
United States Policy and the Andean Counterdrug Initiative

By

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Thank you for the invitation to discuss the Andean Counterdrug Initiative (ACI) and the Department of State's continued efforts in this critical region. The initiative represents a significant investment by the American people in a region that produces the vast majority of the drugs arriving in the United States.

If this initiative was targeted just at saving some of the 21,000 lives lost to these drugs last year, it would be the right thing to do. But there is more to this bipartisan, multi-year initiative than even that noble aim. It is also a bulwark against the threat of terrorism in Colombia, Bolivia, Peru, Brazil, Venezuela, Ecuador, and Panama. In short, it is a regional hemispheric and national security program, with direct implications, for homeland security and for our well being here in the continental United States. One need only look as far as Haiti to see that drug money, and the instability that follows it, can be institutionally corrosive, to the point of breakdown. In Colombia, and elsewhere in the hemisphere, the link between drug money and terrorism is incontrovertible.

All of this reinforces the wisdom of Congress in empowering the State Department, and the Bureau for International Narcotics and Law Enforcement (INL) in particular, to protect Americans and our allies in this hemisphere by strengthening the rule of law, building law enforcement and justice sector capacity, cultivating non-drug sources of income, and stopping heroin and cocaine from being produced and shipped to our shores.

In the future, as in the past, strong congressional support will be critical to fully achieving the endgame. The endgame is a hemisphere in which drug-funded terrorism, corruption of struggling democracies by drug traffickers along with drug violence and drug abuse from the streets of Bogot to the streets of Baltimore, are reduced dramatically. We are making real progress toward that end state, and the Andean Counterdrug Initiative is a major part of that palpable progress.

Let me pause here to say something unexpected. Management of these programs is also essential. Congress provides the money, but we at INL must provide the proper management for these program dollars. I have a special duty, as custodian of these dollars; to make sure they go where they are intended. Accordingly, I have ordered a top-to-bottom program review of the entire stable of INL programming, put penalties in government contracts, moved from cost-plus to performance contracts, insisted that bonus justifications match awards, imposed new performance measures, moved to multiple contracts where possible, sat with senior executives of these contracts, and begun reviewing past financial practices. All of this is good government and basic oversight. It will make sure that dollars in the ACI account go where they are intended to stop drug production and drug-funded terrorism before those menaces arrive on U.S. soil, in our towns, in our counties, in our schools.

The investment we have made is bearing fruit drug production is down, traffickers are being arrested and extradited, legitimate jobs created, and the rule of law expanded. Our security, development, and institutional assistance to the judicial and law enforcement sectors are having a positive impact. The job is only half done, but the results are coming in and we are approaching what may well be a tipping point.

Background

The strategic centerpiece of the ACI is INL programming in Colombia, the source of 90 percent of all the cocaine reaching the United States. Colombia also provides upwards to 70 percent of the heroin reaching our streets, and it also is a leading supplier of cocaine to Brazil, Europe, and points East. Besides being a producer of raw materials for cocaine and heroin, Colombia is a major manufacturer of refined drugs. And it is the world headquarters for major criminal and narco-terrorist organizations. What we do in Colombia affects us in United States, but also affects regional security and the growth of economic opportunities for those who wish to live in democracies free from drugs and terror.

ACI Program Successes

Over the past two years, long awaited ACI funds have hit the ground, and they are making a difference. With INL support, the Colombian government has eradicated both coca and heroin poppy at a pace that should begin to seriously deter future growing, even as it wipes out larger and larger percentages of the crops that currently become cocaine and heroin. The physical risks associated with this program have been great, but the strategy is proving both successful and justified. The Colombians and we have lost assets as well as personnel to the enemy. Three hostages, who are still in Colombia, though not INL employees, are a continuing reminder that we are dealing with a dangerous group of terrorists who do not respect the rules or principles of civil society.

In 2003, INL and the Colombians, working closely together, sprayed 127,000 hectares of the coca crop at 91.5 percent effectiveness, for a net of 116,000 hectares of coca eradicated. At the same time, alternative programs in Colombia resulted in the manual eradication of an additional 8,441 hectares. Similarly, we sprayed 2,821 hectares in the opium regions while 1,009 hectares were manually eradicated.

In 2002 our efforts reduced coca cultivation by 15 percent and poppy cultivation by 25 percent. With final 2003 estimates still pending, we can nevertheless see the beginning of the long-predicted trend. Our efforts have brought us close to the tipping point where sustained suppression of illegal crops and alternative employment incentives together will convince growers that further cultivation is a futile proposition.

Predictably, it is also true that the work is getting more dangerous. In 2003, INL aircraft took more than 380 hits, and we lost four planes. So far this year, we have taken twenty-nine hits on our assets. We are fully reviewing our air wing operations to make the most effective use of our resources and to plan for the future. Security of our air fleet is our highest priority. We have increased intelligence coordination and protective measures to make sure each spray mission is as safe as humanly possible under the difficult circumstances. If it is not safe to launch a mission, the mission does not fly. Protecting the lives of the brave pilots who fly this program is our highest priority. Getting results of their outlay of bravery is the second, but sustaining the mission is first.

This year, as of February 29, 2004, we have sprayed over 29,000 hectares of coca and 691 hectares of poppies. This exceeds by 84 percent the amount of coca eradicated during the same timeframe in 2003. Our eradication goal for this has been initially set and is ambitious in the area of both coca and opium poppy. We have worked out a spray program in full coordination with the Colombian police and armed forces. Depending on the 2003 final spray results, we will review our spray targets for this year and adjust accordingly because killing coca and deterring future cultivation is the twin aim. And we aim to succeed.

After 2004, we expect to enter a maintenance phase of spraying smaller, more isolated coca fields, instead of the larger fields we have sprayed since our program began. The endgame will

then involve a ramp down to maintenance levels as the comprehensive effort to stabilize, eradicate coca, empower people, and restore the rule of law is achieved.

Please make no mistake: In Colombia the ACI funds have been vital to strengthen democracy and security. We have helped fund the establishment of police in 158 municipalities, many of which had not seen any government security presence in years. For the first time in history there is now a police presence in all 1098 of Colombia's municipalities. This is an enormous step forward. To demonstrate the hunger for security, San Mateo is a municipality that last had a real Colombian National Police presence in June 1999, when the Revolutionary Armed Forces of Colombia (FARC) killed the seven San Mateo police. In April of 2003, though, our program installed a new forty-six man police department, and San Mateo school children formed a human corridor and cheered as the police passed by. San Mateo declared the day a holiday, and fireworks were set off throughout the day. There is both hope and appreciation afoot and the U.S. Congress, through leadership and support for the ACI, can take considerable credit for that development.

The results are there: In 2003, Colombia's murder rate dropped by 20 percent, to its lowest figure since 1986. Colombia's illegal armed groups committed seventy-three massacres in 2003, as compared to 115 in 2002. The number of victims affected by those massacres dropped 38 percent from 680 in 2002 to 418 in 2003. Also in 2003, 2,043 cases of kidnapping were registered 32 percent fewer than in 2002. Finally, 846 terrorist incidents were reported in 2003, a 49 percent drop over the 1,645 reported in 2002.

On the interdiction side we continue to work closely with Colombia's armed forces and the police. Colombian forces seized 70 metric tons of cocaine base and cocaine hydrochloride (HCl) in 2003. In addition, 126 metric tons of cannabis were seized.

The Air Bridge Denial program, which began last August, is starting to become effective. Since August 2003, 10 planes suspected of drug trafficking were forced down and eight were destroyed. In 2003, the program also resulted in 6.9 metric tons of drugs seized regionally. And as of March 1, 2004, the Colombian Air Force and its regional partners have already seized one metric ton of illicit drugs. But the key here is not the number of planes destroyed. Our goal is to effectively deter the use of Colombian airspace by traffickers while protecting civil aviation.

I emphasize the need to continue to work regionally. Success in Colombia can have a ripple effect for better or worse. To be sure, the ripple effect is positive, our programs in countries bordering Colombia have also kept drug cultivation there at record low levels, increased the effectiveness and coverage of drug interdiction programs, strengthened the judiciary's ability to prosecute, and expanded economic opportunities for the poor.

ACI's administration of justice programs are designed to enhance the rule of law to shift to a more effective criminal system, protect witnesses, increase asset seizure, and protect citizens' human rights. ACI support established 34 justice and peace houses to increase access to justice for the urban and rural poor. These *casas de justicia* (justice houses) have handled over 1.8 million cases, easing the burden on the over-taxed, inefficient judicial system. ACI funding for administration of justice also created nineteen oral trial courtrooms and trained over 6,000 lawyers, judges and public defenders in new oral legal procedures designed to reduce impunity and quicken the judicial process.

In Peru and Bolivia, we have held the line on drug production so that there has not been the balloon effect. Drug cultivation in both countries has declined 70 percent over the past five years. In Ecuador, our program along the northern border to boost security and enhance economic development has prevented any significant cultivation of drug crops in that country. Interdiction are up throughout the area. In 2003, Peru's efforts resulted in the destruction of close to 3,762 kilograms of cocaine base, 3,250 kilograms of coca paste, and 134 metric tons of coca leaf. We

hope that a new drug interdiction coordination center, which we are working to establish with the Government of Peru, will assist in that effort. In Bolivia, interdiction seizures in 2003 are up to three times as high as those for 2002 with 152 metric tons of leaf and 12.9 metric tons of cocaine captured.

In Bolivia, by the end of 2003, at least 25,000 Bolivian farm families received alternative development assistance conditioned on creation of coca-free areas. As a result, the wholesale value of legitimate and legal agriculture leaving the Chapare exceeded \$25 million. This represents a 25 percent increase over 2002 levels. In Peru we have also funded a key program, the "Culture of Lawfulness" a school-based program that teaches ethics to thousands of children in junior high school. If we can mold these young people, we can help foster a civic belief that drugs and corruption are wrong. Again, this is a measure of progress. Cultural education and trust in a stable, drug-free future will take time.

In Panama, we are meanwhile funding programs to tighten port security and enhance that country's ability to investigate and prosecute financial crimes via their Financial Intelligence and Analysis units. Our increased cooperation recently reaped rich results with the expulsion of key Colombian traffickers to the United States. These are a few examples of key programs that are working in the region.

Andean Counterdrug Initiative Program Challenges

We expect our efforts in Colombia to have significant results in the next two years, allowing Colombia to move toward full rule of law and increasingly balanced economic development. As I noted above, we are working regionally to prevent spillover effects to neighboring countries. However, we face some serious challenges in this effort.

The first is a lack of sustained activity in terms of forced eradication programs in Bolivia and Peru. As a result, in the Yungas region of Bolivia, cultivation increased 26 percent last year to 23,550 hectares.

Despite great success in the Chapare region, where cultivation dropped 15 percent from June 2002 to June 2003, the Yungas cultivation resulted in an overall increase for the country of 17 percent to 28,450 hectares. The Yungas area poses formidable political and logistical challenges to a large eradication program, but we must nevertheless, support efforts to tackle the problems in concert with the government of President Mesa.

In Peru, forced eradication programs are essentially limited to areas near labs, national parks, and new cultivation. While efforts to include a new voluntary program did help lead to a decrease in cultivation by 15 percent last year, it is very clearly forced eradication which will more quickly hurt the industry.

Growing local demand for drugs in the region is another incipient problem. These countries are painfully aware that drug consumption is on the rise, and they have launched new programs in response with U.S. support. Brazil, by some estimates, is the world's second largest consuming nation for cocaine. Brazil has initiated programs that address its growing domestic demand as well as more aggressive programs to protect its borders from use by drug traffickers. We are engaged with the government of Brazil in discussions on the major challenges it faces, and are vigorously supporting Brazil's new demand reduction emphasis.

In fiscal year 2005, our counternarcotics programs in Colombia will need to build upon the historic successes of the last few years. The relationship between drugs and terrorism in Colombia is well understood. As President Uribe grapples with dismantling narco-terrorist groups, we will keep our focus on the drug industry that is funding the terrorists.

Road Ahead

On balance, we will need to continue to work regionally in this Hemisphere, engaging with the key producing and transit countries in the ACI. So long as drugs continue to flow from the area, further efforts are needed to destroy the industry in all its forms. The traffic undermines democracy and the rule of law and, as noted, is also feeding increased demand for drugs in the region.

Given poverty rates in the region, farmers will continue to be tempted to cultivate drug crops unless they have alternative ways for feeding their families. We will therefore work collaboratively toward viable, economic options for Andean farmers and others now caught in the coercive web of the violent and illegal drug trade.

I am encouraged to see Andean-based efforts to regionalize counterdrug activity. With increased international cooperation and strengthening of the law enforcement agencies among our friends abroad, Congressional-supported INL programs will bring us closer to protecting our Andean neighbors, as well as enhancing our own national security. We will continue to methodically reduce the international flow of drugs and cripple the trafficking industry whose profits feed violence, violate the basic rule of law, stir hopelessness, and incite terrorism.

Our fiscal year 2005 planning continues the pursuit of vigorous eradication and interdiction efforts to disrupt and destroy the production and transport of drugs destined for U.S. and other markets. Our request includes sustained funding for programs that will build strong government institutions capable of detecting, arresting and prosecuting processors and traffickers as well as the terrorists that thrive with them. We intend to turn over responsibilities to host nations, including counternarcotics training, equipment acquisition and operation and maintenance.

That said, I want to return to Colombia the centerpiece of our ACI activities. We are approaching a predicted, but long-awaited tipping point. We have local, regional, hemispheric, and bipartisan U.S. leadership that finally sees the potential for and is willing to press for lasting change. Congress is an enormous part of this emerging picture. Our success is also a result of the vision, commitment, and energy of Colombian President Uribe. I underscore his importance to our efforts and the need for sustained support during the remaining years of his presidency. We are here because of all those who helped conceive and push forward U.S. support to ACI and also because of our strong partnership with President Uribe, whose policy goals are in exact alignment with our own.

Concluding Remarks

Drugs and crime undermine democracy, rule of law, and the stability required for economic development. The drug trade continues to kill our young people, and the bulk of the drugs arriving in the United States still come from the Andean region. The drug trade also funds terrorists in this Hemisphere and other regions. These are the stark realities.

Set against them is our methodical ACI program, in its many parts. And that program is producing results. Projects in Colombia, Bolivia, Peru, Ecuador, Brazil, Venezuela, and Panama are integrated. I am making sure that our assets are being used in the most effective manner and that performance criteria for projects are strengthened in order to better measure results. We have reached a tipping point in Colombia for the first time we may be close to delivering a lasting blow to narco-terrorists. Sustained support for President Uribe is essential. I appreciate this Committee's strong commitment to our efforts and look forward to exchanging views on how to carry this effort into the future. In all of this, there is a real mission. And in the mission, there is the real potential for lasting results that will change our world for the better.

Overview of U.S. Policy Toward Taiwan

By

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[The following are excerpts of the testimony at a hearing on Taiwan, House International Relations Committee, Washington, D.C., April 21, 2004.]

I welcome the opportunity to provide an overview of U.S. policy toward Taiwan, as well as the Administration's assessment of relations across the Taiwan Strait, the current situation in Taiwan, and the challenges that lie ahead.

This month we mark the 25th anniversary of the *Taiwan Relations Act* (TRA). The TRA, along with the three U.S. and China Joint Communiqués and our one China policy, form the foundation for the complex political and security interplay among China, Taiwan, and the United States.

Looking back over the past three decades, I think we can congratulate ourselves on crafting a policy that has been the key to maintaining peace and stability in the western Pacific while helping to ensure Taiwan's prosperity and security. Without denying the challenges and difficulties that remain, I can confidently report that because of the leadership of seven U.S. Presidents and active participation of the Congress, our relations with both China and Taiwan economic, political, cultural, and social are far closer and deeper than most would have ever predicted.

Equally important, our policy and the TRA have made vital contributions to easing tensions between Taiwan and the Peoples Republic of China (P.R.C.) and creating the environment in which cross-Strait people-to-people exchanges and cross-Strait trade are flourishing and creating, we hope, the necessary conditions for peaceful resolution of cross-Strait differences.

Core Principles

It is useful to reiterate the core principles of our policy:

- The United States remains committed to our one China policy based on the three Joint Communiqués and the *Taiwan Relations Act*;
- The U.S. does not support independence for Taiwan or unilateral moves that would change the status quo as we define it;
- For Beijing, this means no use of force or threat to use force against Taiwan. For Taipei, it means exercising prudence in managing all aspects of cross-Strait relations. For both sides, it means no statements or actions that would unilaterally alter Taiwan's status;
- The U.S. will continue the sale of appropriate defensive military equipment to Taiwan in accordance with the *Taiwan Relations Act*, and;
- Viewing any use of force against Taiwan with grave concern, we will maintain the capacity of the United States to resist any resort to force or other forms of coercion against Taiwan.

Our foremost concern is maintaining peace and stability in order to advance U.S. interests, spare the region the dangers of war, safeguard Taiwan's democracy, and promote China's constructive integration into the global community as well as the spread of personal freedom in China. Because the possibility for the United States to become involved in a cross-Strait conflict is very real, the President knows that American lives are potentially at risk. Our one-China policy

reflects our abiding commitment to preserve peace in the Taiwan Strait so long as there are irreconcilable differences.

Status Quo Message Aimed at Both Sides

The President's message on December 9, 2003 during P.R.C. Premier Wen Jiabao's visit reiterated the U.S. government's opposition to any unilateral moves by either China or Taiwan to change the status quo. This message was directed to both sides.

The President and the senior leadership of this administration consistently make clear to Chinese leaders that the United States will fulfill its obligations to help Taiwan defend itself, as mandated in the *Taiwan Relations Act*. At the same time we have very real concerns that our efforts at deterring Chinese coercion might fail if Beijing ever becomes convinced Taiwan is embarked on a course toward independence and permanent separation from China, and concludes that Taiwan must be stopped in these efforts.

Democracy in Taiwan

The 2004 presidential election was a testament to Taiwan's vibrant democracy. More than 80 percent of eligible Taiwan voters turned out to participate in a free and fair selection of their next President. Although the margin of victory was razor-thin only one-fifth of one percent and the attempted assassination of President Chen and Vice President Lu marred the election campaign's final days, the people of Taiwan behaved well and with restraint. We are confident that both sides will use the established legal mechanisms to resolve any questions about the outcome of the election. This matter is Taiwan's internal affair. We applaud the success of democracy in Taiwan and the dedication of Taiwan's people to the rule of law. This position is consistent with the deeply held values of the American people. Taiwan is a most complex and, in some ways, inconsistent polity. Its economic participation in the mainland Chinese economy is at an unprecedented level, yet it is now undeniable that Taiwan identity has emerged as a political and social issue on the island that figures in election campaigns. However, reliable polling also consistently demonstrates that a clear majority of Taiwan residents prefer the continuation of the status quo to either independence or reunification. The U.S. strongly supports Taiwan's democracy, including the right of its people to elect their leaders and make the full range of decisions about their security, economy, foreign relations, and other issues. But we do not support Taiwan independence. A unilateral move toward independence will avail Taiwan of nothing it does not already enjoy in terms of democratic freedom, autonomy, prosperity, and security. Realistically, such moves carry the potential for a response from the P.R.C. a dangerous, objectionable, and foolish response that could destroy much of what Taiwan has built and crush its hopes for the future. It would damage China, too. We, in the United States, see these risks clearly and trust they are well understood by President Chen Shui-bian and others in Taiwan.

While strongly opposing the use of force by the P.R.C., we must also acknowledge with a sober mind what the P.R.C. leaders have repeatedly conveyed about China's capabilities and intentions. The P.R.C. refuses to renounce the use of force regarding Taiwan despite our consistent representations stating they should do so. P.R.C. leaders state in explicit terms that China considers Taiwan's future a vital national interest and that the P.R.C. would take military action in the event Taiwan declares independence. While we strongly disagree with the P.R.C.'s approach, and see military coercion as counter-productive to China's stated intent to seek a peaceful outcome, it would be irresponsible of us and of Taiwan's leaders to treat these statements as empty threats.

The P.R.C. military modernization and the increasing threat to Taiwan indicate to us that Beijing is preparing itself to react in just such a possibility. We encourage the people of Taiwan to regard this threat equally seriously. We look to President Chen to exercise the kind of

responsible, democratic, and restrained leadership that will be necessary to ensure a peaceful and prosperous future for Taiwan.

There are uncomfortable realities, yet they are facts with which we must grapple. As Taiwan proceeds with efforts to deepen democracy, we will speak clearly and bluntly if we feel as though those efforts carry the potential to adversely impact U.S. security interests or have the potential to undermine Taiwan's own security. There are limitations with respect to what the United States will support as Taiwan considers possible changes to its constitution. We are uncertain about the means being discussed for changing the constitution. We do not favor any if we are unclear in our expectations or obfuscate where those limitations are. The President's policy regarding our opposition to unilateral changes to the status quo will be reinforced in this dialogue with Taiwan about its political evolution.

Taiwan is a success story for democracy in Asia and around the world. We feel strongly that others can benefit from knowing more about Taiwan's achievements. We will explore with our friends in Taiwan how they may be able to promote their story to a global audience, and how we can help to make Taiwan's instructive example available to all countries that are attempting to institute democratic reforms. We can only do this, Taiwan can only do this if it avoids unilateral steps that risk destroying all that it has accomplished.

The United States and Cross-Strait Differences

The United States is not a direct participant in the dispute between the P.R.C. and Taiwan, but we have a strong interest in doing all we can to create an environment that is conducive to a peaceful resolution. Resuming the dialogue between the two sides is an important first step. A large part of that effort consists of our promoting a strong bilateral relationship between the United States and the P.R.C., and a strong unofficial relationship between the United States and Taiwan. We desire and need good relations with both, and believe this positions us best to assist the two sides in getting to the negotiating table on mutually agreeable terms. Indeed, we believe both sides desire and need good relations with one another.

The process of cross-Straits dialogue and contact has moved fitfully over the last fifteen years. In the late 1980s, the prospects for cross-Strait reconciliation and dialogue began to take shape with the lifting of martial law in Taiwan and the opening up the mainland Chinese economy and society. The Nationalist government on Taiwan not only lifted the ban on visits to the Mainland for family reunions, but also allowed the distribution and publication of P.R.C. books and initiated discussion on future cross-Strait trade and investment links.

The 1990s ushered in a decade of incremental consensus-building. Both sides agreed in 1992 that there was one China, but left each side free to express their interpretation of the concept. This ambiguity and decision to reserve differences cleared the way in 1993 for the first high-level meeting in Singapore between heads of the two private intermediary organizations — Taiwan's Straits Exchange Foundation (SEF) and the P.R.C.'s Association for Relations Across the Taiwan Strait (ARATS).

Lower-level talks continued on a fairly regular basis until they were suspended by Beijing in 1995 after President Lee Teng-hui visited the U.S. The Lee visit prompted China to overreact and launch missile tests and military exercises along the Taiwan Strait. The United States responded quickly to the impending crisis, emphasizing our deep concern to Beijing in diplomatic channels and directing the movement of two aircraft carrier battle groups into the waters off Taiwan. Beijing's heavy-handed response was one factor that helped secure Lee's win in Taiwan's first presidential election by universal suffrage in 1996.

Unofficial exchanges resumed in 1997 through informal meetings between personnel of the two sides' unofficial representative organizations. Direct SEF-ARATS contacts resumed in April

1998, and the SEF Chairman Koo Chen-fu visited the Mainland in October 1998. Koo and ARATS chairman Wang Daohan agreed to further dialogue on political, economic, and other issues, and Wang agreed to make a return visit to Taiwan. His visit, however, was cancelled following statements made by President Lee to the Voice of Germany radio on July 9, 1999 that relations between the P.R.C. and Taiwan should be conducted as “state-to-state” or at least as “special state-to-state relations.” ARATS immediately rejected Lee’s statement and called it a serious violation of the 1992 consensus.

In March 2000, Democratic Progressive Party candidate Chen Shui-bian became the first opposition party candidate to win the presidency. His victory resulted in the first-ever transition of the presidential office from one political party to another, validating Taiwan’s democratic political system. During his May 20, 2000 inauguration, President Chen called for resuming the cross-Strait dialogue without any preconditions. President Chen stated that such talks should be conducted on the basis of the spirit of 1992 . He also pledged the following:

- Not to declare independence;
- Not to change Taiwan’s official designation as the Republic of China;
- Not to insert the state-to-state theory into Taiwan’s constitution, and;
- No plebiscite or referendum on sovereignty issues.

President Chen also agreed not to abolish the Guidelines for National Reunification and the National Unification Council. The P.R.C., however, has insisted that President Chen must recognize the one China principle before official talks can resume.

Despite the differences between Taiwan and the P.R.C., unofficial contact between the two sides has grown significantly. Taiwan continues to relax restrictions on unofficial contacts with the P.R.C., and cross-Strait interaction has mushroomed. In January 2001, Taiwan formally allowed the three mini-links (direct trade, travel, and postal links) from two small islands very close to the mainland to Fujian Province. The following year, President Chen defined the status quo as being one country on each side of the Taiwan Strait, once again sparking criticism from Beijing and his domestic opponents.

Our position continues to be embodied in the so-called “six assurances” offered to Taiwan by President Reagan. We will neither seek to mediate between the P.R.C. and Taiwan, nor will we exert pressure on Taiwan to come to the bargaining table. Of course, the United States is also committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. We believe a secure and self-confident Taiwan is a Taiwan that is more capable of engaging in political interaction and dialogue with the P.R.C., and we expect Taiwan will not interpret our support as a blank check to resist such dialogue.

In the final analysis, the Taiwan issue is for people on both sides of the Strait to resolve. This is the only way a peaceful and durable solution can be found and it is a vital element in guaranteeing long-term peace and stability in East Asia. Taiwan faces many challenges in the years ahead, and recurring crises with Beijing can only interfere with the central tasks of promoting democracy, ensuring economic growth, advancing the popular welfare, and enabling Taiwan’s security. Beijing likewise faces daunting challenges in overcoming poverty and backwardness, establishing the rule of law, and beginning a process of political reform and opening up. China would gain nothing from a conflict. It would undermine a historic transformation through which China has become a respected member of the international community. War in the Strait would be a disaster for both sides and set them back decades, and undermine everything they and others in the region have worked so hard to achieve. We continue

to urge Beijing and Taipei to pursue dialogue as soon as possible through any available channels, without preconditions.

In the absence of a political dialogue, we encourage the two sides to increase bilateral interactions of every sort. Clearly, there would be economic benefits for both sides by proceeding with direct aviation and shipping links. The increasing people-to-people contacts may also ease tensions. It is also time that the two sides begin exploring confidence building measures that reduce the chance for military miscalculation and accidents, and improve the quality of communications in the event of a crisis. Any such mutual reassurance mechanisms should be truly mutual, and not a one-way pass for the other side.

U.S. Taiwan Security Relationship

The United States is committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. A secure Taiwan is more capable of engaging in political interaction and dialogue with the P.R.C.. The United States has provided Taiwan with a significant quantity of defensive weapons over the last twenty-five years, and during that challenging period has been Taiwan's most reliable and often only supplier of weapons.

The P.R.C. has explicitly committed itself publicly and in exchanges with the United States over the last 25 years to a fundamental policy "to strive for a peaceful resolution to the Taiwan question." If the P.R.C. meets its obligations, and its words are matched by a military posture that bolsters and supports peaceful approaches to Taiwan, it follows logically that Taiwan's defense requirements will change. However, the post-1999 P.R.C. program of military modernization, including deployment of a steadily growing number of short range ballistic missiles (SRBM) targeted on Taiwan, undermines confidence in China's commitment to deal with the cross-Strait situation peacefully and requires a measured response on our part, under the TRA, to provide appropriate defensive military equipment to Taiwan. China's missile deployments against Taiwan are increasing by 50-75 missiles per year. As Secretary Powell stated last month during a public speech, "China's military build-up opposite Taiwan is destabilizing. We urge a posture more conducive to the peaceful resolution of existing disputes."

Taiwan's implementation of the *National Defense Law* and the revised *Ministry of National Defense Organization Law*, which brought Taiwan's military command and administrative structures clearly under civilian control, was a signal achievement long sought by the United States. We continue to urge the full implementation of civilian control over the military and the development of civilian expertise on security and military affairs.

After years of steadily declining budgets, Taiwan's political leadership has stated that they are committed to spending more on defense. Over the past ten years, Taiwan's defense budget as a percentage of gross domestic product has dropped from 4.75 percent to 2.6 percent. Taiwan's fiscal year 2004 defense budget is NT \$260.00 billion (U.S.\$7.62 billion). This is up from NT \$251.5 billion in 2003. However it still does not allow purchase of big-ticket items approved by the U.S. for sale to Taiwan since 2001.

Recent major acquisitions that Taiwan has made include the purchase of four KIDD-class destroyers in 2003. These destroyers will fill gaps in the Taiwan Navy's fleet air defense and Anti-Submarine Warfare (ASW) capabilities. The destroyers are being refurbished now and will be delivered to Taiwan in 2005.

We also just notified Congress last month of a possible sale to Taiwan of two long-planned Ultra High Frequency long range Early Warning Radar systems. The estimated cost of these radars is U.S. \$1.776 billion. The radars will give Taiwan early warning and detection of ballistic

and cruise missiles, as well as aircraft. These systems will be a vital component of Taiwan's air and missile defense architecture.

Taiwan's Ministry of National Defense is engaged now in the process of developing a special budget request that will enable Taiwan to acquire priority capabilities in missile defense and Anti submarine warfare (ASW).

Taiwan's political and military leaders have formally recognized Taiwan's military needs to reform, moving away from a military dominated by ground forces to one that emphasizes jointness and is better suited to the task of defending against the PLA's increasingly modern air and sea forces. In support of Taiwan's efforts the United States is engaged in a range of interactions with Taiwan's defense and military leadership consistent with the framework of U.S. policy, focused on acquisition of priority capabilities in areas such as Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR), air/missile defense, anti-submarine warfare (ASW), and other planning and training exchanges. Our security assistance policy and arms sales to Taiwan are helping Taiwan build and maintain a self-defense capability that is flexible, joint, responsive to civilian control, and sufficient to meet the threat from Beijing.

It is important to note that our security relationship is not limited exclusively to ensuring the security of Taiwan. Taiwan is a strong partner in war on terror, which contributes in a very direct way to U.S. and global security. We hope to conclude the Container Security Initiative agreement with Taiwan soon. We also deeply appreciate the immediate and heartfelt response of the people and the government of Taiwan after the attacks of September 11, 2001 and the contributions of Taiwan to reconstruction of Afghanistan and Iraq.

Taiwan in International Organizations

The United States continues to be a strong supporter of Taiwan's participation in international organizations, either as a member, when possible, or in an appropriate form when membership is not possible. We actively support observer status for Taiwan in the World Health Organization (WHO).

We want to find a way forward for Taiwan's participation in the World Health Assembly that will receive broad support among WHO member states. In order for this effort to succeed, the focus has to be on the importance of including Taiwan as part of global efforts to safeguard public health. In that regard, we encourage Taiwan's efforts as an active player and a responsible member of the international community on health issues. During the past three years, we have worked intensively with Taiwan representatives in Washington, Taiwan, and Geneva in order to advance the goal of participation by Taiwan in the WHO. We have held annual strategy meetings, most recently in early April 2004, to hear Taiwan's plans and to work together with Taiwan on how best to advance Taiwan's legitimate interest in contributing to the work of the WHO. Taiwan's problem obtaining observer status is certainly not due to a lack of U.S. commitment.

We hope the P.R.C. will adopt a more constructive view and will join in an effort that shows genuine compassion for the people of Taiwan. Although WHO observership explicitly does not require statehood and several WHO observers are not nations, the P.R.C. has actively lobbied to block even the placement of consideration of Taiwan's observership on the World Health Assembly agenda. This is a mistake that only alienates the people of Taiwan. The question of Taiwan's participation in the WHO deserves a full vetting by the international community, and Taiwan can certainly count on the United States to vote in favor of including the Taiwan observership issue on the World Health Assembly agenda should the issue come to a vote. We hope to move beyond that question, and look forward to supporting an appropriate resolution, and ultimately voting in favor of Taiwan's candidacy for observership.

Taiwan: A Global Economic Player

In recent decades, Taiwan has successfully weathered an enormous economic transition. Fifty years ago, the island was primarily agricultural. By the 1970s, it had become a major exporter of labor-intensive goods such as shoes, textiles, and plastics. Today, Taiwan is a world leader in information technology products and its economy is increasingly oriented towards knowledge-based services. Taiwan's economic growth is an area which has brought the two sides of the Strait closer together and has made Taiwan a major economic player on the world stage.

During the past twenty years, per capita GNP in Taiwan has grown from about \$7,400 in 1980 to an estimated \$13,000 today. Entrepreneurial talent, coupled with forward-looking government programs, have enabled hi-tech industries to emerge, placing Taiwan companies in the top rung of semiconductor producers and information technology product manufacturers. The majority of the world's notebook computers, for example, are made by Taiwan firms an industry that did not even exist fifteen years ago. Taiwan is the world's third-largest holder of foreign currency reserves, America's eighth-largest trading partner, and the world's seventeenth-largest economy. The island has achieved its economic stature despite few natural resources and a relatively small domestic market. High levels of education and a dedicated work force have been among the major drivers of Taiwan's impressive economic development.

Development of the Cross-Strait Economic Boom

Despite the outbreak of Severe Acute Respiratory Syndrome (SARS) and ongoing political tensions, China became Taiwan's top trading partner in 2003, even without the presence of direct cross-Strait transportation. Japan and the U.S. dropped to second and third place, respectively. Trade between Taiwan and China reached \$46 billion last year, up nearly 25 percent over 2002. Almost one-quarter of Taiwan's exports went to China, while P.R.C. imports made up 8.6 percent of Taiwan's total imports. Taiwan's trade surplus with the P.R.C. grew by 13.4 percent last year.

The P.R.C. is also the number one destination for investment by Taiwan business people. Taiwan's Ministry of Economic Affairs approved \$35 billion of Mainland investments between 1991 and 2003. Most private analysts believe the actual figure to be around \$70 billion when undeclared projects are included along with money flows from Taiwan investments channeled through third locations. In 2003, Taiwan approved investment of \$4.59 billion in the P.R.C. Estimates of the number of Taiwan citizens living full-time in the P.R.C. run from 500,000 to as many as one million.

These robust cross-Strait economic ties began less than two decades ago. From 1949 until 1987, Taiwan had banned trade, investment, transportation, and communications with the P.R.C.. Beginning in 1987, Taiwan residents were allowed to visit the P.R.C. in increasing numbers, and to invest so long as they went through a third location such as Hong Kong. As wage and land costs in Taiwan were soaring, labor-intensive Taiwan industries such as textiles, footwear, and plastics began departing the island for cheaper labor and land in the P.R.C. and Association of South East Asian Nations (ASEAN) countries. Much of Taiwan's investment in the P.R.C. reflects the normal cycle of business transition, from import substitution to export-led growth, from labor-intensive products to more capital- and technology-intensive goods, and from doing all operations in Taiwan to moving production off-shore to take advantage of an increasingly global economy. The advantages to Taiwan businesses of working in China were obvious, given the low cost labor, land, and other inputs that have also attracted other foreign investors. Linguistic and cultural affinities gave Taiwan businessmen immediate advantages compared with non-Chinese investors, while for its part, the P.R.C. welcomed its Taiwan compatriots to invest and trade in the mainland.

Taiwan's trade with and investment in the P.R.C. soared, although it is difficult to calculate exact figures because people, goods, and finance flow across the Strait indirectly, because both

sides keep different statistics, and because a proportion of Taiwan investment in the P.R.C. continues to go unreported. Whatever the exact figures may be, the trend has been clear. According to Taiwan statistics, two-way trade reached \$25.8 billion in 1999. Only \$4.5 billion of that was imports to Taiwan from the P.R.C., since Taiwan has restricted imports from the mainland. In the mid-1990s, Taiwan launched its no haste, be patient and go south investment policies aimed at slowing the flood of Taiwan investment in the P.R.C. and directing it elsewhere. Despite these policies, the rate of growth of Taiwan's investment in Southeast Asia slowed steadily, and there was an increase on average of 23 percent per year in realized investment in the P.R.C. in the mid-to-late 1990s. Approximately 40 percent of Taiwan's outward investment is now in the P.R.C.

The Three Links

Taiwan and China have yet to establish the "Three Links" direct trade, transportation, and postal services across the Taiwan Strait although as the cross-Strait economic relationship grows, the economic incentives to establish direct links will grow. In 2001, the "mini links" were created to allow travel and trade between Taiwan's offshore islands of Kinmen and Matsu and China's Fujian Province. Activity via the "mini links" has grown rapidly, but it remains a small part of overall trade. In early 2003, Taiwan permitted its air carriers to ferry Chinese New Year passengers back and forth across the Strait by way of "indirect charter flights" that touched down briefly in Hong Kong or Macau. Taiwan and China did not repeat the charter flights during the 2004 Chinese New Year, in part because the two sides could not agree on the terms for meetings to discuss how P.R.C. carriers might also participate.

In addition to concern about over-dependence on a potential adversary, Taiwan worries that direct cross-Strait links could speed the hollowing out of Taiwan's economy and create problems of unemployment in Taiwan. While Taiwan's concerns about over dependence and hollowing out cannot be dismissed, these issues need to be seen in the broader context of global interdependence. Cross-Strait trade is not occurring in a vacuum, and both sides are connected to world trade. Even though approximately 25 percent of Taiwan's exports go to the P.R.C., most of those goods end up re-exported from China to developed country markets.

For example, if the P.R.C. were to adopt economic sanctions against Taiwan business due to a cross-Strait political crisis, much of the damage would fall on China itself, not just Taiwan. According to one 1997 study by a Taiwan's Chung-hua Institute for Economic Research, if Taiwan's exports to China were disrupted by one dollar, China's exports produced by Taiwan invested companies would decline by five dollars. The negative impact on regional and global supplies, particularly in IT products where Taiwan continues to be a world leader, would be devastating. These factors may have been one reason why in 1995-1996, when cross-Strait tensions erupted and the P.R.C. launched missile tests, China did not match its military threats with economic sanctions against Taiwan businesses. As a corollary, predictions that Taiwan businessmen invested in the mainland would pressure their government to make political concessions to China in 1995-1996 and 1999-2000 have also not proven correct, although some did urge their political leaders in Taipei to be cautious.

The Global IT Highway Runs Across the Strait

The IT global supply chain offers important insight into the relationship between globalization and cross-Strait trade. The P.R.C. surpassed both Japan and Taiwan to become the world's second- largest information hardware producer in 2002, after the United States. Much of this was due to the steady migration of Taiwan industrial investment across the Strait. Taiwan is now second only to Japan as a source of total imports to the P.R.C., with a 12 percent share. Nearly three-quarters of those imports from Taiwan to the P.R.C. are production inputs for

assembly and processing that are then re-exported. While China now ranks as a major player in global IT production, according to numerous private estimates, more than 50 percent of Mainland China's information technology production is generated in facilities run by Taiwan companies. Thus, China's production in the IT sector depends on Taiwan, not the other way around. Taiwan's foreign direct investment could be said to be an important component of China's economic development and political stability.

Taiwan's Economic Future

Economic relations with the P.R.C., which have been steadily liberalized in recent years, also will be a major factor in Taiwan's economic prospects. Diversification of foreign direct investment is always a prudent practice, as is a realistic attitude toward China's economic potential. With these principles in mind, Taiwan investment in the P.R.C. can be a win-win-win solution for Taiwan, the P.R.C. and the world economy as a whole. The island's role in world trade is even more critical for Taiwan's future overall competitiveness. Taiwan has emerged as a ranking international economy and an industrial powerhouse. As one of the Asian tigers, it has benefited from good policy, sound economic fundamentals, a good educational system, an outstanding workforce, and the suppleness of Taiwan's industrial structure, which is dominated by small- and medium-sized firms. Today, Taiwan's leaders are looking to new sectors such as biotechnology, optoelectronics, and nanotechnology as areas where Taiwan can maintain its world-class reputation and create new opportunities for growth. Taiwan's Challenge 2008 National Development Plan calls for an additional \$16 billion, over six years, beyond existing commitments to improve infrastructure, facilitate research and development, and create new jobs.

In order for the Challenge Plan to succeed, Taiwan will have to address both international and domestic market factors. It needs to continue with reform of the financial system, improve the investment climate, and continue to implement WTO accession commitments. Taiwan's record of intellectual property rights (IPR) piracy and protectionism for domestic producers and service providers in recent years has left much to be desired. In an increasingly knowledge-based economy, Taiwan will have to do more to protect intellectual property. Taiwan also needs to do more to enhance its attractiveness as a destination for more foreign direct investment. Such changes will position Taiwan to continue to play a major role in the international economy as well as to be an important economic partner of the United States.

Our Economic Partnership

Today, Taiwan is the eighth-largest trade partner of the United States. Taiwan bought \$17.48 billion in U.S. goods in 2003, while the U.S. imported \$25.9 billion from Taiwan last year. It is our sixth-largest market for agricultural products, and ninth largest export market overall. We continue to encourage Taiwan to improve its protection for intellectual property, through strengthening both law and law enforcement, improve market access and transparency for rice imports, meet its multilateral and bilateral commitments on pharmaceuticals, and firmly establish an open market for telecommunications services. Taiwan has taken encouraging steps on IPR enforcement in the past year. While more remains to be done in all these areas, we hope Taiwan will continue and strengthen its efforts. This will in turn brighten prospects for stronger U.S.-Taiwan economic ties under our existing Trade and Investment Framework Agreement, and, if appropriate, future consideration of a possible free trade agreement.

Conclusion

The Taiwan Relations Act has been a tremendous success, and we endeavor to make sure that success is sustained in the future. We have built a strong unofficial relationship with Taiwan that emanates from a foundation of shared values and mutual interests. Our interactions with Taiwan are to our mutual benefit in the economic sphere, in bilateral security interests, and global

security. Taiwan is a good friend to the United States, as we are to Taiwan. As such, Taiwan can count on sustained U.S. support as it addresses its many important challenges. This very much includes Taiwan's efforts to develop its democracy. And we expect Taiwan to respect our interests in stability embodied in the *Taiwan Relations Act*. On that basis of mutual acknowledgement of and respect for our interests, the road ahead is promising.