Shanghai, for example, is now a world-class metropolis, with architecture rivaling any city in the West. On the east side of the Huangpu River, where I remember seeing dilapidated factories and small farms, the Pudong Financial District has sprung up in just 15 years.

There you will find the Jinmao Tower, the world's 5th tallest building. An empty lot next to it will someday hold the Shanghai World Financial Center – which at a planned 1,614 ft. will lay claim to the title of the world's tallest building, surpassing the current leader, "Taipei 101," by nearly 150 ft.

Pudong also contains Shanghai's new Stock Exchange, which from its genesis in the dingy Pujiang Hotel in the 1980s, has become a symbol of China's financial reformation. My husband actually participated in the original discussions with former Mayor Wang Daohan about creating this stock exchange.

And, nearby, you can conveniently access Shanghai's new airport by jumping aboard the first-commercial high-speed Maglev train in the world, which travels a max speed of 440 km (267 miles) per hour along the 30 km (19 mile) track between the Pudong Financial District and the Shanghai Int'l Airport. As I recall, it is a seven minute trip.

The new Shanghai-Hangzhou line, which was just approved in February 2006, will run 170 km (106 miles) in about 27 minutes.

I was amazed when Shanghai's Party Secretary, Chen Liangyu, told us last November that the city would add 300 km of subway track, along with 3 new lines and 209 stations by 2010, in preparation for hosting the World Expo. We could not complete that sort of project here in the U.S. in 75 years.

And yet, as President Hu Jintao visits Washington today, he is, in many ways, the leader of two very different countries. On one hand, there is China's east coast region, where 26 cities, including Shanghai, now account for over 80 percent of the nation's import-export and trade-led growth.

Conversely, the rest of China – some 1 billion people – receives just 20 percent of the benefits of China’s booming economic growth. And, as Central and Western China are experiencing economic decline, the nation’s income gap is growing at alarming rates.

Statistics suggest that the top 1/5 of the population earns over 50 percent of the total income, while the bottom 1/5 bring in less than 5 percent of the nation’s wealth. Political corruption is believed to be siphoning off nearly \$85 billion annually, or about 5 percent of China’s GDP.

Together with Premier Wen Jiabao, President Hu Jintao and this fourth-generation leadership face much greater challenges than any of their predecessors. For many of us who watch China there is both a sense of awe at what China has accomplished, as well as a sense that it could all unravel overnight.

In terms of the U.S.-China relationship, I believe it is critical that we embrace opportunities to help China successfully transition into a major and responsible world power.

We have nothing to gain through a policy of “isolation,” or containment. An unstable China would surely present a greater threat to the U.S. than a confident China, willing to partner with us on mutual interests throughout the globe.

Key bilateral disagreements remain – from Taiwan, to trade, to military modernization – requiring continual communication and skilled diplomacy on both sides. Today, in the interests of time, I will focus on one of these issues.

Even though trade may be higher on the Bush-Hu agenda today, it is clear to me that nothing has the inherent potential to disrupt our relationship with China like Taiwan.

When taking into consideration the fact that China’s foreign policy is calibrated primarily with the goal of maintaining domestic stability and ruling legitimacy, it is easy to understand how differences over the “Taiwan Question” – as it’s called in Chinese – could be the catalyst for sparking a military confrontation.

Certainly, no issue mobilizes nationalism or elicits as intense and virulent feelings among the Chinese people. Taiwan galvanizes and unites the Mainland.

Moreover, few Americans appreciate the historical backdrop against which the Chinese people view Taiwan’s status.

With Hong Kong and Macao now in the fold, Taiwan remains the one outstanding issue to be resolved from the so-called “Century of Humiliation,” (1842-1942) when China was dominated by foreign powers.

As belief in ideology has waned, the protection of “territorial integrity” is used to substantiate the Chinese Communist Party’s ruling mandate. Consequently, many analysts believe the regime will do anything – including going to war with the United States over Taiwan – to preserve its power.

The recent decision by Taiwanese President Chen Shui-bian to shut down the National Unification Council – an advisory body set up in the early 1990s to look at possible reunification options – has once again stoked tension across the Taiwan Strait.

With Chen’s ruling party losing two consecutive elections, and approval ratings for the President at record lows, he now seems to believe in taking an aggressive, confrontational posture toward the Mainland.

This tactic is based on the calculation that Beijing will react excessively to his provocations, thereby eliciting sympathy for Taiwan, while coalescing support around a President who is willing to stand up to “Communist China.” To its credit, the Mainland has so far refused to take the bait.

At the same time, the Chinese leadership – with its focus on domestic matters – is leaning on Washington to control an unpredictable Chen. As a result, both Beijing and Taipei increasingly rely on American diplomatic finesse to manage cross-Strait tensions.

With that in mind, let me talk a little about why many of us in the U.S. Congress, along with the Administration, were disturbed by President Chen’s decision to shut the doors of the National Unification Council.

From a practical standpoint, the action was largely irrelevant as the Council had not met since Chen was first elected president in March 2000. And cutting its pitiful budget of 1000 NT (US\$31) certainly made no difference.

What mattered was that President Chen’s actions brought into question his willingness to keep a previous set of commitments that he had negotiated with U.S. officials immediately following his election in 2000.

These commitments, commonly referred to as the “5 Nos,” were intended to mitigate unnecessary cross-Strait tensions resulting from Taiwan’s election of a pro-independence leader.

They include the following promises:

- (1) No declaration of independence;
- (2) No change in Taiwan's official title or flag;
- (3) No enshrinement of a "two state" or "state-to-state" theory in the constitution;
- (4) No holding a referendum on the issue of independence or unification; and
- (5) No abolishment of the National Unification Council.

In the end, the U.S. was able to dissuade Chen from officially "abolishing" the National Unification Council.

Rather, after pressure from the Bush Administration, Chen ultimately accepted the phrase "cease to operate" to characterize the status of the National Unification Council.

Nevertheless, it is clear that Chen was willing to test the goodwill of the U.S. and stir up tensions with the Mainland for his own political gain at home.

Unfortunately, his actions only solidified Beijing's view that he's not trustworthy, and hurt his credibility with Taiwan's closest ally, the United States.

The rashness of several of Chen's recent statements has also again raised the question of how the U.S. would respond if the Mainland someday reacted with force to Chen's provocations.

As you know, our security commitments toward Taiwan are outlined in the Taiwan Relations Act (TRA) – the foundation of our "unofficial" relationship over the past 27 years.

Yet, I think it is important to point out a common misconception – nowhere does the TRA explicitly require the U.S. to go to war with the Mainland over Taiwan.

Rather, the TRA states that the U.S. would "consider any effort to determine the future of Taiwan by other than peaceful means, (including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and) of grave concern (to the United States.)"

It also requires us “to provide Taiwan with arms of a defensive character,” and “to maintain the capacity (of the United States) to resist any resort to force (or other forms of coercion) that would jeopardize (the security, or the social or economic system of the people of Taiwan).”

Consequently, while the U.S. will continue to adhere to our commitments under the Act, it is important to reiterate, (as former Assistant Secretary of State James Kelly stated before a Congressional Hearing regarding the 25th Anniversary of the Taiwan Relations Act in April 2004), that we expect Taiwan to “respect our interests in stability embodied in the TRA” and “exercise responsible, democratic, and restrained leadership.”

I believe it is more critical than ever to protect the “status quo.” That is why we must continue to communicate to both Beijing and Taipei on a regular and consistent basis that we will not tolerate actions by either side that would unilaterally alter the status quo.

We must also bring full pressure to bear in emphasizing that any final outcome to Taiwan’s status must come peacefully, and only with the clear support of the people on both sides of the Taiwan Strait.

In addition, the U.S., in my view, should also make it a central tenet of our relations with both the Mainland and Taiwan to insist on the resumption of cross-Strait dialogue.

The current seven-year hiatus in talks has created a dangerous vacuum which cannot be allowed to continue.

This remains a challenge. The Mainland, for its part, distrusts Chen and has little interest in cooperating with his Administration. It has consistently maintained that Chen must first accept its “One China Principle” before talks can resume.

Beijing has also pursued a “United Front” strategy by co-opting Taiwan’s opposition parties in a joint effort to marginalize Chen.

This began in the spring of 2005 when the leaders of both the KMT and PFP parties were invited to Beijing to hold talks with the Chinese leadership.

These highly-publicized visits to the Mainland have been a boon for the Pan Blue as the people of Taiwan have embraced a more moderate approach toward China.

Yet, while Beijing's tactics have achieved the desired result of both marginalizing Chen and enhancing the Pan Blue's support at home, they have also exploited political rifts in Taiwan, increasing governing gridlock and hostility between the opposition-controlled parliament and the Presidential Office.

This use of the "carrot and stick" approach was further demonstrated last week when former Kuomintang chief Lien Chan led a Taiwanese trade delegation to Beijing for party-to-party discussions. Sunday, Lien met with President Hu Jintao, who afterwards called for cross-Strait dialogue based on the "One-China principle" and "equal footing" to resume "as soon as possible."

Beijing also proposed a series of "goodwill gestures" such as increasing agricultural imports from Taiwan, allowing Taiwanese fishermen to sell their catch in Mainland markets, recognizing the Island's university degrees, and permitting Taiwanese physicians to practice on the Mainland.

By specifically offering special economic benefits to traditional supporters of the Pan Green's base like farmers, fishermen, and physicians, the Mainland clearly is attempting to influence Taiwan's domestic politics.

Chen's DPP Party, however, would do well to do more than simply brand Beijing's proposals as "poison coated with sugar." It is time that the ruling party recognizes that the Taiwanese people overwhelmingly support better ties with the Mainland.

Additionally, the current political environment in Taiwan has deeply weakened the Island's security apparatus.

While China's military budget has experienced double digit growth since 1989, Taiwan has done little in recent years to bolster its own defense.

Since 1993, in real GDP terms, Taiwan's defense budget has fallen by 50 percent. And repeated opposition from the Pan Blue has caused the Legislative Yuan to turn down \$10-20 billion worth of U.S. arms sales.

Moreover, the balance of military power in the Strait is shifting rapidly in Beijing's favor with the Mainland's accelerated procurement of high-tech Russian weaponry since the late 1990s.

According to Taiwanese intelligence estimates, the Mainland now has over 800 ballistic missiles targeting Taiwan and has been increasing stockpiles by about 100 per year.

Today, Taiwan is more vulnerable to Chinese force than ever before and thereby much more reliant on U.S. military support.

Thus, it is more critical than ever that a compromise be found that would allow both Beijing and Taipei to return to the table. Preconditions have only hindered progress.

At this stage, I believe the most constructive approach to ensuring cross-Strait peace would be for the Mainland and Taiwan to negotiate a “mutually agreed-upon” status quo.

This concept, which has been circulating in academic circles for some time, and was recently endorsed by KMT Chairman Ma Ying-jeou, provides the most realistic and viable opportunity to prevent a cross-Strait conflict and allow for a peaceful resolution of the Taiwan issue.

Presumably, this could be based upon promises by Taiwan not to declare independence, while the Mainland would, in turn, forswear the use of force.

For its part, the U.S. could reduce weapons sales to Taipei if China began dismantling the hundreds of ballistic missiles now threatening Taiwan.

After several decades under this “peace accord,” the political and economic systems of both sides might become more closely aligned so that it would be possible for the Mainland and Taiwan to reach some understanding on the Island’s future status.

In my view, the key to American policy should be to preserve the “status quo” and encourage dialogue, economic integration, and responsible leadership on both sides.

Taiwan has already invested an estimated US\$100 billion in the Mainland. Last year, 4 million Taiwanese traveled to China, and it is believed that at least 1 million Taiwanese reside there today. Of this number, 200,000 businessmen now operate 60,000 to 100,000 businesses in China. Notably, the Mainland became Taiwan’s largest trade partner in 2002, and last year cross-Strait trade amounted to about US\$80 billion.

These statistics are strong indicators of the influence of economic integration on the cross-Strait relationship. I deeply believe that this will one day lead to political integration and will ultimately provide a lasting solution.

As the U.S. increasingly finds itself in the middle of cross-Strait tensions, we must express in clear terms to both sides where our “redlines” stand: No provocation, coercion, or unilateral actions – only a peaceful solution acceptable to the people on both sides of the Taiwan Strait.

Thank you.