



Executive Summary

Defense & Security Quarterly Report Annual Review, 2007

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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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This has been a year of challenges in U.S.-Taiwan relations, dominated by continuing friction over a range of politically-driven initiatives by the Chen Shui-bian government – initiatives that not only aggravated internal divisiveness but also irritated and alienated Washington. The past year saw the process of political consolidation within the two major political coalitions in Taiwan, with the resultant new alignment put to the test in the January 12, 2008 Legislative Yuan elections. Of course, 2007 has also seen some long overdue breakthroughs on the defense budget front, with both the passage of funding for the three major arms procurement programs and an increase in the annual defense budget to a little less than 3% of Taiwan's GDP.

This annual analysis report provides a brief overview of significant developments in 2007, while examining some of the more systemic factors that influenced the course of events during the past year. The analysis will also look ahead and attempt to gauge the likely impact of both the LY election and the upcoming March 2008 presidential polls on national security affairs.

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