

**TALKING POINTS FOR PRINCIPAL DIRECTOR FOR SOUTH &
SOUTHEAST ASIA**

**Presentation on Regional Defense & Security Implications of the Global
Economic Crisis**

- Mr. Co-Chairman, thank you for the opportunity to speak on the topic of Regional Defense and Security Implications of the Global Economic Crisis.
- The global economic crisis is affecting citizens in all our countries. It has become more difficult for many people to meet their basic needs, and as governments, we have a responsibility to help improve the lives of our citizens.
- However, in this inter-connected world, we recognize an added responsibility to help improve the lives of those outside our own borders. We seek to work with other countries to address this problem together.
- To address Regional Defense and Security Implications of the Global Economic Crisis, we present a framework to explain economic linkages to regional and national security.

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- As you can see, we have divided the linkages into domestic and international components.

- On the domestic side, one must first look at budget constraints that the economic crisis may place on national defense ministries in the region. If the economic crisis leads to a decreased GDP, and therefore decreased tax revenue, governments will naturally consider their expenditures and may choose to decrease their defense budgets. This course of action could manifest itself in a variety of ways, including decisions regarding procurement, manpower, training, equipping, exercising, and conduction operations.

- Additionally, the global economic crisis can also affect a country's domestic defense industrial base, particularly the prices of manufactured items. Clearly, there is a wide range among the ARF countries with respect to the size and capability of defense industrial bases; however, the point is worth illustrating.

As manufacturers of dual use technologies lose or scale back on their civilian work due to the economic downturn, the military will have to bear a higher percentage of the fixed costs and ultimately pay a higher per unit cost as well.

- One should also look at supply chains when considering the defense industrial base. An economic crisis can affect all companies involved in the process of provisioning a military.
- Let's now turn to the international implications of economic linkages to national security. The first section in this category is political instability, and particularly, how it is linked to economic instability. If citizens perceive that their government cannot meet their economic needs, over time they may become dissatisfied with their government, creating conditions for political instability. An additional danger in this regard is if a government seeks to divert citizens' attention from its domestic economic problems by placing blame on a neighboring country, or worse yet, overplaying a foreign policy problem at the expense of resolving the economic problems.
- The second section in the international category is Key Partners. This refers to the ability of regional partners to support shared security objectives during a time of economic crisis. One hand is the issue of resources. How will the economic crisis affect one country's ability to access another's resources through trade?
 - As countries engage in trade to obtain the defense resources they would not otherwise have, a global economic crisis can contract trade and limit procurement.
 - Similarly, economic crisis can also intensify competition for resources, potentially leading to conflict.
- Although, during an economic crisis, countries will take a hard look at their international relationships and cost of doing business, it is important for bedrock relationships to endure. Cheaper alternatives will not necessarily yield long-term dividends when it comes to interoperability, common systems, and common training.
- The third section in the international category is the global economic system. The economic crisis affects the way an individual country operates within the global economic system.

- One can see this by looking at how a country engages with international organizations, such as the International Monetary Fund or United Nations, during a time of crisis. It is important to consider which organizations can benefit countries under stress, and strengthen them appropriately without incurring the startup costs of new organizations.
- Additionally, the global economic crisis can affect international mechanisms, or the norms and rules that govern interactions between countries.
- The ASEAN Plus Three arrangement to establish a pool of foreign exchange reserves would fall into this category. Its purpose would be to protect regional currencies against speculative attacks and provide countries in crisis with liquidity.
- The fourth section, as you can see, is State and Non-State Actions Affecting Regional & National Security.
 - When central banks adjust domestic interest rates, it can affect the exchange rate of that country's currency. Although central banks often take this action for domestic reasons, during a crisis sudden fluctuations can be destabilizing.
 - Another danger during a sustained global economic crisis is that cash-poor countries may seek alternative methods of earning income, including the sale of weapons of mass destruction, components thereof, or conventional weapons to terrorists, criminals, or states that support them. Easing export restrictions is detrimental to regional and global security.
 - On a related note, terrorist and criminal groups could suffer from the economic crisis as well, leading to an increase in the desperation of their fundraising activities.
 - Systems can be created to inhibit conflict between states. A good example of this is the European Coal & Steel Community, established in 1951 to link the economic futures of France and Germany. Then French Foreign Minister Robert Schuman declared his aim was to "make war not only unthinkable, but materially impossible." This, for two countries who fought two devastating wars against each other in a period less than 30 years.

- The European Coal and Steel Community altered the costs and benefits of different activities, making conflict between France and Germany so expensive that it would be nearly impossible. Economics, and especially economic linkages between countries, can alter the cost/benefit decision calculus required to initiate conflict.

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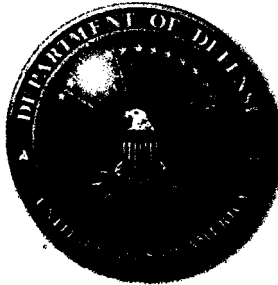
Prescriptions

- Now that we have presented a framework for examining regional defense and security implications for the global economic crisis, we turn to suggestions for what actions to take.
- 1. Stay the course – Countries cannot walk away from their international obligations, bilateral or multilateral. Recognize budgets will have to be trimmed, but we must all commit to continuing our security cooperation during the economic crisis, and make wise procurement decisions.
- 2. Achieve greater efficiency in defense spending – We must all be smart when it comes to resource allocation, and be creative in achieving our goals with limited resources. Every country's defense spending is its own decision, but it is important to think about matching national and regional security objectives with budgetary choices.
- 3. Now more than ever, there is good reason for countries to come together and cooperatively plan for defense. Leveraging synergies and relationships between military forces can ensure that each country maximizes defense and cooperation while gaining cost efficiencies.

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- Thank you very much, Mr. Chairman.

Regional Defense & Security Implications of the Global Economic Crisis



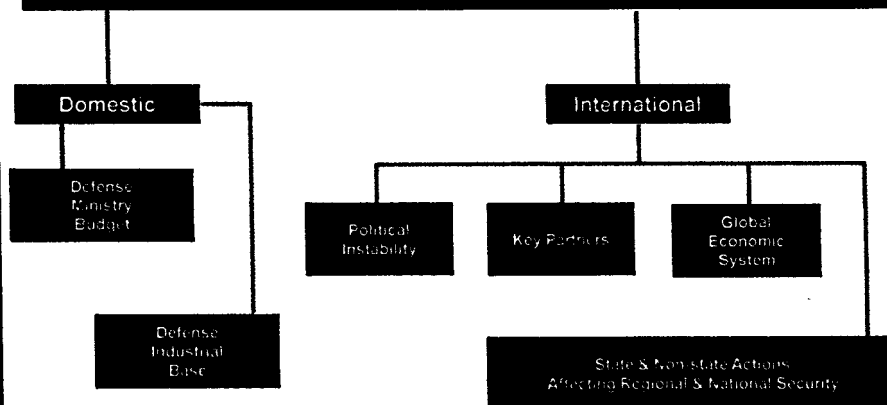
Presentation to the ARF Security Policy Conference
Phuket, Thailand
May 19, 2009

(DELIBERATIVE DOCUMENT: For discussion purposes only. Draft working papers. Not subject to FOIA release)



Framework

Economic Linkages to Regional & National Security



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Prescriptions

- Stay the Course**

- Achieve Greater Efficiency in Defense Spending**

- Utilize Relationships to Plan for Defense**

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Regional Defense & Security Implications of the Global Economic Crisis



Thank You For Your Attention

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