



Executive Summary

Defense & Security Quarterly Report Third Quarter, 2001

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INTRODUCTION

The US-Taiwan Business Council is committed to providing our members with tactical and strategic advice on how to succeed in the Taiwan market. As part of a suite of information products distributed to our members, the Council publishes several analysis reports each year. These reports are published each quarter, with an expanded report in the fourth quarter that covers the entire previous year.

The Defense & Security report focuses on defense and national security issues as they relate to Taiwan, and provides up-to-date analysis of developments during each quarter. Each report also contains contact information valuable in initiating and maintaining a relationship with Taiwan private and government entities, as well as other useful information including organization charts and a glossary.

The US-Taiwan Business Council's Defense & Security Report has been published since the first quarter of 2001. Although these reports are distributed exclusively to members and to U.S. government employees, this executive summary provides some insight into the focus and contents of the report.

For more information, please contact us directly at the below address, or visit us online at www.us-taiwan.org.

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QUARTERLY DEFENSE & SECURITY ANALYSIS

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In April of this year, the new Bush administration announced the approval of an extraordinary package of arms to Taiwan at what appeared to be the last formal US-Taiwan Arms Sales Meetings. Tied to the list of approvals was a decision by the new president to do away with these annual talks and instead handle Taiwan's legitimate defense requirements in a routine, case-by-case manner as is done with other friends and allies of the United States. This and the arms sales decisions, which included breakthrough support for the sale of diesel electric submarines to Taiwan, generated speculation as to the direction the new administration would take in its relationships with Taiwan and the PRC.

In the following weeks and months, some answers began to emerge. The Bush administration allowed President Chen Shui-bian of Taiwan to make transit stops in New York and Texas, en route to and on his return from an official visit to South America. Rather than being strictly constrained in his activities during these transit stops as had been the case in previous instances, the administration allowed Chen significant freedom to tour the host cities and meet with local and national political leaders.

On the military front, indications were that military-to-military relations were becoming much closer and more substantive in recognition of and in response to the inexorably growing threat posed by Chinese ballistic missile deployments, military modernization, and unabated use-of-force rhetoric. At the same time, imminent WTO accession by both the PRC and Taiwan, Beijing's being awarded the 2008 Olympics, and steadily deepening concerns about an economic recession appeared to mitigate against the possibility of conflict in the Taiwan Strait at least in the short term.

The focus of this report is to provide some thoughts on where the US-Taiwan military relationship stands; summarize the progress to date on the arms sales decisions of April 2001 and certain other key programs; and offer some brief concluding comments on Taiwan's economic situation and potential budget problems and on the effects of the defense reorganization program and upcoming leadership changes.

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