



4.1 MODERATOR'S SUMMARY

Ted Smyth

INTRODUCTION

I would like to set the stage for discussion of the economic and financial world in which we live and provide you with the context for the briefing that will follow from Jim Rickards as well as briefings from our other panel members. Unless you have literally been marooned on a desert island for the past 12 months, you fully appreciate the fact that we live in a rather gloomy economic and financial world. In the space of a year, our economic and financial world has changed somewhat dramatically. Although the world remains as interconnected as ever through telecommunications, the arts, culture, and the Internet, the once steady advance of economic globalization that changed the lives of millions is facing at least a strong pull back through financial retrenchment and potentially resurgent economic nationalism.

Mr. Ted A. Smyth (USMC, ret.) is a Fellow within the National Security Analysis Department and a Fellow and former President of the Military Operations Research Society. Since joining The Johns Hopkins University Applied Physics Laboratory, he has served as the Director, Campaign Analysis Team of the Surface Combatant 21 Cost and Operational Effectiveness Analysis, as the Director, Land Attack Warfare Studies, and as Supervisor of the Effects Based Operations Group of the National Security Analysis Department. He is a former Marine Corps Colonel with 30 years of active service commanding units at the company/battery, battalion, and regimental level. He recently led a The Johns Hopkins University Applied Physics Laboratory Analysis of Alternatives on the Joint Effects Targeting System and an Economic Analysis Study.

Some nations that once invested heavily beyond their borders are now sitting on the sidelines as the global economy flounders. Those who had invested so heavily in the likes of Citibank and Merrill Lynch have been burned and are in all probability going to be much more cautious—if not reluctant—to invest in the future. In fact, some economists have gone so far as to suggest, and I quote, “the collapse of economic and financial globalization is absolutely possible.”

Compounding this economic and financial environment is the fact that we live in a dangerous, unstable world, a world that has witnessed an expansion of potential threats and new forms of warfare, intelligence gathering, and advancing technologies.

“The longer it takes for the recovery to begin the greater the likelihood of serious damage to U.S. strategic interests.”

— Annual Threat Assessment, Director of National Intelligence

Our multipolar world now requires us to consider a wide range of security issues that include combating terrorism; the possibility of pandemics; the proliferation of weapons of mass destruction; insurgencies; and conventional warfare missions that include homeland security, regional conflicts, postwar stability and reconstruction, and cyber and resource attacks. Of interest to some attending this symposium, and very much related, is our ability to respond to such diverse challenges and, specifically, to understand what the implications of this economic and financial downturn might be on those companies and corporations that are focused on our national defense. Gordon R. Sullivan, President of the Association of the U.S. Army in September 2008 listed some of the potential impacts to defense contractors if the credit crisis is not resolved soon:

- Failure of contractors to meet cost and schedule requirements (increased cost and risk on programs to DoD)
- Decreased competition (increased costs for DoD) as the number of capable companies is reduced

- Deterrence of new small business start ups (less competition, more risk, higher cost)
- Risk aversion in large companies, which may result in decreased spending on technology development
- Decrease in acquisition and merger activity (decreased efficiency of the overall defense sector)

Now, into this mix, we must add the potential of active economic and financial threats. Well-documented cases already exist, in which some organizations have chosen a variety of means to support actions against nation states. Methods to fund the threat include the use of nongovernmental organizations (NGOs), state support, wealthy individual donors, trade-based donations, and cash smuggling. In Roundtable 1, Dan Wolf described the attacks directed against Estonia and the Estonian banking system [Cybersecurity: Attacks on the Critical Infrastructure]. Whether such warfare will mirror the Estonia case or will take the form as evidenced by Hezbollah, which involved the movement of financial support via seemingly legitimate NGOs in support of terrorist activities, remains to be seen.

“The global economic crisis is the most serious security peril facing the United States.”

*— Dennis Blair, Director of National Intelligence,
13 February 2009*

Importantly—and quite frankly very fortunately—key government leaders have recently recognized that economic and finance-related issues and actions are now prime concerns as they relate to our national security. Perhaps in recognition of this peril is the Obama administration’s recent appointment of a gentleman by the name of Michael Froman, perhaps known to some in this room, to a dual position. Mr. Froman is appointed as the Deputy Assistant to the President but also the Deputy National Security Advisor for International Economic Affairs, a position to be held jointly at the National Security Council (NSC) as well as the National Economic Council.

ECONOMIC AND FINANCIAL THREATS

Now, let us consider specific economic and financial threats to gain a clearer understanding of the nature of these threats and their potential implications for our national security. The second phase of our investigation into economic and finance attacks will be a discussion on how to create imperative for interagency action and options for enhancing appropriate capabilities.

Are we prepared to counter economic and financial attacks? To counter them effectively, the U.S. Government needs a planning process to enable a comprehensive national approach, and that must result in a comprehensive national doctrine. This premise is clearly consistent with what we heard from our keynote speaker, Mr. Locher. Although we are trying to remedy some of these deficiencies, we are not there yet. However, the good news is that as of February, for the first time in recent memory, the intelligence report that the President receives on a daily basis now includes reference to economic and financial issues, the effects of the financial crisis and its cascading effects on the stability of countries throughout the world, and the potential implications of those issues on U.S. national security.

THE PANEL

This roundtable includes a superb group of speakers: a well-respected authority on this subject and Senior Managing Director of Omnis, Inc. (Mr. James Rickards), a Senior Research Fellow at the Kennedy School of Government at Harvard University (Dr. William Overholt), a Senior Professor of China Studies at The Johns Hopkins University School of Advanced International Studies (Professor Pieter Bottelier), and the Maurits Boas Professor of International Economics also at Harvard University (Professor Richard A. Cooper). The panelists will have the opportunity to respond to Jim Rickard's paper and presentation and propose interagency actions and options that will allow us to address some of these economic and financial threats.