



Executive Summary

Defense & Security Quarterly Report Annual Review, 2005

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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.

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**QUARTERLY DEFENSE & SECURITY ANALYSIS
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In 2005, Taiwan's political landscape was marked with continued divisions in the island's domestic polity. Issues at hand included the island's political future, how to best manage Taiwan's limited fiscal resources in a dynamic economic environment, and the continued political deadlock surrounding the legitimate requirements for an adequate self-defense capability within the context of Taiwan's broader national interests.

This report first reviews Taiwan's domestic political and economic environment in 2005, including the brief détente between the ruling Democratic Progressive Party (DPP) and the People's First Party (PFP), the cross-Strait initiatives of the opposition parties, and the downturn in the DPP's public image that in December resulted in the party's worst electoral performance since it assumed power in 2000. Also examined are the economic challenges Taiwan is facing, including the growing national budget deficit that has been a source of debate for the past five years.

The report also reviews the key defense policy issues of 2005, including the continued impasse over the defense special budget request for diesel electric submarines, PATRIOT PAC-3 missile defense system, and P-3C maritime patrol aircraft. Finally, the report provides an outlook for 2006 and issues a number of recommendations for U.S. policymakers to consider over the coming year.

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