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Thank you for inviting me to speak this evening. I am honored to continue the tradition of senior Department of Defense officials making remarks at this unique forum, which brings together representatives from the U.S. Government, Taiwan, and defense industry for extensive discussions on issues of critical importance to our nation and the Asia-Pacific.

I would like first to extend a warm welcome to Vice Minister Lee Hsi-ming. I would also like to thank the U.S.-Taiwan Business Council's Chairman, Paul Wolfowitz; as well as its President, Rupert Hammond-Chambers, for your enduring commitment and support for Taiwan's defense and the broader U.S.-Taiwan relationship. I am pleased to join such a remarkable group of business people and decision-makers.

I would like to use my remarks this evening to share with you the core concepts and principles that underpin the U.S.-Taiwan defense relationship, describe how we have worked with Taiwan over the past several years to improve its defenses and outline some of our areas of focus.

We have an enduring interest in cross-Strait peace and stability. We encourage both sides of the Taiwan Strait to improve relations in a manner and at a pace acceptable to both sides. We believe a secure and confident Taiwan is better able to engage Beijing constructively, which supports our interest in cross-Strait peace and stability.

Taiwan is an important partner to the United States and a contributor to regional efforts to secure the peace and preserve stability in the Asia-Pacific. Peace and stability in the Taiwan Strait is essential for preserving the peace and stability of the broader Asia-Pacific.

Taiwan also is a shining example for the region with its robust, prosperous, free and orderly democratic society. The people of Taiwan have much to be proud of. The common bonds and shared values of the U.S.-Taiwan relationship are evident here tonight as I look across the room.

In accordance with long standing policy, the U.S. Government remains firmly committed to our one-China policy, which is based on the three joint U.S.-China communiqués and the Taiwan Relations Act (TRA). This has remained unchanged for eight administrations.

Our policy and approach to cross-Strait issues are based on enduring national interests, which is why it has transcended political parties and served as a central element of our approach to Asia for over three decades.

Taiwan is the United States' largest security cooperation partner in Asia. Since 2010, we have notified Congress of more than \$14 billion in arms sales. The capabilities that the Department of Defense has provided include some of our most advanced weapons, including AH-64E Apache Attack Helicopters, Patriot Advance Capability-3 missiles, and advanced munitions. As we speak, the first F-16 airframes are being inducted into the retrofit program taking place in Taichung at Aerospace Industrial Development Corporation (AIDC), where they will become a very capable, modern fighter – one that U.S. Air Force pilots are jealous about. In addition, between 2010 and 2015, \$6.2 billion in arms sales and services were licensed by the United States government in Direct Commercial Sale transactions with Taiwan partners.

The U.S. commitment does not begin and end with arms sales to Taiwan, however. Our overall defense cooperation is broader and more consequential. To focus only on the sales aspect of our defense relationship would not capture the entirety of U.S. interests -- or our commitments to, and requirements of Taiwan's security -- as well as to the depth and strength of U.S.-Taiwan relations.

As part of our broad defense and security assistance agenda, we are constantly engaged with Taiwan in evaluating, assessing, and reviewing its defense needs. Together we have, and will continue to work with Taiwan, in areas that include: the development and implementation of joint doctrine, improving service interoperability, increasing overall readiness, making training more demanding and realistic, identifying measures of effectiveness, and developing a professional non-commissioned officer corps. These actions enable self-defense and force development.

High-level talks with Taiwan represent another element of our comprehensive and durable partnership. From defense policy to foreign policy, from senior-leader political-military dialogues to pilot training, these exchanges between the U.S. and Taiwan are strategic, professional, focused, and objectives based. Our common goal is to have a credible and visible deterrent to potential coercion and aggression against Taiwan.

The challenge for Taiwan's defense begins with an understanding of the threat environment and Beijing's long-term comprehensive military modernization.

In the Annual Report to Congress on Military and Security Developments Involving the People's Republic of China, the Department has long assessed that, "Preparing for potential conflict in the Taiwan Strait remains the focus and primary driver of China's military investment...."

China continues to pursue a long-term, comprehensive military modernization program.

Taiwan is the focus and Taiwan contingencies are a key driver of China's military buildup. The PLA continues to develop and deploy significant military capabilities opposite Taiwan.

China's arsenal of missiles deployed to garrisons opposite Taiwan, including short and medium range ballistic missiles, and cruise missiles continues to advance in terms of numbers and capabilities.

China continues to field one of the most lethal integrated air-defense systems in the world, is increasing numbers of advanced 4th generation fighter aircraft with state-of-the-art defensive avionics, jammers, and munitions, and is rounding out its ability to threaten Taiwan with rapid development of its undersea warfare capabilities.

And it is not just the weapon systems. The PLA is stepping up training and exercises, and in recent years has conducted large-scale exercises, such as "Stride" and "Mission Action," explicitly focused on Taiwan invasion scenarios.

China is building the capability to coerce, and if directed compel unification by force. There is no indication that the PRC is preparing to renounce the use of force, now or in the future. This makes it incumbent on Taiwan to prepare and invest in the capabilities to deter aggression and mount an effective defense if deterrence fails. The United States strongly supports Taiwan in these efforts.

From our perspective, the challenge for Taiwan is not to defeat the PLA, but rather to deter conflict by denying them the ability to secure a credible victory. That is our metric of success. To achieve this objective, we believe Taiwan must prioritize investments and capabilities to complicate PLA war planning and decision making.

DoD supports Taiwan in these efforts through security cooperation that is objectives-based and that emphasizes increasing Taiwan's military capabilities to deter cross-Strait coercion and aggression. These are our priorities, which is not to say that we neglect necessary capabilities for Taiwan's military to operate in

peacetime, such as in a disaster response, or to conduct critical missions such as maritime domain awareness.

In the face of these growing PRC capabilities, Taiwan's defense reforms to date are important and necessary, but Taiwan cannot rest. Although Taiwan cannot match PLA investments, in our view, Taiwan can maximize its defensive advantages and greatly increase its capacity to deny the PRC its operational objectives.

A comprehensive approach to addressing these challenges is critical. I would like to offer four areas for consideration: (1) Prioritizing defense resourcing; (2) Prioritizing homeland defense; (3) Developing an elite force; and (4) Investing in asymmetric capabilities.

(1) In terms of resources, Taiwan's defense *budget* has not kept pace with threat developments, and should be increased. While many people like to focus on percentage of GDP devoted to defense, in my view what truly matters is whether the Taiwan military is provided the resources it requires to continue to modernize, to improve its capabilities, to recruit and retain motivated and highly-skilled personnel, to develop indigenous solutions that support innovation and asymmetry, and to train realistically.

(2) Second, Homeland defense. Taiwan can do this by focusing its defense resources on countering Chinese power-projection capabilities across the Taiwan Strait through investing in capabilities to defend Taiwan's main island. This is the phase in a battle where Taiwan's advantages are greatest, and this is the one phase of the battle that Taiwan cannot afford to lose.

And this includes Taiwan having the personnel, equipment, training, doctrine, and tactics that will give any would-be aggressor pause about the effectiveness of using threats or actual military force for the purposes of coercion or aggression.

And we have seen progress in this regard:

Taiwan's Navy has invested in new systems and capabilities that target the center of gravity of an invasion force, with tailored capabilities that take advantage of shore-line defense where lines of communication are shortest, and vulnerabilities for an invading force are most acute.

Taiwan's investments in sea mines, coastal defense artillery, land and sea-based mobile anti-ship cruise missiles, UAVs, fast attack boats, hardening, decoys and camouflage, considerably bolster the ability to defend the homeland and slow an invading force when it approaches Taiwan's shores.

(3) Third, developing an elite force. What I mean here is developing an elite force to deter, disrupt, and delay aggression. This means Taiwan cannot and should not try to match PRC capabilities nor should Taiwan develop the same type of military the U.S. has, or the one the PLA is developing.

This is different from having the capability to defeat China or completely deny PLA air or maritime operations. This is about making Taiwan resilient enough to withstand cyber, missile, and air attacks, and remain capable of posing a credible and persistent threat to any invading PLA air and naval forces.

This requires looking at the human capital aspects, the right mix for volunteers and conscripts, the right balance between active and reserve, and re-thinking the roles of the reserves, and the military's relations with society. As the United States knows from its own experience, developing and maintaining an effective and combat-capable All-Volunteer Force is an expensive as well as time-consuming choice.

(4) Fourth, continue to prioritize asymmetric capabilities to increase survivability. There is appreciation on both sides that traditional approaches to the defense of Taiwan are no longer viable, placing a premium on transforming Taiwan's defense to incorporate asymmetric and innovative approaches to maintain deterrence against PRC aggression.

So, let me offer the idea of larger numbers of small things, things that are mobile, survivable, and lethal such as coastal defense cruise missiles, mobile air defense, mines, and coastal defense submarines.

Taiwan has made tremendous progress shifting its planning and procurement efforts toward non-traditional, innovative, and asymmetric approaches. *We cannot give Taiwan* enough credit for this transformation, but the scale, scope and pace of the challenge Taiwan faces causes us to focus our attention on what remains to be done, rather than what has successfully been accomplished.

If deterrence fails, then focusing the defense effort on denying the PLA their operational objectives will depend heavily on maintaining an asymmetric advantage.

Taiwan's demonstrated commitment to its own defense is a critical factor in maintaining deterrence that results in a stable cross-Strait environment from which everyone in the region benefits. Taiwan's Ministry of National Defense has taken many positive steps to improve Taiwan's security by incorporating asymmetric systems into Taiwan's defense and focusing its investments on capabilities that maximize Taiwan's defense advantages.

Yet, we remain cognizant that this mission has become more complex over time. This complexity should not deter Taiwan from continuing to assess and improve Taiwan's self-defense capabilities. This charge has become more, not less important, and requires all sectors – from academia, to think tanks, and industry – to think creatively to identify the necessary means to maintain cross-Strait peace and stability.

Consistent with the Taiwan Relations Act, the U.S. government remains steadfastly committed to making available to Taiwan the defense articles and services necessary to maintain a sufficient self-defense capability.

Taiwan's military has made great progress deploying new *indigenous* weapon systems that are mobile, survivable, and able to take full advantage of Taiwan's geography to better protect high-value assets and render attacks less effective. Taiwan's ability to survive a crisis depends on it having a robust *homeland defense*. In some cases, Taiwan may build for itself asymmetric capabilities -- because the United States does not make them -- that exploit an invading force's weaknesses and take advantage of the island's geographic features to its defense advantage.

The Department of Defense recognizes and appreciates Taiwan's aspirations to be self-reliant for its defense, as well as its objective of increasing the economic benefits of defense spending for its own economy and people. Taiwan has a long history of successful cooperative indigenous defense programs, including the licensed manufacturing of Perry-class Frigates from 1989 to 1994 and the Indigenous Defense Fighter. Both of these prove that the concept is viable. Further highlighting the promise and potential of indigenous development, Taiwan's defense industry has more recently demonstrated its competency producing affordable, survivable, asymmetric weapons tailored for Taiwan's unique defense needs, including small fast attack boats, mobile land-launched anti-ship cruise missiles, and multiple-launch rocket systems.

As friends, we should be candid that while there is a great deal of attention placed on the Indigenous Defense Submarine and a new fighter-trainer, the two biggest indigenous defense programs about to get off the ground, the new emphasis on prioritizing indigenous defense production will present new challenges.

The U.S. government supports Taiwan's efforts to improve its self-defense capabilities through any legitimate means. However, the U.S. government does not own much of the technology Taiwan seeks for its domestic industry, necessitating close cooperation between Taiwan and U.S. defense contractors to establish new relationships and new lines of collaboration.

The transfer of sensitive technologies introduces issues related to compliance with U.S. standards and requirements for safeguarding U.S. technologies, which will be a new and challenging experience for some partners.

New regulatory mechanisms may be needed to expand partnerships to private companies, ensuring Taiwan's compliance with U.S. laws and rules, and reassuring the U.S. that sensitive technologies will be protected from inappropriate transfer.

To fulfill its goals, Taiwan will need to think through some difficult and unique problems. For example, how will Taiwan companies with significant business interests in the Mainland participate in Taiwan's defense sector? Considering Taiwan's limited defense resources and the relatively small size of Taiwan's military, will building small numbers of weapon systems indigenously be cost-effective or attractive for U.S. suppliers?

Traditionally, the Department of Defense and its contractors design, develop, test and manufacture a weapon system, assuming the risks of delays, cost-overruns, quality problems, and performance. By the time a system is offered to foreign buyers, many of the bugs have been worked out and the risks to the buyer are greatly reduced. With the shift in emphasis to indigenous manufacturing through direct commercial sales to Taiwan, the risks of developing a new weapon shift to the buyer, and that is something that Taiwan will need to reconcile.

These and many other questions are integral to the success of indigenous defense production. Being self-reliant does not mean that the Department of Defense will lessen its commitment to Taiwan -- the Department will be there to help Taiwan think through these questions, and the Department will continue to work closely with defense planners in the Ministry of National Defense to support Taiwan's efforts to maintain a sufficient self-defense capability.

Finally, I want to reiterate that the United States views a confident and strong Taiwan as fundamentally in our interests, and we are committed to supporting Taiwan in its efforts to develop the capabilities to resist coercion and deter aggression. We face many challenges in the region, and ensuring security in the Taiwan Strait is a vitally important one.

Taiwan's commitment to preserving freedom, prosperity, and peaceful and stable cross-Strait relations is an example for the Asia-Pacific. I am convinced in the coming years we will continue to deepen and build on these values and continue the extraordinary successes we have already shared.

Thank you.