

## **Testimony of Randall G. Schriver**

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Mr. Chairman and esteemed committee members, I would like to express my appreciation for the opportunity to appear before your committee to discuss future prospects for U.S.-Taiwan relations, an issue vital to U.S. interests and peace and stability in the Asia-Pacific region.

Given recent events in Taiwan, I would be remiss not to take a moment to acknowledge the victims of last week's earthquake. We in the U.S. should keep Taiwan in our thoughts and prayers as rescue and recovery continue in the coming weeks.

Taiwan's successful election this year was a significant milestone in deepening Taiwan's democracy, and Taiwan deserves our recognition and praise for continuing to be an example of a thriving democracy in Asia. As a still "young" democracy, and as a country that faces coercion and pressure from the People's Republic of China, these events should not be taken for granted.

It is also appropriate as President Ma's term of service approaches an end that we reflect on his significant accomplishments. Too often overlooked in the United States, we should note his efforts at peacemaking and diplomacy in the East China Sea and South China Sea, reaching agreements to end maritime disputes with Japan and the Philippines, and furthering peace and stability in the cross-Strait relationship.

Per your guidance, my testimony today will focus on trade and economic issues in the U.S.-Taiwan relationship, and prospects for strengthening the relationship post-election. U.S. support for Taiwan has served as a symbol of U.S. commitment to peace and security in the Asia-Pacific region, and Taiwan is an important strategic and economic partner that can help advance U.S. interests in the region. The U.S. has an important strategic interest in the health of Taiwan's economy as we seek a region that promotes a liberal political order and free trade. Strengthening trade and economic cooperation between the U.S. and Taiwan is therefore a critical aspect of continuing to develop this important relationship.

### ***U.S.-Taiwan Trade and Economic Relationship:***

Though the U.S. and Taiwan have enjoyed successful cooperation over a wide range of economic, security, and diplomatic issues, the strong trade relationship alone

demonstrates the importance of Taiwan for U.S. interests. Despite its relatively small population of 23 million, Taiwan is the United States' 10<sup>th</sup> largest trading partner, 14<sup>th</sup> largest export market for U.S. goods, and 12<sup>th</sup> largest source of imports. U.S. companies, Taiwan's largest source of foreign investment, are heavily invested in the manufacturing, finance and insurance, and wholesale trade sectors. Taiwanese companies are also heavily invested in the United States, as cumulative investment reached \$13.93 billion in 2015.

President-elect Tsai Ing-wen and the DPP campaign prioritized economic reform in response to growing Taiwanese frustration with a stagnating economy and a relatively high unemployment rate. Particularly, Tsai promised to seek greater diversification among trading partners as the Taiwanese public has grown more and more concerned about Taiwan's growing economic dependence on China. Dr. Tsai plans on reinvigorating the economy by strengthening local industries, reducing Taiwan's dependence on China, and expanding global trade.

The United States should seize this opportunity to expand its trade relationship with Taiwan and promote Taiwan's further integration into the global economy. Tsai Ing-wen has expressed keen interest in joining the TPP, making it a cornerstone of her campaign. As the 26<sup>th</sup> largest economy in the world, inclusion of Taiwan would significantly enhance the trade pact. A recent study estimates that Taiwan's accession to the TPP will generate over \$20 billion of welfare gains for the twelve parties. As the TPP is a fundamental component of a successful rebalance strategy, the U.S. must ensure that Taiwan is included. It is my hope that the United States and its partners in the TPP will conclude the current round with full ratification of the agreement, and then move quickly to launch a second round of negotiations with an eye toward expansion. Taiwan should be a part of the second-round talks, along with South Korea and perhaps other interested nations.

In the event that there is not timely movement on TPP, the U.S. should consider a bilateral free trade agreement with Taiwan. Our Trade and Investment Framework Agreement (TIFA) should be leveraged further to pursue robust bilateral trade liberalization. In fact, these efforts can be made in parallel with ongoing discussions on TPP. Genuine efforts toward a bilateral FTA will ultimately assist all parties in pursuing multilateral trade liberalization in the future.

### ***US-Taiwan Defense Industrial Cooperation:***

Another emerging area of economic cooperation is in the area of defense industrial cooperation. Such cooperation not only supports the broader U.S. goals surrounding our interest in strengthening Taiwan's defense, but it also makes economic sense for both countries. While some critics point to the need for Taiwan to raise its defense budget, many of those same analysts ignore one of the most promising avenues for enhancing Taiwan's defense capabilities – defense industrial cooperation associated with direct commercial sales of military equipment and services. Trade-offs between expenditures on national defense, economic growth, and social welfare are

often contested, not only in Taiwan but in other societies as well. Defense spending, given the proper set of circumstances, can contribute to economic growth and development. The creation of jobs and income at the local level in Taiwan, along with technology spin-offs, could increase support for greater defense spending. As long as Taiwan's defense industry remains weak, public support for a larger defense budget is likely to be inadequate. This is especially true when faced with what is known as a "crowding out" effect. With legal caps on deficit spending, an increase in defense expenditure incurs opportunity costs, displacing spending in other sectors, such as education, social welfare, S&T, and investment into economic infrastructure. Along these lines, a consensus exists in favor of major indigenous programs, such as diesel electric submarines. Fair consideration of export licenses and other forms of technical assistance in support of Taiwan's indigenous submarine program is warranted.

### ***U.S.-Taiwan Science & Technology (S&T) Cooperation:***

Beyond trade, Tsai Ing-wen's election will also present other opportunities to partner with Taiwan. The Taiwanese economy has long relied upon maintaining a technological comparative advantage, and sustaining this advantage is an important driving force shaping the future of the region. The U.S. and Taiwan share a long history of S&T cooperation since a 1967 agreement between ROC Vice President Yen Chia-Kan and President Lyndon Johnson to make S&T cooperation a priority in the relationship. Recent cooperation has involved technical information exchanges, atmospheric research, water resources development, meteorology and forecast systems development, and other areas. Researchers from Taiwan and the U.S. have also partnered on environmental and natural disaster research, such as the ongoing space collaboration on the COSMIC-2/FORMOSAT-7 program, which works to improve weather forecasting abilities. The Taiwanese Environmental Protection Agency has worked with the U.S. EPA for over 20 years to collaborate on environmental protection issues important to both sides. Taiwan is included in the United States' International Environmental Partnership Program (IEP), which shares best practices on environmental issues with countries around the world. The U.S. and Taiwan could deepen and broaden their economic relationship by expanding S&T cooperation. Additionally, S&T cooperation could help Taiwan maintain its technological advantage and produce mutually beneficial innovations.

### ***Cross-Strait Relations:***

Much (if not all) of what is described above can be pursued irrespective of China's views. However, we'd be wise to prepare for an environment in which Beijing puts increasing pressure on Taipei and Washington to curb bilateral cooperation. Since 2008, Taiwan and China have established direct commercial flights, promoted bilateral tourism and signed an Economic Cooperative Framework Agreement (ECFA). Notably, in November 2015 Ma Ying-jeou met with Xi Jinping in Singapore, the first meeting of leaders from both sides of the Strait since 1949.

However, even as Taiwan and China develop their political and economic relationship, China still poses an enormous security challenge to Taiwan. Beijing refuses to renounce the use of force against Taiwan, and maintains a threatening posture against the people on Taiwan. China's military modernization has significantly improved its power and advantages over Taiwan. According to U.S. and Taiwanese analysts, China has more than 1,500 missiles targeting Taiwan. The PLA has developed other military capabilities in the areas of electronic warfare, counter-space, and undersea warfare. Ultimately, Chinese military leaders seek capabilities that could support an attempt to invade and physically occupy Taipei.

Security ties between the U.S. and Taiwan continue to be a fundamental component of the relationship as well. Guided by the Taiwan Relations Act (TRA), the U.S. is committed to providing Taiwan with arms according to its defensive needs. This commitment should be the hallmark of our defense relationship with Taiwan, but in recent years the United States has neglected its obligations. As the PRC continues its military buildup intended to intimidate Taiwan, the United States should avoid allowing pressure from China to keep it from fulfilling this commitment. After a four year absence of arms sales notifications to Taiwan, the December 2015 sale was a positive, albeit modest step. The Obama Administration and the succeeding administration need to take bolder steps to demonstrate their strong support for Taiwan. Taiwan is too often approached as an "issue to manage" within the context of U.S.-China relations, rather than as a valuable economic and strategic partner. Resuming regular arms sales and increasing our support for Taiwan's defense is the best way to demonstrate our commitment to this relationship.

In addition to military pressure, China is also increasing its efforts to employ economic and diplomatic coercion. Beijing's strategy is to isolate Taiwan from the rest of the world. The United States should closely monitor China's reaction to the election and power transition. China is likely to step up efforts to impose economic pressure on Taiwan. Supporting trade with Taiwan and expanding its integration into the global economy is not simply an economic tool; it is a strategic tool. Through trade with Taiwan, the U.S. can ensure the survival of Taiwan's democracy, free market economy, and continued existence as a responsible regional and global actor.

China has already taken some steps to put more pressure on Taiwan. In December 2015, it was announced that China's Tsinghua Unigroup would buy significant shares of two Taiwanese semiconductor and testing and packaging companies, a sign of China's ambition to compete with Taiwan in the chip industry. Since the election, there has been speculation that China will reduce the number of tourists allowed to visit Taiwan as well as the number of flights from the mainland to Taiwan. There is also speculation that Beijing will end the so-called "diplomatic truce" and will attempt to bribe Taiwan's diplomatic partners to switch diplomatic recognition to the People's Republic of China. And it is widely believed Beijing will seek to rollback the few gains Taiwan has made in the area of international space. It

is in our interest to help Taiwan in its efforts to resist this type of marginalization and quarantine.

### ***Policy Recommendations***

There are several ways the U.S. can strengthen our relationship with Taiwan.

First, the U.S. should champion Taiwan's candidacy for TPP and work to identify a concrete, early path to TPP for Taiwan.

Second, the U.S. should continue to support reciprocal delegations for investment promotion. In the past, Taiwan has sent delegations of investors and business leaders to the United States to demonstrate its commitment to trade and investment with the United States. The U.S. could sponsor a similar delegation to Taiwan to explore investment and business opportunities between the two sides.

Third, the U.S. should address Taiwan's security gaps. The Obama Administration has an opportunity to announce another major arms package before they leave office. Failing this, I'd urge a new U.S. Administration to approve an early arms package to include modern fighter aircraft and concrete support for diesel electric submarines.

Fourth, the U.S. should become more creative in promoting our economic ties with Taiwan by reinvigorating S&T cooperation, and by endorsing and supporting robust defense industrial cooperation.

And fifth, the U.S. should keep the onus on Beijing for maintaining peace and stability in the Taiwan Strait, and for improving cross-Strait ties. Our diplomacy must strenuously reject Chinese attempts to intimidate, coerce and isolate the people of Taiwan. In particular, early efforts should be made to continue assisting Taiwan in its legitimate quest for greater international space. We all benefit from Taiwan's continued participation in the World Health Assembly, and we'd all be better off with Taiwan as a full and active member of the International Civil Aviation Organization.

Taiwan's recent elections and upcoming leadership transition present an excellent opportunity to improve our trade and economic relationship with Taiwan, just one way the U.S. can demonstrate its commitment to Taiwan's success as a democracy and free market economy. As a flourishing democracy, thriving economy, and a long-standing security partner in East Asia, Taiwan possesses intrinsic value for the United States, and should be viewed as an important partner in a successful U.S. rebalance to the Asia-Pacific.

I hope the Obama Administration and friends in Congress will share this outlook. Thank you again Mr. Chairman for the opportunity to participate in your hearing today, and to offer these thoughts.