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ACTING SECRETARY OF DEFENSE, US

Dr Lynn Kuok, Senior Research Fellow, University of Cambridge; Visiting Scholar, Paul Tsai China Center; Associate Fellow, IISS

Thank you for permitting me this question, Dr Chipman, and thank you, Mr Secretary. Now, the United States has voiced repeated concerns about the Belt and Road Initiative. China launched the initiative six years ago, in 2013. Since then, it has held two Belt and Road forums attended by heads of states, the second just taking place two months ago. It has also signed numerous agreements with countries and begun – and in some cases finished – Belt and Road projects. In response, the US has passed the BUILD Act – that took place late last year – but it is not clear that any sums under it have actually been appropriated, and the trilateral agreement and development-finance collaboration with Japan and Australia has also not, to my knowledge, yielded any fruit. If economics is security, do you think that it might be too little, too late, too soon for giving the region options and for protecting US interests in the region?

Josh Rogin, Columnist, *Washington Post*; Political Analyst, CNN

Mr Secretary, thank you so much for your time today and thank you for your service. Like many in this room, I have been coming to this conference for many years. Each year and every year the US defense secretary delivers a very similar speech, essentially saying the US is an enduring presence in the region and here is our strategy to make it so, yet year after year the secretary needs to deliver the same speech because the region continues to doubt America's commitment and trajectory. Certainly under President Trump these doubts remain – some in public, some in private. My question is, why do you think that is the case, and why do you think this latest iteration of the Indo-Pacific strategy that you are rolling out today can address these concerns once and for all?

Patrick M Shanahan, Acting Secretary of Defense, US

Hi, Josh. What do you all think of Josh's question? I thought it was a good question.

Josh Rogin, Columnist, *Washington Post*; Political Analyst, CNN

Thank you. I try.

Patrick M Shanahan, Acting Secretary of Defense, US

This is my first trip to the Shangri-La Dialogue and what I wanted to do in this speech was not do what all the other previous secretaries have done. And I am going to tell Secretary Mattis that my speech was as good as his, so thank you – he will love that.

It is hard to believe that all the speeches were the same, but if you asked me what is fundamentally different, because really I think that is the underlying question, is that first and foremost – and that is why I put it into my comments – it is the support from Congress and the president. The fundamental resourcing of this strategy is different than in the past. In the past we had strategies, but we did not have the resources and we did not have the funding, so I think first and foremost, that is different.

The second piece – and I will not apologise for the way I frame some of my remarks – is we are not going to ignore Chinese behaviour. I think in the past people have tiptoed around that. It is not about being confrontational; it is about being open and having a dialogue. I had a very good meeting last night with my counterpart, General Wei, and this is about having communication. We need to talk

about the things that potentially can create problems in the region, so I wanted to talk about those specifically. I talked about the degree of engagement; I think our engagements are deeper and broader – and many of you know Admiral Davidson, who is here in the region. He and I spent quite a bit of time not just on how do we do more, but where are we prioritising those engagements and then how are we broadening our network with our allies and partners.

Those are the three areas where I think fundamentally, if you were to measure the difference, people would look at those and say ‘This is a departure from what has been done in the past’.

Dr John Chipman, Director-General and Chief Executive, IISS

Do you want to say a word, since you have the microphone now, on the first question on US appropriations and the Belt and Road Initiative, the economic situation?

Patrick M Shanahan, Acting Secretary of Defense, US

Let us not minimise the question, but you have to add everything together. It is not just about the BUILD Act, it is all the things that are done in the region, and I highlighted that I think just on direct foreign investment in the region, trade in the region, the defence budget in the region, if you add all those up, those are significant numbers. The BUILD Act is complementary to all that. Some of these other agreements build on a very substantial commitment and presence.

Yoichi Kato, Senior Research Fellow, Asia Pacific Initiative

Thank you very much, Mr Secretary. What you have laid out today is, I think, basically the extension and enhancement of the National Security Strategy and National Defense Strategy. But last night Prime Minister Lee Hsien Loong pointed out the need for adjustment to accept a larger role and growth of China – in other words, a change of course. My question is, are you ready to make any adjustment to the strategy laid out in the National Security Strategy or National Defense Strategy in order to avoid the strategic face-off with China?

Patrick M Shanahan, Acting Secretary of Defense, US

I would just say that in terms of an adjustment to our strategy, our strategy is about security and prosperity, so the only adjustment that we would make is to do more of it. The National Defense Strategy talks very importantly about having a relationship on a military-to-military basis with China. My discussions with my counterpart, and then more broadly, are: ‘How do we enhance cooperation?’ My focus is to identify those areas where we can have ongoing dialogue, but it is more than dialogue. How do we work together? The intent is to avoid a misunderstanding, avoid miscalculation. The underlying principle behind our strategy is to make choices around critical resources. We have made those choices. Now we will invest in those resources and commit to those timelines, but things are flexible; it is a dynamic world.

Gordon Flake, Chief Executive Officer, Perth USAsia Centre, University of Western Australia

Thank you, Mr Secretary. You emphasised your desire to have other countries in the region take more responsibility for the security of the region, both budgetarily and in terms of working together. What would you like to see other countries in the region do more of vis-à-vis North Korea? There seems to be an undiminished threat in terms of its nuclear weapons, in terms of its long-range missiles, and yet

we do not hear an awful lot outside of Northeast Asia as to what you would like to see the region more broadly do more of.

Patrick M Shanahan, Acting Secretary of Defense, US

I think first and foremost is enforcement of the UN Security Council resolution. I would really shift the question more towards: where do we really want to see increased investment activity and cooperation. I would say it is in counter-terrorism. I think there is significant work that we have to do there. Then, just as importantly, maritime-domain awareness. When I think about the initiatives that we have put in place, how we intend to conduct exercises, the integration of our activity, those are really two critical areas that are vital to our collective future and the security architecture.

François Heisbourg, Special Adviser, Fondation pour la Recherche Stratégique; Senior Adviser for Europe; former Chairman of the Council, IISS

Mr Secretary, you used the word 'trust' several times during your speech, but you used it in a manner a bit different from Prime Minister Lee Hsien Loong yesterday. You were alluding to trust between partners, and he was alluding to the lack of trust as being at the heart of the China–US face-off. My question is the following: what is it that the US, if anything, can do for its part to build or rebuild trust with China? Or is it all up to China, and is lack of trust now so far gone that it is only about defence and deterrence? Is it that bad?

Patrick M Shanahan, Acting Secretary of Defense, US

I think we are at a different meeting. I did not think it was that bad. Is there a face-off? I will pick up the newspaper and it talks about a trade war. I have not seen a trade war; there are trade negotiations that are ongoing. We are building a relationship with the Chinese military, so I would be hesitant to talk about a face-off. There is always the risk of a face-off. I think negotiations are always difficult. You have two large countries that will eventually resolve these issues. That is how these things work out. It is always difficult as you work through them. Trust is built over time and that is what I referenced in my speech.

I shared this with General Wei last night. I gave him this beautiful book – it was this book that was about ship-to-ship transfers of oil in the area near China – and said, 'This is an area where you and I can cooperate'. Trust is built by working on projects and being shoulder to shoulder. It is not done by conferences or by policies or by speeches, and you need to find areas in which we can grow. That is our strategy and the National Defense Strategy, and I am very confident.

Maybe I will say it this way. Part of trust-building is also to recognise where we have differences and where we have disagreements, and there are a number of them. I do not like when intellectual property is stolen. We have real issues with intellectual-property theft, cyber attacks. There is a host of issues that we have to address. I think the discussion from last night on 5G is a very good example of where we have to understand how to build and develop trust. When we are in the Department of Defense and we think about investing in a new computer network or how to address the telecommunications growth over time and we look to a company like Huawei, Huawei is too close to the government. The integration of civilian businesses with the military is too close. China has

national policies and laws where data is required to be shared, so when I look at that situation, that is too much risk for the department. We cannot trust that those networks are going to be protected.

Now, should that be an area that we sit down and have serious debates over, or should we put up walls? I am an engineer, I like to solve problems, so when we look at the US or the Department of Defense, we are going to find areas where we have disagreements and then we are going to work constructively on them. Freedom of navigation is another good example. I am confident that we will solve problems when it is done through cooperation first, but you cannot ignore some of these serious issues that exist in this region.

Ahn Ho-young, President, Kyungnam University

I wish to make three quick points. My first point is, welcome to Secretary of Defense Mr Shanahan. I used to be South Korea's ambassador to Washington DC during the time of President Obama as well as during the time of President Trump, so you would understand it is with a special warmth that I am extending to you as Secretary of Defense. I wish you best in this important and challenging time.

My second point is an invitation, and the invitation is about the North Korean nuclear issue. This is one issue which has been extensively covered in this very solid speech by Secretary Shanahan. Between the Shangri-La Dialogue of last year and this Dialogue, there have been no less than two meetings between President Trump and Chairman Kim Jong-un of North Korea. Before the second meeting, which was held in Hanoi, there was much discussion about whether we were going to have a big deal or a small deal, and what I said myself was that it does not matter whether it is going to be a big deal or a small deal – what is important is it must be the right deal. Then, of course, I am just looking at you and then there seems to be a question in your eye, which is, 'What do you mean by right deal?' I cannot spend too much time on it, but at the same time, that is the reason why my second point is an invitation. My invitation is out there; anyone who would be interested in discussing this issue, please come and share your views with me.

My third and last point is publicity for my university. As I said, my university is the University of North Korean Studies and, as the name stands, it is a premium institution on the research and education of any and all issues related to North Korea.

Dr John Chipman, Director-General and Chief Executive, IISS

Thank you. We have that invitation, but I think the Secretary wanted to talk to you about the right policy, so I will hand over to the Secretary now.

Patrick M Shanahan, Acting Secretary of Defense, US

On the policy side, my role in the Department of Defense is to be ready in the event diplomacy fails. My role in the Department of Defense is to enforce sanctions. Working with my counterparts in the Republic of Korea and Japan, we have the appropriate readiness, but we have full confidence in the ability to negotiate a fully denuclearised Korean Peninsula.

Bonnie Glaser, Senior Adviser and Director, China Power Project, Center for Strategic and International Studies

Thank you, Dr Chipman and Secretary Shanahan. The other day, General Dunford said that US–China military relations are not where they need to be and that military communication must improve, and you have also referred to that today. I wonder if you can elaborate on where this military communication has to be improved. Is the agreement that we have with China on securing safety in the air and at sea working effectively? What are the things that we need to do in order to reassure the region that there will not be an unwanted conflict in their backyard? Obviously, you too recognise that they have that concern, as you noted in your prepared remarks that competition does not mean conflict. What is it that we need to do to strengthen military communication with China, in order to prevent an accident or unwanted conflict?

Patrick M Shanahan, Acting Secretary of Defense, US

I am a big proponent of repetition, so lots of repetition. The reason I put the book together for General Wei is that it is a good opportunity for us to start to use that communication channel. There are other venues and forums, and the discussion that we had is that leadership casts a long shadow and we must show our teams how to do the frequent communication so that we can not only prevent incidents but identify these opportunities where we can have cooperation. I think what General Dunford is speaking to – and it is the same view that I have – is that there is lots of opportunity in the region, but if you are not communicating, you are missing out on opportunity. We want to pursue the upside and avoid the downside risk of misunderstanding and miscalculation.

Major General Hui Xu, Commandant, International College of Defence Studies, National Defence University, People's Liberation Army

Mr Secretary, we all know you worked many decades for Boeing, which enjoys a very good relationship with China as a partner. Recently, China–US relations look not as good as they should be. Now, Secretary of Defense, how would you like to use your personal experiences accumulated in Boeing in improving this most important relationship in the world for a shared future of human destiny?

Patrick M Shanahan, Acting Secretary of Defense, US

That was a good question. I think my experience from working at Boeing really carries over, because China was our biggest customer and biggest competitor and so you have to understand how to live in that duality. Competition really means playing by the rules. When I think about the work that we have to do, let us establish the norms and the rules and play by them. We are not talking about how to make the world fair, because it is impossible to do that. Let us be consistent and let us work to norms and rules. We have that opportunity, but we have to be able to communicate and cooperate. I bring the mindset that we can develop a constructive relationship and then we can understand how we can compete in a constructive way. At the end of the day, this is about growing the prosperity of the region. We need security – security underpins that – but it is about growing prosperity. It is not about conflict, it is not about building walls; this is about security. I am confident that the opportunity exists, but it has to be grounded in norms and rules and communication, and we will put that in place.

Let us end on that. That is perfect. What a high note. Thanks, everybody.

John Chipman, Director-General and Chief Executive, IISS

The Secretary wants to conclude with that and we want to thank him for that conclusion. Thank you very much indeed.