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Greetings

Thank you very much for inviting me to join you this morning. This is my first opportunity to return to Washington for consultations since having the honor and pleasure to begin working to represent America's interests in Taipei last July.

America's interests are clear and familiar to all of you.

- Regional stability. Our "one China policy," insistence on peaceful resolution, and call for dialogue all reflect our commitment to fostering stability. Our support for Taiwan's self defense efforts, as required by the Taiwan Relations Act, is another essential dimension of our policy.
- Economic Reform. Open and Fair Trading Arrangements help support a level playing field for investment and trade and thereby help ensure a shared prosperity for the U.S., Taiwan and our other economic partners.
- Democracy and Human Rights. We will continue to work to help others cultivate and institutionalize democracy. We will advocate and work for human rights for all. We believe these efforts are both right and are the indispensable foundation for stability and prosperity.
- Assisting U.S. Citizens Abroad. Particularly in this era of global terrorism, we have a fundamental responsibility to help ensure the safety and security of American citizens as they travel and live abroad.

Reflecting both our advocacy of American interests and our expanding agenda with Taiwan, AIT's steadily growing responsibilities have caused our staff to outgrow our 50 year-old office building on HsinYi Road. Last year we identified a piece of land in the eastern suburb of Neihu on which to build a new office facility that will house all of AIT under one roof. We hope to break ground in early 2005 and occupy it in 2007. At the same time, we are moving our employees out of the once-upon-a-time-30-years-ago "luxury" housing on YangMinShan into modern, secure and convenient housing closer to the Taiwan American School and to our new office site.

Our Near Term Priorities

These changes will enable AIT to better meet the challenges of managing our unofficial relationship with a rapidly and dramatically changing Taiwan. Taiwan is confronted with its own set of challenges:

- Recovering from its worst-ever economic recession and unprecedented unemployment;
- Cracking down on IP piracy and other crimes;
- Meeting its WTO commitments;
- Institutionalizing its democratic gains;
- Providing for its self-defense;
- Managing its relations with the Mainland.

Counter-Terrorism

One area that deserves special mention is Taiwan's commitment to the global war on terrorism. Taiwan has unilaterally committed itself to abiding by all the relevant UN resolutions and conventions and is taking measures – including new legislation – that will, for example, further tighten the noose around the ability of terrorists to access money through the banking system. Taiwan is also committed to working to improve its export control regime, to ensure that sensitive dual-use technologies do not fall into the hands of terrorists who are intent on building weapons of mass destruction. This is a new challenge for Taiwan that requires hard work and deserves our assistance. At the same time, Taiwan has stepped forward to provide humanitarian assistance to Afghanistan.

Democratization

With presidential elections just over a year away, it is important to recognize how far Taiwan has come along the path to becoming a full democracy – and how much more it seeks to accomplish to institutionalize its gains. Conducting fair campaigns and elections free of corruption and manipulation is the crucial first step. Experience elsewhere also has shown that this is often the easiest step. The post-election period presents much more difficult challenges for democratic institution-builders. Questions linger: what is the proper role of the “opposition,” how to maintain “balance” as well as “checks” among the various co-equal branches of government, how to implement and enforce rules governing the ethical and political conduct of civil servants and military officers. These are just some of the issues facing Taiwan today.

There is much in the American experience that is relevant to Taiwan's developing blueprint for democracy. We are prepared to work with representatives from all the political parties as well as with all five branches of the government to share information, experience and advice. For example, at the request of the

Legislative Yuan, we have made speakers from the Congressional Research Service and GAO available (in person and via Digital Video Conferencing) to the staff of individual LY members as well as the LY's permanent secretariat. We hope to expand this program and seek "volunteer" speakers. If there are any Hill Staffers in the audience today who would be interested in participating, we would like to hear from you.

Economic Recovery and Prosperity

Taiwan's biggest economic challenge is how to best deploy its strengths to seize the many opportunities before it. This is not unique to Taiwan. Its neighbors face similar challenges. The people of Taiwan are famous for their entrepreneurial spirit, their technological prowess, and tens of thousands of them have successfully run businesses in the world's great emerging market – the Mainland. Taiwan is the 16th largest economy in the world and the 3rd largest holder of foreign exchange reserves. It has a positive balance of payments and low exposure to external debt. Taiwan's central geographic location in the region and shared language and culture with Greater China make it an ideal candidate to be a regional "hub" and business platform – or, as they say, a "green silicon Island."

Where it can, AIT wants to help Taiwan to succeed in the economic transition to the 21st century. Of course, we will advocate vigorously for American business -- high tech, services, agriculture and the rest.

Taiwan is now working on multiple fronts to open its markets in the wake of its WTO entry, address its non-performing loan overhang, crack down on rampant

Intellectual Property “piracy,” move up the high technology ladder, and create a transparent regulatory regime. It also seeks to create jobs for workers displaced by the move of labor-intensive industries to the mainland and to keep pace with its increasingly competitive Asian neighbors. Taiwan's leaders know it must meet all these challenges or else lose its competitive edge and delay its economic recovery. Taiwan’s neighbors have tried various paths to accelerate economic liberalization, revamp their financial markets, tackle their NPL problems, and shut down IPR pirates, and they are reaping the foreign direct investment results. And everyday, like Taiwan, its economic competitors are taking advantage of opportunities to do manufacturing and other business with the Mainland.

Let me dwell for a moment on IPR. The inadequacy of IPR protection in Taiwan is an enormous problem. It would be hard to overstate it – it is our number one bilateral trade issue. In my view it is becoming more, not less, serious. This problem not only costs IP owners vast sums of money in lost sales and royalties. The inability to reassure the international community that leading-edge ideas will be protected here also raises concerns for Taiwan’s widely-touted plans to become a center for new, high-value, knowledge-based industries such as biotechnology, digital content production, and nanotechnology.

The problem is not just teenagers peddling CDs in the night markets. The problem is the export to Europe, South America and the U.S. of unlicensed discs manufactured in Taiwan in great numbers. And until jail sentences for “IP thieves” are long enough to deter this behavior and the criminal “kingpins” are jailed and their production machinery dismantled and destroyed, I’m afraid there will little meaningful improvement.

WTO Commitments

A year ago this month, Taiwan became the 144th member of the WTO. That was a giant step for Taiwan. The policy adjustments required of new WTO members are often painful. Taiwan is no exception. Like all of us – old and new members alike -- Taiwan has had to make difficult trade-offs between its domestic political and economic interests and its international commitments. Having said that, however, there are elements of Taiwan's WTO accession agreement and on our bilateral agenda – in agriculture and pharmaceuticals to name two areas -- that continue to require Taiwan's urgent attention. Before the bilateral trade agenda can move forward, we need to resolve these lingering issues.

Providing for Taiwan's Self-Defense

Although China's leaders stress their strong commitment to peace and stability, the unprecedented and sweeping modernization of the PLA suggests that Beijing has a dual strategy. For the 23 million people of Taiwan, the implications are enormous. What should Taiwan do to counter a growing threat posed by PLA missiles? How much should Taiwan spend in the face of the PLA's increasing naval and air capabilities? What steps should Taiwan take to offset improved PLA capabilities to conduct special operations and asymmetrical warfare? Is the PLA acquiring the amphibious capability to invade Taiwan? And if so, what should Taiwan do about it?

While these questions are posed by the threat Taiwan faces from China, the responses will be crafted in a Taiwan that is undertaking far-reaching reforms in its national security system, ranging from greater civilian control of the military to doctrinal and manpower changes. How and how rapidly Taiwan implements these reforms will greatly affect Taiwan's ability to respond to the challenges posed by PLA modernization. An effective national security structure staffed by a mix of well-trained, professional civilians and military officers is crucial to making the right acquisition choices and to making this "hardware" perform as intended. For Taiwan, this will not be an easy task. Its efforts deserve our support and sympathy.

Acquisition of advanced weapons systems appropriate to Taiwan's self-defense is important, but it is only a part of the solution. Just as – if not more – important is the capability of Taiwan's military forces to use these systems effectively. There is no substitute for creating a corps of professional, technically skilled, highly trained and motivated soldiers. Taiwan's military is confronted with the daunting challenge of changing large organizations with their own doctrine and internal culture to be ready to fight a modern adversary. Recent conflicts in other arena have shown that strategy and force structures that integrate air, sea, and land operations, while maintaining command and control in all these areas, has a tremendous advantage. Taiwan's military recognizes this need for "jointness" and has begun to make the necessary changes to make joint operations part of its SOP.

Technological advances have accelerated the pace of battle and placed a greater burden on the judgment and initiative of junior officers in the field who cannot wait minutes or hours for critical decisions to be rendered by senior officers in command posts. Fortunately, Taiwan has an abundance of bright, dedicated and professional

officers. The challenge is how best to empower these young leaders to take the initiative at the lowest practical level. Another dilemma is how to operate sophisticated weapons systems with an enlisted corps composed of draftees who serve only 22 months in the military. Moving to a volunteer, professional military is one option. Elsewhere, NCOs are the backbone of the military and they could be so in Taiwan as well, if they are provided the right mix of incentives, responsibilities and respect.

Managing Cross-Strait Relations

President Chen's January 1 speech, in which he outlined his approach to managing relations with Beijing, is an important and welcome statement. In reaffirming the pledges he made in his 2000 inaugural speech and proposing the establishment of a framework for interaction on economic issues – including direct links – Chen has again demonstrated a desire to steer a moderate course and a willingness to dialogue with Beijing. Taiwan is hoping for the PRC to offer a full and positive response.

Peaceful resolution is the fundamental U.S. interest in the Taiwan Strait. To that end, we believe that both sides of the Taiwan Strait -- indeed the region as a whole -- have much to gain from seeking common ground and much to lose from engaging in behavior that raises tensions or from unilaterally altering the status quo in ways that undermine confidence in their commitment to peace and stability. Our commitment to the self-defense of Taiwan under the Taiwan Relations Act reflects our conviction that a secure and self-confident Taiwan is a Taiwan more capable of engaging in political interaction and dialogue with the PRC.

Closing

Let me close by restating my initial message: Taiwan is well along in an important transition into a democratic society. This will require a fundamental transformation or paradigm shift in their political, economic, and defense structures and culture. At the same time that they seek to reduce tensions across the Taiwan Strait they must also maintain a strong self-defense deterrent. These are big challenges to any people and any government. Taiwan deserves our sympathetic support and AIT is committed to doing its part.

Thank you.