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TAIWAN'S ARMS PROCUREMENT DEBATE AND THE DEMISE OF THE SPECIAL BUDGET PROPOSAL

Domestic Politics in Command

Michael S. Chase

Abstract

Despite the growing security threat posed by Chinese military modernization, Taiwan still has not completed the purchase of some of the key components of the arms sales package the United States approved in April 2001. The reasons include overconfidence in U.S. security assurances, underestimation of Chinese capabilities and resolve, and highly divisive domestic Taiwanese politics.

Keywords: Taiwan, defense, defense budget, national security, arms purchases

When the United States approved an enormous arms sales package in April 2001, Taiwan was surprised and slow to respond, despite the growing security threat represented by the accelerating modernization of the Chinese military. Three years passed before the Chen Shui-bian administration finally made a decision, and it was only after Washington engaged Taipei in a dialogue about procurement priorities that the Chen administration submitted a special budget request to the Legislative Yuan (LY) in June 2004. The Chen administration probably chose to use the special budget mechanism to avoid politically unpopular trade-offs with social welfare spending that would have been required, had the items been included in the regular annual defense budget. The pan-Blue

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parties¹ strongly opposed the proposal and kept it bottled up in the LY's Procedure Committee, preventing it from being considered. Pan-Blue legislators argued that the weapons were outdated and overpriced, but denying President Chen a political victory in a highly polarized domestic political environment was probably an equally important motive for pan-Blue.

In response to pan-Blue's vehement opposition and repeated refusal to place the bill on the legislative agenda, the Chen administration reconfigured the proposal and cut the special budget twice, first from NT\$ 610.8 billion (US\$17.8 billion) to NT\$ 480 billion (\$14.5 billion), then down to NT\$ 340 billion (\$10.6 billion). The opposition-dominated LY, however, continued to block consideration of the bill. The Chen administration finally gave up in 2006, after the Procedure Committee had refused to place the bill on the legislative agenda more than 50 times. After dropping the special budget request, the Chen administration announced that it planned to raise the regular annual defense budget from about 2.4% of gross domestic product (GDP) in 2006 to 2.85% of GDP in 2007 and 3% in 2008 to cover the arms purchases.

This article attempts to explain Taiwan's failure for the past seven years to approve funding for some of the main components of the arms sales package as a function of domestic politics and threat perceptions. Because Taiwan's major political parties disagree about how best to protect the island's interests and its political institutions are not conducive to producing the compromises that make democracy work, divided government and partisan animosity have resulted in severe political gridlock. This has impeded Taiwan's ability to reach timely decisions on several aspects of the arms procurement question. Moreover, the assumption that U.S. intervention is probable in the event of a cross-strait conflict and the perception that China is unlikely to use its growing military capabilities to attack Taiwan both interacted with these domestic political factors to reduce the perceived costs of inaction on key components of the proposal.

Taiwan's inability to resolve the arms procurement debate for more than seven years could have disturbing implications for relations across the Taiwan Strait. Military weakness could increase the possibility of a cross-strait conflict or leave Taiwan in a poor bargaining position in any future negotiations with China. The failure of the Chen administration and the opposition-controlled legislature to reach agreement on funding for the arms package also caused problems in U.S.-Taiwan relations; indeed, the prolonged debate over the special budget became a major point of contention.

1. The pan-Blue camp is composed of the Kuomintang (KMT) and People First Party (PFP). The pan-Green camp consists of the Democratic Progressive Party (DPP) and Taiwan Solidarity Union (TSU).

It led many in the United States—including some of Taiwan's strongest supporters in the U.S. Congress—to question Taiwan's commitment to its own defense. It also diverted attention from equally pressing national security and defense reform issues in Taiwan, and may have decreased Washington's willingness to approve further arms sales requests from Taipei.

The data for this analysis are drawn from a variety of sources, including media reports, publicly available government documents such as Ministry of National Defense (MND) press releases, and interviews with policymakers and analysts in the U.S. and Taiwan. The article is divided into six sections. The first presents an overview of the unprecedented 2001 arms sales decision and examines the reasons for Taipei's sluggish response. The second section provides an assessment of the opposition's refusal to approve the special budget that the Chen administration proposed to fund the acquisition of weapons from the U.S. The third section weighs the Chen administration's response to the opposition's criticism of the special budget proposal. The fourth section analyzes the ultimate demise of the special budget. The fifth section explains Taiwan's failure to approve funding for the arms procurement package as a function of domestic politics and threat assessments. The sixth and final section assesses the implications for cross-strait relations and Taiwan's relationship with the United States.

The 2001 Arms Sales Decision and Taipei's Sluggish Response

In April 2001, the United States offered to sell Taiwan an arms package that was unprecedented in size and content. The total cost of the items offered was over US\$15 billion, and the package included a number of items that had never before been approved for sale to the island's military. Among the highlights were eight diesel-electric submarines, 12 P-3C Orion maritime patrol aircraft, and an integrated undersea surveillance system (see Table 1 for a complete list). Washington also offered to sell the island four decommissioned Kidd-class destroyers but deferred Taiwan's request for Aegis-equipped destroyers. In addition, Washington agreed to give Taipei a classified briefing on the capabilities of the PAC-3 missile defense system. Later the same year, the Bush administration agreed to release several additional items, including tanks, helicopters, and PAC-3 missile defense systems (see Table 2 for a complete list and approximate prices).

The approval to sell the arms package represented a major departure from previous U.S. policy in several respects, most notably the inclusion of diesel-electric submarines, which previous U.S. administrations had been unwilling to offer to Taiwan. According to Mark Stokes, a former U.S. Department of Defense official responsible for China-Taiwan affairs at

TABLE 1 *The April 2001 Arms Package to Taiwan Approved by the United States*

<i>Item</i>	<i>Quantity</i>	<i>Approximate Total Price</i>
Diesel-electric submarines	8	\$8–10 billion
P-3C maritime patrol aircraft	12	\$4 billion
Mark-48 anti-submarine warfare (ASW) torpedoes	54	\$150 million
Harpoon submarine-launched anti-ship cruise missiles	44	\$150 million
M109A6 Paladin self-propelled howitzers	144	\$500 million
AAV7A1 amphibious assault vehicles	54	\$175 million
AN/ALE-50 towed decoys for F-16s	—	\$29 million
MH-53 minesweeping helicopters	12	\$1 billion
KIDD-class destroyers	4	\$800 million
Integrated undersea surveillance system	—	\$500 million

SOURCES: Mark Stokes, "Taiwan's Security: Beyond the Special Budget," American Enterprise Institute, *Asian Outlook 2* (March 27, 2006), <http://www.aei.org/publications/pubID.24113/pub_detail.asp>; and Shirley Kan, *Taiwan: Major U.S. Arms Sales Since 1990* (Washington, D.C.: Congressional Research Service, March 2005).

TABLE 2 *Other Arms and Equipment Offered to Taiwan Later in 2001*

<i>Item</i>	<i>Quantity</i>	<i>Approximate Total Price</i>
M1A2 SEP Abrams battle tanks	—	\$500 million
AH-64D Apache or AH-17 Super Cobra attack helicopters	At least thirty	\$2 billion
SIGINT aircraft	Four	\$300 million
PAC-3 missile defense systems	Six new fire units (and upgrade of Taiwan's three existing Patriot batteries)	\$3 billion

SOURCE: Stokes, "Taiwan's Security."

the time, "The objective was to reverse 20 years of relative neglect and frontload the systems that Taiwan had asked to be made available as the Clinton administration drew to a close."² Although Washington's intention was to emphasize the importance it attached to assisting Taiwan to strengthen its defensive capabilities, Taipei was apparently caught off guard.

2. Stokes, "Taiwan's Security."

As Stokes puts it, from the Chen administration's point of view, "The Bush administration's approval of the largest arms package in history was a surprise."³ The scale of the package was so large that it overwhelmed Taiwan's defense establishment, especially given its limited expertise in the analysis of operational requirements, cost effectiveness, and budget planning. Taipei was simply unprepared to deal with the simultaneous approval of so many major systems. Analysts there argued that the government was caught off guard because Washington traditionally had declined many of Taiwan's arms procurement requests, leading the island's military to expect that only a fraction of what it requested would actually be approved in any given year. Loh I-cheng, a researcher at the National Policy Foundation, summarizes the views of policymakers in Taipei as follows:

During the 80s and 90s, Taiwan was on a short leash; most of its arms requests were simply ignored by Washington or put on hold, so as not to antagonize Beijing. The island would be thrown a few crumbs in those annual bilateral consultations, just enough to keep it on a starvation diet, except for the one-time F-16 sale under George H. W. Bush. . . . Understandably, a hungry man tends to beg for more, in the hope that his meager ration of just bread and water could include a piece of meat once in a while. When George W. Bush became president, he extended the leash by a good length, and approved in one stroke a long list of FMS [foreign military sales]. . . . It has been compared to the sudden appearance of a king's banquet at the wave of a magic wand, . . . the poor beggar cannot possibly digest [it] in one sitting, and does not even know how to react to such good fortune.⁴

As one U.S. researcher put it, Taiwan was accustomed to a "spaghetti-on-the-wall" approach to the annual arms sales process, given the uncertainty over which requests Washington would approve in a given year.⁵ Consequently, in 2001, the island's defense establishment found itself surprised that so much of the spaghetti "stuck."⁶ A number of other factors contributed to the three-year delay in the Chen administration's response to the U.S. offer, according to interviews with analysts and observers in Washington and Taipei. These included a tendency to discount China's repeated admonitions that it would "pay any price" to prevent Taiwan from moving further toward formal independence; Taiwanese overconfidence in U.S. security assurances; tension between the new civilian leadership and senior

3. Ibid.

4. Loh I-Cheng, "Behind Taiwan's Debate over the \$18.3 Billion U.S. Arms Deal," National Policy Foundation, *NPF Backgrounder* 94:1 (January 26, 2005), <<http://www.npf.org.tw/PUBLICATION/NS/094/NS-B-094-001.htm>>.

5. This metaphor refers to a method of trying many things somewhat haphazardly in the hopes that at least some of them will work.

6. Author's interview with U.S. researcher, Washington, D.C., January 2006.

military officers; and inter-service rivalry between the Republic of China (ROC, i.e., Taiwan) Army, Navy, and Air Force.

Despite these problems, some progress was made in May 2003, when Taiwan agreed to purchase the four Kidd-class destroyers to replace its World War Two-era Gearing-class destroyers. Taiwan received the first two Kidds in December 2005, and the third and fourth ships were delivered in October 2006. The destroyers' anti-air, anti-submarine, and anti-surface-warfare capabilities will make them the ROC Navy's most powerful surface ships. In particular, ROC Navy officers emphasize that the ships will greatly improve Taiwan's naval air defense and battlefield management capabilities.⁷

This purchase was an important step. But Taipei's sluggishness in moving forward with the rest of the items frustrated policymakers in the United States, and they began pressuring the Chen administration to accelerate the procurement process. Indeed, policymakers in Washington began to complain openly that Taiwan was not moving quickly enough to take advantage of the Bush administration's unprecedented arms sales offers. Some observers found their frustration amplified because Taipei was reticent even though Washington had already paid the diplomatic price of offending China by approving the arms sale.

The United States did not suggest that the Chen administration employ the special budget mechanism, which is sometimes used by Taiwan governments to pay for expensive programs such as major arms purchases and large-scale public infrastructure projects outside of regular annual budget channels. Still, Washington emphasized the importance of moving quickly on the arms purchase. The U.S. approach also appears to have influenced Taiwan's decision to focus in the special budget proposal on submarines, maritime patrol aircraft, and missile defense batteries. Specifically, in early 2003 the Bush administration highlighted what it regarded as the top priorities for modernization of Taiwan's defense: command, control, and communications (C3) systems; missile defense; and ASW. According to Stokes:

These suggestions were intended to start a dialogue on priorities and break the paralysis that [. . .] plagued Taiwan's defense establishment since the Bush administration's approval of the 2001 arms package. During the summer of 2003, Taiwanese officials relayed to the U.S. that it intended to pursue submarines, PAC-3, and P-3Cs through a special budget request.⁸

7. See Li Lu-tai, "Jilongji Jian Jiaru Zhandou Xulie Hou: Zaitan Jiandui Fanking Zuozhan" [Adding Kidd-class destroyers to the force: A reexamination of ROC Navy air defense operations], *Haijun Xueshu Yuekan* [Naval Science Monthly] 40:4 (July 2006); and Chang Kuo-hua, "Haijun Jiandui Fangkong Zuozhan Nengli Zhi Tantai: Yi Jilongji Jian Wei Li" [Discussion of the ROC Navy's fleet air defense capability: The example of the Kidd-class destroyers], *ibid.*, 40:4 (July 2006).

8. "Arms Procurement Necessary for the Nation's Survival," *Taipei Times*, April 24, 2005.

Despite the pressure from Washington, almost another year passed before the Chen administration finally acted. Thus, it was not until June 2004 that Chen and his cabinet proposed a special budget request to purchase the three big-ticket items. This original version of the special budget proposal, which was submitted to the LY on June 2, requested a total of NT\$ 610.8 billion (\$17.8 billion), including about NT\$ 144.9 billion (\$4.2 billion) for PAC-3 missiles, NT\$ 53 billion (\$1.5 billion) for P-3C ASW planes, and NT\$ 412.1 billion (\$11.9 billion) for diesel-electric submarines. The proposal included a schedule that called for the arms to be delivered over a 15-year period, beginning in 2005.

Why did the Chen administration choose to use a special budget proposal instead of incorporating the systems into the annual defense budget? One reason was that the latter approach would have crowded out other defense modernization programs unless there was a substantial budget increase. More important, given Taiwan's budget and debt laws, a substantial increase in defense spending would have necessitated reducing the budgets of other government agencies. The Chen administration thus chose the special budget mechanism to avoid having to make trade-offs between defense spending and domestic social welfare spending. Cutting spending on popular domestic programs to buy arms from the United States would not have been a good electoral strategy. The comments of senior government officials suggest that this was a major consideration behind the special budget mechanism. In August 2005, then-Deputy Minister of National Defense Michael Tsai explained the government's preference for the special budget by stating that it would not force the government to cut other parts of its budget. Referring to the use of the special budget, Tsai said, "This way, no government agencies need to worry about a crowding-out effect."⁹ A few months later, Tsai described the special budget as "bigger than an elephant" and lamented that including the three major items in the regular budget would "squeeze out" the budgets of the other government agencies.¹⁰

Pan-Blue Opposition to the Special Budget

The KMT and PFP, which together comprise the pan-Blue camp, were embittered by their suspicion that President Chen had stolen the 2004 presidential election and strongly opposed the special budget request from the very beginning. KMT and PFP control of the legislature allowed the

9. "Lawmakers Plan to Shift Funding to Buy Weapons," *Taiwan News* (Taipei), August 24, 2005.

10. Mark Magnier, "Taiwan's Logjam on Weapons Bill Frustrates U.S.," *Los Angeles Times*, October 8, 2005.

pan-Blue camp to foil the Chen administration's arms procurement plans. The pan-Blue-dominated Procedure Committee blocked the bill more than 50 times, which prevented it from even being considered in the LY, and this ultimately forced Chen and his DPP to abandon the special budget. The debate represented a strange turn of events in that Chen and the DPP, which had frequently opposed greater military spending when the KMT was in power, were now pushing for a major investment in military hardware. Moreover, the KMT, which had traditionally supported arms purchases from the United States when in power, was now strongly opposed to the DPP's request for a special budget to pay for some of the very hardware KMT officials had previously sought to acquire from Washington, including submarines, P-3C aircraft, and Patriot anti-missile batteries.¹¹ As one observer pointed out, "The DPP questions why the blue camp now objects to the same national defense policy that it initiated during its own days in power. If the KMT were still the ruling party, ask DPP representatives, would it have a different attitude?"¹²

Yet, the KMT and PFP were adamantly opposed to the special budget for a number of reasons. Opposition lawmakers raised several different objections to the government's proposal to use the special budget mechanism to procure military equipment from the United States. The broadest set of arguments held that approval of the special budget would not really enhance Taiwan's national defense and that the island's national security could not be assured through defense modernization alone, especially given increasing cross-strait economic interaction and slowing economic growth in Taiwan. The most concise summary of this argument was provided by KMT legislator and former Mainland Affairs Council (MAC) chief Su Chi, who wrote in a January 2006 op-ed, "Arms procurement does not amount to national defense, and national defense does not amount to national security."¹³ Instead, Su argued, Taiwan should focus on a strategy that would combine major improvements in cross-strait relations with the acquisition of "more economical, pragmatic, and effective" defense capabilities.

Beyond this broader debate, the main pan-Blue arguments focused on the high price of the weapons and Taiwan's fiscal policy situation. Many pan-Blue LY members asserted that the items were overpriced, and some

11. The KMT had submitted requests for these under Lee Teng-hui, and many of the opposition politicians who criticized the arms procurement plan previously supported the same proposals when the KMT was in power.

12. "A Call to Arms," American Chamber of Commerce in Taipei, *Taiwan Business Topics* 34:11 (2004), <http://www.amcham.com.tw/publication_topics_view.php?volume=34&vol_num=11&topics_id=561>.

13. Su Chi, "Soft Power + Defensive Defense = National Security," *United Daily News* (Taipei), January 24, 2006.

suggested that the United States was inflating the threat posed by People's Liberation Army's (PLA) modernization as part of an American effort to persuade Taipei to purchase expensive U.S. weapons. Some claimed that the weapons were simply unaffordable, given Taiwan's budgetary circumstances, and would worsen the government's financial situation. Uncertainty about the total cost of the diesel submarines and questions about Washington's ability to provide them at any price—given that the United States last built diesel subs in the late 1950s—also fueled opposition criticism.

Another set of arguments centered on the operational utility of the items included in the arms sales package. Some pan-Blue politicians argued that the items would not meet Taiwan's defense needs. Some said that Taiwan would never be able to do enough to keep pace with PLA modernization, making defense essentially hopeless—barring U.S. intervention in a cross-strait war. Other opposition politicians suggested that the arms would arrive too late to make a difference. Finally, some pan-Blue national defense policy experts indicated that it would make more sense to devote greater funding to enhancing maintenance and operations instead of spending such a large amount of money on arms procurement.

Another major argument centered on the use of the special budget mechanism. The pan-Blue camp argued that this was an inappropriate attempt to circumvent restrictions imposed by Taiwan's budget laws. At the same time, however, KMT and PFP members differed over whether they would support the programs if the Chen administration would incorporate them into the regular defense budget instead. Some opposition politicians indicated that they opposed the use of a special budget to pay for the items but would not oppose the purchases if they were financed through the regular defense budget. For example, in July 2005, KMT legislator Chen Chieh said, "The KMT is not against buying new weapons. As long as the DPP government is willing to use the regular annual budget for that purpose, and not to leave the debt to our children and grandchildren, then we can discuss it."¹⁴ Many in the KMT were apparently willing to support raising the defense budget to 3% of GDP instead of using a special budget to buy weapons from the United States. Members of the PFP, however, tended to take a harder line on the question of shifting the arms purchases. Lin Yu-fang, a PFP member of the LY's National Defense Committee, said his pan-Blue colleagues were "stupid" to support funding through the regular budget since it would be a waste of taxpayers' money no matter how the purchase was funded.¹⁵

14. "Parties Spar over Pentagon Report," *Taipei Times*, July 21, 2005.

15. Shu-ling Ko, "KMT Willing to Review Arms Plan," *ibid.*, August 24, 2005. Lin's position was that it was a bad deal regardless of whether it was funded with a special budget bill

In late 2005, the KMT and PFP began emphasizing that they objected to the proposed PAC-3 procurement on the grounds that the outcome of the 2004 referendum precluded the purchase of missile defense systems for three years. Outlining this element of the pan-Blue camp's argument, PFP legislator Lee Yung-ping said, "The referendum held in tandem with the presidential election . . . vetoed the question that the nation should beef up its missile defense in the face of Chinese ballistic missile deployments."¹⁶ Although the overwhelming majority of voters who cast ballots voted in favor of boosting missile defense capabilities, the question was declared invalid because less than half of eligible voters—the minimum required—participated in the referendum.¹⁷

As for the pan-Green position, prior to the referendum President Chen had stated that the government would go ahead with the planned purchase of the PAC-3 systems regardless of the outcome of the vote, since the question addressed the broader policy issue rather than any specific procurement proposal. After the KMT and PFP raised the issue of the referendum, Tsai, the deputy defense minister, reiterated the government's position that it would persist.¹⁸ The pan-Blue camp rejected this position, insisting that the PAC-3 batteries be taken off the table as a result of the referendum. It seems likely that this argument emerged because a new justification was needed to oppose the PAC-3 procurement once it appeared likely that the Chen administration would shift it to the regular annual defense budget.

The final reason pan-Blue legislators put forward to explain their opposition to the special budget was that spending an enormous amount of money on weapons from the United States would do little to benefit Taiwan's economy or create jobs at home. They pointed to Taiwan's recent economic slump and called for replacing at least a portion of the proposed arms imports with indigenous production. Proponents of this course of action argued that it would provide a boost to companies in the sagging defense and shipbuilding industries, some of which are major employers.

Some LY members insisted that they would only support the submarine purchase if the United States would allow Taiwanese shipbuilders to

or as part of the annual defense budget. "What concerns us is whether those weapons serve the armed forces' combat requirements, whether they are too pricey, whether the quantity is too great, whether we will get any technological know-how from the U.S. to offset such an expensive outlay, and most importantly, whether the plan will usher in a military contest across the Strait," Lin said.

16. Shu-ling Ko, "Pan-Blues Kill Arms Bill Again," *ibid.*, March 23, 2005.

17. Specifically, about 92% of those who cast valid ballots voted yes, but only about 45.2% of eligible voters participated and it was thus declared invalid.

18. "KMT, PFP Debate Tsai's Logic on 2004 Referendum," Central News Agency (Taipei), September 30, 2005.

produce at least some of the submarines. Similarly, some legislators argued that the Chungshan Institute of Science and Technology (CSIST), the military's main research and development institution, should be given the opportunity to design and build the island's missile defense system. In May 2002, the LY asked the Executive Yuan (EY) to negotiate a deal with Washington that would allow six of the eight diesel submarines to be built domestically. The Chen administration responded by establishing an inter-departmental task force to examine the possibility of domestic submarine construction. The task force was charged with evaluating the China Shipbuilding Corporation's (CSBC) capability to produce submarines, and also with establishing mechanisms for negotiations with the United States.¹⁹

But the task force was unable to win U.S. support, effectively scuttling the plan to build submarines domestically. According to a Taiwan MND press release, Washington indicated that it would not support the proposal to manufacture some of the submarines in Taiwan, largely because this would likely boost costs and delay the program.²⁰ Given the negative response from the United States, the MND concluded that "the obstacles to fulfilling the policy of domestic submarine-building are too hard to overcome" and asked the LY to "reassess the feasibility of promoting domestic submarine-building at this stage." Anticipating further criticism from the opposition parties, the MND pointed out that industrial cooperation would still yield considerable benefits for Taiwanese companies. This argument left the opposition unconvinced, however, and many legislators continued to complain that the Chen administration's arms procurement plan would not do enough to support Taiwan's economy, upgrade its defense industrial capabilities, or create jobs in their districts.

As the example of the submarines demonstrates, without a larger role for Taiwanese companies, the legislators probably saw little if any electoral advantage in supporting the special budget. Indigenous production of some submarines would have allowed a number of legislators to take credit for getting business for major companies like CSBC, creating employment

19. Military Spokesman's Office, MND, "Evaluation of Factors Limiting Domestic Submarine-Building," March 22, 2005, <<http://www.mnd.gov.tw/eng/news/newsroom.aspx?PublicID=104>><http://www.mnd.gov.tw/eng/news/newsroom.aspx?PublicID=104>>.

20. *Ibid.* Deputy Defense Secretary Paul Wolfowitz conveyed this message to LY Speaker Wang Jin-ping in June 2004. The following month, Deputy Assistant Secretary of Defense for East Asia Richard Lawless sent a letter to Taiwan in which the Defense Department formally declared that it did not support the proposal because it would not be cost effective and would probably delay the timetable for delivery of the submarines. Nonetheless, Washington indicated that it would accept a proposal to permit Taiwanese companies to handle maintenance and future overhauls of the submarines.

opportunities in their districts, and boosting the local economy. Presumably, these accomplishments would improve their reelection prospects, and it thus would have been in their interest to support the special budget. With only a modest role for Taiwanese companies, however, many legislators apparently concluded that supporting the special budget would not translate into votes.

Another very important, though usually unstated reason for opposition to the special budget, was purely political. According to knowledgeable observers in Washington and Taipei, the pan-Blue leadership simply wanted to deny President Chen any sort of political victory that would bolster his sagging popularity, increase the DPP's chances of winning additional seats in the LY, and boost the DPP's prospects in the 2008 presidential election. Indeed, the pan-Blue opposition blocked a considerable number of the Chen administration's proposals in addition to the special budget, suggesting that the refusal to allow the special budget out of the Procedure Committee was part of a broader political strategy. Such an approach is not uncommon in other countries and often leads to stalemate, particularly under conditions of divided government. In addition, according to observers in Taipei, it is probable that the pan-Blue camp calculated that forcing the Chen administration to fund the arms acquisitions through the annual budget would effectively squeeze out spending on more popular programs, costing the pan-Green camp votes in future elections.

The risks that the pan-Blue camp was running by thwarting the Chen administration's attempts to win approval for the special budget as part of this broader political strategy were twofold. First, the KMT and PFP were left open to criticism that they were being politically obstructive. Second, the approach left the pan-Blue camp vulnerable to charges that it was not serious about improving Taiwan's defense capabilities and safeguarding the island's national security. Eager to deflect domestic and U.S. charges of obstructionism, the pan-Blue camp sought to blame the Chen administration for the special budget debacle. The opposition noted that the Chen administration had waited three years to submit the special budget request. Pan-Blue continued to argue that the special budget was an inappropriate way to fund the purchases and that it was the opposition's responsibility to ensure that Taiwan did not purchase the wrong weapons at an exorbitantly high price.

To deflect charges that they were weak on national security issues, the KMT and PFP also insisted that they were in fact concerned about improving Taiwan's national defense capabilities. Some pan-Blue legislators indicated that they would support some alternative proposal to improve the island's defenses; the pan-Blue leadership insisted that they would not oppose an arms procurement plan that they considered reasonably priced

and appropriate to Taiwan's circumstances.²¹ Moreover, the KMT leadership pledged in early 2006 that it would release its own arms procurement proposal within a few months. The KMT ultimately backed away from that time line, however, apparently because of differences with the PFP.

The Chen Administration's Response

The Chen administration's counterargument to the pan-Blue camp's criticism of the special budget consisted of three main strands. First, the MND stated that it had done considerable analysis to validate the operational requirements and suitability of the weapons. Second, defense and national security officials emphasized the importance of acquiring the weapons to help prevent a further deterioration of the cross-strait military balance. Third, President Chen and other officials indicated that proceeding with the arms procurement was essential to demonstrating Taiwan's resolve and maintaining good relations with the United States.

The MND countered the pan-Blue camp's opposition to the special budget by releasing a number of assessments detailing the operational requirements for the PAC-3 missile defense systems, ASW aircraft, and submarines. The MND assessments indicated that these systems would address weaknesses in ASW and missile defense, which the MND had identified as key areas for improvement, given its analysis that missile attack and naval blockade were the most likely Chinese threats.²² In a February 2005 speech, Defense Minister Lee Jye said, "I have to emphasize that there is no cheap way to ensure national defense." He asserted that the PAC-3 missile defense systems, P-3C Orion ASW planes, and diesel electric submarines were all "necessary for homeland security."²³ Lee and other senior MND officials met personally with numerous legislators as part of the lobbying effort. The MND produced a variety of materials urging greater support for the special budget, including a publicity campaign that called on Taiwanese

21. "KMT Lawmakers Back a Strong National Defense," Central News Agency, May 1, 2005. For example, KMT LY member Shuai Hua-min, a retired ROC army general, said he was in agreement with the proposition that Taiwan should maintain sufficient defense capabilities, in part to ensure that the island's leaders would have at least some leverage in any future negotiations with China. Nevertheless, he indicated that he was opposed to the Chen administration's special budget because he regarded some of the proposed arms purchases as a waste of scarce resources.

22. Military Spokesman's Office, MND, "Clarifications Concerning the ROC Three-Part Major Military Procurement," March 18, 2005, <<http://www.mnd.gov.tw/eng/news/default.aspx>>.

23. *Ibid.*, "Speech of Minister Lee Jye, Ministry of National Defense," February 22, 2005, <<http://www.mnd.gov.tw/eng/news/default.aspx>>.

citizens to forgo one cup of milk tea each week so the government would have enough money to buy the weapons.²⁴

The MND defended the utility of each component of the special budget. The director of the MND's Integrated Assessment Office stated publicly that detailed computer simulations bolstered the case for procurement of the Patriot missile defense systems. He said the MND spent nine days running four different scenarios more than 10,000 times and had concluded that the Patriots would have a success rate of 83% against Chinese short-range ballistic missiles (SRBMs) if two Patriot missiles were used to attempt to intercept each Chinese missile launched at Taiwan.²⁵ In response to pan-Blue charges that the P-3C ASW planes were outdated and overpriced, the MND stated that more modern multi-mission maritime aircraft would not be available from the United States for another 15 years and would cost more than twice as much. Moreover, the MND noted that the unit cost of the P-3C planes was actually lower than the unit cost of the less capable P-3B aircraft that South Korea was planning to purchase.

Perhaps anticipating suggestions that Taiwan should consider purchasing a smaller number of ASW aircraft, the MND stated that it would need to have at least eight available at all times; this would require acquisition of 12 aircraft, as some planes would be unavailable at any given time because of regular maintenance and training requirements. "This is the minimum that can meet our combat needs," the MND concluded.²⁶ In addition, the MND stated that submarines were required to counter a Chinese blockade and to threaten Chinese surface ships in an invasion scenario.

In response to pan-Blue LY members' demands that the government should drop the special budget and add the items to the regular annual defense budget, the MND stated that including the items in the regular defense budget would squeeze out other important projects. According to a March 2005 MND press release:

The annual budget is already covering 204 projects to increase military strength (including the Kidd-class destroyer, the Posheng projects, the Kuanghwa 6 project, and reconnaissance and surveillance radar). The annual budget for 2005 was 260 billion NTD [i.e., NT dollars] (\$7.9 billion), with only 60 billion NTD (\$1.8 billion) for military investment. . . . [I]f the funding of one or two parts of the three-part procurement were supplied through the annual budget, this would displace existing projects.²⁷

24. Lin Chieh-yu, "Give Up Milk Tea, Save Up for Weapons, MND Urges," *Taipei Times*, September 22, 2004.

25. Rich Chang, "High Success Rate Claimed for Patriots," *ibid.*, March 22, 2005.

26. MND, "Clarifications Concerning the Military Procurement."

27. *Ibid.*

The only way to accommodate the addition of the three big-ticket items without squeezing out other projects would be to raise the annual defense budget to at least 3% of GDP, but the MND warned that such an approach “would have an impact on other government spending.”²⁸

Beyond emphasizing the suitability of the weapons to meet Taiwan’s defense requirements and the desirability of using the special budget to avoid painful tradeoffs, the government argued that failure to approve the special budget would cause further deterioration in the cross-strait military balance, increase the likelihood of war, undermine U.S. support for Taiwan, and diminish Taipei’s leverage with Washington. High-ranking military officers and senior government officials emphasized that allowing the cross-strait military balance to continue shifting in China’s favor would make military action a more tempting option for Beijing. In June 2005, Hu Chen-pu, director-general of the MND’s General Political Warfare Bureau (GPWB), warned that “[f]ailure to pass the arms purchase bill means our fighting power cannot be improved at a time when Communist China’s defense spending is growing at double-digit percentage points every year . . . as the gap grows wider and wider, we are in fact encouraging them to attack.”²⁹ Similarly, in a December 2005 speech to newly promoted generals, President Chen suggested that failure to maintain sufficient defense capabilities might increase the risk of war, despite growing cross-strait economic interaction.³⁰ Pan-Green think tank analysts echoed these concerns in their assessments. In addition, pan-Green analysts argued that failure to pass the special budget would diminish Taiwan’s ability to expand its international space. Lai I-chung, an analyst at the Taiwan Think Tank, wrote, “There is no realistic foundation to fight for . . . autonomous diplomatic space without self-defense capability.”³¹

The government also pointed out that failure to pass the special budget risked damaging U.S.-Taiwan relations and undermining U.S. support for Taiwan by creating the impression that Taiwan was not serious about improving its own defense capabilities. As GPWB chief Hu Chen-pu put it,

28. Ibid.

29. “Taiwan Says U.S. Arms Deal Will Fend Off China,” Reuters, June 28, 2005.

30. Lilian Wu, “President Offers Leadership Advice to New Generals,” Central News Agency, December 29, 2005. Chen also stated that Taiwan should not rely too heavily on foreign intervention in the event of a conflict. “We must be prepared so as to effectively counter a possible invasion from China,” Chen said. “We must keep national security in our own hands.” In addition, Chen stated that increasing the defense budget would not squeeze out spending on social welfare programs.

31. Lai I-chung, “Fan Junshou Hui Dailai Heping Ma?” [Can opposing weapons purchases bring peace?], *Taiwan Ribao* [Taiwan Daily News], September 28, 2004, <http://www.taiwan-thinktank.org/ttt/servlet/OpenBlock?Template=Article&category_id=25&article_id=145&lan=tc>.

“If we don’t buy the weapons we need, other people will think we don’t have the determination to defend ourselves. . . . If we are too weak to fight, they will give up on us. Will the Americans risk [their] soldiers being killed because of Taiwan?”³² During a March 2006 military promotion ceremony at the Presidential Office, Chen suggested that failure to devote greater resources to defense would lead Taiwan’s friends and allies to question the island’s willingness to take responsibility for an appropriate share of its own security. Chen criticized the pan-Blue parties for blocking the special budget and asked, “How can we have our international allies convinced that Taiwan is a ‘responsible partner’ if we leave our national security aside and breach our promise to defend ourselves only because of our partisan animosity that resulted from past elections?”³³

Another variant of the argument that the arms procurement delay was problematic in terms of U.S.-Taiwan relations was that failure to modernize the latter’s military would lead to excessive reliance on the United States, which in turn would leave Taipei with minimal leverage in its relationship with Washington. In comments reflecting this concern, Premier Yu Shyi-kun cautioned, “If we completely depend on the United States in defense affairs, we’ll fall [under] U.S. control.”³⁴

These arguments failed to persuade pan-Blue politicians, however, and the Chen administration was forced to make major concessions to try to win approval of the special budget. These included reducing the total cost of the package and transferring two of the three items to the regular annual defense budget. On March 16, 2005, the government submitted a new version of the special budget that lowered the total price to NT\$ 480 billion (\$14.5 billion), mainly by transferring some expenses and also by dropping the original proposal for cooperative submarine production. This concession failed to break the logjam in the LY. On September 2, the government reduced the special budget again, this time to about NT\$ 340 billion (\$10.6 billion), mainly by agreeing to drop the PAC-3 missiles from the proposal and place them in the annual defense budget instead, which left only the submarines and the P-3C Orion ASW aircraft in the special

32. “Taiwan Says U.S. Arms Deal Will Fend Off China.”

33. See Office of the President, ROC, “News Release: President Chen Promotes General Peng Sheng-chu,” March 31, 2006, <http://www.president.gov.tw/en/prog/news_release/print.php?id=1105498923>; and Deborah Kuo, “President Describes Attempts to Bar Arms Bill as Political Dogfight,” Central News Agency, March 31, 2006. President Chen criticized the opposition for blocking the budget “for no reason” other than partisan rivalry and the desire to jockey for electoral position. “The opposition parties should provide their opinions for further discussions and debates rather than simply and irrationally boycott these bills,” Chen said.

34. Jane Rickards, “Defense Minister Urges Support for Weapons Purchase,” *China Post* (Taipei), September 22, 2004.

budget.³⁵ Defense Minister Lee called this move to placate critics “a grueling decision” and said that the transfer of the missile defense systems to the regular defense budget would compel the MND to cancel or delay some 53 other investment projects.³⁶ The EY spokesperson emphasized that the Chen administration felt it was necessary to make the change anyway to try to win the support of opposition lawmakers. Eventually, the P-3C ASW planes were also moved into the regular annual defense budget. This concession lowered the price tag to about NT\$ 300 billion (\$9.3 billion) by leaving only the submarines in the special budget. This was basically the end of the bill, since the submarines were the most controversial and problematic of the three items.

In short, by the end of 2005, the government had reduced the cost of the proposed acquisitions dramatically and agreed to include all of the items except the submarines in the regular budget instead of seeking approval for a special budget. To do this, it planned to increase the annual defense budget to about 3% of GDP. Despite these concessions, however, the opposition parties still refused to approve the package.

The Demise of the Special Budget

In February 2006, the government finally announced that it would abandon the special budget. The MND continued to maintain that the PAC-3 missile defense batteries, P-3C ASW planes, and submarines were required to protect Taiwan’s security and respond to China’s rapid military buildup and the changing cross-strait military balance. But the ministry acknowledged that it would be unable to overcome the resistance of the opposition-controlled legislature, where the pan-Blue parties had used their majority in the Procedure Committee to block consideration of the bill an astounding 56 times since it was introduced in June 2004.³⁷ Consequently, the Chen administration decided that it would attempt to finance the purchase of the P-3C ASW planes and submarines through the island’s annual defense budget.³⁸ The Chen administration also agreed to defer the planned

35. Changes in the foreign exchange rate also contributed to the reductions in the total price. When the budget was originally submitted in June 2004, the exchange rate was about NT\$ 34.5 = US\$1, but the March 2005 special budget used an exchange rate of about NT\$ 33 = US\$1, and the September 2005 special budget used a rate of approximately NT\$ 32 = US\$1.

36. “Changes in Defense Budget Seen as ‘a Grueling Decision,’” *Taiwan News*, August 31, 2005.

37. MND, “Press Conference Reference Material,” March 7, 2006, <<http://www.mnd.gov.tw/modnews/ref/main.aspx?PublicID=150>>.

38. Rich Chang, “MND Gives Up on Special Budget,” *Taipei Times*, February 22, 2006. “The Ministry of National Defense has proposed increasing the regular military budget to fund

purchase of the PAC-3 missiles until March 2007, bowing to the pan-Blue camp's insistence that the government's failure to gain enough votes to validate the referendum question on missile defense required a three-year delay in the acquisition of missile defense systems.

The Chen administration's abandonment of the special budget offered some hope that procurement of the arms sales package Washington had approved in April 2001 would finally move forward. During a March 2006 visit to Washington, then-KMT Chairman Ma Ying-jeou stated that the KMT was working to build a consensus in the LY that would allow the passage of a scaled-down version of the arms procurement package. At the same time, however, Ma said the pan-Blue parties were unable to move forward immediately because passing the bill after President Chen decided to scrap the National Unification Council would suggest that the opposition endorsed Chen's decision. "If we let it go, people would get a wrong signal from us and think that we support President Chen's scrapping of unification guidelines," Ma said.³⁹ Other KMT officials indicated, however, that pan-Blue legislators still remained divided over the arms deal. "It is true that lawmakers are still divided. We are trying to find a consensus," a KMT spokeswoman said. "We also need time to consult with other opposition parties," she added, suggesting that disagreements between the KMT and PFP still needed to be taken into account.⁴⁰

The KMT's decision to defer further negotiations on the arms purchases infuriated Defense Minister Lee Jye. "We are making no progress and I am wasting my time here," Lee said during a March 2006 LY hearing.⁴¹ In a speech later that month, Chen warned that further delays threatened to

the purchase of eight diesel-electric submarines and 12 P-3C Orion maritime patrol aircraft from the U.S., but will delay the proposal to buy three PAC-3 Patriot anti-missile batteries," Defense Minister Lee Jye told the LY on February 21, 2006. In addition, the MND decided not to pursue plans to upgrade its existing PAC-2 Patriot missile batteries. The KMT had objected to the cost, and the MND concluded that the upgrade would not have added enough capability to justify the expense.

39. "Taiwan Opposition Looks for Accord on Arms Deal," Reuters, March 24, 2006. Ma made the comments during a speech at an event hosted by the U.S.-Taiwan Business Council. He suggested that the future of the arms procurement plan would hinge on Chen's actions. "The consensus is building," Ma said, "but we hope in the next couple months there will be no more surprises from the government in terms of cross-Strait relations."

40. Media reports suggested many lawmakers were willing to approve the purchase of the 12 P-3 Orion ASW aircraft but wanted to shelve the MND's request for six Patriot missile batteries and could not reach an agreement over the submarines. See, for example, "Taiwan Opposition Can't Agree on U.S. Arms Deal," Reuters, March 15, 2006.

41. Rich Chang, "Defense Minister Determined to Fight On," *Taipei Times*, March 20, 2006.

exacerbate U.S. concerns about Taiwan's willingness to invest in its own defense.⁴²

The saga of the special budget came to a formal close in May 2006, almost two years after the Chen administration proposed the bill and more than five years after Washington approved the sale. In late May, the cabinet indicated that it would officially withdraw the special arms procurement bill and replace it with a new plan to add NT\$ 6.2 billion (\$194 million) to the MND's regular annual budget. Although this series of concessions ultimately cleared the way for the P-3C maritime patrol aircraft and missile defense programs to move forward, the future of the diesel-electric submarine procurement remained to be determined when President Chen left office at the end of his second term in May 2008.

Explaining the Arms Procurement Debate

Domestic politics and threat perceptions are the main factors that explain Taiwan's seemingly puzzling failure to resolve the debate over funding for key components of the 2001 arms sales package for more than seven years. Chen Shui-bian's victory in the 2000 presidential election marked a new phase in Taiwan's democratic transition, but the KMT and its allies retained control of the increasingly influential legislature, resulting in divided government in a political system that was designed during the authoritarian period and somewhat hastily and incompletely revised during the island's transition to democracy. These unresolved institutional issues have combined with extremely sharp disagreements between the ruling and opposition camps and a highly contentious political atmosphere to result in inaction on many key issues, including military modernization and defense spending. Moreover, both camps appear to have concluded that blaming their rivals for the ensuing political gridlock serves their own electoral interests.

Taiwan's overconfidence in the reliability of U.S. security assurances and its underestimation of the severity of the Chinese military threat seem to have reinforced the defense spending stalemate by making inaction seem less risky. Even though some in Taiwan are beginning to raise questions about the willingness and ability of the United States to intervene rapidly and decisively in a cross-strait conflict, many Taiwanese politicians still seem to believe that Taiwan can free ride on U.S. security assurances. At the same time, many people in Taiwan doubt that China would use force anytime soon, despite its increasing military capabilities. Indeed, although

42. Office of the President, "News Release: President Chen Promotes General Peng Sheng-chu."

a number of analysts in Taipei recognize that China's military capabilities are improving, many observers continue to cast doubt on Beijing's willingness to use force against Taiwan in the near to mid-term. Taipei's overconfidence in U.S. security assurances and its underestimation of Chinese capabilities and resolve thus combine to lower the perceived costs of inaction on the arms procurement proposal. This in turn makes blaming the other side for the stalemate a more attractive domestic political strategy for both camps.

The decision to move forward with procurement of the P-3C maritime patrol aircraft and the approval of funding for missile defense upgrades marked important steps in the right direction, but as a result of the stalemate between the pan-Green and pan-Blue camps, debates over many key defense and national security policy issues had yet to be resolved when Ma Ying-jeou took office following the KMT's landslide victory in Taiwan's March 2008 presidential election.

Conclusion and Implications

The prolonged haggling over the special budget had important domestic and international implications for Taiwan. The heated debate not only intensified the standoff between the Chen administration and the pan-Blue controlled LY but also risked further undermining stability in cross-strait relations and creating potentially serious problems for Taiwan's relationship with the United States. Taiwan's failure to spend more on defense, even as China accelerated its military buildup, contributed to a shift in the cross-strait military balance that may ultimately make the use of force a more realistic policy option for China. At the same time, Taiwan's deteriorating military situation may weaken its bargaining position in any future political talks with China. Their relationship is a political problem that will ultimately require a political solution, but negotiating from weakness would certainly be disadvantageous for Taiwan.

As for relations with the United States, Washington has long maintained that the items included in the special budget were needed "to correct growing imbalances in the critical areas of missile and air defense and anti-submarine warfare."⁴³ The failure to build a consensus in support of key components of the procurement plan for more than seven years after the April 2001 U.S. arms sales decision led to charges that Taiwan was not serious about its defense—and blunt warnings that Taiwan could not count on the United States to defend it in a crisis if it was not willing to shoulder a larger share of the burden of protecting its own security. This

43. Office of the Secretary of Defense, *Annual Report to Congress, Military Power of the People's Republic of China, 2006* (Washington, D.C.: U.S. Department of Defense, 2006), p. 6.

was particularly striking in that the Bush administration came into office very favorably disposed toward Taiwan and determined to increase security cooperation with the island's military. Perhaps of greatest concern to Taiwan, however, was the fact that these warnings came not only from U.S. Defense Department and State Department officials but also from some of the island's longtime supporters in the U.S. Congress. In response, prominent opposition politicians asserted that Washington was attempting to bully Taipei into purchasing weapons it did not need and could not afford. One pan-Blue legislator, Sun Ta-chien of the PFP, even accused the United States of acting like a "mafia leader" and asserted that the Bush administration was demanding "protection money" from Taiwan.⁴⁴

The special budget debacle also diverted attention from equally pressing national security and defense reform issues in Taiwan such as the ongoing efforts to civilianize the defense bureaucracy, enhance training and exercises, improve the military's ability to conduct joint operations, upgrade its communications networks, harden critical infrastructure to withstand a Chinese attack, address recruitment and retention challenges associated with the movement toward an all-volunteer military, and complete the reform of the island's professional military education (PME) system. Moreover, the failure to follow through on the April 2001 arms package in a timely fashion may have long-term implications for U.S.-Taiwan relations, especially in the areas of arms sales and security cooperation.

All parties to the debate must make policy changes to allow the U.S.-Taiwan security relationship to move beyond the acrimonious and protracted debate over the special budget. Some analysts in Taiwan and the United States have suggested that this means reconsidering some of the items originally included in the special budget in favor of more cost-effective options. The PAC-3 missile defense systems, in particular, are often viewed with skepticism, given that China's growing arsenal of SRBMs makes any attempt to build an island-wide missile defense system an increasingly problematic option for Taiwan from a cost perspective. As KMT LY member and retired Army Lt. Gen. Shuai Hua-min put it during an April 2006 press conference, for example, "If China has 700 ballistic missiles, and two missiles are theoretically required to intercept one offensive missile, then 1,400 Patriot missiles would be needed. Taiwan can't afford to buy that many missiles."⁴⁵ Even though attempting to counter China's entire arsenal of SRBMs would be prohibitively costly, acquiring improved missile defense systems is still worthy of consideration because they could strengthen

44. "Warning on Arms Purchase Angers Taipei Opposition," Reuters, October 7, 2004.

45. Shuai is quoted in Rich Chang, "Defense Officials Losing Faith in Missile Defense Potential," *Taipei Times*, April 10, 2006, p. 3.

Taiwan's ability to defend at least a limited number of key installations. Defense specialists in Taipei and Washington have also raised questions about the acquisition of diesel-electric submarines. Although the submarines would enhance Taiwan's naval capabilities, they would likely be extremely expensive and could very well intensify the daunting escalation-control problems the United States would face in the event of a cross-strait crisis or conflict. Moreover, the United States has not built diesel submarines for decades, which would increase the chances of program delays and cost overruns. The possibility of obtaining assistance from third parties would appear to be limited, given that the countries with the expertise to build diesel subs are probably reluctant to risk incurring Beijing's wrath by participating in the program. Most important, the money could be better spent on some of Taiwan's other defense priorities, such as enhancing counter-landing capabilities; increasing munitions stockpiles; upgrading C4ISR (command, control, communications, computers, intelligence, surveillance, and reconnaissance) networks; hardening critical facilities; and strengthening passive defenses against air and missile attack.

Whatever specific procurement options Taiwan ultimately decides are in its best interests, the new KMT administration under President Ma Ying-jeou must make the case domestically for increasing the regular annual defense budget, especially if Taiwan wants to move forward concurrently with its force modernization plans and the transition to an all-volunteer military. The KMT's control of the legislature will undoubtedly facilitate Ma's task, but gaining support for increased defense spending may not be easy if raising the defense budget means making tradeoffs that require reduced government spending in other areas such as social welfare and infrastructure development. Moreover, even though cross-strait relations appear to be improving under KMT leadership, President Ma will need to persuade politicians from across the political spectrum in Taiwan—including some within the pan-Blue camp who opposed the Chen administration's arms procurement requests—to recognize that a formidable defense posture is required to ensure that Taiwan occupies a position of strength in any future political negotiations with China. For its part, Washington should refrain from publicly lecturing Taipei about defense spending and accusing Taiwan of lacking commitment to its own defense. Public admonishments risk reducing the chances of winning approval for future arms sales proposals by creating the appearance that anyone who supports increasing the defense budget is bowing to U.S. pressure instead of standing up for Taiwan. Washington should also consider enhanced industrial cooperation arrangements that would provide stronger political incentives for legislators in Taiwan to back funding for the procurement of advanced weapons and military equipment from the United States.