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***Opportunities And Challenges In Us-Taiwan  
Defense Industry Cooperation  
Commentary by Lotta Danielsson  
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Taiwan President Tsai Ing-wen and her government have identified the domestic Taiwan defense and aerospace industries as key areas for future growth. These sectors are targeted for development as part of the “[five plus two](#)” innovative industries plan aimed at strengthening the island’s industrial base. The concerted effort to [expand development](#) and increase investment in Taiwan’s indigenous defense industry would both enhance Taiwan’s national security posture and expand its economy. Prioritizing innovation and growth in the Taiwan defense sector could lead to expanded partnerships with global defense companies, to participation by domestic companies in the international defense supply chain, and to increased defense-related exports.

In addition to developing indigenous defense capabilities and upgrading the competencies of domestic defense contractors, Taiwan is also [supportive](#) of expanded cooperation between defense companies in the United States and Taiwan. The Taiwan government has encouraged expansion of business-to-business ties and of opportunities for executives on both sides to build trusted relationships with their counterparts. With the Tsai Administration’s focus on developing the indigenous defense industry—along with the [support](#) of the Trump Administration and the US Congress for increased ties with Taiwan—the current political environment in both the United States and Taiwan is also supportive of bilateral ties in the defense sector.

The United States and Taiwan already have well-developed defense relationships. Many US companies have long been working with companies in Taiwan to implement US arms sales programs and to discharge [offset](#) obligations. Given Taiwan’s new focus on indigenous development for its military systems, however, the situation for US companies in Taiwan is evolving. There is a sense that the bulk of new contracts will not be major new systems, but instead will consist of sustainment, munitions, training, systems integration, aftermarket support, and other work. But while the bilateral defense environment is changing, there are still many opportunities for US and Taiwan companies to work together.

US defense companies are seeking practical and constructive ways to collaborate with international partners. Taiwan has extensive experience in the global technology supply chain, and Taiwanese companies—in particular in the aerospace and shipbuilding industries—are currently exploring ways to similarly join the international defense supply chain. The hope is to provide parts and services to the US government, US defense contractors, and other global defense companies.

Given the already intense competition in global markets and Taiwan’s complex political situation, this is a tall order. But, the key to making this ambition a reality lies in finding the right economic incentives. Economic drivers from civil and commercial business lines are unlikely to transfer directly to the defense sector, as defense marketplace orders tend to be both low volume and sporadic, which makes finding and cultivating alternative or additional supply sources both expensive and risky.



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Because of the cost and risk associated with developing new sources for existing product lines and equipment, Taiwan industry players will likely find it difficult to break into existing supply chains. The exception could be systems already operational in Taiwan, where there may be enough of an economic incentive for US partner companies if production is at the volume necessary. However, an alternate approach could be for Taiwan to focus on jointly developing future systems and equipment, for example by working towards the next-generation capabilities identified in the [2018 US National Defense Strategy](#), as an international partner either with the US government or directly with US defense companies.

Taiwan appears to view the Southeast Asia/ASEAN defense markets as priority targets for defense exports, in line with the Taiwan government's [New Southbound Policy](#). See for example the rare [exhibition](#) by the National Chung-Shan Institute of Science & Technology (國家中山科學研究院) and the state-owned Materiel Production Center at *Defence Services Asia 2018* in Malaysia. The market for US defense contractors in this region has been [shrinking](#) due to increased competition, and because US weapons systems are often seen as too expensive and too complex. This may, therefore, represent an additional potential market opportunity for joint US-Taiwan development. US companies could work with a trusted Taiwan partner, bringing their expertise together to meet the specific local needs.

While there are many current and future opportunities for Taiwan defense businesses to work with US and global defense companies, some challenges remain. One is the level of protection of intellectual property (IP) and trade secrets (TS) in Taiwan—core assets which drive R&D efforts and add enormous value to companies, and which therefore serve as a key concern for US businesses. Taiwan has a robust legal framework for IP and TS protection, but penalties and enforcement mechanisms are often inadequate, and financial and criminal penalties are not substantial enough to deter violators. The same issue holds for Taiwan's export control regime, where enforcement is lacking. Better enforcement of existing protection statutes is therefore vitally important if Taiwan is to move forward with expanded defense and national security relationships with foreign companies.

This issue dovetails neatly with the need for developing a vigorous and comprehensive security clearance process in Taiwan, particularly given that so many Taiwanese companies also have operations in China and that social connections across the Taiwan Strait are so extensive. Notionally, a security clearance system in Taiwan would place particular focus on senior executives and key personnel at defense and national security companies, as well as at all companies participating in the defense supply chain.

Major Taiwan defense contractors have internal security clearance procedures, in particular at companies that grew out of government programs and therefore have infrastructure and processes in place. However, there is no overall and inclusive government-sanctioned process that would allow smaller, downstream companies to vet and do due diligence checks on its personnel who have access to sensitive materials. Currently, many smaller companies might produce and sell items into the defense supply chain without knowing the final use of their products. This practice not only creates questions regarding potential influence by adversaries in the supply chain, but also means that potential iterative improvements and refinement of those products—with the final end use in mind—does not occur.

Taiwanese companies can also take additional steps to ensure that their administrative and business frameworks are conducive to international cooperation efforts in the defense sector. This includes firewalling defense business units from commercial operations, enhancing technology controls, and focusing on improving cybersecurity systems and maximizing



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cyber resiliency.

Both the Taiwan government and companies in the indigenous defense and aerospace industries have to work together to provide solutions to some of these existing issues if Taiwan wants to take full advantage of an excellent opportunity for growth and development in the sector. By also focusing on finding the right economic drivers for the defense marketplace, Taiwan companies could deepen their mutually beneficial partnerships with US defense companies, and facilitate an expanded presence in the global defense supply chain.

**The main point:** There are many opportunities for US and Taiwan companies in the defense sector to collaborate and jointly develop current and next-generation programs. Challenges to such cooperation on the Taiwan side include issues surrounding enforcement of intellectual property rights, trade secrets protections, and export controls, as well as the lack of a comprehensive and inclusive security clearance system.