遠景基金會
Prospect Foundation

Prospects & Perspectives

There is currently a potential to launch a government-led "U.S.-Taiwan Defense Industry Dialogue" to encourage co-production and co-development opportunities between the U.S. defense industry and Taiwan.

Picture source: Overseas Community Affairs Council, Taiwan (ROC), July 28, 2022, *Overseas Community Affairs Council, Taiwan (ROC)*, <https://www.ocac.gov.tw/OCAC/Pages/Detail.aspx?nodeid=3214&pid=43054570>.

Resolving the Bottleneck in U.S. Arms Sales to Taiwan

By *Rupert Hammond-Chambers*

Foreign Military Sales (FMS) and Direct Commercial Sales (DCS) are exceedingly complex. A successful international sale needs multiple approvals from the U.S. government, along with extensive coordination between all U.S. government, industry, and partner stakeholders. With so many steps required to get a sale approved and implemented, an approach whereby each separate step is evaluated and shortened as much as possible would be the most efficient way to improve the entirety of the process and thereby promote shorter timelines.

While industry is eager and willing to help, shortening the timeline would primarily require changes implemented by the U.S. government, given the number of steps — and the importance of those steps — where the responsibility for moving forward falls to the U.S. government.

Here are a few thoughts on steps in the process where changes could potentially help improve release timelines.

Design

Industry members often note the “design for exportability” concept. Traditionally, the potential exportability of specific systems has not been included as a significant factor to consider until later in the process. Indeed, industry often must re-engineer or modify systems to conform to U.S. release decisions and/or to meet the requests and requirements for specific buyers. This results in potentially years of delays between the time a foreign country shows interest in a system and when it is available for delivery. Designing for exportability would allow companies to shorten the timeline by including specific features from the very beginning. Such design decisions could also potentially help support U.S. interoperability with our partners and allies.

Industry is willing to cooperate with the U.S. government on this concept. Companies have noted, however, that designing for exportability increases design costs and schedule risk for the overall program – including for U.S. customers. Companies will be reluctant to spend that extra money to develop exportability features without early confidence that U.S. government policy will allow the sale of that system to other countries. From a business perspective, companies are simply unable to absorb those extra costs without any assurances that doing so will lead to additional sales. The USG can therefore expedite programs by making technology release decisions for countries in question as early in the process as possible – to include during design, and before a formal request from the country.

Policy Decisions, LOA, and Tech Releases

For mature or current systems, the industry notes three specific steps in the process that often add time to sales: 1) the broad policy decision to release a specific capability to a specific customer, 2) development of the Letter of Agreement (LOA), and 3) the specific Technology Release decision (potentially involving the Tri-Service Committee, LO/CLO Executive Committee, etc.).

While overall metrics on any of these measures may be positive (e.g. the average time across the entire FMS enterprise for Implementing Agencies to generate an LOA), there is some frustration with the slow movement of specific programs for Taiwan through these steps. Companies believe that focusing on shortening the time necessary for these parts of the process could prove beneficial, and that speeding up the cycle for updating approved technologies for release could also expedite the timeline.

Negotiations

Company representatives explain that an FMS case is considered "implemented" only once the customer has received the LOA and countersigned it, and once the customer has then funded the system in the LOA. It is not until this point that the formal contract is negotiated between U.S. government and the U.S. Original Equipment Manufacturer (OEM). Industry members note the increasing use of Undefinitized Contract Actions (UCA) to allow some work and payment, as final contract definitization is often one of the longest and most arduous parts of the process. Working to reduce the negotiations period might be helpful in shortening the timeline.

General Improvements

1. Communication when Generating Requirements

Defining and generating the specific requirements for a foreign country, prior to issuing the Letter of Request (LOR) to the U.S., is a critical step in the military sales process. If the requirements are not clearly defined, the timeline may be unnecessarily lengthened, or the process may even have to start over. The U.S. government and industry should focus on fully inclusive and open communications during this stage, and team up to help the foreign country define its requirements as accurately and as early in the process as possible.

2. Creative Financing Solutions

Lowering the FMS administration rate and offering competitive financing options, such as Standby Letters of Credit and Risk Assessed Payment Schedules, can reduce cost and/or facilitate payment over longer periods of time. The U.S. government should continue to work with industry and foreign partners to develop additional creative financing solutions – especially those that can be implemented quickly via policy changes, rather than the more difficult route of changing laws or federal regulations.

3. Improving Non-Program of Record Sales (NPOR)

NPORs are historically difficult to accommodate in the FMS process. Yet factors such as customer budgets, U.S. tech release policy, or unique requirements can lead partners to need systems that are not U.S. standard Programs of Record. As the U.S. government explores efforts to improve the overall FMS process, continued thought should be given to providing staff and more formal and standardized processes to accommodate NPOR requests.

4. Formalized Interagency Coordination on FMS

Work on FMS cases within the U.S. government tends to occur on a collaborative basis. While there is a well-established structure and process, no single interagency entity or permanent body is currently tasked with overseeing and making decisions across the entire FMS enterprise. Establishing a permanent organization to mediate all FMS activity would still allow all interagency stakeholders to collaborate, but would offer a more efficient and centralized way to drive the process. It would provide more clarity on roles, better division of specific responsibilities, and more efficient implementation.

Potential Ways Forward with Taiwan

1. Strategic Ambiguity vs. Strategic Clarity

The U.S. currently pursues a policy of strategic ambiguity toward Taiwan, which includes ambiguity on whether and how it would come to Taiwan's aid in the event of an attack by China. While it appears the U.S. does not intend to sell Taiwan the full range of capabilities to defend and deter China on its own in all phases of conflict, it is unclear if U.S. military forces would fill the capability gaps. In the absence of such strategic clarity, the Biden administration's new policy allows People's Liberation Army (PLA) planners to focus on Taiwan's more narrowly scoped defensive stance. Far from improving Taiwan's security, it could do tremendous damage to the island's self-assurance and its practical defense.

2. If the Biden administration intends to dictate specific arms sales to Taiwan, a change in U.S. policy from strict strategic ambiguity to at least some clarity on when and where the U.S. would be willing to step in would be needed. This would permit Taiwan to focus on a narrower defensive ability, with the clear expectation that the U.S. would fill any resulting gaps if necessary.

3. Creative Financing Solutions

If the U.S. government wishes for Taiwan to procure additional equipment outside its normal budget, the U.S. government should consider making creative financing available to Taiwan. This could potentially make available to Taiwan those items designated as "asymmetric" and therefore included in the short-term policy focus, while the regular Taiwan defense procurement process can sustain, recapitalize, and acquire new equipment needed for the defense of Taiwan in the near-to-medium term.

4. Proposed U.S.-Taiwan Defense Industry Dialogue

There is currently a potential to launch a government-led "U.S.-Taiwan Defense Industry Dialogue" to encourage co-production and co-development opportunities between the U.S. defense industry and Taiwan. Such a dialogue could mirror some of the structures from similar dialogues between the U.S. and India and between the U.S. and Brazil.

The idea of such a Dialogue was raised in the AmCham Taiwan annual defense white paper sent to the government of Taiwan in 2020. In their response, which came from Office of the President, the Taiwanese government showed interest, but asked for guidance on how to proceed. If the idea of such a dialogue is useful to the U.S. government, it is likely it would have top-level support in Taiwan. Taiwan would also be ready for such a dialogue in a way that India was not when the existing initiative was first conceived in 2015.

Taiwan is currently paying more attention to growing its indigenous defense industry. At the very top level, this can be attributed to the very high percentage of defense spending in Taiwan's national budget – almost 20%. However, Taiwan's Tax-to-GDP ratio is low, at only 16% it is half of the OECD average. So unless it can create some local economic activity from this volume of spending, it is very possible that in future a rapidly aging society would peel away some of that money for social programs.

Deeper engagement between the defense industries on both sides could provide another vector for the defense relationship without necessarily being escalatory. Beyond the semiconductor sector, Taiwan's industry does several things well, and offers skills in many areas that are complementary. For instance, Taiwan does advanced metalworking as well as anywhere in the world.

Bringing Taiwan companies into the supply chains of U.S. defense companies would not be a function of decisions made by companies alone. This type of initiative needs the close attention and involvement of government, which has a greater political imperative to make it work. For instance, with India, the U.S. government recognized that such an effort to promote co-development and co-production could break the narrative in India that the U.S. was "just another vendor." Similarly, with Brazil both governments saw the benefit of the dialogue to rebuild the bilateral relationship after a nadir. In both cases, the U.S. government identified one designated official to shepherd the dialogue and pull the interagency threads, while the other side did the same.

(Rupert Hammond-Chambers is President of the US-Taiwan Business Council.)

Editor's Note: The views expressed in this publication are those of the authors and do not necessarily reflect the policy or the position of the Prospect Foundation.

The Prospect Foundation *is an independent research institution dedicated to the study of cross-Strait relations and international issues.*
The Foundation maintains active exchanges and communications with many think tanks of the world.

Prospect Foundation
No.1, Lane 60, Sec. 3, Tingzhou Rd., Zhongzheng District
Taipei City, 10087, Republic of China (Taiwan)
Tel: 886-2-23654366 Fax: 886-2-23679193
http://www.pf.org.tw