



Executive Summary

Defense & Security Quarterly Report Annual Review, 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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The US-Taiwan military relationship saw a major, positive evolution during 2003. Although the year started out at low ebb, apparently hampered by major differences in strategic outlook and planning, it ended with a comprehensive, shared strategic vision to guide Taiwan's modernization program over the next decade.

This annual issue of the Defense & Security Report will address those developments in the US-Taiwan military relationship, where funding is a key component, as well as the successful implementation of the plan for procurement, tied to the annual budget and to the special arms budget, which will be critical to achieving the shared strategic objectives that have emerged in the US-Taiwan relationship

In addition, we will examine the upcoming Taiwan presidential elections in March, a closely contested race that will have wide-ranging consequences not only for Taiwan's domestic economic and political situation, but that will also impact China's cross-Strait policies and influence the full scope of US-PRC-Taiwan relations. Incumbent President and Democratic Progressive Party (DPP) candidate Chen Shui-bian, with running mate Vice President Annette Lu, and the allied Kuomintang/People's First Party (KMT/PFP) candidates Lien Chan and James Soong are already pulling out all the stops as they vie for popular support.

Chen is appealing heavily to a populist sense of identity and nationalism with calls for constitutional change and a public referendum. Lien was carving out a platform calling for a more moderate approach to cross-Strait relations, but the Pan-Blue (KMT/PFP) coalition did not make headway attacking the quality of DPP governance, and has in recent weeks launched its own "nationalist" appeal with competing proposals for referenda and constitutional changes.

Finally, we will review some of what is known of the 2004 national defense budget, and provide a status report on the special arms budget and on the progress of Taiwan's major arms programs. If President Chen wins the election, the special arms budget will likely move through as expected during the summer months, whereas a Pan-Blue victory could potentially delay the process as a result of the change in administration.

As for the overall procurement program - addressing all the systems and projects that the Bush Administration approved in April 2001 - it is moving fairly slowly. With a plan finally in place, however, that pace should accelerate over the course of 2004. Barring unforeseen disruptions, the Taiwan military is poised to move forward on addressing its defense modernization objectives.

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