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SPECIAL COMMENTARY:
Aerospace Industries Association (AIA) Report Underscores Importance of F-16C/D Sale to Taiwan

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In an important new report on behalf of the Aerospace Industries Association (AIA), economist Dr. Stephen Fuller at George Mason University concludes that the U.S. economy is at risk of losing over one million American jobs and over US\$1 trillion in economic investment in the aerospace sector as a consequence of projected U.S. defense budget cuts. The report concludes that while all 50 states would be adversely affected, California, Virginia, Texas and Florida all stand to be hardest hit.¹

The AIA report also notes that the ripple-effect of the proposed cuts on the broader aerospace and defense industry will be immense, given the significant number of subcontractors in the sector. The very existence of some subcontractors – many of which are small and medium sized businesses – is threatened, and once lost the intellectual property and supplier base will be extraordinarily difficult to rejuvenate. This is a serious issue for the United States, and will impact our ability to project our global interests. It will also affect U.S. partners and allies, who will find American defense products less capable and more expensive.

The impending financial tsunami to hit the defense and aerospace sector comes at a time when the Taiwan government seeks to procure 66 replacement F-16C/D fighters for its aging fighter fleet - a purchase that would result in a gross investment of almost US\$9 billion into the American economy and which would support over 16,000 jobs in the defense and aerospace sector.

In contrast to the dire consequences of the defense budget cuts as predicted by the AIA report, a follow-on sale of F-16s to Taiwan would have a positive economic impact around the country, generating some US\$8.7 billion in gross output and sustaining approximately 16,000 direct and indirect jobs over the life of the program. This would represent a significant economic boost to states such as Ohio and Florida - where unemployment stands at 8.6% and 10.6%, respectively. If approved, the purchase is also projected to yield almost US\$768.0 million in Federal tax revenues over the course of the program, as well as about US\$593.7 million to various state and local governments.²

Should the Taiwan sale fail to materialize, however, current orders would only sustain the F-16 production line for another two years. The closing of the F-16 production line would simply add further job losses to the sector, impacting the U.S. states already hit hard by the proposed budget cuts.

The current situation stresses the importance of foreign markets, particularly Asian markets, for American defense companies. Asian capacity building has led to substantial defense procurement growth in the region. Selling U.S. defense equipment into the Asian markets affords the U.S. several critical advantages, including reducing unit costs for American defense procurement, supporting U.S. research and development efforts,

¹ "The U.S. Economic Impact of Approved and Projected Spending Reductions on Equipment in 2013" Aerospace Industries Association, October 24, 2011. secondtonone.org/analysis-projects-one-million-jobs-at-risk-from-defense-cuts

² "An Assessment of the Potential Impact of the Lockheed Martin Taiwan F-16 Program on Business Activity in Affected States and Congressional Districts" The Perryman Group, May 2011. www.us-taiwan.org/reports/2011_may_perryman_group_taiwan_f-16_economic_impact_report.pdf



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and supporting employment in the aerospace and defense sector. It also promotes the inter-operability of equipment, thereby offering U.S. allies important advantages when training and operating with U.S. forces.

Nevertheless, the Obama Administration, like the Bush Administration before it, is apparently not including Taiwan in this equation. Since 2006, Taiwan – a longtime friend and ally of the United States – has been attempting to request 66 F-16 fighters to replace its 40+-year old F-5 fleet. But Taiwan has been denied even the ability to submit a Letter of Request (LOR) for Pricing & Availability data (P&A) for this replacement equipment. It is a significant defense sales opportunity that is being denied over concerns about how China will react. In fact, the jobs of American workers are being placed in jeopardy over Chinese foreign policy priorities.

In an October 24 column for a Japanese newspaper, U.S. Secretary of Defense Leon Panetta – presently on a tour of Asia – readily agreed that China is a concern for the U.S. in the region. He said that "*China is rapidly modernizing its military, but with a troubling lack of transparency, coupled with increasingly assertive activity in the East and South China Seas.*" During his trip, Secretary Panetta is promoting capacity building amongst key regional friends and allies such as South Korea, Japan and Australia. That apparently does not include Taiwan, however, despite the extent of the threat that China poses to this core Asian democracy and U.S. friend.

Similarly, President Obama is advocating expanding trade with our Asian allies through the U.S.-Korea Free Trade Agreement (KORUS) and the Trans Pacific Partnership (TPP), but again the equation does not include Taiwan. At a press conference discussing KORUS, President Obama said that "*this agreement will boost American exports by up to \$11 billion and support some 70,000 American jobs*". Taiwan is currently not even being considered for an FTA, and yet this trade deal for replacement F-16s would by itself support up to US\$9 billion in gross economic activity and over 16,000 jobs. Are defense and aerospace jobs less important than those in other sectors? No. The Obama Administration is simply balking at this particular trade deal because China opposes it.

There is already a strong strategic case in favor of releasing new F-16s to Taiwan. U.S. economic security would also be well served by the sale, given the projected positive impact on the employment picture in numerous communities around America. Yet the Obama Administration has not moved forward on this issue due to concerns over China's sensitivities. The US-Taiwan Business Council believes that the U.S. government should be evaluating the F-16C/D sale based on the needs of Taiwan and on its significant beneficial impact on the U.S. economy, not on China's foreign policy priorities.

I believe that with the U.S. unemployment rate now at 9.1%, F-16 associated jobs represent high-paying aerospace positions that could have an important positive impact on local communities around the country - particularly in California, Connecticut, Florida, Maryland, Ohio, Texas and Utah. It is entirely consistent for the Obama Administration to approve this trade opportunity, not only to support the interests of American workers but also in support of the important capacity building of a major Asian non-NATO ally.

About the US-Taiwan Business Council

The US-Taiwan Business Council (www.us-taiwan.org) is a membership-based non-profit association, founded in 1976 to foster trade and business relations between the United States and Taiwan. The Council provides its members with business intelligence, offers access to an extensive network of relationships, and serves as a vital and effective representative in dealing with business, trade, and investment matters.