

**USA**

BY SOLEIL SYKES

EDITED BY  
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**May 2015**

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## **Next Generation Dialogue on Industry and Defense: Globalization versus the Culture of National Security**

A DISCUSSION ON THE EVOLVING RELATIONSHIP BETWEEN INDUSTRY AND DEFENSE IN THE UNITED STATES HOSTED BY THE CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS)

**The first in a series on Next Generation Dialogue on Industry and Defense, this event focused on how increased globalization of the defense industry is affecting and interacting with cultures of national security within government and the military. The aim of the CSIS series is to provide a location for dialogue between various stakeholders on the relationship between industry and defense, with a goal of providing a framework for policy. The panel on April 30th, 2015 included industry, defense, and legal experts offering their perspectives on the current climate between an increasingly globalized defense industry and government defense agencies.**

John J. Hamre, CSIS President and CEO, Pritzker Chair, and Director of the Brzezinski Institute on Geostrategy, provided an initial contrast between the United States' (U.S.) "parochial" defense culture and the increasingly globalized nature of the defense industry, as companies expand their supply chains and markets around the world. William Lynn III, CEO of Finmeccanica North America and DRS Technologies, Inc. and former U.S. Deputy Secretary of Defense, analyzed the changes in the defense industry as a foundation for the panel's discussion on the interaction between industry changes and national security culture in the government.

Mr. Lynn posits that the U.S. is entering a fourth stage in the history of the defense industry. According to Mr. Lynn's analysis, the first stage, from 1787 to 1941, was marked by a government-controlled defense sector that expanded during times of war and contracted in times of peace, with occasional contributions from the private sector. During the Second World War, defense needs exceeded the production levels of the

previous defense-industrial era. As a result, private corporations, ranging from Ford to General Electric, created defense divisions that at their height accounted for nearly 40% of GDP. Following the war, companies continued to maintain robust defense divisions, a period Mr. Lynn calls the "conglomerate" stage during which the defense arms of large corporations produced military technology that was later incorporated into civilian life, such as the Internet and GPS. However, in the 1990s, with the end of the Cold War, the U.S. government shifted its focus to domestic policy issues, requiring the defense industry to enter its "specialization" stage. During this third stage, conglomerates sold their defense divisions and mid-tier competitors were consolidated into five major defense companies, which, with the exception of Boeing, focus almost entirely on defense.

Current "pressures", in Mr. Lynn's opinion, are driving the defense industry into a 4th stage. Defense's share of GDP is falling, as a result of budget cuts, and Mr. Lynn does not predict that this share will increase. Defense companies are no longer leading investors in Research and Development (R&D); rather, they act as "technology importers", operationalizing commercial innovation. Defense companies have reduced the amount of capital they invest in R&D, leading to higher stock prices and returns for investors, but placing into serious question the potential for defense companies to produce new technology.

In Mr. Lynn's opinion, the 4th stage of the defense industry represents a "more fluid global industrial base" that will further consolidate defense companies, increase the use of commercial technology by the Department of Defense (DoD), and rely on a global supply chain to meet national security needs. Mr. Lynn believes that "active

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management" of this transition by the government will preserve national security interests without alienating innovative private sector industries. Such oversight, according to Mr. Lynn, will allow the transition from the 3rd stage of "specialization" to the 4th stage of "globalization" to succeed both from a defense and industry perspective.

Stanley Sims, Director of the Defense Security Service (DSS), offered his perspective on the culture of the military in relation to the changing nature of the defense industry. The DSS is a DoD agency tasked with providing security training and services to U.S. government agencies and personnel and protecting U.S. security interests during government interactions with industry, according to the DSS website. Mr. Sims describes the mission of the DSS to "enable" industry to ensure U.S. citizens have a "decisive advantage" over enemies. The DSS provides what Mr. Sims describes as "risk management" services when the government interacts with industry.

Mr. Sims' comments throughout the panel suggest that the defense culture is shifting towards accommodating the new global realities of the defense industry. This cultural shift would mark a massive change in the approach of military towards the defense industry. Since the Cold War, national security culture has been defined by so-called "Iron Majors", officers whose primary consideration is national security, even at the expense of potentially beneficial relationships with foreign investors. Gradual loosening of restrictions on direct foreign investment mark a policy change, but, as Mr. Sims explained, without changes in the personnel and their attitudes, effective and meaningful change in the relationship between defense and industry is difficult.

Mr. Sims stated that "we [the DSS] are adapting" to changes in the industry and that the DSS is striving to find a balance between national security and the realities of globalization. Internal changes in the DSS, including "talent acquisition" of individuals with business experience and attempts to reduce bureaucracy, have allowed the DSS to create a culture that understands the "security aspects of acquisition" and the necessity for partnerships with global industry, rather than adhering to a previous culture in which national security concerns trumped all.

Mr. Sims praised recent efforts by Mr. Lynn in his capacity as a CEO in the defense in-

dustry to focus on security issues as critical to companies', and not solely nations', interests. Companies control global supply chains, not the U.S. government, and this ownership, in Mr. Sims opinion, requires industry to take responsibility for the security of its own production lines and processes. Mr. Sims stressed that protecting sensitive technology and intellectual processes is in the interest of both the U.S. government and companies.

Providing an industry perspective on globalization and the culture of national security was Chris Griner, Managing Partner of Stroock & Stroock & Lavan LLP. Mr. Griner, who has worked extensively on Foreign Ownership, Control or Influence (FOCI) mitigation arrangements and with the Committee on Foreign Investment in the United States (CFIUS), offered first-hand confirmation that the relationship between defense and industry is changing. He identified a "positive" attitude that views foreign investors as potential partners and has allowed "deals [to] get done" in increasing numbers since 1995. Continuing to allow foreign investment, from Mr. Griner's perspective, provides U.S. industry with access to new technologies, the ability to use existing technologies (thus saving tax-payer dollars from being wasted developing expensive U.S. versions of foreign technology), and compete in the globalized economy. Supporting ongoing changes within government, ranging from cutting red tape to granting the DSS greater leeway in selecting and approving foreign investors, are all changes that Mr. Griner sees as benefiting both industry and defense.

Offering a government and policy perspective on the topic was William Lynn III. In response to questions regarding the political implications of allowing foreign investment and more active involvement in the U.S. defense industry, Mr. Lynn drew a parallel to the automotive industry: while Congress was initially reluctant to allow foreign auto manufacturers to gain a foothold in the U.S., as soon as it became apparent that foreign automobile companies would provide jobs for U.S. workers, Congress largely welcomed foreign companies. This trend, as presented by Mr. Lynn, suggests that as far as U.S. politics are concerned, American manufacturing jobs are significantly more important than the company name on a car, aircraft, or weapon. Mr. Lynn also stressed the difference between the manufacturing and technological aspects of defense industry, suggesting that U.S. technology and

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intellectual property might require greater security than manufacturing processes. This suggestion echoed Mr. Sims' statements regarding the role of companies in protecting their intellectual property and assuming responsibility for the security of their global supply chains. Finally, Mr. Lynn offered a word of caution regarding security measures and defense technology. He cited examples of security breaches in U.S. satellite technology resulting in overzealous security measures that harmed the U.S. satellite industry's ability to compete in the global market – allowing national security concerns to drive policy towards the defense industry might severely damage the economic prospects of U.S. industry.

Each of the panelists emphasized, from their individual perspectives, the importance of "risk management" in the shifting dynamic. Industry, the government, and military all have slightly different priorities and factors that influence their decision-making processes, which can make the coordination of "risk management", as Mr. Sims suggested with his recommendation for greater industry accountability of supply chain security, more challenging. For a multinational corporation dealing with economic factors such as profit margins, fluid commodity and labor prices, and the various legal systems of nations, national security concerns might not be a high priority. Similarly, a government concerned with the security of its population might not observe defense industry issues through a lens that considers business goals and limitations. However, through the concerted efforts of the DSS to establish a culture with business-understanding on issues of national security, the diverse risk management processes of companies and government appear to be aligning in a way that respects industry objectives and preserves the security of the American people.

The dialogue on industry and defense addressed the topic of managing a culture of national security within the DoD with the economic landscape facing the U.S. defense industry. Mr. Lynn's presentation on the forces driving the 4th stage of the defense industry highlights the global economic realities of the industry and emphasizes the need for government engagement in the transition from the 3rd to 4th stage. Mr. Sims' and Mr. Griner's insights on structural changes within the DSS provided examples of steps occurring within government to foster a climate more conducive to foreign investment and participation in the defense

industry and suggest that the national security culture is gradually changing.