



## **Executive Summary**

# **Defense & Security Quarterly Report First Quarter, 2006**

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## **INTRODUCTION**

The US-Taiwan Business Council is committed to providing our members with tactical and strategic advice on how to succeed in the Taiwan market. As part of a suite of information products distributed to our members, the Council publishes several analysis reports each year. These reports are published each quarter, with an expanded report in the fourth quarter that covers the entire previous year.

The Defense & Security report focuses on defense and national security issues as they relate to Taiwan, and provides up-to-date analysis of developments during each quarter. Each report also contains contact information valuable in initiating and maintaining a relationship with Taiwan private and government entities, as well as other useful information including organization charts and a glossary.

The US-Taiwan Business Council's Defense & Security Report has been published since the first quarter of 2001. Although these reports are distributed exclusively to members and to U.S. government employees, this executive summary provides some insight into the focus and contents of the report.

For more information, please contact us directly at the below address, or visit us online at [www.us-taiwan.org](http://www.us-taiwan.org).

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**QUARTERLY DEFENSE & SECURITY ANALYSIS**

**PUBLISHED APRIL 1, 2006**

Taiwan continues to face a number of challenges in meeting its defense and national security needs. The island's political environment is growing increasingly challenging, while changes in Taiwan's domestic milieu have become more rapid and dramatic than at any time in its history. In many respects, Taiwan is going through a form of transitional crisis from which it is unlikely to emerge until after the next presidential election in 2008.

The overriding interest on both sides of the political spectrum is maintaining or gaining political power. The political environment is charged by fundamental disagreements on issues associated with national identity. On one side of the continuum is the pan-Green coalition, consisting of the Democratic People's Party (DPP) and the Taiwan Solidarity Union (TSU), which stresses a Taiwanese identity separate and unique from that of mainland China. The opposition pan-Blue coalition of the Kuomintang (KMT) and People's First Party (PFP) continue to feel strongly about Taiwan identification with the mainland. The dominant parties within these coalitions – the DPP and the KMT – are currently focused on positioning themselves to win intermediate elections over the next two years, setting the stage for the presidential elections in March 2008. Their junior partners, the PFP and the TSU, are striving to remain politically relevant.

In this struggle, each side has adopted tactical measures to enlist support from external allies in the United States, the PRC, and elsewhere to further their domestic political agendas. The pan-Blue and pan-Green coalitions tend to cast each other in the darkest hue possible, with the Blues highlighting the Greens as working towards destroying Taiwan through the pursuit of *de jure* independence, and driving the nation's economy into the ground. In turn, the pan-Green coalition has accused its opponents of "selling out" Taiwan to communist China.

A more accurate and less sensationalist perspective reveals that the mainstream elements within all four parties are not at all seeking a radical, strategic shift in external relations. Substantive debates tend to be focused on how to best manage cross-Strait relations, avoid PRC entrapment and the use of force, maintain good relations with Taiwan's primary benefactor the United States, and how to best stem Taiwan's economic and political marginalization in the international community.

With less than two years remaining in his term, President Chen and the DPP are looking to recover from their devastating loss in the December 2005 local elections. The DPP has become internally divided as it seeks to develop a consensus on how to best regain its public credibility, while at the same time fissures have emerged within the opposition camp. This transitional crisis is taking place during a period in which many on the island view their competitive advantage as diminishing and, in the absence of other alternatives, views themselves as increasingly reliant on mainland China for their continued economic development.

It is in this dynamic political and economic environment that Taiwan's national defense establishment finds itself, while also in the midst of a major transformation that has been underway since at least 2000. The defense establishment has attempted to do its best to satisfy its political leadership, while at the same time maintaining operational effectiveness. The Chen Shui-bian Administration's request for the acquisition of three key systems (diesel electric submarines, PATRIOT PAC-3 missiles, and P-3C maritime patrol aircraft) through a US\$18 billion (NT\$575.85 billion) special budget request has been held hostage to the political debates between the two camps.

The special budget request for these three systems was withdrawn in February 2006, and the MND has reconstituted its request in the form of a supplemental request to the annual 2006 defense budget.

However, when the budget is forwarded to the Legislative Yuan, the passage of all portions of the new supplemental budget request is not assured. This quarter's defense and national security analysis examines Taiwan's dynamic political and economic environment with a particular focus on the factional politics within the KMT and DPP, and their effects on the continued impasse over the three items that were originally contained in the defense special budget request.

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