



NEWPORT PAPERS

A Series of Point Papers
from the Naval War College and the
Navy Warfare Development Command
For Senior Leadership
In Response to Critical Issues

Strategy / CONOPS / Doctrine / Decision

United States Naval War College
Navy Warfare Development Command
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ECONOMIC DIMENSIONS OF THE TERROR WAR

Objective: To analyze the economic dimensions of the war on terror.

Background: The uncertain scope and length of the ongoing war on terror make it imperative that the United States develop a comprehensive strategy for conducting the war. As Secretary of Defense Donald Rumsfeld made clear, “Victory will require that every element of American influence and power be engaged.” In contrast to other recent conflicts that were short-lived and geographically contained (Kosovo, Bosnia, and even DESERT STORM), the war on terror is more akin to World War II, the Cold War, or even the war on drugs in its potentially global scope and temporal indeterminacy. The more effectively the United States can coordinate objectives and strategies across the military, political, diplomatic and *economic* realms, the sooner it will achieve its war objectives.

Discussion: Successful grand strategies do not rely solely on their military, political, and diplomatic components. The economic dimension of strategy is critical. This is especially true for the United States. Economic strength is a key component of U.S. national power. Bringing America’s economic might to bear will support military, intelligence, and law enforcement efforts to eliminate terrorists with global reach, their state sponsors, and the transnational networks that link terrorists and rogue states.

United States security objectives and operations (including the use of military force) are not always congruent with its economic interests. Interagency coordination (among, for instance, the Departments of State, Defense, and Treasury) is often complicated by the different perspectives, objectives, and experiences of policymakers. Resolving the tensions between security and economic policies is complicated by the fact that the most powerful tools of economic statecraft are often controlled by private actors. The U.S. government is generally loath to assert greater control over private economic resources even when doing so might facilitate the implementation of a more effective national strategy. Thus the United States can only encourage trade and investment in Afghanistan and other key frontline states in the war on terror using rhetoric and incentives. It cannot provide sufficient resources on its own (given the limits of foreign aid budgets) or compel private firms to act on its behalf. That said, the private sector and markets represent tremendous assets in the war on terror and defense planning in general: they are the source of the economic strength necessary to support defense expenditures.

The U.S. economy is also a source of vulnerability. Public support for the war effort depends, at least in part, on the general state of economic affairs. If at some point the war undermines the recovery of the national economy and/or shocks the global economy in

such a way that Americans experience real disruptions, support for the war effort may erode. In April 2002, for example, analysts speculated that rising oil prices—especially as they translate into increased gasoline prices—may weaken public support for the Bush administration and its handling of foreign policy, including the war. The potential for such shocks arising from the war on terror is relatively high. There are many possible wild cards and/or unintended consequences associated with prosecuting the war (see *Newport Paper* No. 04).

Economic Objectives

1. Maintain Economic Stability and Vitality. Before the 11 September attacks the American and global economies were already showing signs of weakness—economic growth was slowing, unemployment was creeping upwards, and the financial markets were volatile. After 11 September the economic situation worsened: the U.S. economy contracted, consumer confidence waned, and many firms announced layoffs. Predicted federal budget surpluses evaporated in the wake of reduced revenues and increased public, particularly defense, expenditures. With the Bush administration, DoD, and the individual Services all clamoring for increased funding to prosecute the war on terror and pursue military transformation, the national budget may remain in deficit for the foreseeable future.

Although the recession appears to have been short lived, projections of future U.S. economic performance assume a stable business environment free from domestic, economic, political or security crises. The economy remains vulnerable to external shocks—disruptions in oil supplies, for example—in part because public confidence plays a key role in a consumer-based economy. One objective of America’s strategy in the war on terror should be to support public confidence by providing an effective defense against terrorist acts and responding quickly and effectively should they occur.

2. Maintain Access to Overseas Energy Supplies. Since much of the world's energy supply (both oil and natural gas) lies within the broad confines of the arc of crisis, military operations in Central Asia have the potential to disrupt the flow of energy to the United States and its allies (especially Europe and Japan). Since our adversaries clearly recognize the vulnerability of the United States to “oil shocks” they may seek to counteract U.S. superiority in conventional military operations by targeting pipelines, SLOCs, processing and transport facilities, and individual shipments of oil or natural gas. In the long run some oil producing countries may be destabilized by their participation, however minor, in the war on terror. Insofar as the domestic difficulties of American adversaries or allies affect the flow of oil and natural gas or lead to embargoes, the American and global economies will be vulnerable. The current weakness in energy prices reflects, to some extent, Russia's willingness to cooperate in the war on terror. Destablizing events in Russia or in Russian-American relations could end this fortuitous circumstance. The U.S. military should be prepared to play a role in ensuring the flow of energy from the arc of crisis to the United States and its allies.

3. Apply Economic Statecraft to Support Military and Intelligence Dimensions of the War on Terror. The ability of U.S. financial regulators to track and halt financial flows is an important instrument in the campaign against Al Qaeda and other terrorists with global reach. While these economic capabilities lie largely within the province of civilian agencies and the intelligence community, the U.S. armed forces must be aware of the economic component of the war on terror and be ready to provide any support that may be required including, for example, the forces necessary to embargo terrorists and their supporters.

Military Support of Economic Objectives

1. Bolster Civilian Confidence. Setbacks in the war on terror are inevitable. The U.S. military can help bolster public confidence and thus the health of the economy by being prepared and by being present. Being prepared means, at least in part, maintaining the high state of readiness and prepositioning needed to optimize the response time of U.S. and allied forces. A robust overseas presence, including highly visible and/or symbolic demonstrations of American military power and commitment, can help maintain public confidence both at home and abroad. The U.S. military also must be seen as achieving "incremental victories." Clear progress in the war on terror will help maintain public confidence in what is likely to be a protracted war.

2. Secure SLOCs and Ensure Freedom of Navigation. The global economy is highly dependent on transcontinental transport systems including shipping firms using well-known sea-lanes and facilities such as canals and ports. Attacks on SLOCs and maritime infrastructure could contribute to a decline in economic activity and undermine a weak global economy. Working with the other services, the U.S. Navy must protect SLOCs and infrastructure even as it performs the more direct tasks of fighting terrorists and their state sponsors.

3. Prevent attacks on critical infrastructure. Aside from the energy and maritime infrastructures, numerous commissions (e.g., The President's Commission on Critical Infrastructure Protection, established in 1996) and experts (e.g., the National Infrastructure Protection Center) have identified nodes in local, regional, national and global economies that may be vulnerable to attack. The military services must work with the law enforcement and intelligence communities to protect such nodes. At home, the military role should be to support those agencies with primary responsibility. Abroad, the military must cooperate with coalition partners and intelligence agencies to deter attacks on American forces and installations as well as respond to attacks with "find and fix" missions against the perpetrators.

Unintended Consequence of War on Terror—the Economic Dimension:

1. Increased Defense Funding. Prior to 11 September, DoD and the Services argued that increased funding was needed if the readiness of the current force was to be maintained during a perhaps prolonged period of military transformation. With the military's new roles and missions in the war on terror (homeland security, for instance), the high

operating tempo associated with the current deployments, and the demonstrated requirement for different types of military capabilities to fight terrorists, the President has submitted a larger budget request to Congress than had been contemplated prior to 11 September. Whether current defense budget increases are sustained in the future depends at least in part on how the administration and DOD approach Congress and on the successes and/or failures in the current conflict. Some in Congress will continue to object to budget increases that may worsen projected federal budget deficits. Few, however, will object to appropriations deemed vital to national security.

2. Stimulus to U.S. Defense Industry. If defense spending increases sufficiently there will be an upswing in the health and prosperity of many defense firms. In a market economy, the bottom line profitability of individual firms is not necessarily an issue for defense planners. The critical question is whether defense firms will develop and produce the types of weapons systems necessary for military transformation and to fight the war on terror in both the short and the long runs. At present, it appears that some key transformation areas (UAV's for example) are attracting the attention and funding necessary to build the "military after next."

3. Nation-building in Central Asia. Two consequences of the ouster of the Taliban regime may foreshadow greater economic commitments in the future: humanitarian assistance to the Afghan populace and the effort to establish and maintain a coalition government in Kabul. Although the Bush administration initially denied interest in "nation-building," the continued threat posed by Al Qaeda and Taliban remnants have forced some rethinking of this position. Humanitarian, economic and governance initiatives presumably will require major expenditure of U.S. foreign assistance or significant contributions from other countries or international organizations. One potential consequence of shifting the focus of U.S. assistance programs to countries involved in the war on terror is that other aid recipients will receive less; given the wide range of U.S. global and regional interests, this may adversely affect other foreign policy objectives. The Bush administration has alleviated some fears by calling for progressive increases in foreign operations funding over the next five years. Frontline states such as Pakistan, Turkey, the Philippines, and Indonesia will not be neglected as the U.S. seeks to bolster the indigenous political and economic capacities of governments located in regions vulnerable to Al Qaeda, other terrorist groups with global reach, and/or their state sponsors.

Long Term Economic Consequences of War on Terror

In the long run, the war on terror may affect the evolution of the global economic system and, consequently, U.S. grand strategy. Two potentially contradictory global trends may emerge. First, 11 September may foreshadow a slowing of the decades long globalization process. At the least, the attacks highlight the disparate impact of globalization on economic winners and losers. Some parts of the world may now pull back from the integrated global economy. For some firms and even countries, 11 September emphasizes the risks of relying on cross-border economic transactions: Firms

and countries that pursue globalization strategies may be vulnerable to non-economic forces beyond their control.

Second, the ability of the U.S. to rally its friends and allies as well as some long-term adversaries to the anti- and counter-terrorist campaign, while impressive in the short run, may decline over time. Developments during the first few months of the war suggest that the interests of various coalition members diverge relatively quickly and may not allow the United States to sustain cooperation over time. Some even suggest that NATO itself may not survive the stresses of prosecuting this war. More recently, differing approaches to the ongoing conflict between Israel and the Palestinians have stressed U.S. relations with many European and Middle Eastern countries. Although this conflict is only indirectly related to the war on terror, the Bush administration's handling of the crisis is being closely monitored by many of the countries it expects support from in the war. In the end, traditional alliances as well as ad hoc coalitions may be less enduring, and therefore less prominent, in the future global system.

Each of these trends, if they come to pass, will influence the types of military forces the United States can and should field to meet its national security needs. The U.S. Navy, in particular, may need to adjust to a world in which globalization slows and alliances shift with the immediate issues of the day. For example, the Navy might place a lower priority on keeping the sea-lanes open for all and a higher priority on maintaining access to resources (e.g., energy) for the United States. Moreover, without a network of strong permanent allies and friends that provide bases for U.S. air and ground forces, the U.S. Navy might need to develop an even greater capacity to sustain operations from the sea (as opposed to supporting land-based forces) and/or deploy rapidly from CONUS. United States strategy and forces could be transformed in unexpected ways by the war on terror.

Recommendations/Action: Diplomatic, political, military, and economic objectives and strategies must be synchronized in the war on terror. DoD and the military services must coordinate their operations with those agencies charged with waging economic war against the likes of Osama bin Laden, terrorist organizations with global reach, and their state sponsors.