



Executive Summary

Defense & Security Quarterly Report Third 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.

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**QUARTERLY DEFENSE & SECURITY ANALYSIS
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During the past quarter, Taiwan President Chen Shui-bian's ability to take the initiative in the legislative and policy arenas has been undermined by growing political turmoil. While Taiwan's defense establishment has tried to retain a policy-oriented focus, the national security community has also been visibly impacted by fallout from a number of alleged political scandals.

Meanwhile, continued gridlock in the Legislative Yuan has exacerbated U.S. misgivings about Taiwan's willingness to tangibly contribute to its own national security. These developments have the potential to derail progress in U.S.-Taiwan security cooperation, a relationship that has taken decades to cultivate.

This quarter's defense and national security analysis examines the political dynamics that seem to define the limits of current prospects for several of Taiwan's key defense efforts. This report will also discuss defense policy issues and defense budget and procurement developments, and will offer a review of current U.S.-Taiwan defense relations.

REPORT TABLE OF CONTENTS

Letter from the President	1
About the Council	3
Defense & Security Analysis	5
Introduction	5
The Political Environment.....	5
<i>Mayoral Elections</i>	6
Defense Policy Issues	7
<i>National Defense White Paper</i>	7
<i>Hang Kuang 22</i>	8
<i>Additional Developments</i>	9
Defense Budget and Procurement Issues	9
<i>Defense Procurement</i>	10
<i>Other Budget Items</i>	10
U.S.-Taiwan Defense Relations	11
Status of Select Programs.....	12
Conclusion	14
Glossary of Terms.....	15
Taiwan’s Military Equipment & Personnel.....	27
Air Force.....	27
Army.....	28
Navy	30
Taiwan Government Contact Information	35
United States Government Contact Information	43
Suggestions of Sources for Defense Information	47
Defense Headlines – Third Quarter 2006.....	49
Appendix	53
Organization Chart, Procurement Bureau, Ministry of National Defense.....	53
Organization Chart, Defense Procurement Division (TECRO) in the U.S.....	53
Structure of Taiwan’s National Defense Organization	54
Organization Chart, Chung Shan Institute of Science & Technology	55
Organization Chart, Armaments Bureau.....	56