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Security and the Economic Crisis: Rising Domestic and International Risks Fueled by Financial Anxiety

The world is weathering an economic crisis on a scale not seen in decades. Many companies have failed, a significant number of people have lost their jobs and thousands of homeowners face foreclosure. From lawyers in Paris to factory workers in China and bodyguards in Colombia, the ranks of the jobless have swelled rapidly around the world. To date, the slowdown has already claimed 3.6 million American jobs. The projections are worrisome: according to the International Labor Organization, a United Nations agency, worldwide job losses from the recession that began in the United States in December 2007 could hit a staggering 50 million by the close of 2009. High unemployment rates, especially among young people, have led to protests in countries as varied as Russia, Latvia, Chile, Greece, Bulgaria and Iceland and have contributed to strikes in Britain and France. The International Monetary Fund expects that by the end of the year, global economic growth will reach its lowest point since the Great Depression in 1929, and developed economies are expected to shrink in 2009.

The new United States Director of National Intelligence recently briefed Congress, saying that the instability caused by the economic crisis has become the biggest security threat facing the United States, outpacing terrorism. He 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 the kind of unrest that puts governments in peril. He also raised the specter of the “high levels of violent extremism” and regime-threatening instability that manifested during the economic turmoil of the 1920s and 1930s, cautioning that similar dynamics could ensue should the current economic crisis persist over a one- to two-year period.

The weakening global economy poses a myriad of operational threats to both multinational and domestic organizations. In the international arena, new threats to national security are likely to emerge in the wake of a decline in economic power in the United States, the United Kingdom and the rest of Europe. There is already a surge in espionage activity on the part of re-emerging economic powers; furthermore, some countries facing economic and political meltdown are also emerging as bases for terrorism. As a result of the redrawing of global alliances, there could also be threats from state-sponsored terrorism, particularly in the Middle East.

Kidnapping has also become more prevalent. In the domestic arena, the security outlook seems equally ominous. Demonstrations, civil unrest, labor disputes, crime, riots and violence often increase in frequency and severity during economic downturns, as rising unemployment leads to frustration and entices people to embrace crime, as well as to align with extremist groups. The effects of a struggling global economy go well beyond Wall Street and other international financial centers, but impacts “Main Street” across the world, increasing the vulnerability of governmental and private entities at a moment when they are least able to withstand operating disruptions. This issue of The Lipman Report® will review the security and safety ramifications of the economic difficulties, concentrating on the dual spheres of international and domestic risks, from the heightened concerns on the international stage, to the challenges closer to home — from across the globe, to Wall Street to Main Street.

Global Financial Instability

Roughly one-quarter of the world’s nations have experienced low-level instability — such as government changes — as a result of the current slowdown. People of various countries around the world who are new to the workforce, especially those in regions that moved from communism to capitalism in the 1990s, have known only boom times. The economic downturn has been particularly destabilizing to them, helping to spark the violence that recently exploded in some of the Baltic and Eastern European countries of the former Soviet Bloc.

The ripples from the slowdown in Europe, North America and Asia are also being felt in Africa and Latin America as remittances from migrant workers evaporate. A full one-quarter of Mexico’s income derives from remittances from the United States, and this source of funds is rapidly drying up. A significant number of migrant workers in Europe, the United States and within China are being laid off, and the loss of their remittances also are causing economic hardships, demonstrations and unrest in their home countries. Similar scenarios are playing out in Africa and Asia. Furthermore, though China has historically ranked low in terms of violent crime, since the global financial crisis began in 2008 there has been an increase in kidnappings for ransom — along with an overall rise in security risks for multinational companies (MNCs) doing business

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throughout the East Asian country. The MNCs have faced a sharp rise in security threats, particularly from laid-off workers.

The financial crisis makes it impossible to ignore how interconnected and interdependent the global economy has become in the last two decades. Globalization allowed for sustained growth acceleration in emerging markets and contributed to dramatic welfare improvements for billions of people. However, such interdependence has a downside when a failure in the market — as witnessed in the United States when derivatives based on securitized, toxic mortgages engulfed industrialized and emerging countries alike — eviscerates the balance sheets of banks around the world. European banks, for example, have lent approximately \$3.5 trillion to emerging markets in recent years. As these banks suffer the consequences of overexposure to derivatives fixed to U.S. mortgages, credit lines are drying up — leaving emerging economies with reduced access to foreign capital. Additionally, a drastic drop in aid flows could cause considerable economic problems in countries such as Tanzania, Liberia and Mozambique, where western aid accounts for 40 percent of the budget. The reduction or absence of this aid will certainly have a devastating and destabilizing effect.

As the financial, economic and political capacities of these countries spiral downward, they are put at risk for toxic socio-economic trouble, including food insecurity, labor unrest, political instability and scarcity. Scarcity naturally arises when demand outstrips supply. It increases risk by precipitating food and fuel riots, along with civil and labor unrest. For example, some populous but low-income countries such as Nigeria and Bangladesh have suddenly found themselves with insufficient food budgets, and the combination of shortages and increasingly restive citizens have resulted in food riots, especially in urban areas. Historically, two examples resulting from economic collapse caused by a financial crisis and scarcity are particularly significant. These are the ascension of the Communist Party in Russia with the Bolshevik Revolution in 1917 and the turbulent conditions in Germany during the period of the Weimar Republic, which paved the way for the Nazi party to come to power in the 1930s.

Beyond the very weighty issues of rampant global unemployment, reduced access to foreign capital and the

economic and psychological fallout from scarce commodities, there is also mounting concern inside America's intelligence agencies over long-term harm to America's reputation and the worldwide questioning of its stewardship of the global economy. Recent allegations of massive fraud and corruption also impact negatively upon America's image and give favorable publicity to al Qaeda's efforts to undermine the economies of its enemies.

Energy Concerns

The globalization of the economy has created extended and complex supply lines that may become vulnerable in this economic downturn. Disruptions to energy transit routes in the Gulf of Aden and the Straits of Malacca by pirates, attacks on platforms and pipelines in the Niger River Delta by insurgents from the Movement for the Emancipation of the Niger Delta (MEND), and the geopolitical situation in Iran and Venezuela present a continuing problem to energy flow. Also, the ascension of narco-traffickers in Mexico threatens the stability of the Mexican government, a major supplier of energy to the United States. And the dependability of Russian energy supplies to the West is always problematic; a major terrorist attack or a geopolitical crisis could certainly disrupt the delicate balance of on-time energy deliverance as witnessed in Europe this winter.

International Data Theft

The major western counterintelligence services have already noted a marked increase in intelligence activity by their adversaries. Stealing information and technology is always considered a less expensive alternative than dedicating the necessary resources to develop these innovations on one's own. Due to the down economy, industrial espionage will be increasingly used by international organizations not concerned with ethics. Traditional tradecraft such as technical surveillance, telephone taps, bugging devices, concealed cameras, black-bag jobs, cyber penetration, bribery and extortion will undoubtedly be employed.

Kidnapping

There already has been a marked increase in kidnapping on the international scene, again strongly motivated by the financial crisis. In the past, kidnapping for ransom has been mainly associated with Latin America. But this has changed, and reports of kidnapping now also come from the swamps of the Niger Delta, the turbulent cities

of Iraq and Pakistan and ships in the Gulf of Aden. Colombia, a nation synonymous with kidnapping, has fallen to number seven among the top 10 “kidnapping for ransom” countries — Pakistan, Mexico, Venezuela, Nigeria, India and Afghanistan have forged ahead to places one through six on the list. And kidnapping is not limited to travelers; aside from American citizens traveling and working abroad, criminals in Mexico are now kidnapping Mexican citizens with relatives in America and forcing these relatives to pay ransoms. In fact, due to the influence of these Mexican criminal gangs, Phoenix, Arizona, has become the kidnapping-for-ransom capital of the United States — the Phoenix Police Department received 368 kidnapping reports last year. Unfortunately, this situation is unlikely to improve in the near future, with the financial effects of the credit crunch likely to circumscribe Latin America’s capacity to invest in the improvements to security and judicial infrastructure needed to make a real difference.

Domestic Risk

Domestic threats are escalating as well, generated by a rise in the number of individuals in desperate financial situations. It is a given that desperate people will do desperate things, increasing the likelihood of such crimes as workplace violence, vandalism, theft and cyber crimes. In a declining economy, the number of disgruntled employees will rise as organizations face increasing budget cuts and layoffs — and some are turning to crime to mitigate losses.

Cybercrime and Data Theft

Online scammers have been ramping up their efforts with fraudulent online schemes designed to take advantage of public confusion over banking consolidations, and to prey on mass concern and desperation over stock market declines, mounting layoffs and foreclosures. There is, in fact, a clear correlation between the rise in the number of targeted cyber attacks on consumers and the stock market decline over the past several months. While the U.S. stock market declined between September 1 and October 9, 2008, the volume of malware threats — software designed to infiltrate or damage a computer system without the owner’s active consent — doubled to more than 24,000 per day between September 8 and September 10 and to more than 30,000 per day on September 16. A study from an international network of support centers designed to protect users against viruses reported a recent surge in the number of fake antivirus

software scams tricking unsuspecting consumers into making online transactions, generating millions in profit each month.

In addition, increased economic woes are generating a rise in data theft. Displaced employees are using their corporate data access to steal, exploit and damage information networks, potentially costing businesses billions of dollars. While insiders have always posed a threat to information security, the study indicates that current economic pressures are putting vital information at greater risk than ever before. With thousands of workers laid off each week, there may be added incentives for employees shown the door to leave the premises with valuable intellectual property — to bolster their chances of finding a job with a competitor, to use the information in a start-up company of their own, or to sell the information. This problem is exacerbated by the fact that severely cut staff and budgets can lead to management chaos within IT groups. Employees may be unsure of how and to whom to report security concerns, and existing controls may not be monitored as roles are switched and jobs lost. Not surprisingly, ignoring security problems can be extremely costly. The average security breach results in a loss of \$4.6 million in intellectual property and costs approximately \$600,000 to clean up.

Online consumers are being victimized in a number of ways. In one type of online scam called “phishing,” criminals masquerade online as trustworthy entities in order to gain confidential information such as social security numbers, birth dates or credit card numbers. One current phishing scheme involves e-mails asking people to provide their bank account information so as to avoid having their bank account closed in a merger. Soon after providing these details, victims find that their account balance has disappeared. In another type of scam, cybercriminals advertise purported work-from-home jobs on the Web — “jobs” that are actually heists in disguise. In one recent scam, a foreign advertiser, masquerading as a legitimate foreign-based corporation, colluded with its operatives in the United States to send counterfeit cashier’s checks to unsuspecting victims who had signed up for work-from-home jobs. Once a victim signed up, the scammers utilized their local operatives to send the phony checks to the victim, generally in the order of \$15,000 each. The victims would deposit the

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checks in their personal accounts, and since the counterfeit checks looked legitimate, the bank would credit the account with the funds. Only after the checks made it to the Federal Reserve Bank, which took upwards of two weeks, were they discovered to be counterfeit. By this time, the victims had already wired money from their accounts via Western Union to “company representatives” offshore. Since the cashier’s checks were fake, the victims were liable for the loss to the bank. These transactions amount to nothing more than a money laundering move, known as a “cyber mule operation.”

Information security is the responsibility of all employees of the organization. Security training and awareness should be taught at all levels. Furthermore, strong senior management support for such programs is vital to ensure they are adhered to and taken seriously. Some valuable steps include: educating employees on reporting suspicious computer activity, deactivating computer access for terminated employees and implementing strict password and email account management policies.

Violent Crime

It appears that the nearly decade-long rally of prosperity and reduced crime has ended as financial woes mount for the American public. Many big cities — including Los Angeles, Chicago, Houston, Boston and Pittsburgh — are reporting an increase in homicides this year. It is natural for Americans to grow concerned that the recession is bringing a return to the urban crime and violence more common in the 1970s and 1980s than in the past two decades. Every recession since the late 1950s has been associated with an increase in crime — property crime and robbery in particular, as these types of crime are most responsive to changes in economic conditions. Although the precise relationship between economy and crime varies from case to case, there will almost certainly be an overall spike in crime if the recession lasts very long. Many of those who recently moved from welfare to work under recent reforms now find themselves in a very tenuous safety net. Consequently, in a short period of time we will see levels of criminal activity that we have not seen in a long time. Police departments are already witnessing an increase in “Recession Crime,” particularly burglaries and shoplifting at grocery stores and mall retailers. Retail outlets of all sizes are vulnerable to crimes such as burglary, robbery, vandalism, shoplifting and check and

credit card fraud — and not just from shoppers. The single biggest cause of retail shortage is stealing by current or ex-employees.

Generation Y

Criminologists are also concerned about an impending crime wave due to the large number of individuals in Generation Y — young men and women coming of age with nothing to do, as the job market continues to falter. Generation Y, now twenty-two years old and younger, will be the largest generation in the history of the United States, filling the prime crime-committing age of 15 to 30 with more idle young people than this nation has ever seen. When the maturation of this generation runs into a prolonged recession, the outcome cannot be good. Socio-economic stresses may contribute to increased drug use, leading to potential violence — particularly among the lower-income population. An additional consequence of this collision could be support for far-right extremism and racism, along with an increase in public hostility to migrants as the job market tightens.

As the effects of the economic crisis spread from “Wall Street to Main Street” and around the world, most security threats are likely to worsen. From Pakistan and Afghanistan to Russia and Mexico, viable states become weak states and weak states become failed states. Emerging markets continue to be in crisis while domestically, security is challenged by an increase in crime, especially insider crimes such as cyber crime and property crimes. Businesses, many of which are resorting to layoffs and wage freezes, will be particularly vulnerable to the “entrepreneurial criminal,” not to mention workplace violence caused by the economic and psychological stress. Protecting against potentially devastating demonstrations, losses, violence and destruction requires implementing sweeping, innovative protection plans for the entity that will ensure the continuity of the enterprise. The time for urgency is now®.



The Lipman Report Editors