



Executive Summary

Defense & Security Quarterly Report First Quarter, 2002

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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.

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QUARTERLY DEFENSE & SECURITY ANALYSIS

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It has been projected that Taiwan will spend in excess of US\$26 billion over the next ten years on its defense needs, and the defense industry is also one of the largest sectors represented in the US-Taiwan Business Council's membership. To better serve those members, the Council hosted a defense conference entitled the "US-Taiwan Defense Summit" in Saint Petersburg, Florida, in early March of 2002. The objective of the event was to bring together all of the principals in the US-Taiwan defense relationship, both from U.S. and Taiwan industry and from both governments.

Unlike in most other industries, the defense relationship between Taiwan and the U.S. is one that is highly sensitive. Because of that sensitivity, the Council determined that the entire event should be considered off-the-record, and the event was also off-limits to the media. We wanted all of our attendees to feel comfortable talking about these sensitive issues, and to focus on issues related to furthering the commercial relationship between our two economies.

Rather than discussing specific arms sales, the focal point of the event was on the process itself, as we wanted to bring clarity and transparency to the often-complex defense procurement process. That is not, of course, a task that could be accomplished with one conference. In fact, the Council feels that this event was merely the beginning of a long road towards normalizing defense procurement so that less attention will be paid to it, with less media hype, hopefully resulting in a more efficient and productive process.

The planning for this conference began more than a year ago with the decision to invite Taiwan's Minister of National Defense to speak. It was to be the first time since 1962 that a Minister of National Defense from Taiwan would visit the United States for anything other than a transit stop. In addition, Taiwan's Premier Yu Shyi-kun tapped Chief of the General Staff General Tang Yao-ming to be the new Minister of National Defense only a matter of weeks before the scheduled start of the conference. This made for a fortuitous meeting, as Minister Tang could benefit from being introduced to U.S. industry leaders so soon after his appointment.

The purpose of this analysis is to focus on what took place during those three days in Florida. We will attempt to clarify the objectives of the conference, while summarizing the four main topics of the meeting, including Taiwan's defense procurement process, offset requirements, Taiwan's defensive position and military strategy, and the outlook for future military sales to Taiwan.

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