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## Risk, Instability and Global Economic Challenge: Unrest in Europe and Africa Driven by Financial Crisis

*The new United States Director of National Intelligence recently singled out the economic downturn as “the primary near-term security concern for the United States” and warned that if it continues to spread and deepen, it could contribute to new levels of unrest and socio-political instability. This trend has created a domino effect that is spreading worldwide. Like the post-depression turmoil of the 1930s, which commentators and policymakers identify as the strongest parallel in the past century to the present crisis, the current deepening economic challenges are sparking worldwide governmental instability and social unrest. Over the past few months, there has been a spate of labor unrest at multinational companies in Europe targeting executives. In several separate incidences, employees facing layoffs have been holding the plant managers hostage, with demands for better working conditions for employees and better severance packages for those laid off. It is becoming increasingly clear that these episodes of civil disorder will continue should the economic picture worsen. Incidences of mass violence, heated demonstrations, hostage situations, kidnapping, piracy, theft and dangerous mob-type behavior are suddenly and sharply on the rise around the globe, and this tidal wave of civil disobedience shows no signs of dissipating. In view of the gravity of the situation, it is obvious that the world economy needs more than a just a quick economic fix.*

*At the center of the international turbulence is a process of global financial confusion and wealth destruction, and a sudden stop to the forward march of world trade and global integration. This phenomenon can provoke unexpected political reactions and destabilize established structures of conflict containment. If this pattern persists, the relatively smooth expansion of prosperity and growth over the past 20 years will continue to give way to nationalistic rivalries and higher political volatility. This issue of The Lipman Report® will examine the widening and deepening governmental and social consequences of this crisis, focusing on Europe and Africa.*

The current recession is a truly global phenomenon that has weakened and imperiled economies the world over. The downturn began in the American housing sector, when subprime mortgages triggered speculative lending and buying, creating a massive bubble that was quickly exacerbated by worldwide speculation. When the bubble burst, the wave of turmoil and pain quickly spread to other sectors around the globe. While the American subprime

crisis triggered the global recession, and the private sector in the United States lost more than 700,000 jobs in March, the core of the American economy is still in much better shape than the economies of Europe, Africa and Asia. According to a World Bank estimate, 46 million people in the developing world — more than double the population of New York State — will be driven into poverty in 2009. The economic malaise has been especially severe in the post-communist countries of Eastern Europe. The Ukrainian president has called for new elections in the face of growing discontent with the economy, while in Moldova, impromptu street demonstrations have turned violent, fostering a generational split between the young and old. Moreover, Russia, which has been hit particularly hard by the recession, has 15 million people below the poverty line and another 37 million people — a full one quarter of the population — surviving in the precarious realm just above it. Millions of Russian workers have been laid off recently amidst the global economic slowdown, and the government in Moscow is bracing itself for social unrest and potential violence. And while the economic situation in Russia poses difficult challenges for its leadership, a deteriorating economy in North Korea and Pakistan — rogue states with nuclear weapons — presents a serious threat to all peace-loving countries.

An economic downturn will also surely have a negative impact on economically weak populations in developing countries, such as Pakistan, India, China, the Philippines, Mexico and many African countries. Some of these countries are also losing valuable tourism revenue, as heightened travel advisories in the face of mounting dangers — such as kidnapping threats — are keeping tourists away. Less economic activity means less economic opportunity, which produces less employment and less potential to escape the clutches of poverty. Unemployment also translates into more time to simmer in disappointment, along with more time and opportunity for anger-based ideologies to work their way into resentment and despair. Furthermore, it is expected that the newly dispossessed will turn their frustration and anger towards the United States and the West, claiming greed and lack of consideration for the undeveloped and developing world. The “blame game” has already started, with even developed Western nations blaming the United States for the crisis.

### Europe

The consequences of this crisis are beginning to surface throughout the Western world. Several governments in

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Europe have already fallen or changed leadership: Iceland, Latvia, Hungary and the Czech Republic have become the latest countries to lose prime ministers as economic hardship plays up political differences. Additionally, the global recession has sparked an increase in the number of violent incidents in the workplace, including the type of “mob-style” group demonstration and attacks not seen with this frequency in decades — a brand of violence that brings to mind the bread riots that preceded the French Revolution or the Great Depression riots of the 1930s. The hostage situations in Europe all arose out of the mounting frustration of the workforce, and could very well be repeated elsewhere in the future. There have also been several episodes targeting high-profile executives. In one such incident, the former head of the Royal Bank of Scotland had the windows of his home and automobile smashed by vandals who were upset by news that he had left his job with a very generous pension. Farther to the south, thousands of Greek workers went violently on strike, crippling the country’s public and private sectors in an action that was accompanied by fire bombings carried out by Greek anarchists.

Europe has a long history of labor militancy, especially in France and Greece. Demonstrations in recent months have drawn millions of protesters to the streets to challenge the French government’s handling of the economic crisis as the unemployment rate increases. Demonstrations early this month at the Group of 20 Summit in London turned violent with clashes between protesters and the police, while demonstrators at some of the largest and most prominent banks in the United Kingdom attacked uniformed officers and stormed the central London bank branches. In response, many workers in the financial district — better known as the City of London — are dressing casually, heeding police warnings that they should spurn business suits to avoid becoming targets for protesters. It is not surprising that executives are targeted, since they are often perceived to be the ones who have instituted layoffs or mismanaged a company into cutbacks or closures. However, it should be noted that it is not always the layoffs themselves that incite violence, but the seemingly unemotional or uncaring way managers sometimes handle layoffs that can spur employees into action.

Similar displeasure has been vocalized in the United States over the generous pensions and bonuses being paid out to bankers involved in failing financial institutions. There have been random, isolated episodes of violence, such as

the recent tragic shooting of 41 people in Binghamton, New York, by a laid-off worker that resulted in 13 deaths. While the type of mob violence seen in Europe has not yet manifested here, experts agree that it is very possible the United States may soon face similar challenges should economic circumstances worsen.

### **Economic Turmoil and the Far Right in Europe**

As economic experts are drawing parallels between the dire situation in the 1930s and today, the concern regarding a far right resurgence comes to mind. The recent electoral success of far right parties across Europe, especially in Austria and Switzerland, and attacks last year by extreme right-wing groups in Germany raise the question of whether the economic crisis could lead to a resurgence of the extreme right in Europe. Given the profile of far right supporters — the economically marginalized young and low-skilled, those receiving pensions or state benefits and small business owners — it might be expected that support for the far right will increase as the recession deepens. Unemployment tends to fuel support for the far right when there is a large immigrant population. Although at this time there is no immediate prospect of a neo-fascist resurgence and all its consequences — an authoritarian state, national unity and expansion, and extreme nationalization — a lack of electoral success by far right parties may give the extreme right political fringe more opportunities and temptation toward violence. Unfortunately, this pattern has emerged before; history has been witness to several terrible precedents of what can ensue when the far right takes power during an economic upheaval.

### **Africa**

While Africa is the second-most populated continent, it is often overlooked in discussions regarding security issues and the economic downturn. There has been significant development in a number of African countries in recent years, mainly because of large investments from China, cheaper anti-retroviral drugs, increased aid and the cancellation of debt, which enabled more spending on schools and health-care systems. The current financial crisis is unprecedented in scale and scope and will impact growth and trade as well as investment, trade credits, health issues, tourism, and remittances from overseas, not to mention reduced revenues from the declining price of oil. The latest World Economic Outlook projects the growth of Africa’s Gross National Product (GNP) in 2009 at 3.5 percent, down from 5.4 percent in 2008. The sheer magnitude of the crisis faced by Africa is only now

becoming apparent, and African leaders have warned that parts of the continent could be plunged back into conflict if they are not helped to recover from the global downturn. The tales of woe across the continent are numerous: 500,000 losing their jobs in copper mines in Zambia, farmers losing jobs in Tanzania when the cotton priced halved, foreign receipts down everywhere because of a cut in tourism and a reduction in remittances sent home by workers living abroad. Additionally, a drastic drop in the flow of aid could cause considerable economic hardship in countries such as Tanzania, Liberia and Mozambique, where Western aid accounts for 40 percent of the budget. Moreover, Africa has become a far more competitive political and economic marketplace because a number of African states have embraced a problematic and defiant mode of malgovernance, causing an arc of worsening stability and conflict. Zimbabwe, the Democratic Republic of the Congo, Sudan and Somalia all face political peril, with grave uncertainty hanging over Nigeria, Ethiopia and Uganda. And the same economic downturn that is wreaking havoc on jobs and homes in the developed world is threatening lives in Africa. There is increased concern over lack of funding for adequate supplies of anti-retrovirals and essential treatments for malaria and tuberculosis, diseases that continue to plague this continent.

A recent survey of African countries indicates that they may face heightened security problems, requiring special methods to protect assets and people at constant risk from violence or theft or at high risk of collateral damage from terrorism. The impact of political instability on companies can also include negative government policy, judicial insecurity and exposure to corruption, reputation damage, expropriation, nationalization and international sanctions. A recent study identified these countries as being at risk: Algeria, Angola, Cameroon, Central African Republic, DR Congo, Ivory Coast, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Kenya, Niger, Nigeria, Somalia, Sudan, Uganda and Zimbabwe. The potential for political and social unrest is also great in oil-rich North Africa because of tense relations between state and society, the complexity of the structures and populations of its various nations, a recent history of civil wars and long-term economic and political mismanagement.

#### **Political Uproar in Africa**

Africa has long been notorious for the prevalence of military intervention in politics. Twelve of the 52 African states are still headed by the leaders of coups or their

civilian proxies. Another 13 states remain controlled by the representatives of national liberation movements or insurgent groups that fought their way to power and never left. And three African presidents are former military leaders who surrendered power, voluntarily or not, before regaining it through the ballot box. Other countries, including Egypt, Botswana, Tanzania and Djibouti, are led by career military or intelligence officers who achieved power through constitutional means. That leaves just 18 presidents and three kings with robustly civilian — if not always democratic — credentials.

Recent coups in Guinea and Mauritania also serve as a reminder that the military remains an important factor in African politics. From the Horn of Africa (Somalia, Ethiopia, Eritrea), to Sudan, Chad and the Central African Republic, to the Great Lakes (Democratic Republic of the Congo, Uganda, Rwanda and Burundi), regional rebellion, tribal warfare and cross-border interventions also threaten security, with potentially devastating humanitarian consequences. One current such consequence is the violence and suffering now occurring in Darfur, causing massive displacements and migrations throughout eastern DR Congo, Sudan, Chad and Somalia.

#### **Piracy**

The impact of the instability in the African region can also be felt globally, as illustrated by the seizing of ships from France, Great Britain, Germany, Taiwan and Yemen by Somali pirates during the first week of this month. The pirates defied naval world powers by prowling farther out into the Indian Ocean than they had traditionally to target victims. There was also a marked spike in piracy off the Horn of Africa in 2008 that affected hundreds of ships and threatens to choke off the Suez Canal, one of the world's vital transport links. The International Maritime Bureau reported that 111 vessels were boarded off the coast of Somalia in 2008, while 293 incidents worldwide were recorded in the same year. Somali pirates are becoming increasingly sophisticated and have begun to expand their range well beyond the Gulf of Aden. The capture of the *Sirius Star*, approximately 450 nautical miles southeast of Kenya, demonstrated that the pirates' operating zone had expanded to encompass the main oil trade route from the Gulf to Europe and the United States. Long-range boats equipped with GPS navigation systems, heavy-caliber machine guns and rocket-propelled grenades have enabled Somali pirates to launch long-distance attacks against high-value targets in major shipping zones. This upsurge in

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heavily armed piracy and the sporadic, uncoordinated and largely ineffective actions of various governments to counter this threat have become so serious that shippers are considering the use of private security contractors to protect their interests. However, the only long-term solution to the piracy issue in the Gulf of Aden involves the stability of the government of Somalia, currently in question at least partially due to the current financial crisis.

### **Movement for the Emancipation of the Niger Delta**

An overview of the security situation in Africa would be remiss without mention of a militant movement that has seriously impacted the economy of Africa's most populous state. Since 2006, this little known militant group in Nigeria's oil-rich Niger Delta has made life difficult for international oil companies in the region. The Movement for the Emancipation of the Niger Delta (MEND) has attacked oil-field infrastructure, kidnapped foreign workers and stolen oil, selling it on the black market. Although members of this group try to convey an image of being freedom fighters, they have actually enriched themselves and others in the process, making money by kidnapping for ransom and by bunkering crude oil. Bunkering is the illegal process of tapping into pipelines, stealing the crude and selling it on domestic and foreign black markets. Nigeria is the largest producer of crude oil in Africa and the fifth-largest supplier to the United States. The activities of MEND, however, have reduced Nigeria's oil output by 20 percent over the last two years. MEND attacks in 2006 and 2007 resulted in the pilfering of 600,000 barrels of oil per day in crude output — a quarter of the country's production — and in the kidnapping of hundreds of foreign and national oil workers. Even platforms 75 miles offshore are not immune to MEND attacks, resulting in difficulties in recruiting employees, a demand for higher salaries, bonuses and kidnapping insurance and the additional expenses of reinforced security. Given the current landscape of political and economic challenge, MEND may be creating a greater disruption than ever before.

### **Business Continuity in an Economic Downturn**

As anyone with a stock portfolio knows, it is a rough time for the markets. With many portfolios down 50 percent or more, this loss of equity and wealth has been very difficult on individuals and corporations. The economic problems have not been confined to the stock markets or even to the United States, but have grown into a global event that is severely impacting the economies of Europe, Africa, Asia and the developing world. This financial strain is already

creating large security problems for corporations and governments that are particularly evident in this age of globalization in which multinational companies have interdependent investments in the developing world. Secure business continuity is crucial to on-time deliveries and production, and a break in one part of the system — from a shortage in capital, understaffing due to layoffs or regional instability — can and will weaken the whole.

*The current unrest occurring from the developed world to the developing world, from Europe to Russia to Africa, lends credence to the concern raised by the Director of National Intelligence that the current economic crisis is and should be the primary security focus. The problem poses potentially severe consequences for organizations. When companies plan cuts, they often focus on eliminating those corporate functions that do not appear to be contributing to the company's profitability. Unfortunately, one of the functions cut during tough times is corporate security. The lack of losses and incidents under the protection of a robust security plan can be interpreted by some to mean that there is no threat to guard against. It can be very difficult to quantify what did not happen — the losses that the company did not suffer due to the presence of effective security measures. In times of economic hardship, the relentless focus on operating expenses and even corporate cutbacks can lead to definite security challenges. Breakdowns in business continuity from economic, social and political instability here and abroad threaten operational integrity. Even more importantly, when people are hurting financially, issues such as employee theft, workplace violence, fraud and product theft by non-employees must be carefully monitored because the risks are greater than ever. We call for and urge chief executive officers to immediately prepare emergency plans — both strategic and tactical — for the purposes of anticipating civil disorder throughout their global properties. Despite the weighty financial problems claiming our attention, now is certainly not the time to drop our guard. The time for urgency is now®.*



The Lipman Report Editors