



Executive Summary

Defense & Security Quarterly Report Second 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.

**US-Taiwan Business Council
1700 North Moore Street, Suite 1703
Arlington, Virginia 22209**

Phone: (703) 465-2930

Fax: (703) 465-2937

Council@us-taiwan.org

www.us-taiwan.org

QUARTERLY DEFENSE & SECURITY ANALYSIS

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Marked by a series of corruption scandals, waning domestic confidence in its ability to sustain its economic growth, and a growing military challenge stemming from the People's Republic of China (PRC), Taiwan's security environment is complex and dynamic.

With an eye on national elections scheduled for December 2007 and March 2008, Taiwan's political landscape is becoming increasingly polarized as opposite ends of the spectrum seek to dominate the island's political agenda. Fierce political debates are taking place on topics as diverse as the rising national debt, competing requirements for central government expenditures, challenges in shoring up its revenue base, and the growing migration of Taiwan's industrial sector toward mainland China.

In this political and economic environment, Taiwan's defense establishment is coping with how best to ensure an adequate self-defense capability with limited resources. This quarterly report reviews events over the last quarter, including the ongoing political paralysis, economic security issues, and trends in defense policy.

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