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Oil, Criminal Chaos and Terrorism: A Dangerous Cauldron of Threat in the Era of Globalization

The worldwide economic, political and nuclear climates are shifting rapidly. Escalating oil costs, rising fuel prices, increasing worldwide demand for food and fuel, skyrocketing inflation and unemployment rates, crime and expanding nuclear proliferation are all factors poised to support the growth of terrorism and wreak havoc on homeland security. This issue of The Lipman Report® will examine some of these unsettling factors, their interdependency and their potential impact on our way of life and peace of mind, both here and abroad.

Oil

Since the industrial revolution 200 years ago, mankind has relied on fossil fuel. The notion that this dependency might change is hard to contemplate; the impact of oil prices on the global economy and consequently on international power relations continues to be immense. Iran's recent missile firings, for example, shook the oil markets, helping to drive up the price of crude oil to a record level, surpassing \$147 a barrel. Interestingly, that rise — if sustained — would translate into billions of added dollars for Iran, one of the world's top oil exporters and coincidentally, a nation supporting terrorism and entertaining thoughts of becoming a nuclear power. It is estimated that the oil price increase will add up to \$25 million a day to Iran's economy, leaving one to wonder if the inflation was accidental or deliberate.

Although Iran's missile testing and sword rattling have driven up the cost of oil, a prime reason for the energy crunch is worldwide demand. The middle class in China is steadily mushrooming, and is expected to multiply sevenfold by 2020 to 700 million people. India's middle class is also rising sharply, projected to grow more than tenfold to 583 million during this same period. It goes without saying that these new middle classes in China and India want new homes with electricity and automobiles. As a result, both countries have become major oil consumers, but, unsure how best to manage their growing needs, have tried to promote energy security by seeking direct access to supplies overseas. This practice breeds instability in already fragile countries and undercuts patient efforts by the West to promote good governance of supplies. Tight spare production capacity and inflation are also critical factors in escalating oil costs.

While worldwide demand is steadily increasing, the U.S. Department of Energy estimates that U.S. oil consumption will grow from 20.7 million barrels daily in 2004 to 27.7 million barrels daily in 2030. The availability of low-cost oil resources is expected to decline and the industry will have to develop fresh resources in more remote areas where the costs of production and transportation are likely to be higher. The new supplies are almost certainly going to be more difficult and more expensive to produce than past ones. Additionally, these new supply chains could be more easily disrupted and will be more challenging to secure.

As incomes rise in the developing world, so does demand; however, double-digit growth is also creating double-digit inflation. Truckers in South Korea, France and Spain have blocked highways to protest high fuel prices, and angry Egyptians barricaded roads after a cut in flour subsidies. Oil at more than \$125 a barrel makes fertilizer too expensive, which in turn impacts the world food supply, in addition to the escalating cost of transporting food to the marketplace. Inflation is becoming a major problem in many areas: China's inflation is almost eight percent, while India's has risen to above eight percent. And inflation is even worse in smaller markets — inflation exceeds 30 percent in the Ukraine and Venezuela and 25 percent in Vietnam. Most experts believe that to break the back of double-digit inflation, central bankers have to raise interest rates dramatically, but this results in higher fuel prices, rising unemployment and eventually a recession.

At the same time, the oil industry has shifted to a more just-in-time delivery system, with longer supply chains that are more sensitive to disruptions than shorter ones. Oil producers that used to hold large amounts of spare capacity now hold very little, so that even small disruptions in supplies can have large effects. In short, the game for securing oil security has changed dramatically.

As painful as the current or approaching oil-driven recession will be in the West, the situation seems to be reversed in the Middle East, which is now experiencing an economic boon. One unavoidable

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implication of the dual realities, as oil production in the United States of America has fallen and consumption has risen, is that the volume of oil we import from abroad has also steadily risen. This amounts to more than \$700 billion a year in oil imports, a phenomenal transfer of wealth. Sadly, the influence that countries like Saudi Arabia and Iran can buy with these funds seems to have played a part in the radicalization of Islam around the world.

Moreover, if history is at all a precursor of future developments, there is no assurance that the Middle Eastern producers will use their greater wealth to address their internal problems. During the first great oil boom in the 1970s and 1980s, the Middle Eastern producers largely squandered their fortune. Consequently, when the boom turned to bust in the 1990s, economic problems exploded. With these problems came political discontent, terrorism and rebellion.

Money pouring in but not trickling down tends to create a dangerous social imbalance. Across the Middle East, youth unemployment currently averages at least 25 percent, close to double the global average. Both the rise in energy prices and the flood of oil revenues have stoked inflation. As always, inflation hits the middle and lower classes hardest, and in many Arab states this is destroying the middle class and driving its members to the levels of the poor — an unfortunate state of affairs that is enticing many into the arms of the Islamist extremists seeking to overthrow the regimes.

A classic historical example of the consequences of a poorly managed oil boom was the situation in Iran during the 1970s, culminating in 1979. The Shah's royal cronies became fabulously wealthy while the plight of the average Iranian worsened because of protracted unemployment coupled with soaring inflation. Rather than solving Iran's problems, the oil boom sparked the Iranian revolution, creating a major problem for the West that remains in effect today.

Today's sky-high oil price carries another political risk. It empowers Iran, the revolutionary Shia state that the conservative Sunni Saudis view as the main rival for regional influence. Even as the world has

ratcheted up sanctions to punish Iran for its suspected nuclear ambitions, the Islamic Republic has cashed in the rewards from soaring fuel prices. The tightness of the oil market has become, in effect, a line of defense for Iran, letting its radical leadership hint, truthfully, that any hostile act that may impede the flow of Iranian oil would risk a global economic decline.

Avoiding these kinds of internal upheavals and eliminating much of the anger and despair upon which the terrorists and extremists prey would be a major boon to a world that is likely to remain addicted to Middle Eastern oil — and therefore vulnerable to its vicissitudes — for decades to come. Additionally, American and European dependence on oil from unreliable sources such as Saudi Arabia, Venezuela, Iran, Iraq, Nigeria and Russia creates serious security vulnerabilities that, if exploited, could result in widespread economic dislocation and increased global instability.

Criminal Chaos

The rise in oil prices and the resulting inflation has resulted in a declining stock market that has in turn generated a spike in the unemployment rate, particularly for young Americans seeking work for the first time. The nosedive in automotive and other manufacturing sectors has resulted in big losses in factory jobs, which is taking a toll on banks involved in the mortgage crisis. Europe is following in America's footsteps: sluggish growth, rising inflation and unemployment. Food, fuel and housing costs are soaring throughout Europe.

While the economic problems in the West are serious, they are not as severe as in the 75 countries struggling below the poverty line. For instance, in Nepal, Tajikistan and 13 sub-Saharan countries, the inhabitants barely survive on approximately one dollar a day. Additionally, rampant population growth in the poor countries, increasing awareness of global economic inequality and the prospect of mass migration could lead to clashes between the West and "the rest." Several sub-Saharan African countries have plunged into the downward spiral that inevitably leads to the failure of the nation-state, with telltale factors such as the proliferation of armed gangs and

guerrillas lacking any ideology, gang warfare, pervasive organized crime, tribalism and warlord rule and a growing culture of impunity. It is in such places as Afghanistan, Sudan and now parts of Pakistan that al Qaeda found a welcome haven to recruit and train terrorists. From these bases, dangerous groups like al Qaeda can strike at symbolic targets in the developed world.

Government officials are also concerned that East African smuggling rings could help terrorists enter a country illegally. These smuggling networks are known to smuggle people into the United States from Djibouti, Eritrea, Somalia and Sudan, all countries in which al Qaeda operates. Intelligence officials believe that terrorists may use these networks even more now that it has become increasingly difficult to use fake passports.

Crime and terrorism go hand in hand because terrorist groups always need money to operate. Criminal chaos may be less spectacular and newsworthy than the media-conscious terrorism of bin Laden and his kind; however, criminal chaos is a real menace, both to the developing and the developed world, because chaos and failed states lead to terrorism and international organized crime.

Nuclear Proliferation-Iran and Pakistan

There are nine nations believed to have nuclear weapons; however Iran, which aspires to develop a nuclear weapon, and Pakistan, which already developed a nuclear weapon, fall into special categories. Iran is dangerous because of its fanatical Islamic regime and threats, and Pakistan because of its instability. Iran's recent test salvo of ballistic missiles, together with recent threatening rhetoric by commanders of the Islamic Republic's Revolutionary Guards, emphasizes how close the Middle East is to a fundamental — in fact irreversible — turning point. Some say this regime is buying the short additional time it needs to produce deliverable nuclear weapons, the strategic objective it has pursued for 20 years. Every intelligence service in the world believes the Iranian program is geared towards making weapons, not to the peaceful application of nuclear power. And, despite the current talk of economic sanctions, these measures have to date led nowhere. Western intelligence agencies agree that Iran will reach the

“point of no return” in acquiring the capacity to produce nuclear weapons in one to four years. Deterrence may not work as well on the fundamentalist, self-sacrificial mullahs who run Iran as well as it did with the comparatively rational men who ran the Kremlin and the White house during the Cold War. A nuclear strike in the Middle East would cause a traumatic destabilization of the area, with resounding political, military and economic consequences around the globe and serious injury to the West's oil supply. The Iranians would most certainly attempt to block the Strait of Hormuz through which Saudi and Kuwaiti oil flows to the world markets.

The geographical scope and quality of the goods for sale by the Pakistani scientist Abdul Qadeer Khan and his international nuclear smuggling ring is alarming. New information suggests that bomb-making instruction as well as nuclear enrichment knowledge and equipment is also on offer; modern designs for small, ingenious nuclear weapons have been discovered. The network's customers for other nuclear technologies and equipment have been Libya, Iran and North Korea, though suspicion has at times been attached to Algeria, Saudi Arabia and Syria as well. Information on computers regarding the design of a modern nuclear warhead tested and deployed by Pakistan has been discovered in Dubai, Malaysia and Thailand. Compact in design, efficient in operation and capable of inflicting immense destruction over long distances, these devices were made available by Dr. Khan's international smuggling ring. Additionally, this network provided some 20 uranium-enriching centrifuges to North Korea, as well as nuclear enrichment technology to Iran. This is a very dangerous situation given the current political and economic instability in Pakistan, not to mention the growing power of the Taliban and al Qaeda in the regions along the Afghanistan-Pakistan border.

Al Qaeda and the Terrorism Threat

The U.S. Intelligence Estimate recently stated that al Qaeda has protected or regenerated key elements of its capacity for attacking the United States. The conclusion that al Qaeda has made a comeback is based on the fact that al Qaeda has found a safe haven in the Federally Administered Tribal Areas (FATA) in

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Pakistan. The best possible evidence suggests that the threat posed by bin Laden's acolytes has not been extinguished. For example, Britain's domestic intelligence service, MI5, admitted that there are 2,000 citizens and other U.K. residents who pose a serious threat to security in the U.K., many of whom take direction from al Qaeda. The Taliban is resurgent in Afghanistan, and Pakistan militant groups have grown so aggressive that in late June they even threatened to take over a major city — Peshawar — once bin Laden's home and the birthplace of al Qaeda. Extremists in Europe and North Africa continue to covet bin Laden's blessing and the al Qaeda brand name.

In order to assess the threat to the United States, certain realities must be considered. The first is that as long as the ideology of jihadism exists and some jihadists embrace the philosophy of attacking the "far enemy," there will be a threat of attack against targets on U.S. soil. There has not been a time since 1990 when some group of jihadists somewhere was not plotting such an attack. A second tactical reality is that neither the U.S. government nor the American people can protect every potential target — there are simply too many of them. The federal government might instruct state and local authorities to protect every dam, bridge, power plant and mass transit system, but the reality is that there are not nearly enough resources available to protect all critical sites, much less to protect the far more plentiful array of potential soft targets. Simple attacks against soft targets are easier to conduct and far more difficult to detect in advance and prevent than the more complex attacks on large targets.

It is generally believed that in the United States, al Qaeda's capability is limited. The al Qaeda core may have personnel with the expertise to undertake large strategic attacks, but they have been extremely limited in their operational ability since the U.S. response to 9/11. The vast majority of the attacks attributed to the al Qaeda brand name since 9/11 have been conducted by regional franchises like Jemaah Islamiyah, al Qaeda in Iraq or al Qaeda in the Islamic Maghreb. However lone wolf or grassroots operatives could very well strike in the United States, as seen in past cases in New Jersey, Florida and California. These operatives normally seek

to strike in familiar country close to where they live. While al Qaeda generally chooses targets for their potential symbolic value so as to cause the greatest political or psychological impact — which its members hope will translate into economic impact — al Qaeda's most dangerous weapon has been unpredictability. Al Qaeda proper is patient as well as urgently apocalyptic: it habitually waits years between big operations. There is no reason to believe its goals have changed.

The aforementioned ominous trends: higher oil prices, escalating fuel costs, food shortages, inflation, unemployment, international organized crime, nuclear proliferation, political instability and failed states are all developments that are favorable to al Qaeda and detrimental to the West and civilization. Throughout the course of human history, life on earth has been a struggle, a disappointment to many, a tragedy to some and a triumph to a few. People managed to live through the plague in Europe 500 years ago, as well as the tyrannical regimes and resulting turmoil of the Nineteenth and Twentieth Centuries. We have every hope that we will do the same and overcome this recent phenomenon of jihadist terrorism. There will, however, have to be an aggressive and coordinated effort by both the public and private sectors on an international level to counter these trends in order to protect and maintain our cherished liberties. Additionally, we need to expand our standard of living into less fortunate areas of the world so as to try to counter the efforts of terrorist groups like al Qaeda, who prey on the economic dissatisfaction and frustration of the struggling economic underclass and recruit heavily from among its population. The time for urgency is now®.



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