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SUMMARY

As we do every year, here are a few thoughts on the security implications of seven potential domestic and global "flash points" as they present themselves at the beginning of the New Year, 2012.

As always, none of these reflect Apollo corporate policy or positions but are the views of the author alone.

All are drawn from frequent visits abroad, in various official and non-official capacities, over the past year and from conversations, insights, and analyses provided by observers with a far keener sense of what is happening in the world around us.

These caveats aside, we hope that they will provide many of you with some food for thought as your companies plan their business operations, investment, and travel for the coming year.

SEVEN POTENTIAL "FLASH POINTS"

No one last year would have predicted the turmoil in the Middle East since January 2011 which has seen the overthrow of four leaders who collectively had ruled their countries for a staggering 129 years in all (Ben Ali in Tunisia: 24 years; Mubarak in Egypt: 30 years; Saleh in Yemen: 33 years; Qadhafi in Libya: 42 years).

The same "surprise" usually accompanies all other New Year's predictions about forthcoming events and trends, which is why we will confine ourselves to potential "flash points" which can be qualified if (or when!) they don't transpire.

Some of these "flash points" -- in fact, most of them -- will have a bearing on the way companies operate both at home and overseas. Many will also have a direct impact on security.

(1) TERRORISM

We hesitated about putting "terrorism" on this list. That would have been a first since this series of annual reports began, and as a security company, that might have been properly viewed as an unforgivable oversight.

Suffice it to note that with the removal of Osama bin Laden in May and our continuing drone attacks on other "al-Qa'ida" and like-minded extremist cadres in Yemen, Pakistan, and Africa,

the terrorist world is in the process of re-grouping and relocating to various sites in Africa, Latin America and other “safer locales.”

If routing ‘al-Qa’ida’ from its base in Afghanistan was the primary reason for our involvement there, then we can all safely assume that this mission has been accomplished -- and some time ago to be sure.

Over the next two years, with the Taliban surfacing in Qatar with a quasi-diplomatic office, the US will be able to urge them to formally disengage from Dr. Ayman al-Zawahiri and the other remaining core elements of "al-Qa'ida". This will not dissipate the threats emanating from the many like-minded extremist surrogates that have multiplied under “al-Qa’ida’s” tutelage since 9/11, with adherents in many other places of the world including China, Russia, Africa, Latin America, South and East Asia, Europe and North America.

Indeed, the domestic terrorist problem is of concern to our government and, accordingly, is being addressed on a daily basis by the FBI, NYPD, BPD, and the CIA and NSA within terms of their mandates.

Only a few of these domestic threats draw their inspiration from radical Islamic sources; as Timothy McVeigh's bombing in Oklahoma City evidenced in 1995, there are any number of secular extremists bent on mass murder and mayhem, aside from "al-Qa'ida" and its numerous offshoots.

What is of concern to us in 2012 is not the loner terrorist tossing a grenade or even committing suicide and taking innocents with him or her – however distressing such actions are. What keeps our focus on terrorism as a “flash point” is the threat of a repeat of a 9/11 style ‘spectacular’ event along the lines of one involving a rogue nuclear, biological, or chemical device which would raise havoc in a city or a sports, shopping, transportation, or entertainment arena.

Plots against venues such as these have been uncovered with a disturbing regularity over the past decade -- but, thus far at least, these plots have been uncovered before it was too late.

For the next twelve months, London and elsewhere in Europe and the Middle East and South Asia are more likely to be targets for terrorist plots than the continental United States. With much attention focused on the July 2012 London Olympics, it may be safe to assume that these UK venues will not be targeted in any serious fashion either -- at least not during these sporting events themselves.

Most terrorists are anything but inept (although, thankfully, there are exceptions such as the 2010 Times Square would-be bomber). Most prefer a soft or at least an unsuspecting target for their loathsome deeds.

With half of the world’s security and intelligence resources concentrated on Great Britain during the Olympic Games, one can assume that most terrorists will merely sit back and take a certain

enjoyment from all of the expense and anxiety they have caused without firing so much as a firecracker.

Radical "Islamist" and "jihadist" elements are encroaching on the Arab heartland, and their search for a WMD component continues.

But we have received no indication that this capability has been reached nor is there any evidence of any active planning against a specific target in the west.

The same cannot be said for the Chechen and other separatist extremists in the Caucasus region of the Russian Federation. Unconfirmed reports of high grade uranium slipping out of controlled storage facilities continue to circulate in some of the areas of the former Soviet Union. If true, then Russian security will have its work cut out for it even more in the future than in the recent past – and their record of achievement in ferreting out the danger before disaster strikes has been spotty, to say the least.

For the moment, for the United States at least, we have these malevolent forces ‘on the run’. Unfortunately, it is safe to assume that they will re-emerge at some point in the future which is why “terrorism” as a potential “flash point” can be expected to continue to be a cause for concern for governments and corporate security officials alike both in 2012 and beyond.

(2) ISRAEL

Israel is one country which successive administrations – Democratic and Republican – have described as a true democracy where the respect for life, liberty, and the pursuit of happiness matches our own perception of ourselves.

From this respect, the on-going social conflict between the ultra-Orthodox community and other members of Israeli society -- a serious social concern highlighted by President Shimon Peres on 27 December 2011 -- is disturbing.

Other aspects of Israeli domestic and foreign policy are also likely to impinge on America’s security interests in a more direct manner.

The simplest explanation for this situation is Israel’s determination to continue to construct settlements in East Jerusalem and on the occupied territories of the West Bank. Regardless of the security objectives behind this effort, these settlements, both large and small, are illegal under international law. Their continuation has been condemned by almost every other country on earth, including the United States.

More than any other practice – Palestinian hostility or intransigence towards Israel included – the construction of these settlements, often undertaken through the seizure of Palestinian lands and the removal of their Muslim and Christian homeowners or farmers, has effectively killed the peace process and the prospects for a two-state solution.

The discussions in Jordan between leading Palestinian and Israeli negotiators earlier this month would have been heartening if they were destined to lead to renewed substantive negotiations. Sadly, they won't.

There is simply no effective, strong leadership on either the Palestinian or the Israeli side, which is a prerequisite before substantive talks can begin.

Moreover, equally tragically, the U.S. has lost its role as an "honest broker" in the view of most, if not all of the Arab and among our European allies. Instead, what we are facing, with the political changes arising from the convulsions of Arab Spring, is a roll-back – over time from the headway made at Oslo, Madrid, and perhaps even Camp David some 34 years ago.

This development can only rebound negatively for US security interests, either through what has been up until now our nearly knee-jerk support for our friend and ally, Israel, or because of the perception in the broader Arab world that everything we do in the region is somehow tied to a "Zionist-American conspiracy" hatched between Washington and Tel Aviv.

Renewed armed conflict between Israel and the Palestinians in 2012 is a distinct possibility. A broader conflict involving third parties — Hizballah or Iran in particular — is perhaps less likely, but all of these threats make Israel a security "flash point" which should be monitored carefully by both the USG and any American multinational with economic interests or investments in Israel or neighboring countries in the region.

(3) IRAN

Another "flash point" concerns Israel as much or even more than the United States. This is the question of Iran and its presumed, continuing pursuit of a nuclear weapons capability.

This presumption has brought key members of the international community, including the UN, the U.S. and many countries of the European Union (the UK in particular) to introduce increasingly stinging economic and financial sanctions against Iran.

Prime Minister Netanyahu has been focused, since he took office a second time in 2009, on a nuclear armed Iran as an existential threat to Israel's security. Even as the security wall formed by authoritarian but relatively "safe" regimes around him has crumbled from Lebanon to Egypt, and possibly to Syria and even Jordan where King Abdallah is striving to weather a challenge from resurgent Islamic forces, Netanyahu has attempted to convince his inner security cabinet to support a unilateral move against Iran **IF** Israel is unable to convince the United States to take the lead in this misadventure. Accordingly, Israel has shown little in the way of positive thinking about how to respond to either the Arab Spring or to the ultimate threat which a radicalized Palestinian identity will pose to Israel over the medium and longer term.

Meanwhile, Iranian President Ahmedinejad faces his own domestic challenges. Intelligence sources suggest that the Supreme Leader, Ayatollah Khamenei would like to replace him but does not have sufficient support from other Iranian power centers to do so without damaging his

own position. Better to wait out his non-compliant and mercurial president until he is replaced in elections in June 2013.

Nevertheless, Ahmedinejad and his military allies seem determined to bolster Iran's standing in the region by provocative military exercises, missile tests, and warnings against the return of US aircraft carrier task forces to the Persian Gulf.

Iran is pressing its advantage in Iraq where a serious unraveling in public order has been threatened by Prime Minister al-Maliki's efforts to emasculate the Sunni dominated opposition "al-Iraqiya" coalition.

Further, Iran feels that President Obama is vulnerable. Knowing of US reluctance to involve itself in yet another war, he is apparently betting that he can bully the US sufficiently to obtain concessions in the next round of P-5 Plus One talks with Iran over the nuclear issue.

If this is his calculation, Ahmedinejad might find it in his parochial interest to further escalate the crisis between Iran and the US. Our unilateral sanctions against the central bank, which took effect on 1 January 2012, caused a precipitous fall in the value of Iran's currency. It will recover some of this loss over the next few weeks.

At the same time, it is Ahmedinejad's paramount interest to keep the price of oil -- his country's and his administration's economic lifeline -- artificially high. His latest shenanigans with missiles and threats to close the Strait of Hormuz have accomplished this in the short-term. All it takes is one over-reaction on the part of multiple players in this scenario -- by Iran, Israel, the US, or any one of a number of Gulf states -- could well ignite the region into a costly and irretrievable counter-strike.

These fears are not unfounded, particularly if diplomacy continues to be treated as a slogan rather than as a serious policy option, which appears to be the current intention on the part of the Obama administration.

Higher oil prices affect the cost of doing business, and as long as there is a threat of conflict and a disruption to the flow of oil through the Strait of Hormuz, insurance premiums will skyrocket and the cost of doing business will be impacted.

The actual outbreak of conflict, especially if it spreads to neighbors and involves Israel itself, introduces a whole new set of issues with regard to investment strategy and employee and facility security.

For these reasons, the security situation with regard to Iran must be monitored carefully, for it is high on the list of "flash points" in 2012.

(4) THE KOREAS

After a mercurial reign of 17 years, the despotic dictator of the Democratic People's Republic of Korea (North Korea or the DPRK), Kim Jong-il, met his end while riding a train on 17 December 2011 (he was apparently afraid of flying and thus always traveled by train). He was the victim of an apparent heart attack.

The DPRK's new supreme leader is Kim Jong-un, the former leader's third son. (The first two sons were "too unpredictable or estranged" to take over, according to State Department sources; given young Kim Jong-un's peculiarities, that must really be a telling comment.)

Little is known about Kim, not even his age, though he is believed to be in his 20s. Kim was educated briefly in Sweden, and his father began grooming him for leadership only last year.

According to the press reports (unconfirmed but suspected by qualified analysts, as well), Kim Jong-un is believed to have planned two attacks on South Korea in 2010, including the sinking of a Republic of Korea (South Korea or the ROK) warship as a way of proving himself as a military leader. Although his uncle and his aunt are believed to have an overriding influence on young Kim at this point, the truth is that no one — not even his only "friends", the Chinese — really know what the exact state of affairs is in the DPRK.

What can be said with some certainty is that North Korea has nuclear weapons, crude though they may be. What's more, the DPRK has literally thousands of short range (presumably conventional) missiles aimed at Seoul and other South Korean population centers. And with an economy a full 40 times the size of the North's, South Korea is very vulnerable to any attack or even from the intimation of one.

Many American companies have factories or offices well within range of these missiles. As was the case during the 2010 incidents, companies will want to be well-prepared to evacuate personnel without appearing to panic or abandoning their key investments should the Korean "flash point" threaten to ignite or if it actually does sometime in 2012.

(5) CHINA

Many American companies have offices, factories, or research facilities in China. Its economy is too big to ignore – or so the guiding mantra has been for the past decade or more.

However, there is sufficient empirical evidence now to suggest that our love affair with the Chinese economy should be reappraised, with expectations perhaps downgraded in the short to medium term.

With a growth rate in the double digits for most of the past 20 years, Chinese officials assert that this rate has dropped to just over nine percent for the last half of 2011, seasonally adjusted. They have further stated privately that an overall growth rate of at least seven percent is necessary in order to maintain public order.

Seven percent? That is almost quadruple the current U.S. rate of growth at the present time and about twice that of Brazil, whose own booming economy slowed in the last quarter to 3.3 percent.

So, if this is the case, why should a company not invest in China to the extent of recent involvement? As we begin 2012, there are several points to consider.

Domestically, there is the question as to how long China can perpetuate the 7 percent growth which it claims it needs to sustain social order. Even optimistic observers concede that this will be difficult if China has to rely principally on exports, which it has been doing in recent decades.

The maturation of China's large domestic market may take some time, especially with the underdeveloped and somewhat stressed banking sector.

Many economists have suggested that a correction in China's housing market is also overdue. If this happens, and if the authorities cannot manage a soft landing, unrest of the kind which recently manifested itself in Wuhan and many other areas of the country may spread.

Discontent among China's millions of migrant workers who work for paltry wages and who live in tight if not squalid conditions, will not be contained forever. The number of residence permits granted to these workers each year may be in the thousands, but the demand is one hundred fold higher.

This autumn, China will begin the process of changing its leadership line-up when President Hu Jintao relinquishes his head of party role to Engineer Xi Jinping, with the latter expected to assume the presidency of China at the next full party congress in early 2013.

Not much is known about the new president-in-waiting except that he is a “princeling” from his status as the son of a former leading party official. However, he is described reverently as the face of the new China. His wife is China’s most popular singer, and his daughter is studying at Harvard under a pseudonym.

Whether Xi Jinping will tread as carefully as his predecessors in both domestic and foreign affairs is the big question mark. In neither area are his views known.

Whether he and the new politburo will be able to contain the rising social and economic pressures facing China is another question which will need answering — but clear answers are probably a few years off.

Internationally, China’s assertion of hegemony over the South China Sea has raised concern among neighboring countries with rival claims over the rich fishing grounds and potential oil/gas producing, continental shelf properties and the Spratly Islands. Vietnam and the Philippines have both had “incidents” with Chinese warships in this area, and tensions can be expected to evolve if Chinese non-concessional claims persist.

Later this week (on January 14, 2012), Taiwan will hold its fifth election since the end of one-party rule in 1996. The incumbent Nationalist (KMT or Kuomintang) administration of President Ma has accommodated China to such an extent that direct air links, massive numbers of mainland tourists, and a boom in trade and investment have eased tensions and put, on to the back burner for now at least, suggestions of a military solution to China's oft-stated insistence on reunification. Instead, according to the opposition Democratic Progressive Party, China is taking over the wealthy island by stealth.

With the two main parties statistically even in the polls and with a third, smaller "spoiler party" threatening to tip the election towards the opposition candidate, Dr. Tsai Ing-Wen, Washington and Beijing both may be getting jittery. The last thing the Obama Administration desires is yet another powder keg in East Asia. North Korea and the Spratly Islands dispute are enough cause for concern.

In sum, 2012 might be a difficult year for China. High energy prices, reduced demand for Chinese exports, the potential of a housing bubble bust, rising discontent by residents dissatisfied with local corruption, and labor and residence disputes by migrant workers might cause the Chinese economy to stumble.

Combined with various international uncertainties such as the outcome of the Taiwan election or the disruption of oil from the Middle East, these domestic quandaries identify China as a "flash point" which must be on everyone's radar. Corporate profiles in China might very well be readjusted accordingly.

(6) MEXICO

With so much U.S. Government focus on the Middle East and Asia, it is not surprising that we may be missing some important issues which need addressing closer to home. Mexico is the principal case in point.

Aside from being a leading trading partner, a fellow member of NAFTA, and with millions of Mexicans in our country both legally and not, Mexico, in certain localities, threatens to become as much of a failed state as are parts of Somalia, Yemen, Iraq, and Afghanistan.

Every U.S. company with manufacturing interests in Mexico has heard tales or experienced directly aspects of the drug-related violence which is ripping parts of Mexico apart.

Monterrey, the third largest city in Mexico with significant U.S. corporate investment, has become a much more dangerous place to live and work over the past four years, as have most of the border towns, and the Gulf port of Veracruz. Even Mexico City, reputedly the largest city in the world, has started to witness an increase in serious drug-related violence.

A new president will be elected in Mexico in July 2012. Whoever this is, he will require solid American support in a manner which we have not given to his predecessors, and this will have to be done deftly and in a way which is respectful of Mexico's sovereignty.

This may be more difficult than it seems. All three candidates are decidedly mediocre -- something those of us in the U.S. can relate to -- at a time when true statesmanship is needed to unify the country.

Ultimately, we have no alternative but to forge a stronger partnership with Mexico, even if the left wing candidate, Andres Manuel Lopez Obrador, wins over the favored PRI candidate, Pena Nieto. Pena Nieto recently suffered his "oops!" moment when he failed to name a book other than the Bible that he had read or remember the price of a tortilla.

A failed or failing state on our southern border is simply not an acceptable option. For this reason, Mexico is a "flash point" in 2012.

(7) BIRD FLU

With the World Health Organization (WHO) issuing renewed warnings and a Hollywood disaster movie stoking our fears, bird flu is back in the news. In Steven Soderbergh's bio-thriller, "Contagion", the culprit is suggested to be a combination of bird flu and "nipah", a bat-borne virus prevalent on Malaysian pig farms.

In real life, however, there is little doubt about where the true threat lies. After decades of investigation, the globe's leading expert on this topic, Dr. Robert Webster, recently wrote that "bird flu" (or H5N1) is "...the real killer lurking in the shadows."

Dr. Webster's greatest contribution comes from his observation that pandemics begin when bird and human flu virus "re-assort" or exchange genes to form a new strain, one that people lack the ability to fight.

In the last 100 years, this has happened five times. The first and most calamitous occasion was in 1918-19, when an H1N1 virus that had mutated in this fashion, caused a pandemic that killed between 30-50 million people, including 500,000 in the United States alone (or more than ten times the number of American fatalities in the First World War).

In 1957 and 1968, pandemics occurred again, resulting in 1 million to 4 million deaths worldwide. The most recent "re-assortment" event was in 2009, when a virus distantly related to the 1918 H1N1 pandemic strain caused the WHO to urge governments to trigger the activation of international pandemic response plans (which they did) and to order the production of drugs and vaccines (which were worth billions of dollars). All of us recall this swine flu pandemic, and few of us were impressed.

Unfortunately, the lack of lethality with this Swine Flu pandemic has caused many of us to let our guard down. With around 18,000 deaths from swine flu worldwide to date -- about half the

number who die from seasonal flu in the US every winter – skepticism over the threat of a flu pandemic is at an all-time high. No politician is interested in bird flu, largely because no one is dying.

However, when – not if -- a lethally mutated form of bird flu gets to the U.S. (and Dr. Webster insists it is only a matter of time), people will wake up to the need for vaccination pretty quickly and -- initially, at least -- there will be none to be had.

What most of us don't realize is that H5N1 has already been the cause of a chicken apocalypse. Since 2003, H5N1 has killed or forced the culling of more than 400 million domestic poultry and cost an estimated \$20 billion.

During the same time frame, it has infected only 565 people, although it has killed 331 of these, a mortality rate of close to 60%. This is because the virus has not as yet "re-assorted" itself with a suitable virus to ease the transfer among people.

But this may be coming. In recent months, scientists have discovered a new "mutant" strain of the bird flu virus, codenamed 2.3.2. which has already moved from China and Vietnam to central Asia and eastern Europe, spread by migratory waterfowl. It's only a matter of time before it comes to the Americas.

Once it learns to go human to human, there will be nothing to stop a crisis confronting humankind similar in scale to that which infected fowl. Vaccines will have to be produced, and just as Soderbergh maintains in "Contagion", there will be millions of casualties worldwide until a sufficient amount is available to protect the population at large.

Thus, in 2012, along with worrying about terrorists, the perils of politics, and concerns about the economy, good corporate security planners must also keep pandemic awareness on their list of concerns. A bird flu pandemic with a 60 percent fatality rate is not to be sneezed at.

For this reason, it ends our list of potential "flash points" for a year in which only one thing is surely predictable – "A lot will happen. We just don't know when or at what cost to ourselves, our families, our companies, or to the world around us. ###"