



Executive Summary

Defense & Security Quarterly Report Third 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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The summer quarter was a remarkable period in the evolution of Taiwan-China-U.S. relations. A number of events transpired that just a year ago might have led to the brink of a cross-Strait war, but this year raised only mild reactions in Beijing.

Taiwan President Chen Shui-bian's August remarks on Taiwan "walking its own road," First Lady Wu Shu-chen's highly publicized visit to the United States, and several well reported exchanges of military delegations – particularly Vice Minister of National Defense (MND) Kang Ning-hsiang's early September visit - all evoked only muted responses from China. Beijing, apparently, is fully focused on its leadership transition in the lead-up to the 16th Party Congress, while Washington continues with the war on terrorism, Afghanistan, and preparations for a potential conflict in Iraq.

Against this backdrop, China steadily continues its modernization program which is producing a visible increase in military capabilities. In turn, Taiwan is carrying out a modernization program that places priority on streamlining and reducing costs, with questionable results in terms of operational capabilities.

To close the triangle, the U.S. marches forward with arms sales and enhanced military-to-military relations across the board with Taiwan. This quarterly report will attempt to clarify this complex picture as we look at future developments in the arms sales area and in the cross-Strait political dynamic.

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