



## Taiwan's Security: Beyond the Special Budget

By Mark A. Stokes

*Dr. Chang Ya-chung is a professor of political science at the prestigious National Taiwan University who carries a powerful message: America has lost touch with popular sentiment on Taiwan.<sup>1</sup> Professor Chang leads a growing movement called the Democratic Action Alliance (DAA, minzhu xingdong lianmeng)<sup>2</sup> that has been dead set against appropriating a \$15-billion<sup>3</sup> special budget for the procurement of three major weapon systems from the United States. For Chang, the debate over the use of a special budget or increased annual budget to fund weapons is irrelevant. He opposes any increase in defense spending in light of more pressing domestic needs.*

Though Chang may be an outlier in Taiwan's defense policy circles, his influence illustrates the profound debate that America's offer of a large package of weaponry sparked over the island's national security.

### A Review of the Special Budget "Problem"

Chang Ya-chung's views stand in stark contrast to mainstream political thought in Taiwan, which is dominated by two camps. On one side is the pan-Green coalition of the Democratic Progressive Party (DPP) and the Taiwan Solidarity Union (TSU), led by President Chen Shui-bian. For the past three years, the pan-Greens have sought the special budget to pay for three major arms packages the United States first released for sale in 2001. In opposition is the pan-Blue coalition, consisting of Kuomintang (KMT) and the People's First Party (PFP), which has fought the special budget but supports a debate on priorities and requirements for Taiwan's defense.

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These parties are competing in an increasingly complex domestic, cross-Strait, regional, and international environment. The pan-Blues suggest that the pan-Greens could potentially destroy Taiwan through pursuit of *de jure* independence. The pan-Greens cast the pan-Blues as "selling out" to communist China. However, none of the mainstream elements within the four parties is seeking a radical, strategic shift in external relations. Instead, legislative debates have been tactical: how best to avoid entrapment by the People's Republic of China (PRC) and use of force across the Strait, maintain healthy relations with the United States, and secure Taiwan's economic and political relevance in the international community, including the level of investment required to keep alive the notion of sovereignty in the Republic of China (ROC).<sup>4</sup>

Since its submission to Taiwan's legislature in June 2004, the special budget has served as one of several symbolic issues in Taiwan's domestic political competition, but its importance has been amplified in the United States. Over the last year, a growing number of U.S. observers have questioned Taiwan's commitment to its own defense. Even traditional supporters of Taiwan in Congress have said there would be serious repercussions if President Chen's request for extrabudgetary funding of three key defense systems continues to

be held in abeyance. One U.S. official likened the special budget debate to a “political football.” A better analogy would be that it is an “end-around fake,” a diversion away from where the football really is.

U.S. officials have blamed the Legislative Yuan for its failure to take action on the special budget and the Chen administration’s prioritization of domestic programs. Senior representatives from the State and Defense Departments have called upon Taiwan to develop the “collective will” to invest in a viable defense, address the PRC threat, and enhance its ability to negotiate the future of cross-Strait relations from a position of strength. There is an implicit threat contained in messages emanating from Washington: American support for Taiwan will diminish if Taiwan is not willing to invest the proper resources in self-defense.<sup>5</sup>

The internal debate over the special budget and increased defense spending does not symbolize a lack of commitment to Taiwan’s defense. The standoff stems from fundamental differences over how to best manage limited economic resources to ensure the long-term survival of Taiwan’s democracy in a difficult environment. Mainstream members of the pan-Blue alliance are not the enemy, nor is the Chen administration, which placed its political credibility on the line over the special budget issue. Neither camp is seeking unification with the PRC or *de jure* independence—at least not any time in the near future.<sup>6</sup> There is a basic consensus that Taiwan needs an adequate self defense, but the debate is about just what constitutes “adequate” within the context of Taiwan’s broader national interests.<sup>7</sup>

This diversion has appeared to fit nicely with Beijing’s interests. As the Bush administration and some in Congress hyperventilate on defense budget issues, the PRC has further squeezed the ROC’s international breathing space and marginalized the island politically and economically. In doing so, it has successfully enmeshed Taiwan’s economy with its own. Until it was taken off the table in February 2006, the special budget issue diverted attention from more important issues, especially the economic health and prosperity of Taiwan’s people, and perhaps even put at risk public enthusiasm for democracy.

TABLE 1: ARMS PACKAGE OFFERED TO TAIWAN, APRIL 2001

System	Estimated Cost
Diesel-Electric Submarines (8)	\$8–10 billion
P-3C Maritime Patrol Aircraft (12)	\$4 billion
Mark-48 ASW Torpedoes (54)	\$150 million
Harpoon Submarine-Launched Antiship 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

SOURCES: Shirley Kan, *Taiwan: Major U.S. Arms Sales Since 1990*, Congressional Research Service, March 2005. Credit for pricing estimates in part also goes to Mei Fu-hsin and other sources.

Clutching to a policy based on an illusory status quo, U.S. policymakers appear to be having a difficult time keeping up with Taiwan’s dynamic and complex political, economic, and military environment. The ROC’s political system is being tested in terms of its ability to resolve differences in accordance with the desires of the people. In this environment, the perception that the United States views the value of Taiwan in terms of its defense expenditures rather than its overall security runs the risk of diminished U.S. relevance in Taiwan. A growing segment of Taiwan’s population already sees its future linked with the mainland rather than with the U.S.-led community of democracies.

### The Right Policy at an Inauspicious Time?

In April 2001, the Bush administration announced the release of the largest arms sale package to Taiwan in history (see table 1 above). The objective was to reverse twenty years of relative neglect and frontload the systems that Taiwan had asked to be made available as the Clinton administration drew to a close.

Additionally, the United States approved Taiwan’s request for a classified briefing on the PAC-3 missile defense system. Also offered were four decommissioned Kidd-class destroyers (roughly \$800 million total) and an integrated undersea surveillance system (roughly \$500 million) for strategic cuing of its P-3C MPA and diesel electric submarines. Taiwan’s request for Aegis-equipped destroyers (roughly \$6 billion) was deferred, although the program was granted a “soft approval” in the form of a design study that likely would have served as the initial stage of a full program.<sup>8</sup>

Later in 2001, the United States released M1A2 SEP Abrams battle tanks (roughly \$500 million), at least thirty attack helicopters—either the AH-64D Apache or AH-1Z Super Cobra (roughly \$2 billion)—and four signals intelligence (SIGINT) aircraft (roughly \$300 million). The U.S. also fulfilled Taiwan's 2003 request for the upgrade of its three existing Patriot systems to PAC-3, as well as the procurement of six new PAC-3 fire units (roughly \$3 billion).

At no time in the ROC's history has it had so many choices of defense systems. By the summer of 2003, the total value of all the systems it had been offered amounted to approximately \$30 billion. Taking the F-16s and Patriots out of the equation as anomalies, between 1982 and 2001, Taiwan had not procured any single system from the U.S. with a value over \$500 million. Within a very short time span, it suddenly had at least twelve. The Bush administration's policy shift was long overdue. However, having opened the floodgates, Washington policymakers perceived that Taiwan was not moving fast enough to grasp the opportunities and take decisive measures to counter China's increasingly capable military.

Since 2002, Taiwan's ostensible lack of progress in taking advantage of this opportunity to modernize its defenses has either influenced or dominated the bilateral agenda. Under pressure, Taiwan's senior political and military leadership announced to senior U.S. government officials in July 2003 its intention to submit to the Legislative Yuan a request for a \$15-billion appropriation for three programs: diesel electric submarines, Patriot PAC-3, and P-3C maritime patrol aircraft.<sup>9</sup> After completing the necessary documentation in early 2004, the Executive Yuan forwarded the Ministry of National Defense's (MND) special budget funding request for these systems to the Legislative Yuan's secretariat and to the Procedures Committee, which sets the legislative agenda. The original value of the package was more than \$18 billion. Almost \$12.5 billion was earmarked for submarines, \$4.39 billion for upgrading Taiwan's existing three Patriot fire units and an additional six fire units equipped with PAC-3 missile defense interceptors, and \$1.61 billion for the procurement and refurbishment of twelve P-3C maritime patrol aircraft.

Since its submission, however, pan-Blue coalition members of the Legislative Yuan, maintaining strict

party discipline, have opposed the budget's passage. The stalemate has been disappointing to both the Bush and Chen administrations. The budget issue also has been frustrating to the MND, which has dedicated tremendous resources to justify the request. Three major factors help explain Taiwan's apparent lack of progress in

increasing its defense expenditures: the transformation of its defense establishment, budgetary pressures imposed by the island's poor economic performance in recent years, and Taipei's push for indigenous defense production.

### **Overhaul of the Defense Establishment**

Toward the end of the Lee Teng-hui administration, a group of military mavericks working with a small number of mostly DPP legislators saw the need to reform the defense establishment. As a result, two defense laws—the National

Defense Law and the National Defense Organization Act—were enacted in 2002 and 2003, respectively, with consequences on a scale equal to the U.S. National Defense Act of 1947 and the Goldwater-Nichols Act of 1986 combined.

Under these laws, a civilian minister of defense—who granted budgetary authority over the military for the first time in the ROC's history—was placed into the operational chain of command. Also, the civilian MND leadership received responsibility for personnel, procurement, planning, programming, and budgeting from the general staff. In 2001, new offices under the minister of defense were established for strategic planning, quantitative systems analysis, personnel management, and other functions. The law also mandated the formation of a centralized acquisition bureau and prioritization of indigenous procurement.<sup>10</sup>

As these laws were being implemented, Taiwan was also reducing the size of its manpower. The savings derived from these personnel cutbacks were originally intended to augment its force modernization budget. However, the rise in military pay needed to create incentives for volunteer enlistees has eaten up those savings.<sup>11</sup>

The United States has played a major role in Taiwan's defense reform program. It dispatched a deputy assistant secretary-level Pentagon official for strategic planning to Taipei in December 1998 to initiate a

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senior-level dialogue on defense reform. The Clinton administration implemented initiatives that could have enabled Taiwan's defense establishment to conduct strategic planning and operations in a more effective manner, and enhance the ability of the U.S. and ROC militaries to operate together as an ad hoc coalition.<sup>12</sup> The series of U.S. military assessments and surveys carried out during the Clinton administration served as the basis for decisions that the Bush administration made in January 2001. Several factors explain the pace of the defense overhaul.

**Culture Shock.** The impact of the defense laws on the MND was significant. But compounding these effects was the psychological adjustment necessary in the wake of the March 2000 presidential election. After fifty years of KMT rule, the culture shock of the DPP win in 2000 was considerable. Many in the military were alarmed by the ascendance of a political organization that represented ideals previously viewed as dangerous to national security. Despite the legacy of mistrust between the ruling party and the military, the latter's support for Taiwan's democratic transition is perhaps its greatest achievement in the past six years.

**Bureaucratic Surprise.** The stress stemming from the reorganization and political transition was not the only challenge. The Bush administration's approval of the largest arms package in history was a surprise. Since the shift in diplomatic relations from Taipei to Beijing in 1979 and the 1982 communiqué regarding arms sales, the Taiwan military had annually submitted to the U.S. government a list with an average of six to twelve requests for defense articles and services. After a few months of deliberation, the U.S. government would release a fraction of them. This uncertainty caused Taiwan's defense establishment to use a spaghetti-on-the-wall approach: throw a list out and see what sticks.

With so many projects approved at once, Taipei has found it difficult to handle the bureaucratic overload. The defense budgeting process is cumbersome, and bureaucracies generally employ standard operating procedures based on incremental adjustments to previous years' budgets. At the military service level, only a handful of officers have the expertise needed to draft the requisite operational requirement documentation, cost and operational effectiveness analysis, detailed systems analysis, and exhaustive budget-planning data.<sup>13</sup> This bottleneck of expertise has necessarily delayed the

Taiwanese procurement process when it was shocked with so many projects so quickly.

**Shift in Focus on Software.** Another factor in Taiwan's slow response was the shifting focus since 1998 toward such "software" concerns as strategy, doctrine, and personnel management, as opposed to traditional military "hardware" such as aircraft and tanks. Budgeting for software programs took as long as two years before actualization and implementation. In other words, the U.S. move to approve major hardware sales occurred just as Taiwan's defense bureaucracy began to focus on non-hardware reform and modernization.

**Increased Legislative Oversight.** The new defense laws significantly increased the legislative role in overseeing, authorizing, and appropriating government funding. Although oversight can be healthy, the new Legislative Yuan is not only relatively inexperienced in defense budget matters, it is also structured in a way that inhibits effective and efficient oversight. With two legislative sessions held per year, members of the Defense Committee, who are responsible for reviewing budget proposals and authorizing funding, often change. Committee chairmanships rotate on a regular basis. As DPP legislator Lee Wen-chung said, "[T]he level of defense expertise within the legislature remains extremely low, and there is little incentive to acquire such expertise because knowledge about national defense doesn't usually win votes."<sup>14</sup>

At the same time that legislative capability to oversee procurement has diminished, political pressure to do so has increased. Negative public sentiment toward foreign arms procurement remains strong following the French Lafayette and Mirage scandals, the former of which allegedly involved the death of an ROC Navy officer in 1993. Shortly after the Chen administration came to power, a special investigation was set up to examine the case in more detail. Significant details, which allegedly involved at least \$400 million in kickbacks, became public at the time of the Bush administration's release of the April 2001 arms package. At least twenty-eight people—thirteen military officers and fifteen sales representatives—were prosecuted on corruption charges. Despite the best efforts of ministers of defense Tang Yiau-ming and Lee Jye to improve the military's image and prosecute corruption within the ranks, this case has cast a pall over foreign procurement that has been difficult to shake.<sup>15</sup>

**Strategy, Planning, and Budgeting.** Another factor affecting the special budget is the shift of strategic doctrine that accompanied the transition of power in 2000. Prior to the Chen administration, Taiwan's defense strategy was largely army-centric. It was believed that the PRC would not be able to claim a decisive victory without controlling the entire territory of Taiwan, and therefore the army would be the primary defensive force. However, during the 2000 presidential campaign, Chen Shui-bian argued that given the high population density, especially on Taiwan's western coast, any combat on Taiwanese soil would not only devastate the entire country's economy, but would also ravage its population.

Chen thus introduced a new doctrine that he called "decisive operations offshore" (*jingwai juezhan*), which called for engagement of enemy forces off the coast of Taiwan and extending to the mainland itself. These operations, in combination with a no-first-strike policy, required a mix of capabilities, including power projection for the purposes of deterrence and denial (*fanzhi zuozhan*), maritime interdiction and denial, air defense, and ground defense of the island itself.

Although denial is a traditional aspect of the ROC's strategy, its relative emphasis has shifted over time. Denial options at the operational level include targeting of critical nodes in the People's Liberation Army's theater command system, key airfields, theater ballistic missile command centers, and logistics, ports, and staging areas. With the introduction of advanced air defenses along the southeast coast of China, the costs of using traditional means of fixed-wing airstrikes have become too high. In order to maintain the ability to hold at-risk targets in southeast China, Taiwan's Chungshan Institute of Science and Technology (CSIST) is said to be in the final stages of developing land attack cruise and conventional ballistic missiles equipped with advanced conventional munitions.

To respond to PRC aggression, Taiwan policymakers have—or will soon have—a range of strategic options, as well. Coordinated precision missile strikes, special operations, computer network operations, and other means of power projection against a small number of critical nodes could ensure a type of economic mutual assured destruction. PRC economic and logistics structures located on the eastern coast include a fragile network of connected

and interdependent systems, including sources of raw materials, banking, key industries such as semiconductor fabrication plants, national switching systems and satellite ground stations, air and surface transportation nodes, and other critical infrastructure. Even with a minimal capability, strikes at the right node at the right time

could ensure a systemic economic collapse or paralysis that would take years to reverse.<sup>16</sup>

In short, defense of Taiwan's democracy through deterrence raises the threshold for PRC use of force by introducing the possibility of mutual suicide, a balance of terror, and fear of retaliatory annihilation without resorting to traditional weapons of mass destruction or punishment strategies that would result in widespread civilian casualties. By maintaining a highly reliable ability to inflict unacceptable damage at any time and assuming an ability to maintain continuity of government and strategic command and control, the payoff of this mutual economic destruction doctrine is expected to be a tense but stable peace

which is compounded by growing economic integration.

The PRC also is aware that Taiwan maintains contacts with Tibetan and East Turkestan Islamic Republic separatist networks, although there is no evidence that Taiwan has opted to trigger troubles to date. As the leader of the East Turkestan movement said in a *Taipei Times* interview, a PRC attack against Taiwan "amounts to signal that all the East Turkestan people will respond with riots. If China attacks Taiwan at four o'clock in the morning, we will have an uprising at 3." In combination, these factors enhance Taipei's deterrent capability.

## The Economic Environment

When the Bush administration assumed power, Taiwan was going through its worst economic slump in history. In 2001, Taiwan experienced its first negative gross domestic product (GDP) growth rate since 1947 and its highest unemployment rate on record. Taiwan's national debt also reached a new high mark. The budget deficit jumped to \$106 billion by 2004, the equivalent of 32.6 percent of gross national product (GNP).

Since 1991, Taipei has run a budget deficit driven by infrastructure, social welfare, and government spending. Over the same period, special budgets for arms

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procurement from France (Mirage and Lafayette) and the United States (F-16s) and earthquake relief also fueled Taiwan's deficit spending. In the 1990s, tax revenues decreased due to new private investment incentives and a reduction in individual income tax. As a result, the ratio of outstanding public debt to GNP rose from 6 percent in 1991 to 39 percent by the end of 2004.<sup>17</sup> According to the directorate-general of the Office of Budget, Accounting, and Statistics, an additional \$10.5 billion (NT\$337.3 billion) was expected to be added to the national debt by the end of 2005.<sup>18</sup>

Taiwan's Budget and Public Debt Laws restrict the central government's total public debt to no more than 40 percent of the average gross national product for the previous three years. In 2005, the debt approached this redline when it reached more than \$100 billion, or 37.3 percent of average GNP for the previous three years. Taiwan's ratings in international financial risk assessments began to decline in 2002 and fell sharply in 2004. Standard & Poor's was quoted in 2004 as saying, "President Chen Shui-bian's proposal to spend \$18 billion to bolster the island's military would keep the island from reaching its goal to balance the budget by 2010."<sup>19</sup> Interest payments alone on the debt have averaged around \$4 billion a year.

The budgetary situation has been aggravated by a drop in the economic growth rate. According to figures from the Chunghua Institution for Economic Research released in October 2005, GDP growth fell from 5.7 percent in 2004 to 3.53 percent in 2005.<sup>20</sup> At the same time, Taiwan's inflation rate of 2.3 percent in 2005 was the highest in nearly nine years. According to a government survey of economic progress in 2005, the exodus of domestic manufacturers and other factors has led to record numbers of laid-off workers.<sup>21</sup>

In the months following the April 2001 U.S.-Taiwan arms sales talks, the Chen administration, faced with an unfavorable economic situation, sought U.S. support for favorable financing arrangements for the weapon systems that had been approved. Because the Chen administration failed to reach a bilateral financing agreement for the purchase, it developed a plan to finance the three systems by selling bonds, a method the administration had already used for other purposes. It proposed the issuance of \$13 billion in bonds, augmenting these amounts with \$3.1 billion from the sale of public lands managed by MND, and sold shares in state-owned enterprises for a total of \$18 billion for the special budget.

The proposal for debt financing of the three systems came under fire from pan-Blue legislators, who highlighted the DPP's rapid accumulation of government debt. They also cited misuse of the special budget mechanism as a means to circumvent restrictions on government spending and what they say was the issuance of central government bonds without legal foundation. From the pan-Blue perspective, use of the special budget at a time of record-level national debt was an attempt to skirt the budget laws.

While KMT and PFP opposition to the special-arms budget has been part of a broader debate over fiscal management, some sources assert that the special budget has become a useful weapon in a broader political strategy. Due to the legal restrictions on the national debt, forcing the funding of these systems through the annual defense budget places a burden on the DPP to make budgetary tradeoffs. Increased defense spending at the expense of other sectors—such as social welfare, education, and industrial development—would likely reduce DPP political support.

To improve the economic situation and create conditions conducive to a rise in government spending, the DPP outlined an agenda to raise revenue through tax rate increases and the elimination of tax breaks for businesses and higher-income individuals. The Executive Yuan approved a fiscal reform plan in 2003 with the aim of balancing the budget by 2011.

## **The Shift toward Indigenous Production**

Another factor in the perceived slow pace of force modernization has been a renewed emphasis on indigenous production. Faced with an economic downturn, the ROC decided to shore up its defense industry to sustain economic growth while also ensuring a sufficient self-defense capability. Article 22 of the 2000 National Defense Law established a legal mandate for prioritization for the indigenous development, production, and maintenance of defense articles. This law reflects a broader effort to shore up Taiwan's economy, and Taipei plans to increase its domestic share from around 50 percent of all expenditures on equipment and maintenance to as much as 75 percent by the end of the decade.

Shortly after the announcement of the April 2001 arms package, the Chen administration and members of the Legislative Yuan on both sides of the political spectrum attempted to balance U.S. interests with Taiwan's new legal requirement for increased spending on

indigenous production. First, the administration sought a cooperative arrangement for the development and production of a missile defense interceptor. In 2001, deputy minister of defense Kang Ning-hsiang proposed a U.S.-Taiwan joint production effort that would have involved a partial procurement of PAC-3 in combination with U.S. industrial assistance and Taiwan's own missile defense interceptor, the TK-2 ATBM. Under development since 1996, a co-produced indigenous interceptor, combined with PAC-3, was intended to fill Taiwan's total requirement of twelve fire units (batteries), a capability that could have provided coverage for up to 75 percent of Taiwan's population.

After U.S. resistance to the TK-2 ATBM/PAC-3 joint development offer, senior Taiwan officials scratched the TK-2 and decided to go forward without U.S. cooperation on a new system designated the TK-3. The program's research and development (R&D) budget is estimated at \$600 million. According to an article in the *Liberty Times*, the TK-3 program is scheduled to enter its operational testing and evaluation phase in 2006. Further legislative consideration of the PAC-3 program was suspended in November 2005.<sup>22</sup>

Likewise, after President Bush's commitment to assist Taiwan in its acquisition of diesel electric submarines in April 2001, Taiwan's legislature—eventually backed by the MND—sought industrial cooperation from the United States for the development and construction of the submarines. In May 2002, the Legislative Yuan sent a signed petition with more than a hundred signatures to the Chen administration with a threat that “failure to achieve this goal [domestic construction] will cause the fund of the budget of this project not to be appropriated.” The U.S. response was cool, and in July 2004, the Bush administration formally ruled Taiwan's role in the defense industry of the submarine program beyond repair and maintenance.<sup>23</sup>

With joint production having been ruled out, the U.S. Navy sponsored an independent cost estimate (ICE) for Taiwan submarines in 2002. The ICE, which was forwarded to the MND in January 2003, estimated that the development, production, and administration of a submarine program for Taiwan would cost up to \$11.7 billion. Five-hundred million dollars was estimated for nonrecurring costs associated with submarine design,

planning, and industrial tooling of production facilities, in addition to a \$400-million estimate for program management and administration fees. The cost of Taiwan's required industrial cooperation was projected to cost at least \$185 million. Submarine construction was estimated to cost \$5.3 billion.

Since completion of the ICE, the Bush administration has required assurance of Taiwan's ability to fund the program through legislative appropriation of the entire amount outlined in the ICE before proceeding with the initial stages of the program. Without details on design and definition, Taiwan legislators across party lines have rejected this approach, citing the exorbitant costs as compared with other diesel-electric submarine projects around the world.<sup>24</sup>

A number of reports have indicated that some within the U.S. Navy, fearful of a slippery slope that could ultimately result in the introduction of diesel-electric submarines into the U.S. inventory, may have inflated the price and refused to accept a phased approach in order to discourage passage of the program within Taiwan's legislature.

## Taiwan's Defense Spending

Despite the relative decrease in defense spending as a proportion of GDP since 1993, Taiwan is still investing significant resources into its defense. After hitting a low in 2002, the defense budget has increased each year since 2003. In spring 2004, MND submitted its long-range budget plan to the Legislative Yuan. The plan outlined MND's intention to procure up to \$35.4 billion worth of U.S. weapon systems over the next ten to fifteen years. This figure does not include indigenous programs. Table 2 contains a summary of the planned procurements that were included.

After submission of its long-range plan, the MND provided its five-year defense plan (FY 2004–2008) to the Legislative Yuan in September 2004 with a budget requirement of almost \$50 billion. The Executive Yuan, presumably based on a consensus within the Chen administration, adjusted the amount down to \$38.57 billion, leaving the MND with a projected shortfall of \$11.37 billion, including over \$2 billion for operations and maintenance.<sup>25</sup> Nearly 30 percent of the military's force-modernization plan was associated with command,

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Taiwan's defense establishment has operated at the edge of chaos and order, the precise point where innovation thrives.

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TABLE 2: PROCUREMENT INCLUDED IN LONG-RANGE BUDGET PLAN, 2004

Budgeting Status Schedule	Program	Value	Original
Ongoing Programs	Digital Data Links (Po-Sheng)	\$1.61 billion	2004–2011
	Long-Range UHF Radar	\$909 million	2004–2007
	Kidd-Class Destroyers (4)	\$727 million	2003–2006
	AAV7 Amphibious Assault Vehicles (54)	\$182 million	2003–2006
Projected Procurements within the Next Five Years	Attack Helicopters (30)	\$2.73 billion	2005–2010
	M109A6 Paladin Artillery (130)	\$848 million	2005–2010
	Minesweeping Helicopters (12)	\$667 million	Not set
	Supplemental Procurement (including additional munitions)	\$3.97 billion	Not set
	Other Procurements (including Aegis destroyers)	\$5.31 billion	Not set
Special Budget Programs	Patriot PAC-3 (6)	\$4.39 billion	2005–2012
	P-3C Maritime Patrol Aircraft (12)	\$1.61 billion	2005–2011
	Diesel-Electric Submarines	\$12.49 billion	2005–2019
<b>TOTAL: \$35.45 billion</b>			

SOURCES: *Defense Technology Monthly* (2004) and *China Times*, June 17, 2004.

control, communications, computers, intelligence, surveillance, and reconnaissance.

In 2004, force modernization cost \$2.03 billion (NT\$67 billion) of the entire \$8.05 billion (NT\$265 billion) defense budget, at least \$1.94 billion (NT\$63 billion) of it in 2005. More than \$775 million—up from at least \$688 million in 2003—was dedicated to funding major new defense purchases from the United States. In 2005, all force-modernization programs, including foreign military and direct commercial sales and indigenous programs, amounted to at least \$860 million (NT\$26.85 billion), with another \$290 million appropriated for research and development (see tables 3 and 4 on the following page).

The Chen administration has come under fire from pan-Blue legislators for increasing force modernization at the expense of operations and maintenance (O&M), including logistical support and training. Legislative criticism regarding shortfalls in spare parts and other logistical portions of the O&M budget, as well as over-reliance on foreign sources of procurement, began as early as 2000.<sup>26</sup> One legislative analysis conducted on the 2004 defense budget cited that shortfalls for training are 25 percent below what is required. Similar shortfalls were cited for spare parts, ammunition, and other aspects of readiness. Legislators also have cited shortfalls in the Taiwanese army's portion of the budget, particularly in the areas of counterterrorism and investment into passive defense.<sup>27</sup>

Taiwan's projected defense budget for 2006 is \$7.93 billion (NT\$253 billion). Of this amount, \$2.6 billion (NT\$83.4 billion) will be dedicated to weapons procurement, development, and engineering.<sup>28</sup> Up to \$1.79 billion (NT\$57.2 billion) is included in the classified portion of the defense budget, most of which is presumably dedicated to foreign military procurement and sensitive domestic programs. After the Defense Committee's removal from the special budget in November 2005, members did not approve the Chen administration's request for NT\$10.9 billion to be earmarked for the PAC-3 program. However, there have been recent indications that the MND may seek funding for modest upgrades to Taiwan's three existing Patriot fire units. Also under consideration for funding is an indigenous unmanned aerial vehicle<sup>29</sup> and a new frequency-hopping tactical radio.

Another ongoing program is a 600-kilometer-range land-attack cruise missile designated the Hsiungfeng-2E (HF-2E). Three batteries comprising twenty-four mobile launchers and forty-eight missiles are said to be in the final stages of testing and may be fielded within two years. Research and development and production costs are estimated at approximately \$600 million, with \$156 million in the CY 06 budget.<sup>30</sup> Taiwan also has plans for the domestic development and production of a new fast-attack boat. Designated the Kuang Hua-6 (KH-6), the program calls for the construction of thirty 150-ton boats. The program was awarded to China Shipbuilding Corporation in June 2005, but the procurement process has

**TABLE 3: ANNUAL APPROPRIATION FOR MAJOR PROGRAMS, 2005**

Program	2005 Budget
Link 16 JTIDS (Po-Sheng Phase 1)	\$316 million
Surveillance Radar Program (UHF Radar)	\$164 million
Kidd-Class Destroyers	\$81 million
E-2T Airborne Early Warning Aircraft	\$74 million
AAV7A1 Amphibious Assault Vehicle	\$65 million
Improved Mobile Subscriber Equipment	\$45 million
An-Yu 1 Radar Program (F/TPS-117)	\$32 million
An-Yu 4 Radar Program (AADC/ROCC)	\$29 million
RT2000 Multiple-Launch Rocket System (MLRS)	\$19 million
AIM-120 AMRAAM	\$15 million
Kuang Hua-6 (KH-6) Fast Attack Boat (FABG)	\$5 million
An-Yu 3 Radar Program (new radar station)	\$3 million
CM32 Light Armored Vehicle	\$2 million
<b>TOTAL: \$850 million<sup>a</sup></b>	

SOURCE: Republic of China, *National Defense Report* for 2004, 141–52.

a. According to reporting required under the Foreign Assistant Act (sec. 655), the State Department reported that Taiwan acquired \$9.8 million in miscellaneous spare parts under direct commercial licenses in 2003 and \$34.3 million in 2004. See Fu S. Mei, *China's Military Modernization and Cross-Strait Balance*. One of the leading indicators of the amount of funding dedicated toward force modernization and acquisition of U.S. systems is the classified segment of the defense budget. In 1995, the classified portion of the budget was 36.9 percent, which then declined to 18.9 percent by 2004. Based on the classified portion of the CY 05 budget, which amounted to \$1.58 billion, Taiwan's actual force-modernization spending likely exceeded the \$860 million figure.

**TABLE 4: RESEARCH AND DEVELOPMENT EXPENDITURE, 2005**

Program	2005 Budget
TK-3 Missile Defense Interceptor R&D	\$145 million
Hsiungfeng-2E (HF-2E) Land-Attack Cruise Missile R&D	\$80 million
Indigenous Defense Fighter (IDF-C/D)	\$32 million
TC-2A Antiradiation Missile	\$14 million
Electronic/Information Warfare R&D	\$10 million
Air-to-Air Infrared Search and Tracking System	\$9 million
Hsiungfeng-3 (HF-3) Supersonic Antiship Cruise Missile R&D	\$4 million
Nuclear, Biological, and Chemical Defense R&D	\$4 million
<b>TOTAL: \$298 million</b>	

SOURCE: Republic of China, *National Defense Report* for 2004, 141–52.

been contested by Jong Shyn Shipbuilding Corporation, a private competitor.<sup>31</sup>

### Taiwan and Its Commitment to Self-Defense

Based on the record, Taiwan's political leadership and legislators from both sides of the political spectrum have demonstrated commitment to self-defense. Given the military's central role, it has come under close scrutiny from observers in the U.S. and in Taiwan's media. Media

outlets often thrive on exposing weaknesses, mismanagement, and malfeasance. What sometimes gets lost, however, is an accurate representation of the positive changes. The ongoing transformation of the ROC's defense establishment is one of the best cases. Taiwan's military has weathered political storms, provided stability during the ROC's transition of political power from one party to another, and made significant advances in its ability to deter and defend against PRC aggression.

In this process of change, Taiwan's defense establishment has operated at the edge of chaos and order, the precise point where innovation thrives. With the legal mandate enshrined in the new defense laws, ministers of defense Tang Yiau-ming and Lee Jye have been able to manage the shocks and stresses of a rapidly changing environment, maintain a fundamental level of military effectiveness, maximize combat power with the resources on hand, and provide an environment within which the process of transformation can take place. As Taiwan's defense establishment settles into its new structure, it is also developing a set of new operational doctrines and structures that are establishing the framework for an appropriate degree of jointness between the

services. It has been experimenting by seeing what works and what does not.

To cover anticipated requirements over the next five to ten years, however, Taiwan's defense establishment has made a strong case for an increase in its annual budget. Over the last ten years, Taiwan's military has made significant strides.

**Infrastructure Hardening and Protection.** Taiwan has invested a large portion of its resources into protecting its command and control system, hardening its

infrastructure, and modernizing its surveillance, intelligence, and reconnaissance systems. The military has revamped its operational command and control structure to enable greater jointness and more effective fighting.<sup>32</sup> It has upgraded its national communications network and is procuring a high-cost joint tactical information distribution system that will provide a common tactical picture capability for its armed forces. Taiwan has improved its tactical intelligence capability—invested resources to procure commercial high-resolution imagery from multiple sources, launched its own remote sensing satellite, and made plans for a follow-on system. National command authorities have developed an information operations strategic plan (*guojun cixunzhan celue guihua*) with a committee to oversee its implementation and support authorities to protect national-level assets.<sup>33</sup> Taiwan also has conducted a series of counterterrorist exercises, the most recent occurring in early December 2005.

**Air Operations.** The ROC Air Force has advanced its ability to sustain strikes, reconstitute operations, and conduct air defense and other missions. It has renewed its F-16 training program in the U.S., moved to increase the number of AIM-120 AMRAAM and AIM-9M air-to-air missiles in its inventory, enhanced the survivability of its fighter force by acquiring towed decoys, and submitted requests for additional air-to-ground munitions, such as the AGM-88C High Speed Anti-Radiation Missiles (HARM) and Joint Direct Attack Munition (JDAM) kits for its existing inventory of 500- and 2,000-pound bombs. The Bush administration, however, denied the release of these two air-to-ground munitions that the Air Force requested through the Ministry of National Defense.<sup>34</sup> In lieu of HARMs, Taiwan has proceeded with its own air-launched antiradiation missile, the TC-2A. There have been reports of interest in Sensor Fuzed Weapons (SFW) munitions, modified for maritime interdiction, which could significantly increase the number of deaths suffered by People's Liberation Army (PLA) forces attempting to conduct landing operations in Taiwan.<sup>35</sup> To enhance its ability to sustain air operations after ballistic and land-attack cruise missile raids, the air force has procured a large number of rapid repair kits and associated equipment. Plans, reportedly, are underway for more. As it modernizes its tactical

communications network, Taiwan has upgraded and expanded its radar surveillance network.

Media sources have indicated that Taiwan has acquired access to Defense Support Program satellite early-warning notices on PRC ballistic missile launches.

**Naval Operations.** The Taiwan Navy adjusted its operational doctrine and introduced the first two of four Kidd-class destroyers into its inventory in December 2005.

These systems, equipped with SM-2 missiles, provide a significant enhancement in anti-air warfare protection for the Taiwanese fleet. Taiwan has moved to procure a new generation of fast-attack boats equipped with advanced antiship cruise missiles. In addition to improvements in defensive mining, the Taiwan Navy has improved its targeting and logistics capability and its joint maritime interdiction capability. Consistent with Taiwan's overall C4ISR modernization efforts, the navy is upgrading its own command and control systems.

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The United States has interests in a Taiwan that is stable, democratic, economically viable, and able to maintain a sufficient self-defense capability.

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**Army Operations.** Taiwan is restructuring its army into a more mobile, agile force to respond more quickly and flexibly to a variety of contingencies. In addition to introducing nine CH-47SD heavy-lift helicopters into its force three years ago, the ROC Army is increasing its ability to operate at night through significant acquisition of night-vision equipment. The ROC Army has increased focus on interrupting PLA logistics supply lines, and its Improved Mobile Subscriber Equipment communications system proved critical in Taiwan's response to the devastating earthquake in September 1999. Plans are in place for expansion of this capability. In addition to added emphasis on NCO training, a new generation of tactical radios will be introduced into the army's inventory within the next few years, as well as a number of new small arms, including advanced sniper rifles. The planned acquisition of advanced unmanned aerial vehicles and other sensors will provide significant advances in its situational awareness. The army has expanded its special operations and counterterrorism capabilities and increased its inventory of munitions to include Hellfire. Perhaps most significant is the introduction over the next few years of a new generation light armored vehicle and a new multiple-rocket launching system.

## Conclusion

The United States has interests in a Taiwan that is stable, democratic, economically viable, and able to maintain a sufficient self-defense capability. It is also interested in a Taiwan that has a professional, civilian-controlled defense establishment that is modern, joint, and able to function effectively should it be required to defend itself. However, America's preeminent interest should lie in Taiwan's value as a democracy that, like other democracies in the region, can serve as a shining example for others to follow.

As Taiwan has coped with how best to meet the objectives above in a difficult fiscal environment, observers in the United States have questioned Taiwan's commitment to its own defense. The debate over special budget and increased defense spending has not symbolized a lack of commitment. If anything, the defense budget debate has been a manifestation of the vast complexities associated with a democracy in transition. And, perhaps most important, the budget standoff stemmed from fundamental differences over how to best manage limited economic resources to ensure the long-term survival of Taiwan's democracy.

In the larger scheme of things, the United States should remain above domestic debates regarding how Taiwan manages its national resources. While keeping the door open as wide as possible, these issues should be left up to Taiwan's domestic political system to work out on its own, armed with as much information as possible and in an environment free from coercion. The special budget has been important to the Chen administration, which has placed its political credibility on the line for it. This issue has also been important to those in the ROC's armed forces who have invested incredible resources to justify it and pleaded to their political leaders for an increase in its annual defense budget every year since, at the very latest, 2000.

Indeed there are some, such as those within the Democratic Action Alliance and other civic organizations, who see Taiwan's future aligned with the PRC and advocate disarmament. However, mainstream political actors on both sides of the political spectrum are dedicated to defending the island against PRC aggression. The question lies in determining an adequate level of defense spending, allocating resources within the defense budget, and juxtaposing both with other national interests.

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## Notes

1. The terms "Republic of China" (ROC) and "Taiwan" are used interchangeably here.
2. Chang is also convener of the Anti-Arms Procurement Alliance. The DAA was founded by Hwang Kwang-kuo, a professor of social psychology at National Taiwan University. Its members possess a diverse range of personalities, including Professor Li Ming-hui, award-winning movie director Hou Hsiao-hsien, writer Chu Tien-hsin, ex-Democratic Progressive Party activist Yeh Yao-peng, and dozens of college professors and other well-known literary figures and artists. Among various sources, see Chin Heng-wei, "What Lies in a Name Is Tricky Business," *Taipei Times*, July 2, 2004.
3. Unless otherwise noted, all figures are in U.S. dollars.
4. This characterization is borrowed from Shelly Rigger, "Party Politics and Taiwan's External Relations," (presentation, Foreign Policy Research Institute, Philadelphia, Pa., January 27, 2005). Her table on formal party positions with regard to national and cross-Strait identity is especially informative.
5. For a very good English-language editorial regarding the awkward position that Taiwan faces, see Philip Yang, "Domestic Factors and the U.S. Arms Sale to Taiwan," *Taipei Times*, September 30, 2005.
6. As Arthur Waldron has astutely noted, "A consensus has formed that, however the future develops, Taiwan must retain complete control over its own affairs." See "Our Stake in Taiwan," *Commentary* 18, no. 3 (October 2004): 60-65.
7. For a good overview of the complexities involved in evaluating "adequate self-defense," see Fu S. Mei's testimony in U.S.-China Economic and Security Review Commission, *China's Military Modernization and Cross-Strait Balance*, 109th Cong., 1st sess., September 15, 2005, 217-26.
8. See Li Mingxian, "Guofangbu zhengshi mei jiangshou wo shundunjian" [Ministry of National Defense Confirms U.S. Could Sell Taiwan Aegis Destroyers], *Ziyou ribao* [Liberty Times], September 22, 2003.
9. Over the last fifty years, Taiwan has used the special budget almost thirty times. See Greg Man, "The Taiwan Special Budget: Implications for Future Defense Programs," *Defense and Aerospace Report*, 3rd quarter (Arlington, Va.: US-Taiwan Business Council), 17.

10. An English summary of these laws is available at Ministry of National Defense R.O.C., [www.mnd.gov.tw/eng/discover/default.htm](http://www.mnd.gov.tw/eng/discover/default.htm) (accessed March 9, 2006). The Chinese text of the laws is also available at Ministry of National Defense R.O.C., <http://law.mnd.gov.tw/eng.asp> (accessed March 9, 2006).

11. Interviews in Taipei with Taiwanese officials whose identities are withheld by mutual agreement, December 20, 2005.

12. These changes are discussed in Michael D. Swaine, *Taiwan's National Security, Defense Policy, and Weapons Procurement Processes* (Santa Monica, Calif.: RAND, 1999). Also see Dr. Michael Pillsbury, "The U.S. Role in Taiwan's Defense Reforms" (presentation, ITDSS Conference, Taipei, February 29, 2004).

13. Interviews in Taipei with Taiwanese officials whose identities are withheld by mutual agreement, December 2005.

14. "A Call to Arms," *Taiwan Business Topics* 34, no. 11 (2006), available at [www.amcham.com.tw/publication\\_topics\\_view.php?volume=34&vol\\_num=11&topics\\_id=561](http://www.amcham.com.tw/publication_topics_view.php?volume=34&vol_num=11&topics_id=561) (accessed March 9, 2006). The first test of the new organizational structure and budgeting process was MND's September 2003 \$80-million request for four refurbished U.S. Navy Kidd-class destroyers. As one officer described it, the process was "painful," and involved detailed legislative examination of each and every line item. In the end, the Legislative Yuan cut 15 percent of the proposed budget, which was resolved through a reduction in the number of Standard Missile-2 (SM-2) anti-air missiles.

15. Among numerous sources, see "Taiwan Wants 26.75 Million Dollars Back from French Arms Supplier," *Agence France-Presse*, July 10, 2001; and Sofia Wu, "Lafayette Team Opposed to Parole of Corrupt Officer," *Central News Agency*, November 22, 2005.

16. For the best discussion of the ACTS model for defense of Taiwan, see Shih Chi-Hsiung, "The Reality and Feasibility of Deterring China: Re-Examining the Meaning of Deterrence in Taiwan's Defense," *Taiwan Defense Affairs* 5, no. 1 (Autumn 2004): 22–51. In terms of fundamental strategic culture within the Taiwan Air Force, one should not dismiss the legacy of U.S. Air Force officers schooled in ACTS doctrine, ranging from Chennault to former Taiwan Defense Command deputy commander Lieutenant General Harry Grant.

17. A package of fiscal reforms in 1997–98 lifted the budget back into surplus. However, the slide back toward a declining tax base, increasing government bonds and loans, and major expenditure on social welfare and earthquake relief quickly drove the fiscal budget back into deficit in 1999.

18. Among the indicators for measuring the health of a country or territory's economy and standard of living of its people is its gross domestic product (GDP). GDP is the total market value of all final goods and services produced in a country in a given year,

equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. Gross national product (GNP) is GDP plus the income accruing to domestic residents as a result of investments abroad, minus the income earned in domestic markets accruing to foreigners abroad.

19. James Peng, "Taiwan's Debt Outlook Downgraded by S&P," *Bloomberg News*, December 1, 2004.

20. Lin Mei-chun, "Rising Public Debt: Why It's So High," *Taiwan Business Topics* 35, no. 4 (April 2005), available at [www.amcham.com.tw/publication\\_topics\\_view.php?volume=35&vol\\_num=4&topics\\_id=604](http://www.amcham.com.tw/publication_topics_view.php?volume=35&vol_num=4&topics_id=604); and Chen Chien-Hsun, "Taiwan's Burgeoning Budget Deficit: A Crisis in the Making?" *Asian Survey* 45, no. 3 (May/June 2005): 383–96.

21. "Taiwan's Enterprises Lay Off Increasing Number of Employees," *Taiwan Economic News*, January 2, 2006.

22. For a summary of the *Liberty Times* report, see *Taiwan Defense Review*, November 21, 2005. In effect, the TK-2 ATBM and TK-3 are one and the same; the TK-2 ATBM was the research and development project name. The system uses an upgraded Chang Bai (Lockheed Martin ADAR, which shares many of the same characteristics of the SPY-1D Aegis radar system) phased array radar and a missile equipped with an imported (non-U.S.) Ku-band active radar seeker (however, other sources indicate that the seeker uses an X-Band seeker). Taiwan has been, and continues to be, interested in authorization for release of high powered Ka-band traveling wave tube amplifiers for the seekers, thus far without success.

23. However, if the Legislative Yuan authorizes funding of the program, U.S. defense contractors are assuming that the China Shipbuilding Corporation, or ostensibly any other qualified shipyard in Taiwan, would be granted authority to provide repair and maintenance services.

24. After receiving the ICE quote, the Chen administration formally requested that the United States evaluate less expensive options to fill its requirements for diesel electric submarines at least as an interim measure until a solution to the impasse could be found. The Italian government had expressed interest in transferring up to eight retired Sauro-class submarines to the U.S. that could have been refurbished and transferred to Taiwan for as little as \$3 billion. However, media reports indicated that the initiative was dropped due to U.S. and Taiwan Navy resistance. For background, see Rich Chang, "Submarine Costs Too Dear," *Taipei Times*, September 29, 2005; "Taiwan 'Rejects Deal on Four Subs,'" *Agence France-Presse*, December 18, 2001; and Brian Hsu, "MND Considering Used Submarines," *Taipei Times*, July 19, 2003. For an overview of the ICE, see Wang Tsung-ming, "Gongbu qianjian tiebie yusuan 2880yi—guofangbu: hai hui gen meifang zhuyi taolun" [MND Announces the NT

\$288 Billion Submarine Special Budget Can Still Be Discussed with U.S.], *Donglin News*, September 28, 2005.

25. Other figures, such as those in tables 2 and 3, reflect the \$40.53 billion required for force modernization—the differences could lie in currency exchange rates or adjustment for inflation.

26. Chou Cheng-chih, “My View on the Preparation of Defense Budget,” *Taiwan Defense Affairs* (October 2000).

27. See Lin Yu-fang, “An Examination of 2004 Taiwan Defense Budget,” *Defense International (Quanqiu fangwei zazhi)*, November 2004; and “Reducing Budget for Repair of Arms a Concern, Says PFP,” Central News Agency, September 20, 2005.

28. “Zongyusuan’an choubian jinggou ji zhuyao neirong” [Outline of 2006 Central Budget Plan], Directorate-General of Budget, Accounting, and Statistics (DGBAS), available at [www.dgbas.gov.tw](http://www.dgbas.gov.tw).

29. Chen Zhulai, “Yuan chushenshan aiguozehe-3 feidan 109yi yusuan” [LY Pre-Announces Cut of PAC-3 NT \$10.9 Billion Budget], Central News Agency, November 9, 2005.

30. *Taiwan Defense Review*, September 6, 2005; *Apple Daily*, August 29, 2005; *China Times*, September 1, 2005; and Lu Chaolong, “Zizao xunyi feidan chengjun” [Indigenous Cruise Missile Enters the Military], *China Times*, August 12, 2005.

31. “Investigation Task Force to Be Formed over Navy Purchase Plan,” Central News Agency, December 19, 2005.

32. For a good overview of the new command structures, see Lu Chao-lung, “Erduan qingjin’an mingnian diwancheng—27wan5qianren—guajun zongyuan’e diding” [The Second Phase of the Ching-ching Program to Be Completed by End of Year], *China Times*, January 1, 2006.

33. “Certain Trumpet: Interview with Defense Minister Wu,” *Taiwan Defense Affairs* (October 2000).

34. “Non-NOCERE,” *Taiwan Defense Review*, August 14, 2005.

35. Wendell Minnick, “Taiwan Seeks to Purchase CBU-105 for F-16s,” *Jane’s Defence Weekly*, January 4, 2006. By comparison, the Bush administration’s policy on release of air-to-ground munitions has been more restrictive than that of the Clinton administration, which released a number of air-to-ground munitions, such as the AGM-65G Maverick and air-launched Harpoon with a coastal target suppression capability. In stark contrast to the Clinton administration, the current administration’s JDAM decision has been particularly questionable. Taiwan already has the bombs in its inventory that can be guided with laser designators. The addition of JDAM kits to these bombs would enhance the effectiveness and versatility of its already existing inventory of munitions in a way that reduces collateral damage, reduce the number of passes that pilots would have to make over targets, and thereby reduce the chances of them getting shot down.