JULY 2024

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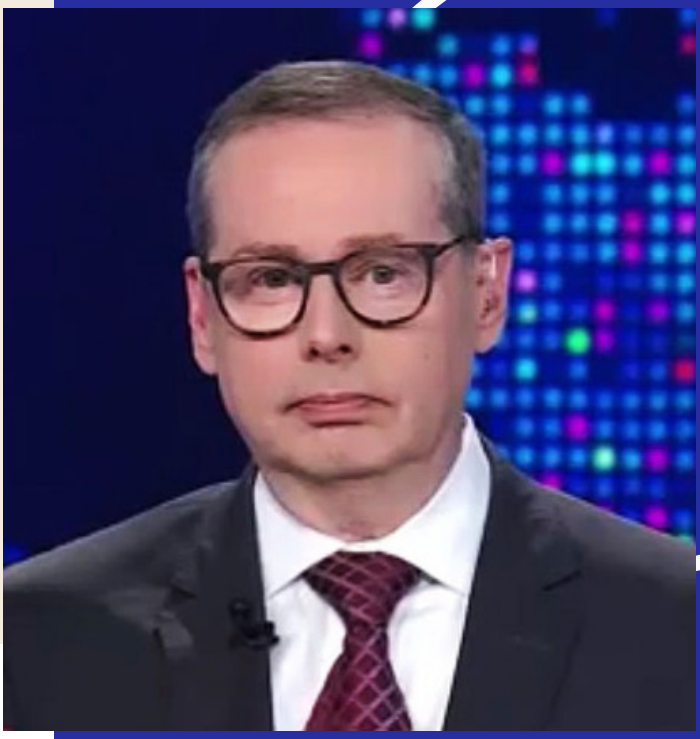
BOARD RISK REPORT

SUCCESSFULLY CONFRONTING STRATEGIC RISK:
THRIVE OR SURVIVE



China, Russia, Iran, and Saudi Arabia:

The Certain and Plausible Geopolitical Flash Points that Boards Should be Considering Right Now

BY DOUGLAS LONDON
Senior CIA Operations Officer (Rtd) and Author

Mock Chinese attacks against Taiwan, a Russian purge, a dead Iranian president, and a Saudi King possibly in his final days were among the recent geopolitical flashpoints.

The year ahead is likely to bring even more geopolitical suspense and drama that will impact great power tensions in Asia and the ongoing conflicts in Ukraine and the Middle East. The resulting turbulence, interconnected polycrisis and opaque international succession scenarios that might arise will challenge boards to pursue long-term strategic planning while remaining sufficiently dynamic to pivot. The ability to rapidly move towards opportunities and defend against supply chain disruptions, cyber-attacks, sabotage, and insider threats is critical.

CHINA: On May 20th, Taiwan inaugurated William Lai as its new president, prompting China to conduct military drills focused on land attacks and long-range airstrikes around **Taiwan**. Beijing's exercises were a message for Lai, who Beijing believes has a history of supporting Taiwan's independence. While US officials **caution** that President Xi Jinping has ordered his armed forces to be prepared to reunify Taiwan with the mainland through force by 2027, they likewise suggest he has yet to conclude that an invasion would succeed.

While both China and the US appear strategically committed to avoiding war, close encounters could easily and quickly get out of hand, disrupting some of the world's most heavily travelled sea lanes. Still, Xi might have more reason to avoid rather than pursue war. Apart from the significant loss of life and catastrophic consequences with vital trade partners, China's armed forces do not currently appear up to the task. Xi's dismissal of his **defense minister** and a slew of **general officers** over corruption cast doubt over China's military modernization campaign. While these factors mitigate but don't rule out the possibility of war over Taiwan or the contested East and South China Sea, they strongly suggest a looming trade war.

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Chinese underemployment, low domestic consumption and demographic realities will lead to further overcapacity as exports are needed to offset economic challenges. US trade policy, regardless of this November's election outcome, is likely to remain protectionist. Even expanding tariffs, however, can at best redirect but not constrain Chinese oversupply and would shift the problem toward other regions impacting US security, economic and commercial interests.

Chinese espionage efforts will remain a high-volume enterprise targeting proprietary US knowledge and capabilities. Beijing's will continue to focus on semiconductors, artificial intelligence, quantum computing, biotech, agriculture, and associated defense technologies. Much of China's espionage will be carried out through cyber operations and in targeting potential sources under the guise of commercial and academic consulting opportunities. Michael C. Casey, director of the National Counterintelligence and Security Center, recently **cautioned** that the US and its companies need to prepare for the possibility of more cyberattacks, namely from China, and further observed how Beijing is targeting disgruntled employees to steal data and intellectual property.

Questions that boards should consider:

- Is our firm prepared for the impact of China's potential retaliatory measures to our supply chains, facilities, personnel, and those of our vendors should hostilities arise with China?
- Are we and our third-party vendors postured for possible Chinese harassment of technology firms operating in China and other Asian markets?
- Is our firm prepared to address the protectionist impact on inflation, higher cost imports, and increased foreign state subsidies as China shifts overcapacity to other markets?
- Can we leverage potential revenue and wage growth across US sectors benefiting from protectionist policies?
- How does the possibility of Mexico becoming a reexport hub for Chinese overproduction affect our firm's business interests?
- How is our organization postured for an increasingly aggressive Chinese espionage campaign to steal technology and disrupt our continuity of operations?

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RUSSIA

Vladimir Putin followed his elaborate May 7 inauguration for the fifth time as president of Russia with a reshuffle of key security officials that had been anticipated since Wagner Group leader Yevgeny Prigozhin's **failed mutiny** last June. The Russian leader's inner circle is a tightly restricted club where proximity means more than official positions and rearranging the deck chairs might not necessarily be revealing. Putin's small circle is, like him, aging, with most in their 70's. This includes Viktor Zolotov, his former bodyguard and now chief of the National Guard, or Rosgvardiya, Putin's first line of defense against a popular uprising or military revolt. Others, like Federal Security Service (FSB) Director Alexander Bortnikov, are **rumored** to be suffering from ill health.

Putin named Minister of Defense Sergei Shoigu as National Security Secretary and reassigned the incumbent, Nikolai Patruschev, arguably his most trusted lieutenant, as an advisor. But whereas Shoigu's ouster was accompanied by what appears to be a purge of his closest Defense Ministry associates, Patruschev's son Dmitry was made deputy Prime Minister for Agriculture. Shoigu's successor at Defense, Andrei Belousov, an economist, is known to be in favor of greater state control of the economy, aligning well with Russia's war economy footing but further stoking an **overheated economy with rising inflation**. Russian productivity remains unable to meet demand and faces ongoing labor shortages exacerbated by military mobilization and Putin's crackdown against Central Asians following the **Crocus Concert Hall attack**.

Putin might envision Belousov as a more efficient **quartermaster** for his war effort and less of a threat to his power lacking a military network Shoigu developed over 12 years via graft, promotions and assignments. Belousov is also unlikely to influence strategic decisions or military tactics. A former KGB officer, Putin distrusts his own Army and is **observed to be a micromanager** who places faith in his own counsel. The Russian leader will therefore remain the country's ultimate military strategist.

Putin fancies himself an enigma, is inherently paranoid about Western threats and internal plotting and is obsessed with smoke and mirrors to deceive his adversaries. And while such traits make it challenging to determine the ceiling and floor for his actions, the Russian leader is not without tells, as reflected by what's often a contrast between his occasional hyperbolic **saber-rattling rhetoric** and his actions. Over the course of the war, Putin has been his most aggressive when in a position of strength, while feigning concurrently more diplomatic flexibility, and has acted more cautiously when operating from a position of weakness, despite simultaneously spewing **threatening bluster**.

Russia is likely to expand its malign activities against US business and economic interests as part of its Hybrid Warfare strategy, a doctrine addressed by BRC contributor Richard A. Clarke in the March 22, 2022, Board Risk Report that blends tools and techniques that fall just short of overt conventional war and leverages sabotage, subversion, disinformation and cyber-attacks. US and allied intelligence officials have noted an increase in related low-level **sabotage operations** in Europe. These attacks are believed to complement a Russian influence campaign to undermine support for Ukraine's war effort, slow arms transfers to Kyiv, create the appearance of growing European opposition to support for Ukraine, and in sowing polarization and isolationism in the US. Russia is leveraging its espionage enterprise to weather the impact of Western sanctions by stealing technology, often using commercial front companies and cyber operations, while positioning themselves to disrupt US business and infrastructure.

Questions boards should consider:

Is our firm prepared for the international economic consequences and retaliatory contingencies now that the US and its Western partners are leveraging the interest on Russian assets to finance Ukraine's defense and reconstruction and threatening to go further?

How will Putin respond to Ukraine's more liberal use of Western weapons against Russian territory? Will Putin's response add to tensions between the United States and its adversaries?

What would the global consequences be should Russia employ tactical nuclear weapons in Ukraine?

What are the consequences of Russia's greater economic dependence on China and ensuing new axis against Western companies?

Have we conducted exercises practicing continuity of operations planning to simulate cyber-attacks that might disrupt our company's command, control, communications and logistics?

Are we deploying a "shields up" defence against Russian cyber-attacks?

IRAN

On May 24th, Iranian President Ebrahim Raisi died along with the country's foreign minister and seven others after their helicopter crashed in a remote, mountainous area of Iran's northwest. While technically the second-most powerful person in Iran, Raisi's demise factors little into current Iranian direction and rather more into the coming succession battle when 85-year-old Supreme Leader Ayatollah Ali Khamenei ultimately passes. Raisi was long considered a strong contender to replace Khamenei (along with Khamenei's cleric son Mojtaba), and his departure opens the door to further in-fighting among the competing **hardline elements**.

The Islamic Revolutionary Guard Corps, IRGC, will maximize the opportunity to play kingmaker. Former IRGC generals are increasingly ubiquitous in Iranian politics, strongly influence governance, and execute Tehran's confrontational "Axis of Resistance" abroad. The current Iranian Majles speaker, Mohammad Bagher Ghalibaf, a former IRGC general, was among the six candidates permitted to compete in new presidential elections. The potential for shadow or de facto IRGC rule would open the aperture for yet more aggressive Iranian provocations leveraging proxies in Iraq, Yemen and the Levant. With a stronger hand, the IRGC could greenlight a nuclear weapons program that Khamenei had heretofore prohibited by religious decree. And while largely cohesive regarding hardline policies, the IRGC is ripe with competing Internal cliques vying for greater authority and influence which could further add to succession turmoil.

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Iran's calculus has up to now been aggressive, but not reckless, driven by its ruler's belief that the US intends to overthrow them. Tehran's perception is rooted in Washington's 1953 **removal** of Prime Minister Mohammad Mossadegh, years of support to the Shah, and the US invasions of neighbors Iraq and Afghanistan. But Khomeini and Khamenei both prioritized political survival, leveraging persistent but limited external conflict to justify ineffectual policies, corruption, and repression. The cycle of provocations and retaliations, however, can enable miscalculations with catastrophic consequences, and escalation management can be difficult for both sides owing to domestic and external political considerations.

While the least likely outcome, companies should have at least considered their ability to react should a pragmatic globalist emerge who is willing to shoulder a degree of ideological compromise in exchange for needed economic fixes could dramatically alter the playing field. Even hardliners have demonstrated flexibility when circumstances required. Khamenei compromised when agreeing to the subsequently suspended Joint Plan of Action regarding Iran's nuclear program, and Ayatollah Ruhollah Khomeini reluctantly agreed to a bitter peace after years of war with Saddam Hussein.

Questions boards should consider:

- Does our organization understand the range of outcomes, and are we prepared for the consequences of a succession crisis upon Khamenei's death and victory by either Iran's globalists or isolationists?
- Is our firm prepared to leverage new opportunities in the event of a reformist effort to reinvigorate Iran's economy? What are those opportunities, and do we understand the potential impact on our operations??
- Can we protect our supply chains, personnel and investments should Iran's Axis of Resistance become more aggressive?
- Does our organization understand the impact on our interests and security should Iran weaponize its nuclear program?

SAUDI ARABIA

In late May, Saudi Arabia's Crown Prince Mohammed bin Salman, known as MbS, postponed a planned four-day trip to Japan due to concerns over his father's health, 88-year-old Saudi King Salman bin Abdulaziz. While the King's health has been on the decline for years, leaving MbS the de facto ruler since disposing of his predecessor and rival, Prince Muhammad bin Nayif in 2017 (the former Crown Prince remaining in custody and incommunicado to this day), King Salman's presence has continued to be a force in Saudi politics.

The King's passing will remove a layer of protection for MbS's radical social changes, extraordinary economic promises, and signaling of his willingness to normalize relations with Israel. While King Salman is deeply religious and committed to causes such as the plight of the Sunni's in Syria and the Palestinians, MbS has embraced Syria's Alawite (Shi'a) leader **Bashar al-Assad** and discussed a willingness to cut a deal with Israel in exchange for a formal American security commitment, a civilian nuclear program, more advanced weapons, and the the injection of Western technology.

Come what may, the almost 80-year U.S.-Saudi relationship has ample room to bend before it risks breaking. Both parties remain involuntarily codependent and too difficult to replace. For Washington, worldwide energy considerations and prices largely gravitate around Saudi capacity and production and the Kingdom depends on US technology and security. Beijing is an unproven and unreliable Middle East security partner with a poor record concerning its own indigenous Uyghur Muslim community. And Russia's regional interests often diverge from Riyadh's, as evident in Iran, Syria, and Libya. In today's multipolar construct and its economic realities, middle powers such as Saudi Arabia need no longer choose to absolutely align with one superpower or another.

Where MbS is vulnerable is in his departure from his predecessors who operated in consensus across the House of Saud's 34 branches (the number of founder Abdulaziz's sons), and in collaboration with the religious community. MbS has **systematically** marginalized and imprisoned his key royal competition. And while Saudi Kings long promoted Salafism to validate their religious credentials and justify their legitimacy to rule, MbS has instead declawed the religious community with his social reforms, severed their funding, and cut their power. Yet for all the press depicting a welcoming population and the House of Saud seemingly in check, neither the royals, the Kingdom's largely conservative society, or its powerful religious community have truly changed or disappeared overnight.

MbS will likely ascend the throne but needs to grow and diversify jobs and construct more housing to address the complaints of a population with high expectations and whose **median age is 29**. MbS has gone all in on Vision 2030 to transform the Kingdom from petrol dependence but his $1.5 trillion dollar centerpiece project to build the futuristic city of **Neom** has been plagued by cost overruns, sparse foreign investment, technical challenges and allegations of **brutality**_. The impact on Saudi **spending** from the Kingdom's sovereign wealth fund could lead to a pivot away from investments in global private equity, infrastructure and hedge funds and toward internal projects. **Falling oil demand and prices** can only pose more challenges to the Crown Prince's plans, as well as his position.

Questions boards should consider:

- Are we prepared for the impact of King Salman's death on Saudi stability, normalization with Israel and relations with the major powers? How might his death this impact our organization's energy needs?
- How do Saudi Arabia's alleged Human Rights violations and political repression impact our workforce atmosphere and Insider Threat?
- How should our organization and our vendors respond to possible Saudi pressure and harassment of US companies doing business with the Kingdom who fall short of MbS's expectations concerning participation in Vision 2030? Do we understand the potential energy consequences to our firm?
- How will the low oil prices effect Vision 2030? Neom? Internal Saudi stability? And Saudi spending?

INSIDER RISK

Questions boards should consider:

What these flash points have in common are their dynamic circumstances and the greater threat of Insider Risk, requiring boards to consider a more agile and broader view of contingency planning and threat mitigation. China, Russia, and Iran all leverage covert means to steal technology and intellectual property in advancing their industrial, military and technical programs, evading sanctions and often by exploiting disgruntled employees and those inclined to cooperate owing to political sentiments. They prioritize volume over sophistication in overwhelming opponent defenses.

In addition to cyber intrusions that collect data and hacking to disrupt and sabotage, these adversaries employ commercial front companies, academic institutions, and bogus nationalities to conceal true agendas to gain access to insider targets. Approaches are often initiated online from ostensibly legitimate institutions. Beijing, which employs a whole of government approach, makes use of genuine Chinese commercial and academic representatives guided by covert operators. Iran has secured the unwitting cooperation of US detective agencies, some duped into believing they were investigating debt collection and family legal matters. These adversaries are likewise making greater use of criminal networks to accomplish their aims to commit larceny or engage in violence, harassment, and intimidation of their nationals abroad and those with family ties.

- Has our firm aligned our Insider Threat efforts to remain current with current and impending geopolitical crisis and employee sentiments?
- Are we satisfied our data and communications links are protected, resilient and redundant in case of attack?
- Is our organization integrating wellness and employee buy-in into our Insider Threat processes?
- Are our Public Affairs and HR departments in sync with and coordinating with risk, Insider Threat and physical security departments?
- Have we positioned ourselves legally and logistically to optimize emerging opportunities in once prohibited markets?
- Have we done due diligence to update supply chain risk considerations commensurate with emerging and plausible future crisis or opportunities?

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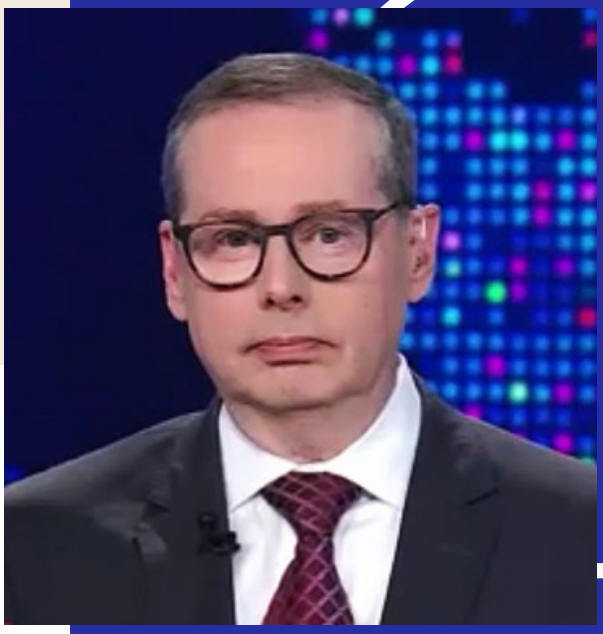

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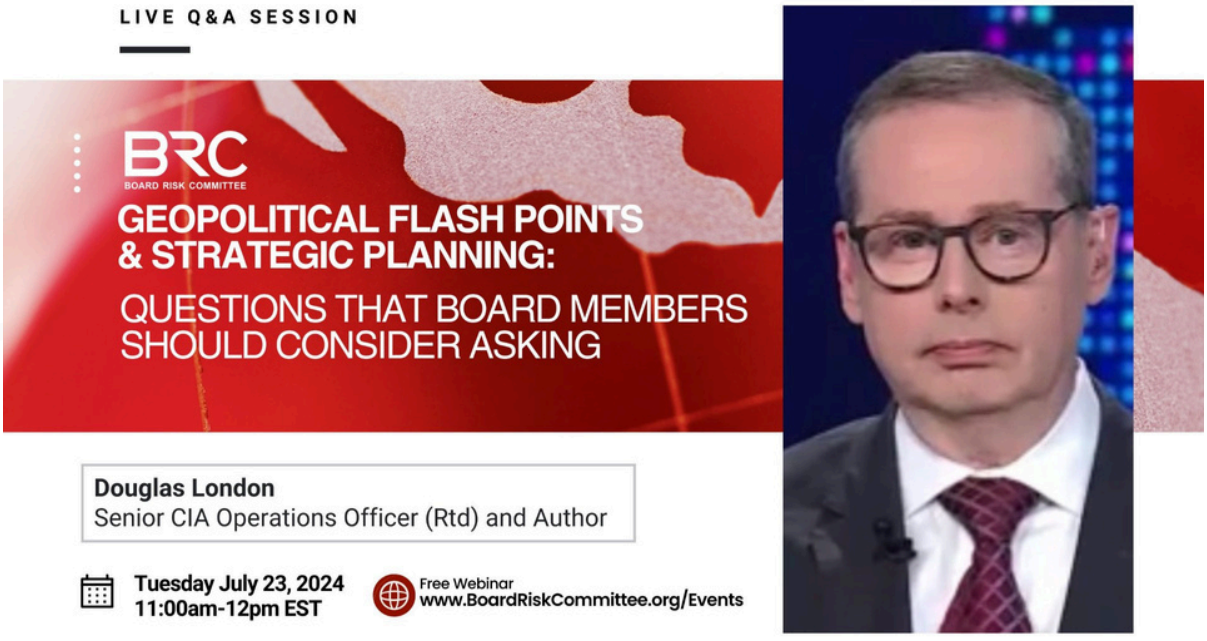
Douglas London retired from the CIA in 2019 after 34 years as a Senior Operations Officer, Chief of Station and CIA's Counterterrorism Chief for South and Southwest Asia. He served primarily in the Middle East, South Asia, the former Soviet Republics and Africa, with senior management positions for the Near East, Counterterrorism, Counterintelligence, Iran and Cyber operations.

Mr. London is a Non-resident fellow at the Middle East Institute, and is author of the book **"The Recruiter**: Spying and the Lost Art of American Intelligence," concerning the CIA's post 9/11 transformation. Mr. London has been a contributor to the New York Times, the Wall Street Journal, Politico, Foreign Policy, Foreign Affairs, The Hill, CNN, Just Security, The Atlantic Council and the Middle East Institute.

BRC Webinar featuring Douglas London July 23, 2024



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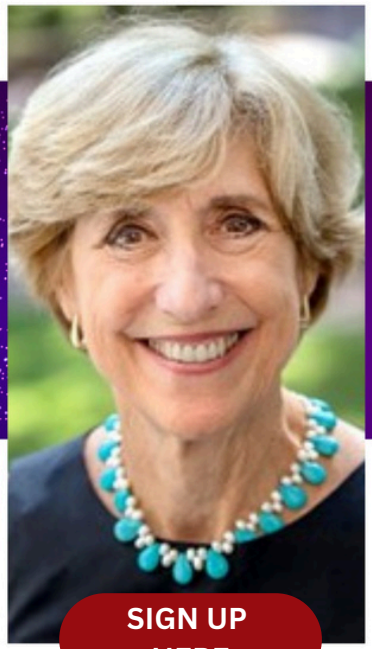

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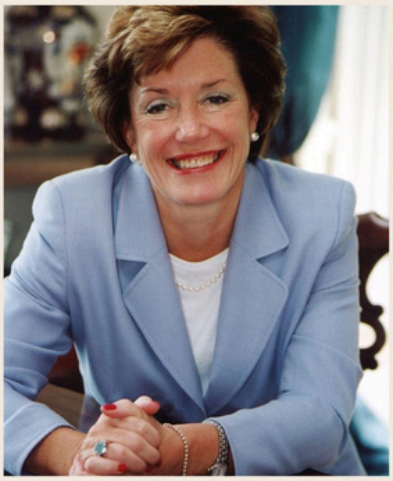

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