

# RISK FOCUS

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## Geopolitical Risks in the Middle East – A Function of Trends

The unprecedented levels of violence and political unrest witnessed across the Middle East present significant implications for investors, commercial entities, and supply chain operations.



This volatile environment is a result of three trends: i) the rising terrorism threat; ii) increasing regional civil wars and conflict; and iii) an underappreciated humanitarian crisis. The intersection of these three trends has increased risk levels and uncertainty across multiple geographies creating complexities that are ever more difficult to discern and understand. However, the net effects of this volatility are clear:

- **Terrorism Risks for Commercial Interests are Increasing.** Commercial interests, especially Western businesses, remain a primary target of terrorist violence. It is expected that terrorist violence for 2015 will exceed the levels of the past decade. The commercial sector remains a primary target for jihadist violence representing nearly 55% of all attacks in 2014.<sup>1</sup>
- **Middle East Volatility Escalating.** The growing volatility in the Middle East will not only impact business

interests in the region, but it will also ensure that the terrorist threat will continue well into the next decade. More importantly, the potential for regional conflagration remains significant.

Despite these conditions, significant opportunities exist for those entities that comprehend, plan for, and mitigate the risks to their human and physical capital. In this manner, commercial entities can identify critical uncertainties in their operating environment and plan for the future with confidence.

## TERRORIST VIOLENCE AND RISKS

Since 9/11, the West has fought four wars across the greater Middle East and South Asia.<sup>2</sup> Throughout this period, there have been varying levels of success against al-Qa'ida and like organizations. Yet, despite substantial efforts<sup>3</sup>, 2014 saw a 35% increase in terrorist attacks from the prior year, accompanied by an 81% increase in terrorist deaths. This dramatic increase in the frequency and lethality of the violence is largely attributable to conflicts in five countries - Iraq, Nigeria, Afghanistan, Pakistan, and Syria. However, 90 other countries across the globe also experienced terrorist violence as terrorist groups increase strategic emphasis on foreign targets.<sup>4</sup> Correspondingly, the domestic terrorism threat levels in the US,

UK, and France are approaching a threshold not seen since 9/11.<sup>5</sup> Not surprisingly, the commercial sector remains a primary target for jihadist violence representing nearly 55% of all attacks in 2014 and private entities were targeted in 72 countries.<sup>6</sup>

Unfortunately, and perhaps predictably, the U.S.-led campaign air campaign against the Islamic State has produced uneven results. The group's regional advance has created dangerous momentum, and despite localized successes, air strikes have proven largely unable to inhibit the Islamic State's territorial expansion. The movement that began in Iraq and Syria now extends across Libya, Egypt, Tunisia, Algeria, Nigeria, Yemen, Saudi Arabia, Afghanistan, Pakistan, and the North

Caucases.<sup>7</sup> Controlling an area larger than Jordan, the Islamic State's galvanizing influence is perhaps best measured by looking at its sustained appeal to foreign fighters who number more than 30,000 (from over 100 countries), including 3,000 members from Western Europe. The risk of returning fighters and calls by the Islamic State to conduct terrorism in the West, essentially crowdsourcing terror, amplifies the risk of attack within the West and cannot be ignored. The increase of active shooter attacks, from Charlie Hebdo to the Lindt Café hostage situation in Australia, reflects the distributed nature of terror networks and lone wolf cells. However, the emergence of this attack profile belies the rising risk from large-scale attack risk in the West by the Islamic State and its affiliated actors.



## INCREASING REGIONAL VIOLENCE

The situation in the Middle East today is unprecedented – not the least because of the significant terrorism threat. However the threat to global investors by terrorism is far outweighed by the threat posed by the multiple civil wars in progress throughout the region. The impact of these interlinked civil wars creates contagion risks that could potentially fuel new interstate conflicts and induce widespread economic volatility. The broader these conflicts become,

<sup>1</sup> U.S. Department of State, "Country Reports on Terrorism 2014, National Consortium for the Study of Terrorism and Responses to Terrorism: Annex of Statistical Information," June 2015.

<sup>2</sup> Following the attacks of 9/11, the United States, and its allies, participated in Afghanistan, Iraq 2003-2009, the Libya effort to unseat Muammar Gaddafi, and most recently, the 2015 Iraq and Syria campaigns.

<sup>3</sup> Direct U.S. expenditures total more than USD 1.7 trillion over the past 14 years. When factoring indirect expenditures related to the conflicts, the total rises to USD 4.4 trillion. Watson Institute International & Public Affairs, Brown University, Costs of War, [watson.brown.edu/costsofwar/costs/economic](http://watson.brown.edu/costsofwar/costs/economic), accessed 17 August 2015.

<sup>4</sup> U.S. Department of State, "Country Reports on Terrorism 2014, National Consortium for the Study of Terrorism and Responses to Terrorism: Annex of Statistical Information," June 2015.

<sup>5</sup> Author's research demonstrates an average of 2.59 terrorist plots, disrupted or otherwise, per month in the U.S. since 1998.

<sup>6</sup> U.S. Department of State, "Country Reports on Terrorism 2014, National Consortium for the Study of Terrorism and Responses to Terrorism: Annex of Statistical Information," June 2015.

<sup>7</sup> Charles Lister, "A Long Way from Success: Assessing the War on the Islamic State," *Perspectives on Terrorism*, Vol 9, No 4 (2015).



the more operating space extremist groups have to flourish.

- **Syria.** The Syrian Civil war, a conflict that began as a popular movement, now includes three major terrorist groups (Lebanese Hezbollah, Islamic State, al Nusra Front/al-Qa'ida), a fragmented opposition that includes hundreds of different organizations, significant involvement from Iran and Russia, and a multi-country coalition led by the U.S. Recent estimates place the death toll of this conflict at well over 200,000. The complexity of this crisis cannot be overstated.
- **Lebanon.** Lebanon has become a victim of spill-over violence from Syria, as jihadist groups target Hezbollah in an attempt to compel

the group's withdrawal from Syria.

The perennially tense security situation in Lebanon is only aggravated by these attacks, which so far have not been overly successful. However, should the jihadists succeed in sustaining a campaign of violence, the precarious security balance in Lebanon could suddenly shift, resulting in a spiralling campaign of violence.

- **Libya.** A fractured state itself, Libya has also become the gateway for Islamic State recruitment, training, and force projection, creating and amplifying further destabilizing effects for both the Middle East and North Africa. At the same time, the civil war in Libya has functionally divided the country between rival factions. The

rising violence could further threaten the state's remaining oil and gas production as well as potentially triggering new migration waves to Europe.<sup>8</sup>

- **Yemen.** The recent collapse of the Yemeni government due to the Houthi insurgency, the Arab nations supporting regime elements, and the entrenchment of the al-Qa'ida in Yemen portend a dire outcome. This deep instability will only be compounded as 20 million Yemenis – 80 per cent of the country's population – struggle to access clean water.<sup>9</sup> Yemen may well be the first country to expend its water supply, risking one of the largest humanitarian disasters of the modern era.

<sup>8</sup> Daniel Serwer, "Libya's Escalating Civil War: Contingency Planning Memorandum Update," Council on Foreign Relations, June 2015.

<sup>9</sup> Sophie Cousins, "Options drying up for water-depleted Yemen," nature Middle East, published online, 15 August, 2015.

<sup>10</sup> UNHCR Syria Regional Refugee Response Interagency Information Sharing Portal, numbers updated 16 August, 2015, accessed 18 August 2015.

<sup>11</sup> Iraq has experienced similar crisis with at least 4 million internally displaced persons as of June 2015 according to the Internal Displacement Monitoring Centre.

<sup>12</sup> Syrian refugees: Turkey 1.8 million refugees, Lebanon 1.2 million refugees, and Jordan 600,000 refugees. UNHCR Syria Regional Refugee Response Interagency Information Sharing Portal, numbers updated 16 August, 2015, accessed 18 August 2015.

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## REFUGEE CRISIS

The terrorist violence and civil wars that dominate the headlines mask the severe and growing humanitarian crises across the region. The social and fiscal ramifications of the significant influx of Syrian and now Iraqi refugees on already weakened states create long-term obstacles to state stability.

The region's refugee crises have reached levels not seen since World War Two largely driven by the veritable stalemate in Syrian civil war. The UNHCR noted that more than 4 million Syrian refugees have fled the conflict,<sup>10</sup> which does not account for the nearly 7.5 million estimated internally displaced persons inside Syria as of July 2015.<sup>11</sup> At the same time, the conflict in Iraq has triggered a similar, albeit not as large, displacement of its population. The continuation of these conflicts will only increase the number of refugees.

The danger of these threats is not limited to one or even two countries but indeed presents a regional problem with Turkey, Lebanon, and Jordan bearing the greatest burden.<sup>12</sup> For example, recent estimates show that nearly 37% of Lebanon's population is now comprised of Syrian refugees, a development that alters Lebanon's fragile multi-

confessional and sectarian balance. Moreover, this is not a short-term problem. Indeed, even were the Syrian conflict to end tomorrow, a large percentage of the refugees would likely remain in place continuing to drain already scarce resources from states struggling with a myriad of social and economic problems.

## CONCLUSION

The intersection of growing terrorist threat, increasing volatility in the Middle East, and growing refugee crises will further strain already tenuous state infrastructures that continue to struggle with restive populations in the shadow of the failed Arab Spring. While global businesses are not strangers to uncertainty or volatility, the very real risk of contagion necessitates that businesses examine risk scenarios to 'stress test' their exposure and prepare for sudden change. One only needs to look to the self-immolation of the Tunisian street vendor that triggered the Arab Spring to appreciate the potential for rapid and unpredictable regional change. Indeed, now more than ever, the geopolitical environment demands an understanding the direct and indirect threats and a sophisticated approach to risk transference.



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