

Asia-Pacific Economic Cooperation summit in Busan, South Korea



AP/Wide World Photo (Toru Yamanaka)

Combating Terrorism A Socio-Economic Strategy

By MIEMIE WINN BYRD

The increased risks and uncertainties of terrorism reduce consumer willingness to spend, particularly on discretionary items and major consumer durables, thereby reducing investment in consumer goods industries and depressing growth. The travel, tourism, accom-

modation, restaurant, postal services, and insurance industries are particularly susceptible. Regions and economies where these industries are concentrated suffer most, both in falling output and employment, but the threat of terrorism reduces overall investment and retards economic growth across the board.

While uncontained terrorism is costly for all economies, it could impose a disproportionate cost in trade and income growth in Asia-Pacific countries. Most developing economies in the region depend heavily on trade flows, particularly with the United States. Many of these economies rely on foreign direct investment inflows. Insurance companies may impose higher premiums on cargoes and vessels traveling to and from these countries due to the inadequacy of local security. For instance, Lloyd's of London

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recently increased its premiums on ships traveling through the Malacca Strait. Currency exchange rate volatility can devastate the whole region's economy. A case in point is the Asian financial crisis in 1997, initiated by a sudden Thai *baht* depreciation.

Combating Terrorism

New counterterrorism measures require one-time investments, which lead to short- to mid-term increases in the costs of doing business. These costs should be

benefits of peace, they hopefully will work to inhibit local support for terrorist activities. Sound economic development policies can be one element to fulfill the 9/11 Commission's recommendations of identifying potential terrorist sanctuaries and preventing them from becoming operational spaces for the actors of terror.¹

A comprehensive U.S. counterterrorism strategy should include economic policies that encourage development, more open societies, and opportunities for better living.

The Bottom of the Pyramid

In the words of General Charles F. Wald, USAF, Deputy Commander, U.S. European Command:

*The tools of businesses are often better suited to diminishing the causes of terrorism and influencing the democratization of key regions by providing investment and employment that lead to long-term improvement in quality of life.*²

"Eradicating poverty through profits" involves finding a way to alleviate poverty for those at the bottom of the economic pyramid through collaboration among the poor themselves, civil organizations, governments, and private firms.³ This approach is widely known as the bottom of the pyramid (BOP) concept. The successfully built BOP markets are a sustainable way to improve economic conditions that in turn will alleviate poverty. As C.K. Prahalad states:

*Historically, governments, aid agencies, non-governmental organizations, large firms, and the organized business sector all seem to have reached an implicit agreement: Market-based solutions cannot lead to poverty reduction and economic development. The dominant logic of each group is different, but the conclusions are similar.*⁴

The private sector's increased participation in a BOP-oriented market is dismantling this old paradigm. Such U.S. business institutions as the University of Michigan Ross School of Business, University of North Carolina Kenan-Flagler Business School, and Cornell University Johnson School of Management are actively monitoring and tracking case studies associated with sustain-

able enterprises servicing and operating at the bottom of the economic pyramid. These schools are extracting and developing lessons learned,

best practices, and business principles that make these enterprises successful and teaching this thinking to a new generation of undergraduate and graduate students.

What are the incentives for the private sector and large firms to service the BOP? According to Prahalad, "The BOP market potential is huge: 4 to 5 billion (80 percent of humanity) underserved people and an



162 Indonesian tsunami survivors unload relief supplies from Navy helicopter

U.S. Navy (Stephanie Lynne Johnson)

viewed as an investment that will pay dividends through reduced risk premiums and increased trade efficiency. In addition to the advantages of reducing exposure to terrorism, technological advances that enhance security are likely to boost the efficiency of cargo handling and people movement, lowering trade costs and making trade flows more efficient. The benefit of preventing reduced trade flows and encouraging investment is continued regional and global economic growth.

Expansion and prosperity would enable nations and organizations to fund economic development policies and activities, which would create opportunities and expand a new middle class in communities that have traditionally supported terrorist groups. As the population recognizes the economic

Igniting and sustaining economic growth in the poorest areas require creativity and cooperation. Regional stakeholder nations and organizations should pool resources

as the population recognizes the economic benefits of peace, they will work to inhibit local support for terrorist activities

and capabilities to address this challenge. Cooperation among cross-disciplinary organizations such as the United Nations Development Program, governmental aid agencies and militaries, nongovernmental organizations (NGOs), and private businesses is vital. Although economic development can inhibit terrorism, it alone cannot eliminate the problem.

economy of more than \$13 trillion PPP [purchasing power parity].”⁵

Studies show that traditional products, services, and management processes do not work. The firms must be innovative to succeed in this sector. For multinational corporations, BOP operations can become a source of innovations for developed markets as well. In today’s increasingly competitive business environment, these corporations must continuously maintain their competitive advantage. Therefore, experimenting in BOP markets is becoming a compulsory rather than a philanthropic activity. Companies beginning to operate successfully in the BOP include:⁶

- Procter & Gamble: Nutristar, Nutrilite (nutritional drink), Pur (water purifier)
- Unilever: Hindustan Lever (detergent for the poor in India and Brazil), Annapurna (iodized salt for the poor)
- Shell: affordable solar power in India
- ABN-AMRO: Banco Real (micro-credit in Brazil)
- Hewlett-Packard: solar powered digital cameras in India and community information systems
- Coca Cola: program in South Africa to help entrepreneurs enter the supply chain and profit from new business ventures
- Suez: “Water for All” program to peri-urban areas in Brazil.

Perceptions of incompatibility between NGOs and for-profit companies are disappearing. Recognition that all mankind depends on the same limited resource pool, and that most share the same hopes for a better future, is causing the gradual breakdown of the cultural barriers that prevented unlike organizations from working together in the past.

Civil-Military Operations

Few are aware that the U.S. military conducts a variety of humanitarian assistance and civic action projects around the globe. In fiscal year 2005, U.S. Pacific Command (USPACOM) alone budgeted \$5.5 million in humanitarian and civic funding. Projects include building schools, hospitals, roads, and community centers; digging wells and irrigation ditches; conducting water sanitation projects; providing rudimentary health care; and training local medical personnel.

The military also furnishes disaster preparedness mitigation assessments for many countries throughout the Asia-Pacific region and relief efforts in areas prone to natural disaster such as Bangladesh—the most recent being for the 2004 tsunami. The rapid tsunami response was possible in part because an

perceptions of incompatibility between NGOs and for-profit companies are disappearing

Army civil affairs team was in the Banda Aceh area conducting an assessment for water sanitation projects.

During the tsunami relief effort, the military worked hand in hand with the Office of Foreign Disaster Assistance, an arm of the U.S. Agency for International Development (USAID), the lead agency for helping countries to recover from disaster, fight poverty, and initiate democratic reform. The agency supports long-term and equitable economic growth and advances foreign policy objectives by supporting economic growth, agriculture and trade, health, democracy, conflict prevention, and humanitarian assistance. The combined effort during the tsunami relief demonstrated the significant benefits derived from interagency coordination, combination of resources, and applying differing core competencies toward a common problem.

U.S. Pacific Command sought to create a formal partnership with USAID to synchronize humanitarian and civic activities at a strategic level in January 2004. As the command began to realize the importance of environmental aspects of the war on terror, it saw routine activities as a partial solution (that is, providing some basic needs for the local populace). Moreover, command efforts were isolated, one-time occurrences in these communities. For example, the command constructed a school in a remote village, but it remained empty because the villagers could not afford supplies, teachers, or building maintenance. Therefore, the local populace failed to benefit. USPACOM approached USAID, with its long-term vision and expertise in building community and development programs. Admiral William Fallon, Commander, U.S. Pacific Command, stated in a congressional hearing on March 8, 2005, “We are working to build a relationship with the U.S. Agency for International Development . . . with the intent to coordinate our civil affairs activities with USAID programs.”

On March 30, 2005, USAID announced that it had created the Office of Military Affairs (OMA) to synchronize with the military. Until then, the agency was ambivalent about such coordination due to the differing

organizational cultures and a perceived ideological gulf. The dominant logic in the past was that military activities were incompatible with USAID humanitarian efforts. However, the creation of the OMA and Admiral Fallon’s statement point toward the loosening of the mindsets within these two organizations.

Based on the new cooperation between the Armed Forces and USAID, the Economic Advisor’s Office at USPACOM now recognizes an opportunity to alleviate poverty and create sustainable economic growth in areas that are vulnerable to terrorist influence. Ways must be found to consolidate and synchronize command efforts, USAID programs, NGO charitable contributions, and the private sector’s need for new markets to improve economic conditions at the BOP in areas vulnerable to terrorist recruitment, such as Bangladesh, Indonesia, and the Philippines. This will require fresh thinking by all parties. The 9/11 Commission criticized U.S. Government agencies for their lack of imagination prior to the attacks in New York and Washington. In the post-9/11 world, we have no choice but to think creatively if we are to win the fight against rising terrorist threats.

Organizational Challenges

The military faces significant challenges to fostering innovative thinking. It suffers from all the obstacles that most bureaucratic organizations confront in regard to systems, structures, entrepreneurial thinking, policies and procedures, people, and culture. The current organization has rigid systems, top-down management, absence of innovation goals, long and complex approval cycles, short-term orientation due to frequent personnel turnover, and paralysis resulting from a risk-free culture within the ranks of decisionmakers.

Systems. Military organizations have a rigid formal planning system with long cycles in combination with inflexible budgeting systems. Once a plan is approved, it is difficult to change. Budgets are set at least 2 years in advance, and redirection is close to impossible. Funding streams and categories are

based on congressional budget allocations, so funds designated for specific purposes cannot be redirected without congressional approval. For example, USPACOM staff components have been struggling to change

initiatives to fight a new kind of war get bogged down by existing policies and procedures

the way humanitarian assistance funds can be utilized. It is a congressional mandate that the moneys are only for disaster mitigation purposes. In the Asia-Pacific region, the staff believed the funds would have greater long-term effect if they were put toward capacity-building and reconstruction.

Structures. Military tradition usually dictates that those at the top make policies and those below implement them. It is difficult for action officers to get their points across to those at the decisionmaking level. Several layers of screening, review, and approval must be crossed. Therefore, many ideas get snuffed out early. As Williamson Murray stated, "Rigidity is undoubtedly a fact of life in many military organizations—one which has exercised a consistent and baleful influence over institutional capacity to innovate."⁷

Inflexible structure combined with rigid culture has created silos among different segments in the military. The ability to integrate perspectives and methods across organizations is severely limited. Common phrases include "It's out of my lane" or "You are in my lane." Rigidly led organizations typically shut off alternative paths that might ease the way for military operations.

Entrepreneurial Thinking. There is a general lack of commitment to the principle of institutionalized entrepreneurship because most senior leaders lack experience beyond the military or government environment, which is not known for entrepreneurial thinking. This creates leadership that is "typically cautious, suspicious, or completely unaware of efforts to break with tradition and capitalize on opportunity."⁸

Since middle- and lower-level leaders take their cues from the top, the careful leadership style permeates the organization, creating influencers who are well versed in the art of survival and self-advancement, but not in taking the necessary risks to further organizational objectives.

Policies and Procedures. Within the military, policies and procedures are aimed

at bringing order and consistency to the everyday operational needs of the organization. The approval cycles are long and require many managerial layers. Action officers at USPACOM often complain that they spend

much time presenting what they plan to do and obtaining approval from various layers of management and little time actually accomplishing goals. Therefore, initiatives to fight a new kind of war, such as the war on terror, get bogged down by existing policies and procedures. Short windows of opportunity are easily missed.

People. Generally, military personnel have a short-term perspective because most rotate every 2 to 3 years. Not only is it costly to destabilize an organization purposefully, but it also causes individuals to favor objectives that will show concrete results during the time of their assignments. Accordingly, it is difficult for the military to focus its people on such long-range concerns as shaping the environment or confronting the underlying causes of terrorism.

Culture. Across the U.S. Government, every agency, including the military, is acknowledging that innovation is needed. The military clearly recognizes that the non-traditional counterterrorism tools required to "deny sanctuary" and "diminish underlying conditions" are nonmilitary. According to General Richard Myers, former Chairman of the Joint Chiefs of Staff, we must

*transform our military competencies from joint operations to integrated operations that reflect the new partners we must coordinate with to defeat terrorists, such as other U.S. agencies, allied militaries and governments, nongovernmental organizations, and private industry.*⁹

General Wald recognizes that a nontraditional military solution to the root causes of terrorism, while "outside the military's lane," is necessary to fight the war on terror.¹⁰ Yet the military is not willing to use it, reflecting a mindset and culture that prevent thinking outside the box.

Other examples could be given under each of these categories of obstacles. The bottom line is that the Armed Forces have an uphill battle to initiate the search for ways for a nontraditional/nonmilitary partnership to

address the environmental and other conditions that are the root causes of terrorism.

Using the BOP Concept

Until now, the U.S. Government has not tapped into the power and capabilities of the private sector in the war on terror. Indeed, most businesses are unlikely to engage in any activities unconnected with profits. Yet a handful of companies such as FedEx, Western Union, America Online, and Wal-Mart have been voluntarily assisting Federal agencies since the 9/11 attacks. For example, FedEx has mobilized its 250,000 employees to watch for threats, developed an internal computer system to report suspicious activity directly to the Department of Homeland Security, installed radiation detectors to sniff for dirty bombs at overseas facilities, and opened its vast international shipping database to the U.S. Customs Service. If three more such companies participated, a million more people would be actively looking for threats.

Aguas de Amazonas, a subsidiary of Suez Environnement, a world leader in water-related services, teamed up with French and Brazilian NGOs for a pilot project called Water for All to demonstrate that the company can serve poor communities and grow its customer base at the same time. Raising the community's awareness of the need for safe water was the key social dimension of the project. The NGOs' experience with the community and understanding of the local social structure and culture proved essential in achieving this objective. The NGOs showed that they could bring value to the company as facilitators in the process of adapting water services to the specific characteristics of low-income communities.¹¹

The company's goal was to provide water and sanitation services to the 1.5 million inhabitants of the remote city of Manaus, Brazil. That was considered an ambitious goal, considering that 60 percent of the people live in "informal settlement" on an income of less than \$1 per day. Most lacked access to clean water, while some used treated water from pirated connections. Leveraging the core competencies of partner NGOs, the company worked with the targeted communities, assessing the needs as well as the ability and willingness of the populace to pay for services. Considerable effort was made to help people understand the value of treated water and to appreciate that paying for legal connections would



Officials from UN, USAID, Office of Foreign Disaster Assistance, and Disaster Assistance Response Team coordinating aboard USS *Abraham Lincoln*

U.S. Navy (Elizabeth A. Edwards)

ensure a reliable supply at lower prices than they paid to independent providers.

The success of the project largely depended on the genuine mobilization of the inhabitants in favor of the initiative and the development of effective community management of water services. The results were surprisingly good both for the community and the company: 74 percent of the targeted 5,000 households were connected to a water network. There was an 80 percent bill collection rate, compared to 54 percent for the rest of Manaus.

The U.S. military could easily fit into a similar project. Civil affairs units are conducting well construction and water sanitation projects in remote villages in Indonesia, the Philippines, and Bangladesh. With innovative thinking and imagination, the partnership among the private sector, NGOs, USAID, and the military could work together in targeted areas that are vulnerable to terrorist recruiting to improve living conditions, provide foundations for a sustainable economic stability and growth, and create hope and opportunities. Such partnership with businesses can provide continuity to many aid and humanitarian projects and hinder terrorist recruiting over the long term.

The above case studies show that teaming up with unlikely partners such as the

private sector can be an effective component of the war on terror strategy.

The Way Ahead

The military must mobilize to seize opportunities in the private sector. Companies need not take drastic and proactive actions like the FedEx exercise; they can simply do what they do best—create products, services, and jobs. Leveraging the emerging BOP concepts and the multinational corporations' need to expand their markets could inspire the business sector to operate in areas where economic development is desperately needed.

Government agencies, including the military, should participate in business association meetings and conferences. Civil affairs and USAID personnel must be educated regarding these emerging concepts and trends in the business sector. Conversely, the military should invite business leaders and decisionmakers to counterterrorism conferences and seminars.

For instance, USPACOM cosponsored a conference with the U.S. Army War College and the National Intelligence Council in June 2005 to explore ways for Federal agencies and the private sector to address the underlying causes of terrorism. Stuart Hart, an expert on the BOP, introduced the concept

and explained how it can help address the underlying conditions of terrorism by providing sustainable, grassroots-level economic development.

U.S. Pacific Command plans to continue exploring this concept in counterterrorism conferences and other forums. The command will invite business leaders to spawn new thinking throughout the military and among decisionmakers about the connection between the war on terror and the private sector. The private sector must understand that the U.S. Government and the international community need their business expertise in creating products, services, and jobs for those at the bottom of the economic pyramid.

As businesses become more aware of how their efforts at operating successfully in the BOP arena could contribute to fighting terror, we will be able to mobilize this untapped opportunity. The business sector can provide grassroots-level, sustainable microeconomic development and create a needed force multiplier. **JFQ**

NOTES

¹ *The 9/11 Commission Report: Final Report of the National Commission on Terrorist Attacks Upon the United States* (New York: W.W. Norton, 2004), 367.

² Charles F. Wald, "U.S. European Command and Transformation," *Joint Force Quarterly* 37 (2^d Quarter 2005), 26.

³ C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Philadelphia: Wharton School Publishing, 2005), 4.

⁴ *Ibid.*, 9.

⁵ *Ibid.*, 21, 61.

⁶ Stuart L. Hart, "Addressing the Underlying Conditions that Foster Terrorism: Lifting the Base of the Pyramid" (Carlisle Barracks, PA: U.S. Army War College, June 9, 2005).

⁷ Williamson R. Murray, ed., *Military Innovation in the Interwar Period* (Cambridge: Cambridge University Press, 1996), 322.

⁸ Michael H. Morris and Donald F. Kuratko, *Corporate Entrepreneurship: Entrepreneurial Development within Organizations* (Mason, OH: South-Western, 2002), 175.

⁹ Richard B. Myers, "A Word from the Chairman," *Joint Force Quarterly* 37 (2^d Quarter 2005), 5.

¹⁰ Wald, 26.

¹¹ "Suez—Agua de Amazonas Water for All in Brazil," Case Study, World Business Council for Sustainable Development, available at <www.wbcsd.org/web/publications/case/aguas.pdf>.