FDD Media Call: Readout of FDD Expert's Trip to Taiwan

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Featuring RADM (Ret.) Mark Montgomery, Elaine K. Dezenski, and Craig Singleton
Moderated by Joe Dougherty

DOUGHERTY: Good morning and thank you for joining us for today's call. My name is Joe Dougherty, I'm Senior Director for Communications here at the Foundation for Defense of Democracies, a nonpartisan research institute focused on national security and foreign policy. We're grateful that you've taken the time to join us as FDD experts provide a readout of their meetings with high-level diplomatic and defense officials during a recent visit to Taiwan. During the visit, they also conducted a tabletop exercise examining Taiwan's options in response to a series of hypothetical economic and cyber war actions taken against Taiwan by China.

Joining us on today's call, Rear Admiral Mark Montgomery, an FDD senior fellow who served 32 years in the US Navy as a nuclear-trained surface warfare officer, retiring his Rear Admiral in 2017. His flag officer assignments included director of operations, J3 at US Pacific Command and Commander of Carrier Strike Group five embarked on the USS George Washington stationed in Japan.

Also with us today, Craig Singleton, FDD Senior Fellow and director of FDD's China program. He previously spent more than a decade serving in a series of sensitive national security roles in the US government where he primarily focused on East Asia.

And we also have Elaine Dezenski, senior director and head of FDD Center on Economic and Financial Power. Elaine previously served as senior director at the World Economic Forum, where she led the Partnering Against Corruption Initiative and launched the Forum's Global Risk Response Network.

So quick housekeeping items. Today's conversation is on the record. We are recording it, and we'll provide a link to the recording as well as a link to the transcript, within about 24 hours. We have a lot to go through. So let us begin right away with Mark Montgomery. Mark over to you.

We may have frozen on Mark there and I suspect he will be with us. Craig, do you mind opening with a few remarks until Mark is ready?

SINGLETON: Sure thing.

DOUGHERTY: Thank you.

SINGLETON: And thanks everyone for joining. Apologies for the technical delay this morning. I think we've all been encountering a few issues on our end. As Joe was mentioning, a delegation led by FDD and our co-founder and President Cliff May recently returned from a week-long visit to Taipei. We had traveled to Taipei last year for a series of meetings with then-President Tsai Ing-wen, and this year we were fortunate enough to receive an offer from the new administration. Now that there were enough people in positions of power, we felt like it was a good opportunity to get out there and talk to them about some of our key priorities.

Apart from leading a first-of-its-kind tabletop exercise with members of the Taiwan Military and Economic Elite, which we'll talk about here a little bit later, I was focused on understanding and scoping Taiwanese responses to Chinese economic and cyber coercion.

All of us have focused for quite a while on understanding the military dimension of this threat, particularly the possibility of an amphibious assault, which we assess as neither imminent nor inevitable. But what seems more likely, the more probable option in our view, but potentially the more dangerous option as well, is a concerted campaign from the PRC that would result in constraining the island, not through blockade per se, but as we'll discuss a little bit later, our view is that it represents more of a siege. And if we approach a siege mentality and apply that mindset to China's approach, I think we're more likely to understand how Chinese posture and provocative behavior is going to proceed in the next two to four years.

In addition to that exercise, and like I said, hopefully we'll get there at the end when Mark and other folks get on the call. We did spend the first part of the trip meeting with some pretty senior-level officials from the Ministry of Defense, the National Security Council, various other ministries, the Ministry of Foreign Affairs hosted us as well. And I think it was a good opportunity for us to get a sense of where the current administration stands. And I think that there is a broad recognition of the different political realities facing the island today than during the prior administration. And there are certainly indications that political, I don't want to say dysfunction, but at least the plurality that they're experiencing in their political domestic environment is all almost certain to impact the policies and the ability of the Lai administration to achieve some of its near-term objectives.

What I would say before, hopefully Mark kicks back in, is to discuss just a few of the issues that did come up. And I think what I'd like to focus on first is the issue of defense spending, which was a key topic in our conversations. It's been a hot topic here in our political discourse, but I think, frankly, for all the wrong reasons. It's true that Taiwan's current spending levels are insufficient on defense. And I would say every Taiwanese official we met within Taipei recognized that defense budgets need to increase to match the growing threat posed by the PRC. It's crucial for I think, journalists to really accurately reflect Taiwan's complex budget process, which includes special budget measures focused on defense procurement and other matters that aren't always captured in stories about Taiwan's top line defense figures. And so, since the Trump administration, Taiwan's defense spending is increased by an average of nearly 5% annually.

And when you take into account some of these special budgets and other budgetary reallocations that we've seen in the last two years, Taiwan is actually on track this year to devote nearly 2.7% of its GDP to defense. So, in other words, Taiwan is not some sort of a defense free rider. If you ask me, I think Taiwan is wisely pursuing the right mix of high value assets like submarines while simultaneously bolstering its cost-effective asymmetric capabilities. That said, there are some very significant emerging disagreements between the new Lai administration and the KMT-controlled legislature about defense spending priorities. And I think that's going to become apparent soon as Taiwan's budget season kicks into high year. One particular area of disagreement is the KMT's focus on increasing soldier pay and benefits, but at the expense of other DPP related priorities, including Taiwan's Indigenous Submarine program. And I think that's just an example of how sometimes good politics and good policy can diverge from one another.

I think going forward at least we believe Taiwan should aim to raise defense spending to 3% of GDP. We made that clear in our conversations with Taiwanese interlocutors and we think 3% is the right number. This would place Taiwan alongside other beleaguered democracies like Poland, South Korea, Estonia, and Ukraine, all of which face I think, similar threats from authoritarian regimes. And based at least on our conversations in Taipei, I think this is an area to watch as the new administration and legislature settles in.

One other topic that I definitely wanted to raise, and it's something that frankly hasn't gotten enough attention is Taiwan's creation of a defense innovation unit. So, this is pretty significant, but like I said, under reported development. It was a key initiative that was recently announced by the newly installed Minister of National Defense, Wellington Koo. In fact, establishing this unit, which is modeled off of the US Defense Department's Defense Innovation Unit was one of Minister Koo's first directives after taking office.

I think it's really a direct outgrowth of Taiwan's ongoing efforts to glean lessons from the Russia-Ukraine war. And that was explicitly relayed to us from Taiwanese interlocutors, and I think that's really noteworthy in and of itself.

So, in announcing the unit's formation, Minister Koo, and for folks who might not be closely tracking, he's the first civilian defense minister in Taiwan in over a decade. He made very clear that the ministry cannot continue operating as business as usual. And from what we could gather, I think his primary goals include boosting the ministry's asymmetric warfare capabilities and its joint warfare readiness, as well as contributing to whole of society resilience and reforming the reserve force, which I know Mark wants to speak to as well. All of which is, I think we would agree, easier said than done.

The new DIU is located under the Ministry of National Defense's, Department of Integrated Assessment, and it is specifically aimed at integrating the Chung-Shan Institute of Science and Technology with civilian defense companies, and that includes domestic and foreign companies.

And so, Koo has personally pledged to oversee this unit's operations. And the notion that civilian leadership is driving this type of defense reform is very novel in Taiwan's history. And from what at least I could gather, the unit is going to focus, at least initially, on fielding mature defense technologies like next generation autonomous aerial vehicles and ships as well as drones. So, it is different in that respect from perhaps DARPA. And so, it would be useful, I think, to make a distinction with DARPA or at least not conflate the two.

I think my two cents is this is really a prime opportunity for US defense contractors to engage. Taiwan is certainly not asking for charity. They're prepared to invest in their defense, and I think it's up to Washington and private industry to provide a shopping list of sorts for Taiwan to choose from.

And on that point, it really is crucial that both the administration and Congress encourage us companies to engage with Taiwan's Defense Innovation Unit, in effect supporting Taiwan's defense initiatives, it's really just not an option. I think it's really a responsibility, and I think it's something that as our political discourse continues to evolve, it's going to be something that we're going to have to watch really closely.

I see Mark's not on yet. Hopefully he's not screaming his head off in his office, but I'm going to turn it over to Elaine, who was really able to open the door with a lot of the economic interlocutors in Taiwan and starting to think about how they can diversify some of their supply chains.

So, Elaine, I'll turn it back over to you.

DEZENSKI: Thanks, Craig. Hi, everyone. Great to be on the call. So, it was really a fascinating week with colleagues in Taipei.

From the economic and financial lens, one of the objectives that we had was to try to open up some new conversations and really dig into the trade and development side of the equation. This is about positive economic power projection for Taiwan, but it's also a story of resilience and thinking through the connections to a broader economic landscape at this pretty critical juncture.

So, a couple of observations. One, I think there is very much an interest now in this "whole of government approach" coming from the Taiwanese. So, whereas a few years ago, making visits to the Taiwanese Customs Authority and the Development Administration may have been viewed as outside of national security, now, I don't think that's the case. People are thinking much more broadly about how to leverage trade engagement, economic alliances, and partnerships in meaningful ways.

And these are pathways that are open to Taiwan that stand somewhat distinct from some of the diplomatic engagement, which may be more challenging at this time. So, we talked about the opportunities for co-production, and we talked about what Taiwan is already spending in terms of development assistance around the world, which is fairly significant for the size of the island. There's a real focus on resilience, I would say, and this is a key point that comes up over and over again. Taiwan does a very good job of responding to natural disasters. In fact, I think there was a typhoon in the week before we showed up. You wouldn't have known. Everything was back to normal. And I think that there's a certain state of resilience that can be built upon and applied to other global shocks, whether we're talking about economic or financial shocks in the future or other potential shocks, there is a basis for a resilient approach and a resilience in the culture that can be built upon.

So, the other point that I would make is there's an aggressive participation in the global rewiring of critical supply chains. This is already happening, ... and it's not just about semiconductors, although that's obviously a key part of their leadership and their economic integration. So that's something we can go into in further detail later. But this notion that relying on allies and partners for opportunities to reinforce critical supply chains and the resilience around those supply chains is a really an important conversation and one that the Taiwanese are pursuing. Thank you.

DOUGHERTY: Thanks, Elaine. Looking forward to flushing that out a bit during the Q&A section. We do not yet have Mark back on the line. I know we were working on that, but Craig, I know that you can address some of the points that Mark was going to address from your meetings last week. Over to you.

SINGLETON: Yeah, no, absolutely. There are a few other topics before we get into the tabletop scenario in particular that I do think are worth flagging just because we're entering a heated political season here in Washington D.C., and the NDAA is still moving through the process, obviously that's a must pass bill. But there were a few things that I did think came up during our meetings that are worth mentioning. The first is on munitions and pre-positioning lapses. Despite congressional encouragement, there is still no Defense Department or State Department effort from what we can gather to place US munitions in storage in Taiwan.

And I suspect, given what we are seeing in terms of delays, whether intentional or unintentional, suggests to us that it may require explicit congressional guidance on that pre-positioning, perhaps even focusing on something called the War Reserve Supply Allies Taiwan or WRSA-T program, which is a key priority for Mark Montgomery, Brad Bowman at our Center for Military and Political Power.

The bottom line is that the US does not and will not have the luxury of a continuous supply pipeline to Taiwan should hostilities begin, which is something we have actually enjoyed in the case of Ukraine. And so, we can't really take that for granted. And so, I do think the munitions pre-positioning issue is going to emerge as a pretty serious topic of debate, both as we lead up to our election here, but also in the next Congress. So, it's something to get on folks' radar, but to watch out for that WRSA-T, it's WRSA-T program, which is something that has been.

SINGLETON: ... bandied around for the current NDAA. And it remains to be seen whether we're being included or not, but it's not going away. Another area that we focused on, I think quite a bit, to our conversations and meetings there was on Taiwan's reservist program. There are some pretty serious deficiencies in that reserve force. They're longstanding, they're bureaucratic, and now they're political, simply owing to the divided government there. I think one thing that is particularly encouraging is the notion that lessons could be learned from some other beleaguered democracies who have had to establish reserve programs. And I would say that establishing a program that is not modeled on the US, we don't assess our model is applicable, but thinking a little bit more closely about the Finnish and Estonian terrestrial forces, even the Israeli reserves and how they are modeled. In any case, we understand that there need to be alterations in how the army is organized.

There will be major equipping issues, and there are actually opportunities there for the United States to be able to inject into that conversation. The other thing... and I see Mark is slowly getting on, and I think I've stolen a little bit of his thunder. And I'll let him try to talk a little bit about perhaps some of the FMF and PDA opportunities for Taiwan. But I think the last point I'd want to raise before Mark hops on, hopefully, is that there is a newly installed minister of digital affairs in Taiwan. And Taiwan has really been leading the way in terms of disinformation countering... both identifying and countering disinformation, particularly in the lead up to their last election.

Often, we say at FDD that Taiwan is a beta testing environment for China's broader disinformation campaigns. And they've built up a rather resilient ecosystem of non-profit organizations, and some with some government support, to both identify and quickly neutralize some of this election disinformation and malign interference. Some of our researchers suggested that some of those similar tactics are being employed by Chinese actors here in the lead up to our election.

But the new minister of digital affairs there is a long-time US hand and in fact spent many years in the United States, is a technocrat's technocrat, and is very focused on prioritizing the protection of some of Taiwan's most important critical infrastructure, which is part of its mandate. Think of a much less developed version of CISA at DHS. And that they are starting to think, I think quite aggressively, about how vulnerable their critical infrastructure is to an attack, whether it's in that short of war scenario that we've described, but in a potential conflict as well.

And so, I do think that the Resiliency Commission that the new administration has put together will be particularly impactful on that front. I see Mark is back with us. Mark, I was able to hit WRSA-T a little bit, if there's something on that you'd like to add. But I did not hit too much on FMF or PDA, which are areas I know that you know much more than I do. And then also if you want to dig into the meeting with the digital minister. And then after that we could always pivot to the work team.

MONTGOMERY: Okay, thank you. Yeah, sorry about that. I think the Chinese were breaking into my system here and keeping me off. The meetings with the digital minister, first what I'll say is listening to him sounds just like listening to Jen Easterly at CISA, at our own Cybersecurity Infrastructure Security Agency. They're dealing with the same problems of prioritization, the inability to say, "What are the number one, number two, number three things?" And the kind of tabletop, which we'll talk about in a minute, that we ran. Understanding how to rapidly restore things is really critical, and they just do not have that yet. They don't have that done yet. They also have problems with what we would call continuity of the economy. How do you keep things going during a series of interlaced critical infrastructure failures? Where electrical power drives a problem with financial services, things like that. On the good side, they understand they have it. And I guess on a good side, probably it's a little easier for them to fix this ... they have a slightly higher regulatory environment there. So, some of the solutions that we would propose here that wouldn't get through Congress or wouldn't get through the executive branch, I think in Taiwan they have a good opportunity to do it. So, I thought that was a pretty good understanding. He's new. He replaced the first ever digital minister, Audrey Tang, who cut a pretty big swath on the issue.

And I think he's more restrained and low-key, but I think he's going to be very deliberate... he's tackling the right issues.

If I could say one thing on the PDA and FMF, they're finding out that it's one thing for the United States to say it's authorized and appropriated. It's another to properly identify all the issues involved with it.

And what I mean by that is you can't just... PDA is Presidential Drawdown Authority. That's where you pull something very directly from US stocks. The appropriation goes to the military service, the US service where you drew it from, and then they backorder a part to replace it. It's how we rapidly get kit to Ukraine. Recently we've used it with Israel, I think, and now with Taiwan for the first time. Historically, US Military services don't like this because, yes, you get your gear faster than say an FMF or FMS order, FMF being a grant, FMS being the right to purchase. Those take three, five, seven or, in the case of Harpoon missiles, maybe eight or nine years for delivery. PDA is much faster.

Of course, in PDA it transfers the delay to the US military service who now has to wait three, five, seven years for a replacement part. It's a little faster for the service. They don't have to go through the same overseas contractual issues that an FMF or FMS case would have. But still, you pass the burden of a gap from the foreign partner to a US Military service, so US Military services don't like it. So, as they make a list of things they might want for presidential drawdown authority and the US makes a list, those lists don't always have something in common, and so they're trying to work their way through that.

We gave them some strong recommendations on what they ought to ask for. I think one of the big ones is harpoon missiles, where the Navy has older missiles sitting around and could potentially demilitarize or make modifications to them and pass them to Taiwan.

I also think PDA might be some of the solution for reservist issues for drawdown of equipment, if they decide to have a serious 200,000- or 300,000-person reserve.

And I don't know if Craig went into that at all, but we talked with them for a bit. These PDA items might be a good way in this case. And then on FMS, they already have a $14 billion backlog or $13 billion backlog. So, when you look at FMF, it's akin to FMS in the sense that these items will go in the same backlog. And so, they're trying to think there about, what are the things that they really need, and they need now, that would be maybe on an existing contact or rapidly obtainable? So that's the kind of stuff we talked about with them. It was very interesting. And I think probably they got a good view of how the US system works from us who, we're not tied to the federal government.

DOUGHERTY: Thanks, Mark. I think now we are prepared to open it up to questions and answers. There's two ways to submit your questions. One, you can ask yourself and just use your raise hand feature and my colleagues Ellie and Mariam will unmute you so you can ask your question. The second one of course is in the chat feature, and you can submit it that way and we'll address your question. Obviously, the issue with Taiwan, if I can take prerogative to ask the first question, we've heard we need to make Taiwan a porcupine. I don't know if the team here agrees with that, but it's just kinetic. It's also economic resiliency, and you addressed that a bit, Elaine. Can you flesh that out just a little bit more?

DEZENSKI: Sure. Happy to. Maybe there are three buckets that we could look at that would help frame where this could go in terms of building out this strategy of resilience. One is certainly the financial sector, and of course that's something we talked about during our discussions. But protecting the structure of the financial system and all that's associated with that is really important. Partnerships to do that, potentially offshore capacity. Thinking about all the vectors that need to be addressed to make sure that there's continuity of operations no matter what kind of scenario Taiwan is facing.

That's one area. A second would be around this concept of co-production I mentioned earlier. And that, I think, we see as a key tool to reducing reliance on adversarial supply chains or the potential that certain types of commodities could get blocked that would impact the ability to manufacture. So, creating resilient strategies around those core components and commodities and the potential for co-production that reduces that risk is going to be key.

There are already actions, important ones, going in that direction, but I think we'll probably need to see more of that. And then finally, around this question about trade-based defenses and economic resilience. There are areas where Taiwan has leverage over things that are critical for other countries, including the PRC. And so they really need to take stock of where they have the potential to leverage their own strength through these trade relationships and through the control of critical components and commodities on their side that can be leveraged as needed if they're in a situation of responding to a global financial shock or a blockade.

DOUGHERTY: Thanks, Elaine. We do have a question from William. We will get to you in just a moment, but I know that we want to talk a little bit about the tabletop exercise. Mark, can you address that a bit?

MONTGOMERY: Thanks. The timing of our visit was based around a tabletop exercise. So, when Craig and I were in Taiwan a year ago with Matt Pottinger, we thought a lot that there's a lot of tabletops on the most dangerous scenario. Things like cross-Strait invasion or a significant blockade. There's not a lot of tabletops on the most likely scenario, which we thought was a combined economic cyber-coercion campaign. And in fact, as a military planner, you'd really want to work over that most likely, it being the most likely.

So, after our visits there, a Taiwan think tank reached back to us, the Taiwan Academy of Banking and Finance, and said, "Let's get this started." And banking and finance is a great area to start in because it's one of the infrastructures that's most privately held. As opposed to the United States, Taiwan is a mix of state-owned utilities and private sector companies, but banking and finance is really one that is truly private sector. So, we began the exercise planning, took about six months to work up scenarios, to make everybody comfortable, and went through it. And we had some pretty good... I'll talk about a couple insights and then pass it to Craig, because Craig played the evil empire, China, and it really influenced the game a lot, how he played it.

Our thought was that integrating cyber into the financial and economic resiliency issues that Elaine just mentioned. So, if you layer in... I would say that they survived the financial-only pressure campaign. It wasn't a thing of beauty, but things were okay. Once you began to integrate in cyber, there was significant risk in the system, and the cost differential on this really favored the attacker. The cost of doing something versus the cost of either remediating it or mitigating the conditions ahead of time. When you think and say, "What would I wish I had?" There are a lot of expensive ideas in there.

And then you could really get a lot of pressure on Taiwan without tripping a US wire. So, Elaine played the US team. And it was hard to say, "Oh, this is the point where we enter," where the U.S. makes significant moves on a solely economic and cyber campaign by the Chinese. And then I think we said this a few times already, and you probably have to drink a beer every time we say the word resilience, but resilience was key, is key.

And it's the resilience from preparation ahead of time, the resilience that allows you to mitigate the effects as they're ongoing, and then it's the resilience of recovery. How do you make a problem last hours or minutes instead of days or weeks? And so, we went through a lot of those. But I think the reason it was really successful was that red was played very nefariously by Craig. So, Craig, if you could give us a little bit on how you saw how China might do this, I think it would be helpful.

SINGLETON: Sure. Thanks, Mark. It's not every day that I get to play a dictator. Maybe my nine-year-old son would tell you a different story. But I think, to Mark's point, we can all agree that Taiwan has demonstrated remarkable resilience in the face of China's current economic coercion. But we also all realize that China is not content with the current status quo. And so, in the coming months and years, I would assess China will undoubtedly pursue a phased, flexible campaign consisting of economic, cyber, and military coercion to advance its reunification agenda.

And my objective as Xi Jinping was to apply pressure from multiple angles to employ integrated operations to wear down Taiwan's economic and political resilience and to make Taiwan more likely to capitulate to my demands. And so, I did so with a few core principles in mind. The first was I was very keen to exert political leverage, so I used economic and cyber operations to undermine Taiwan's perceived political stability and to erode public trust in the current government's leadership.

I was also very focused on waging psychological warfare. I think the aim was to instill fear and uncertainty within Taiwan's population, government, and private sector. And the psychological pressure was intended to erode public confidence in Taiwan's ability to defend itself, which I assessed could make it more susceptible to some of my reunification narratives. To all of the points of this particular tabletop, there was an obvious focus on causing severe economic disruption. I targeted critical sectors and infrastructure to create sometimes immediate and significant disruptions. And of course, the goal was to undermine their resilience, but also their abilities to sustain a prolonged resistance against Chinese pressure.

I also blended overt and covert tactics. I wanted to use a mix of covert cyber operations and overt economic measures that allowed me to maintain plausible deniability. It also made it much more challenging for Taiwan.

SINGLETON: ... Taiwan and the international community to respond effectively to that blend, at least in our game scenario.

The last two points I'd make were I was very focused on flexibility and escalation control. I wanted to maintain the ability to scale operations up or down based on Taiwan's responses and the international community's reactions during the game. And this flexibility allowed me as China to manage the risk of escalation and to adjust my tactics as I needed to.

And then last, I wanted to demonstrate and refine my actual capabilities. In other words, I wanted to showcase to the world my advanced cyber and economic warfare skills and capabilities in large part to deter other countries from doing things against my interests, namely the United States, and that includes supporting Taiwan. So, there was a key focus to project power regionally and globally, even though our scenario was focused more on those on a cross-strait issue.

I think I would just chime in before I turn it over back to, I think Mark and Elaine on just two other insights that I sort of walked away with from the tabletop. The first is, and I think Mark sort of touched on this a little bit, the pressure campaign seems specifically aimed at avoiding tripping up those U.S. tripwires. The term blockade, I think, has been overused frankly in a lot of these scenarios. I don't think it's entirely accurate to describe China's potential thinking vis-a-vis Taiwan. I think it's more apt actually to think about it, these gray zone strategies as a form of a siege. And I think over the last few months we've seen numerous signs that China's testing and probing U.S. resolve. China is employing a combination of lawfare and sophisticated gray zone tactics to achieve their political objectives in the South China Sea, for example. And these actions are specifically designed to keep the U.S. on the sidelines. And while Washington I think often misconstrues these tactics as openings for diplomatic engagement, Beijing more often than not sees them as opportunities to establish new operational baselines.

And so, going forward, I suspect China's strategy will almost certainly rely on exploiting legal regulatory loopholes to confound and constrain U.S. policymakers. And that includes leveraging those mis attributable cyber operations and leveraging China's Maritime Militia and Coast Guard fleet as opposed to PLA Navy vessels. And in doing so, China is really establishing the conditions to achieve strategic gains without military confrontation and without, again, setting off U.S. tripwires. The threat posed by that probing I think will be particularly acute before and perhaps immediately after the upcoming U.S. presidential election.

The other point I just wanted to make is that, at least my view is that Xi is willing to incur more costs to take more economic risks to achieve some of his national security goals. I think it would be a mistake to assume that China's current economic slowdown could moderate Xi's plans and intentions. While this doesn't imply that an invasion is imminent or even inevitable, I think it's important to understand that Marxist-Leninist regimes think and behave differently. And so, Xi's focus on what he termed comprehensive national security includes and encompasses the eventual reunification with Taiwan. And that's a priority that has been persistently pursued at the expense of attracting foreign capital and investment despite the economic risks and downsides, and even as Washington has hardened alliance cohesion throughout the Pacific. So, even in response to an increasingly hostile external environment and a rapid economic slowdown that carries its own sort of set of consequences, he is steadfast in his pursuit of comprehensive national security, and we just have to recognize that Xi believes his policies are correct even if he seems to be tacitly acknowledging that theirs has been mixed.

And there's little chance, I think at least in the near to medium term, for any sort of real moderation in his views or actions. And he, at least in my view, appears prepared to absorb economic and broader geopolitical shocks if he perceives that his moves or his decisions are going to advance his long-term objectives.

Those are sort of some of my key takeaways. We're going to have a much more detailed report on everything that sort of came out of it, but I'll turn it back over to Mark, Elaine and others who might have other things to say.

DOUGHERTY: Mark, over to you.

MONTGOMERY: No, I think we can just go to questions now. Elaine mentioned her ones earlier, and in the answer to the first question, I've put my insights out, so see if anybody has any questions.

DOUGHERTY: Copy that. We do. We have a couple in the queue. The first one will be from William at VOA. Then we'll go to Christopher at the New York Times. William, you are unmuted and ready to ask your question.

WILLIAM YANG: Thank you all for the fascinating insights. This is William Yang from Voice of America, based here in Taipei. I have a question for Craig, going back to something that you mentioned. We know that now both political parties in the U.S. have sort of put forward their presidential tickets for the election in November. Which potential administration do you think it's probably more likely to encourage or facilitate American defense companies to work with Taiwan to deliver more needed, I think weapons or systems that will help to further strengthen Taiwan's defense?

SINGLETON: No, thanks, it's a great question. I'm sorry we didn't get a chance to talk in Taiwan. For some reason, I thought you were based in D.C. for some reason. That's a mistake on my part. We'll definitely get a coffee next time I'm in Taipei.

At least Beijing understands that regardless of what happens in the November election, Washington's orientation towards China will remain pretty hostile. I don't think that changes in a Harris or Biden administration per se. I think increasingly being tough on China is seen not just as good policy but good politics. A large number of polls continue to show that the American population is increasingly skeptical of China's broader ambitions and revisionist behavior. And I think that bipartisan majorities in Congress actually, regardless of what happens in the executive branch, will be steadfast in supporting Taiwan's defense and perhaps even undertaking certain measures that are aimed at enhancing the types of capabilities and the types of sort linkages between the U.S. and Taiwan.

I think to Mark's point, we do need to start to be thinking with a slightly more entrepreneurial mindset simply because of strain on our defense industrial base. And I think Taiwan's pursuit of these more innovative asymmetric tools and capabilities is an important opportunity. It's obviously part of our discourse here in Washington, but it's an important opportunity for the U.S. private sector to get in the game. And there are a number of companies that operate in this space. FDD receives no... We do not accept corporate funding. So, we're not saying this based on any relationships with a particular company or industry. But I just think that ultimately some of the solution to Taiwan's problems doesn't rest in the U.S. government, it rests in the private sector. But maybe Mark has a few points that you'd like to add onto that as well.

MONTGOMERY: Yeah. So, first, in terms of, you're asking about military and the companies. I would say in the Trump years, it was about $2 billion a year of FMS plus the special case of the F-16 Vipers, which is a big 4 to $6 billion case. So, about 2 billion a year was the drumbeat. And Trump, with the F-16 thing though, it got up to about 14 billion total. In the four years of Biden administration, we're at about 4 billion. So, it's about a billion a year. The right number is somewhere that they can afford in their budget.

We have to remind ourselves that the only country they buy gear from is us. And I'd like to say it's because they like our gear. I think it might be that other countries are a little shy about selling gear to the Taiwan's because it pissed the PRC off. Every once in a while, France will sell them something, but broadly it's U.S. gear.

I think the number of 1.5 billion to 2 billion a year in FMS, now with this 1 billion in FMF, that's the amount of stuff that you'll see sold no matter which administrations in power. So, in terms of that, I think it's pretty set.

And I also think the ability, as Craig referred to, the ability of our more agile, quick, maybe replicator-like companies, if you think about Anduril or something like that, I think that their ability to work, they'll be able to work in Taiwan as well under these contracts. I don't think it's limited by either party. So, I really think no matter who's in power, we're going to have that level of foreign military sales, 1.5 billion to 2 billion a year approved. By the way, we're still on about a $13.5 billion backlog, so we've got a lot of delivery to go, and only a portion of that is the F-16s.

DOUGHERTY: Thanks, Mark. Next question is from Christopher, "Nobody seems happy with Taiwan's system of military reserves. Did you come away this time with any understanding about why reform of the Reserve Force seems to lag? What are the political or organizational blocks? And can you say more about what kind of Reserve Force may work for Taiwan? And related to that, any impressions of how Taiwan's uniform military is taking to a civilian defense minister?"

MONTGOMERY: So, I'll take that. I'll start with the last one first. We didn't get an indication on that. I'm glad to see a civilian leader. I think it's appropriate, but I come from a U.S. military system.

But on the reserves, and I know Craig talked about this a little bit, but when you have 2 million people in the reserves and you train them, you train 120,000 a year, you really have nobody in the reserves. This is not the rod and gun club. I mean, you need to be constantly training to be an effective reservist. My gut reaction, I think there are people who stand back and look at it and know they probably need about 300,000 people in the reserves. And they have ideas how they would assign their reserves, whether they're in the urban environment or on the coast, out, directly confronting a force, a Chinese force.

But really, the key is getting themselves down to a 300,000 person reserves. If you think about the Israeli model or Territorial Defense Force, if you think about the Estonian or Finnish model that are constantly trained, now here comes the roadblock. The roadblock to doing that is their standing traditional army, which is about 17 brigades, will probably have to give up a few of those brigades to train the reservists. That does not go over well with the standing army that has a lot of pride and being organized at the corps, division, brigade, and battalion level to say, "No, no, no, you have got to take these guys over and populate reserve units and get the reserve units up and running and ready to rapidly fall in during a crisis." That's going to be a tough sell.

On the good side, these guys have a kick butt civil defense system when a typhoon or an earthquake happens. So, they know they have a resilient population on that kind of natural disaster. So, I do think that there's room here for success in growing, but I mean, they got to get, organized to get it right, you got to get the army right, doing the right amount of training, and then get the population going through it. And this is not a one-year solution or two-year solution. This is a five to 10 year solution.

The good news is you benefit each year getting iteratively better. It makes you more effective. And the one country that will be studying this very closely is China. And they will understand the deterrent effect that having first 100,000 and later 200,000, maybe 300,000 trained effective reservists who know where to go, who maybe because of presidential drawdown authority from the U.S. get the right M4 rifle, the right battle gear, the right javelin anti-armor weapons, and know how to use them. You build deterrence through this kind of iterative improvement of the reservists, but it starts with establishing a new vision for the reserves. I think that's a really critical step.

SINGLETON: Yeah, I just want to chime in briefly. I think Mark summed it up really well. Chris, it's great to connect with you.

I think there's a few things. One is I do think that the shift in the civilian side it's palpable. I think I would assess Minister Koo is the right leader at the right time, and he brings a wealth of experience from his time at the NSC during the Tsai Ing-wen administration. So, I think he knows where the hurdles and pitfalls are here. But at the same time, we do have to recognize that bureaucracies fight back and that there are domestic, and I would say sort of cultural realities that need to be overcome as they're going to make these shifts in the reserve.

The first one obviously is that the reserve reform was a holdover from the Tsai Ing-wen administration. It's obviously a big political topic. She's not in office anymore to fight for it per se, and it is very closely associated with her brand. And so, there are aspects of the elements I would say of the political opposition or frankly now the political majority in the LY that do view it skeptically and do see opportunities for trade off and maybe even better say horse-trading on potential reserve reform at the expense of other things. And I think that's just where, again, eight years of DPP-controlled executive branch plus LY resulted in a different political reality than they face today. And democracy can be messy and they're going to have to sort through some of that horse-trading and those trade-offs.

And then again, also, there's a cultural shift here. I think long-standing concerns about reserves and reserve service have soured many young Taiwanese people on what the system looks like and whether it's worth taking time out of their studies or away from potentially entrepreneurial pursuits. And I do think that it's going to require a serious cultural shift and a messaging shift from the Ministry of Defense. And it's not yet clear that they recognize that or have a plan to address it.

DOUGHERTY: Thanks, Craig. Lili, we're going to go next to you, Lili from Foreign Policy, and then we'll go to Jasper. Lili, you first.

LILI PIKE: Hey there. Can you hear me?

DOUGHERTY: Affirmative. Thank you.

LILI PIKE: Great. Just a quick question. Thanks for the briefing today on your experience with the tabletop exercise. I'm curious if you observed any differences in interacting with the LY administration in the tabletop exercise and in other conversations compared to your conversations with the Tsai administration last year on your previous visit.

MONTGOMERY: I'll go one and then pass to Craig. I'll just say the biggest one is one Craig mentioned earlier, which is that they have this task force on economic and societal resilience set up, and I think that's an outward recognition of this internal challenge they face.

What'll be interesting is to see if they include the private sector in that. That would be a big change. That's how the United States tends to tackle things, but I think our political system and society are more rigged to do that, to have the private sector as an equal partner in these things. So, what we'll have to see

MONTGOMERY: We forced that by coming from the outside. So, in the tabletop we played, the private sector played a kind of role, probably more akin to what they would play in the United States. So, we'll have to see how that happens. I do think that there is this opportunity for that to happen in the live administration. And we'll have to see, when we outbrief the full results of the tabletop, we'll probably talk about what our next steps are for another event. And that next event will be a better indication of how well the thick part of the public-private partnership really is.

SINGLETON: Yeah, no, I would agree. I think the last administration was very focused on hard power problems, correctly placing bets on our defense industrial base to meet some of their immediate needs. And we have obviously fallen short there, we being the United States. I think that some of those frustrations have led them to believe that they need to take a more active role in a whole-of society program that really does allow the country to become something like a porcupine in the truest sense of the word. Not simply because of missiles, but because they're going to need to develop this whole society initiative, to Mark's point, very much involving the private sector, which has not been traditionally involved in this sort of decision-making. And there are some long-standing sort of trust breakdowns I think between Taiwan's private sector and parts of the government.

So, I do think that whole-of society shift was quite palpable. There was broad recognition that the government is not the answer here to all of these problems. And more broadly, that in each of the scenarios that we went through, there were hurdles in parts of the infrastructure, power and energy being one of the most important, that defense planners are not on our tracking as closely. If they're tracking ships and missiles, they might not be thinking so much about what happens when power goes down for large portions of the country, and hospitals are under strain and TSMC can't operate at high levels.

So, I think there's just a growing recognition that the defense-focused interlocutors need to understand the economic implications and the economic interlocutors need to understand some of the defense realities. And I think building up that knowledge in the next year or so is going to be really informative for Taiwanese stakeholders to figure out a path forward.

DOUGHERTY: Elaine thoughts?

DEZENSKI: Sure. Just to add on to the question about the public-private engagement. I think that was actually one big takeaway from the conversation. There's no way to have a conversation on economic security without bringing in the private sector, because they own the infrastructure for the most part. So having the banking community was critical. Otherwise, there's a gap in the conversation.

The other piece related to that is, looking at this from a risk perspective, I think what we saw over and over again is a cascading set of risks. Whether we're talking about some sort of disinformation campaign that tries to weaken the Taiwanese public, maybe coupled with another shock, potentially affecting some of the critical infrastructure like energy. All of these scenarios could be likely either individually or in tandem. And so, this notion of cascading risk is really important.

And this goes back to the public private engagement, because you really can't solve risk in the financial sector without including people from the energy sector. So, that's the framing that I think is really important. And it goes against the silos of government. It's equally a problem in the U.S., I think, to some extent. We've gotten over a bit of that, but you've really got to break down those barriers to be able to look at the risk and manage it properly.

DOUGHERTY: Thanks, Elaine. Jazper, next question over to you. You are unmuted.

JAZPER LU: Hey, just a quick question. Did any of you hear anything in your conversations with Taiwanese officials about how potentially the impending U.S. election might be affecting defense strategy or policy at all? Any indication that perhaps the potential of a second Trump Administration compared with a lot of the comments he's been saying publicly about treating Taiwan as a transactional sort of piece, or ask them to pay more for defense? Is there any indication that they're reacting to these sorts of developments, and that they're preparing for some sort of contingency plan if the election goes one way or the other?

MONTGOMERY: One thing we mentioned to them was, and Craig may have mentioned this, but they get killed by inaccurate portrayals of their defense spending. So, I think they're going to work on this. Go talk to SIPRI, the Stockholm Institute and say, "Hey, look, you can't just count our base defense bill. You have to count our special provisions." Kind of like you counted U.S. OCO. You couldn't count the US defense budget without counting OCO, overseas contingency operations, in it. We were in Iraq and Afghanistan. It's the same way. The way they're 2.67% or whatever it is exactly this year, is that you add those up.

And I think, at least our communication to them was, you have to do a better job communicating how you are already a top 10 spender in the world, probably a top five spender among democracies, in terms of a percentage of GDP of defense or defense of GDP. So, what that means, they're 2.7% trails, maybe the U.S., Israel, Korea, Estonia, Poland, weirdly Greece because of Turkey, those countries. And they need to show how they're going to get up to 3%. So, I think if they're concerned about a Trump Administration, they got to head it off at the pass, get themselves up to 3%, show a plan to get there over the next two to three years. And then thank the president in his previous term for reminding them of their need to get hot on this and how they've improved from 1.8 or 1.9% in 2016 to where they are today and where they plan to go.

They listened to him just like, to some degree, the Europeans listened to him. And they listened to him before the Ukraine invasion. In other words, what I mean by that is their uptick started before February of 2022, whereas I think most of the European uptick really happened after that. So, kind of make that argument, "Look, we're the kind of partner you want. We're the partner that gets ourselves to 3%. We're the partner that does all the exercises you want. We buy a ton of American equipment, mostly because other people wouldn't sell it to us, but we're a good ally or partner." However, you look at it. I think that is what... And we definitely heard reflections of that when we talk with them.

SINGLETON: Yeah, I would say... Hold on one second, sorry. Jasper, it's great to connect too. I think there are some concerns in Taiwan that Taiwan could get the Ukraine treatment. I think that came up in a few conversations. There was some probing about what some of the recent statements by the former president were intended to sort of relay. I think there was some sense that perhaps those statements were immediately offset by broad pushback from Republicans and Democrats on Capitol Hill. And then that broad bipartisan consensus in Congress can sort of serve as a bulwark of sorts against perhaps a more transactional foreign policy towards Taiwan or other countries around the world.

But I do think from Mark's point, that Taiwan has a pretty good story to tell. And I think they're reluctant to tell that story. It's just not something that they do innately. They're used to having to operate in the shadows and to operate quietly. And I think for them, they're going to have to get comfortable being a little uncomfortable. And that's going to require showing the receipts, the messages received. They can show the receipts of the increases in defense spending that closely align with the Trump Administration.

And they're also going to need to demonstrate, and I think as Mark mentioned, that why 3% is the right number, how it benefits the United States, and how it benefits Taiwan. And I think that if they can tell that story well, to borrow a phrase from our Chinese friends, then they really can shape narratives here, Washington, in ways that are favorable to their long-term interests.

DOUGHERTY: Thanks. We do have another question from Christopher. He asks, "Building on the comments on energy, could Elaine say more about how Taiwan's energy system is or is not addressing its vulnerabilities to cyber and other attacks?" So, Mark, you may want to weigh in on that as well. "There seems to be discussion about that issue, but is there much action?" Elaine?

DEZENSKI: Thanks. So, one aspect that's important to understand Taiwan's energy grid is that it's very much dependent on LNG. So, they need to think about that in terms of what kinds of scenarios they may be facing, maritime blockade, problems at ports, being able to address some of those questions around redundancy…, very important. So, I think there are different ways to do that. We probably wouldn't get into the detail call in terms of that conversation. But I think there's acknowledgement around the questions of the energy grid and proactive thinking about what to do to address it. And then again, going back to this issue, because energy is so critical to every other part of the economy, it's one of the key problems that needs to be addressed and solved for.

DOUGHERTY: Mark?

MONTGOMERY: Say, in addition to LNG, they have coal, they do have like six months of bunkered coal. It was a higher number than I thought. That's good. They also had some massive earthquake... they've had natural disaster damage over the last two decades where at least once there was significant electrical power grid operations. It took down significant portions of the island for two to three weeks. In the recovery from that, they've built a more reliant, durable system. And that does have spillover into cyber resilience as well, because part of cyber resilience is segmenting yourself and being able to recover what you can recover. So, they do have some resilience built into the system.

In terms of the cyber, look, if the Chinese are in our electrical power grid as part of Volt Typhoon, I'm just going to gently say, they're in the Taiwanese one. What's going to be interesting here is the U.S. offer to the Taiwan security cyber assistance that was driven by the National Defense Authorization Act two years ago. Because that begins to kick in seriously. Those kinds of hunt forward teams are pretty good at finding malware in systems. So, it'll be interesting. I don't think we'll get any reporting on this. I think it'll be heavily classified, but my guess is that will help. It certainly helped the Ukrainians when we provided it in 2019, 2020, and 2021 in the buildup to prior to their conflict with Russia.

Again, they're still vulnerable. They will always be vulnerable. The enemy will use cyber, because as Elaine said, it's a critical, critical infrastructure. But I think they are doing a lot about it. I think if I were to do a TTX tomorrow, if got to pick a topic, I'd probably throw electrical in with financial services this time and get a more interesting readout.

SINGLETON: I would just chime in too. I mean, I think the government and Taipei are very quickly realizing that energy security is the same as national security. They no longer have the luxury of pursuing some of the prior administration's green energy goals and agenda. I think it's quite clear in every war game I've ever participated in, that Chinese pilots use the wind turbines for target practice. And they don't particularly provide meaningful or resilient power.

I think there's much work that needs to be done in mapping out their LNG supply chains. Obviously, much of it comes from Australia, which is possibly on the good side of the ledger, but a great deal of it comes from Qatar. And Qatar is a country that has a strong diplomatic partnership with China. And in fact, I believe last year during a high-level meeting between Qatari and Chinese officials, Qatar made clear that they would side with China and future territorial disputes over Taiwan. And that could be particularly concerning LNG shipments, which LNG represents something on the order of 40% of Taiwan's, I think, power, coal being the rest.

And I do think the other thing that's worth flagging, and it's going to I think become a topic of much political debate, is whether they need to shift back towards nuclear power. For a long time, Taiwan led the world in developing safe, reliable nuclear power. The last administration took concerted steps to decommission those nuclear projects. And now they're recognizing that they're pretty vulnerable. It remains to be seen if the DPP has... if there's the political will to address this with their base. And I think it's just a space that we all should track really closely. And my sense is that we shouldn't be surprised if you see a real shift on this from the Administration moving back towards a more diversified energy infrastructure that includes nuclear.

DOUGHERTY: Mark, the FDD team here is going to be compiling a report based on your chip. Is that accurate?

MONTGOMERY: Yep. We should have something. We're working with our Taiwan partners on this, the Taiwan Academy of Banking and Finance. And should be a few, I would say it's probably a month out would be my guess, plus or minus a little bit. And we'll probably do some kind of panel event in September or early October.

DOUGHERTY: That sounds good. And we will make sure to share that information with everyone here on the call in advance, so you can be a part of that. Mark, Greg, Elaine, I'd like to thank the three of you for participating in today's call, for those of you on the call. And including from Taiwan where it's quite late, thank you for your time and commitment. In closing, oh, also a quick thanks to Ellie and to Mariam in the background for providing their support. Very much appreciated.

In closing, a reminder, FDD is a non-partisan research institute focused on national security and foreign policy. We do closely monitor press@fdd.org, our email. If you would like to arrange a one-on-one conversation with any of our panelists here, please email us there at press@fdd.org. Thank you for participating in today's call. This does conclude today's call.