



## **Executive Summary**

# **Defense & Security Quarterly Report Third 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.

For more information, please contact us directly at the below address, or visit us online at [www.us-taiwan.org](http://www.us-taiwan.org).

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**QUARTERLY DEFENSE & SECURITY ANALYSIS**

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Taiwan's presidential elections in March 2004 will influence the debate and color any government decisions throughout the next six months. Key issues in the upcoming elections include the overall state of the Taiwan economy, as well as the state of U.S.-Taiwan and cross-Strait relations.

The elections will also signal Taiwan's long-term strategic approach to the relationship with China, either towards unification if the pan-Blue Kuomintang (KMT)-People's First Party (PFP) coalition wins, or continuing de facto independence if the Democratic Progressive Party (DPP) and its pan-Green supporters retains the presidency. The election results will have serious consequences for the losing party in the short run, as it will likely undergo major restructuring in hopes of regaining relevance on the Taiwan political scene, while also having consequences for the terms of Taiwan's existence in the long run.

Over the past quarter, Taiwan officials have continued to be concerned over apparent improvements in U.S.-PRC relations, and they are taking clear and definitive steps to reassure the Taiwan public that the island's interests will not be sacrificed because of those improvements. The Chen Administration's draft defense budget for 2004 and its proposed special defense budget are both designed to show the public its commitment to national security, an issue that has garnered particular attention because of the ongoing discourse on direct cross-Strait links. With the continued sluggish economy, however, the increased size of the proposed 2004 defense budget could also increase Taiwan's budget deficit and may also become an issue in the election.

On a positive note, the state of Taiwan's military relations with the United States has taken a turn for the better over the last quarter, with much of the uncertainty that characterized the relationship in the first half of the year dissipating. That uncertainty has been replaced with more and better communication, which has led to a better understanding of each side's needs, priorities, and strategic direction. Expanding U.S.-Taiwan military ties and continued and significant developments in the progress of arms sales programs both bode well for U.S. defense contractors.

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