



Executive Summary

Defense & Security Quarterly Report Second Quarter, 2003

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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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Following the US-Taiwan Business Council's Defense Industry conference this past February in San Antonio, Texas, one may have been left with the impression that the arms sales programs were stalled and the military-to-military relationship between the United States and Taiwan was strained. This appeared to be the case due to the differing assessments made by the two sides of the degree of seriousness of the Chinese threat facing Taiwan, and the level of urgency required to meet that threat.

The United States sees the threat as more immediate — one that might impact the cross-Strait situation between 2005 and 2007 — while Taiwan believes that the threat will not become critical until at least the next decade. Consequently, the United States and Taiwan, while both sharing a long-term strategic interest in promoting peace and stability in the Taiwan Strait, each operate with a different sense of urgency, leading to different acquisition priorities and different perspectives on the need to commit resources to the problem. The United States is continuing to refine its set of strategic priorities for Taiwan, emphasizing improvements in missile defense capabilities, C4ISR, and anti-submarine warfare.

Furthermore, the dramatic impact of SARS also contributed to the sense that aspects of the US-Taiwan relationship were stalled. SARS affected the region by greatly restricting business travel, reducing face-to-face contacts, and directing most of the affected regions' governments to focus on the crisis rather than on defense issues. Finally, with less than a year before Taiwan's next presidential elections, the maneuvering for advantage in Taiwan's domestic politics has picked up speed, particularly around the controversial issue of national referendums, which may also affect cross-Strait relations and consequently issues of national defense.

However, as we move into the third quarter of 2003, a brighter picture is emerging. SARS is under control for the time being, and dialogue with the U.S. government during recent visits to Washington by senior Taiwan officials has also helped to clarify priorities for arms sales programs.

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