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Seismic Shift:

Understanding Change in the Middle East

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Risk Analysis

Robert Grenier and Andrew Marshall

Explanatory Note

T*his chapter examines risk analysis in the private sector, a dynamic and fast-growing area. We spoke with representatives of eight firms, which brought a variety of approaches to their analysis of protests and upheavals in the Arab world of 2011. There was some consistency in their response: most had understood that change was coming, but few had realized how fast, where, or how it would emerge. Once things began to move, they reacted swiftly and effectively to understand and report the changes to their clients.*

Some limitations to our work should be noted:

- *Some companies – including some large investors – were unwilling to speak because of their own internal business and confidentiality issues.*
- *Similarly, those companies that would discuss their experiences were keen to protect information because of client confidentiality, and a concern about sharing valuable intellectual property with competitors.*
- *The range of the risk analysis firms' interests is set by clients, which to some degree limits the field that they look at.*
- *We did not speak with non-US/UK companies, despite our best efforts.*
- *We established interviews with companies that we knew. The sector has a spread of smaller companies with distinguished personnel and insights, and we do not exclude their experience. Some may have different lessons that are just as valid.*
- *Companies were at liberty to present their own work in their own terms. We did not have (nor did we expect) license to examine all their output, and we were not out to find fault. Our goal was to gain new insights into risk analysis, and find useful lessons.*

Notwithstanding this, we found our interviewees candid and helpful, and generous with their time. We found the sector more than willing to discuss the issues concerned, interested in lessons learned, and keen to share their experience of working at a turbulent moment in the region's history.

The Growth of Risk Analysis

The private sector has developed its own range of approaches to forecasting and analyzing risk over the past 40 years. These approaches are related to, but separate from, those of government. Private-sector risk analysis organizations are increasingly recognized as a source of authority and insight by government, media, academia, and non-profits.

Risk analysis for the private sector comes from different perspectives. On the one hand, large companies and financial institutions with significant assets or operations at stake long have hired their own analysts – from the worlds of academia, intelligence, diplomacy, politics, and journalism – to staff in-house groups to support operations. They advise internally on decision making, investment, and operations. Some are attached to security functions; others operate within sales and marketing; many are part of a public affairs or government relations department; a few sit on boards, or are part of line management where political risk and government relations are central to business. We spoke with representatives of two of these organizations.

On the other hand, companies devoted specifically to risk analysis, or who have risk analysis as a main business line, also exist. They sell services and products to companies without their own departments, or assist those who do. An initial group of such companies sprang from the turbulence of the 1960s and 1970s, and focused on the risks of regime change and on doing business in developing countries. A second wave emerged in the 1990s and 2000s, post-Cold War and post-9/11, and focused on the new sets of risks and opportunities to be found in emerging markets.

These firms typically provide three types of analysis:

- At the most tactical level, firms provide updates and reporting on events on the ground aimed at supporting operations, working with logistics, security, and operational management.
- Firms provide risk profiles to assess levels and types of risk to support decisions about investments, projects, or operations. This can be more or less tactical, and tied to security measures; or strategic, and aligned with investment decisions, and sometimes to insurance or other forms of risk mitigation.
- At the most strategic level, firms provide forecasts and scenarios to assist companies and financial institutions that are considering or reviewing investments with longer time horizons. They sometimes work with management, strategy directors, business development, and marketing as the customers, or report to the board level.

Typical clients include: the extractive sector (oil and gas, metals, and minerals); financial services (investment banks, investment funds, private equity, and increasingly hedge funds);

companies with government as clients (defense, infrastructure, and capital equipment); investors in developing countries; and those with large trade or portfolio interests. The client base has grown exponentially over the last two decades, and so has the sector; there are at least 100 companies worldwide providing some element of risk analysis services. Some provide subscription products, such as reports with a wide readership and regular updates. Others are more focused on consulting and advisory work, and look at specific problems for specific clients. Most companies do some of both.

Just as some are more tactical and some more strategic, some focus more on political and security developments; others are more interested in business and economic conditions. They employ a mixture of backgrounds – intelligence, academic, diplomatic, journalistic, legal, accounting – and are heterogeneous in their approaches.

We spoke with a mixture of entities, and with companies from the US and UK, which are traditionally the two centers for this activity. In general, they have two primary focuses, and these tended to structure and constrain their views of a region:

- Government and elite perceptions, views, decision making, and structures. Most are focused on understanding for themselves or for clients how governments and states will act and react.
- Terrorism and security threats. Most maintain some effort to understand, analyze, and, where possible, foresee terrorist activity or associated political efforts that might harm clients' interests.

Typically, in-house analysts focus mainly on what is directly relevant to their company's interests, whereas analysts in risk consulting companies will be encouraged to take a wider view. Their clients may have diverse operations, and it may be easier to focus on indirect influences, peripheral threats, and the wider picture. But in both cases, there are relatively tight constraints. The paying client decides the focus, and going "off-piste" is not encouraged. From that perspective, it is important to understand how these analysts see their task.

Regional and Sector Focus Helped Determine Results

The risk consulting sector had focused on the Middle East as a topic of interest for decades. However, this interest has centered on countries where oil and investment had lead clients – and hence the Gulf was the main area of analytical focus, with Algeria as a more recent addition. In recent years, sources of risk and instability had also become a focus; Iraq and Iran have attracted growing attention. There is growing interest in the region as a source of, and destination for, financial investment. In the last decade, service companies in telecommunications, media, and technology have aimed at these growing markets, and trade has grown; however, energy and direct investment still dominate analyst focus.

Each of those companies we spoke to covered at least some of the countries affected, (we focused on Bahrain, Egypt, Libya, and Tunisia) and each had published updates and forecasts of some sort on most, if not all, of these countries. Some had produced longer

“think pieces,” bespoke consulting products, or conducted broader studies on the subjects. But each remarked on the issues surrounding the countries where change came earliest and was most marked.

Egypt is of interest to the political community, but is of less consequence for investors. Despite its size, it has grown more slowly than other markets, and is often seen as bureaucratic and hard to penetrate. Tunisia, though attractive as a market, is small. Though both countries have energy resources and international investment, they are regarded as secondary topics of attention. Libya is a focus for a small group of companies, and hence, analysts, but was regarded as far from mainstream. Few we spoke to said they had good networks in Libya, which was one of the least transparent countries in the region. Bahrain, by contrast, has attracted great interest in terms of regional investment, but was seen as being of less inherent consequence than other places in the region (Saudi Arabia, UAE).

The lack of attention to Tunisia – where the events began – was bemoaned by many of those we spoke to. Tunisia is also of greater interest to political and investment interests in France and Italy than to Britain and the US; hence, again, it attracted less analytical firepower in London, Washington, and New York. The companies concerned were, in general, not watching Tunisia, and so they did not expect change at the outset. The spark that lit the fire was not seen. A few looked at Libya, but all said that it was opaque and that their networks there were not strong.

Bahrain was a focus for most companies, since it hosts considerable Western investment. All companies had noted it as a flashpoint, both because of the inherent instability of Sunni-minority rule in a Shi’a-majority country, and the public divisions within the Royal family. One company had also concentrated on the potential for Iranian meddling – this was a main focus of their collection and analysis after significant civil unrest began to appear in Bahrain. But again, few had seen the prospects for Bahrain to descend rapidly into civil disturbance and violent state response.

The countries where most companies direct most of their efforts – the Gulf states – were not (with the exception of Bahrain) so directly involved in the events of spring 2011. And physical oil and gas supplies were relatively unaffected (global price increases notwithstanding). This meant that many of the companies were less involved than if the events had affected Saudi Arabia, in particular.

Equally, most companies focus most of their efforts on understanding elite and government attitudes, policies, institutions, and actions. They are interested in broader social and political developments only to the degree they affect the client’s interests: that is, mostly indirectly. Again, this limited their focus on, and thus their awareness of, growing popular unrest. Private sector risk analysis has its strengths. It is fast moving and flexible; attuned to clients’ interests; tends to lack “institutional” blinkers; and is relatively un-ideological. But it has its weaknesses, too. It is better at some countries than others; it looks at what clients ask for, rather than the unexpected; it is better on top-down events than those focused on popular movements; and its pragmatism and focus on the granular can sometimes make bigger changes hard to see.

Trying to Foresee Change: 2005-2010

Though the first signs of the Arab Spring may not immediately have been clear to many private risk analysts, all of them had looked at the background to the events. For years, many analysts had commented on the political, social, and economic problems in the region. If few of the participants we spoke to claimed any great perspicacity in predicting what happened, all had understood the basic social and political elements that led up to the Arab Spring. These elements included corruption, economic inequality, inadequate growth, demographic change, lack of opportunity and unemployment, dissent over the dynastic nature of many regimes, and uncertainty over succession.

In particular, the sector had devoted considerable energy to the topic of political change in the Middle East. Political stability in the Middle East is, and always has been, a central concern to the risk analysis community. This was where much of the early focus of the industry had been, after the revolution in Iran in 1979. Then, a mixture of popular unrest and regime instability had brought about the collapse of a pro-Western state with lasting consequences.

The task of understanding regime change, threats to regimes, and political stability was very much part of the picture. Clients with operations in the countries concerned would have been interested in the prospects for change, from the perspective of the continuity of decision making, the risk of confiscation and abrogation of contracts, the potential for social unrest, and the impact directly on operations (transportation and travel, supply chains, utilities, communications, etc.). Firms also had looked at the likely path for change, and where it might lead.

A primary focus was the generic topic of regime stability. Were the authoritarian, security-focused, often dynastic regimes of the Middle East and North Africa likely to remain intact? Several firms had put out specific analyses on this topic, often with regard to Egypt.

Several risk analysis firms had long believed that the political situation in Egypt was unstable and ripe for change. Their analysis focused on tensions regarding succession, and the dissatisfaction of the Army with both Mubarak and, especially, his sons. One firm had stated categorically that Gamal would never succeed his father. Particularly from 2007 onward, analysts at this firm believed that the regime's increased employment of repressive measures signaled its fundamental lack of confidence, and would undermine popular support and legitimacy over time. One company with investments in the region had gone further, looking at the prospects for the post-Mubarak and post-Ben Ali world, though it had not foreseen the specific mechanisms by which these regimes might fail. One analysis firm was influenced by comparisons with the authoritarian states of the former Soviet Union, and raised the specter of instability and failed succession in a publication in late 2009 and early 2010.

But several analysts, when they looked at the strengths and weaknesses of these autocratic and militarized states, saw them as – if not invulnerable – at least robust enough to survive. And even those who saw the states as rotten to the core had hesitated to predict their overthrow, still less from the street. A further issue was that few felt comfortable reminding their clients too frequently of the weakness of these regimes. “We did not want to cry

wolf,” said one analyst. Few had put much effort into analyzing Tunisia, where events were to start. And analysts had assessed these trends on a country-specific, and not on a regional, basis. They did not foresee the timing of the events in Tunisia, or the effect they would have on Egypt.

Another factor that may have played a role was the belief that – to the degree that external forces were a factor – the US would continue to back Hosni Mubarak in Egypt. The US was and is an important influence particularly on the armed forces. We were given the impression that, for some, one of the surprises of 2011 was that the US did not, when push came to shove, back its longstanding ally – that indeed, the US may well have encouraged the Egyptian military to push Mubarak aside. The long-lasting effect of this apparent shift in US policy – and the very negative perception of it among the conservative Gulf states – remained one of the topics of interest to analysts in the private sector at the time of writing. Some of the firms we spoke to had produced long-range analysis of the prospects for political change during the years leading up to 2009. Nothing that we saw in this long-range forecasting correctly identified the possibility that popular unrest would topple regimes in Egypt and Tunisia, though some firms did discuss and write about the possibility that internal tensions would complicate or prevent successions.

It seems more useful to focus on where the firms had greater success, in the period immediately leading up to the events of 2011, and in their evolution. Even if they had better seen signs of imminent change, analysts in risk consulting companies would have been constrained by the difficulty of predicting what might come next: not just the “what,” but the “so what.” The sector and its clients have a predilection against what they would consider empty speculation; there would have been pressure to “put up or shut up” with sound, palpable evidence if an analyst wanted to talk about regime change. Such evidence might have included speeches, source comments, media articles, surveys of opinion, changes in leadership, structural changes in institutions – but not a generalized “feeling” that something was happening.

Turning Points and Light Bulbs

As the flammable material piled up, risk analysts had watched and speculated. As it started to ignite, they reacted in different ways, with each picking up different elements at different times. The sector identified a series of moments when it realized what was going on, “light-bulb” moments. But there was consensus that many of these came late in the day.

There were signs of a worsening socio-economic environment throughout 2009 and 2010. At least one analyst in a firm that looked at the economy had pointed to the slowing of growth and the problems over succession as a sign of trouble to come around the end of 2009 or 2010. Growth was necessary to keep Egypt’s society stable, in his view. However, this analyst conceded that his organization had not foreseen the way things would unravel, or the timing.

Several analysts pointed to the worsening of the political environment in Egypt in 2010. The aggressive reaction of the Egyptian regime to former IAEA Director-General Mohammed El Baradei in March 2010, after he emerged as a possible Presidential candidate was seen

as indicating a clear lack of government confidence, and a significant indication of potential future instability. Likewise, in December 2010, in the aftermath of blatantly rigged elections, analysts saw ominous signs of growing public frustration, and a further fundamental weakening of social and political stability. Analysts felt that the government reaction in Egypt to the church bombing in Alexandria at the start of January 2011 and the sectarian tensions it generated were anomalous, and indicated a shift in the Army's attitude toward the Mubarak government, signaling the prospect of strong intra-governmental tension.

Some pointed to the turmoil over succession in Tunisia in late 2010, with growing indications that Ben Ali was being positioned for another term. But again, they had seen regime continuity – albeit with more evident stresses and strains – as the likeliest outcome. Tunisia long had been a very tightly controlled and less-transparent society (compared, say, with Egypt). Like Egypt, they had thought that the Tunisian model of political control was unsustainable over the long term, but they did not pick up on immediate warning signs of trouble; the self-immolation of Mohamed Bouazizi, in their view, was a “black swan” event. They were surprised at the rapidity with which protests spread, and also surprised by the military's actions in quickly ousting Ben Ali. They did not foresee the Tunisian Army acting so quickly to push the President aside, which in retrospect they attribute to the fact that the Army was not so closely implicated in the existing power structure, as was the Egyptian Army. They had not focused on Tunisia, and had not felt it important. There had been so little real politics in Tunisia for so long, that the political dynamic, such as it was, had become opaque to them, and they lacked insight into the Army's motivations. They simply had not had a sufficient structure through which to view and assess developments in Tunisia, and so they were at a great disadvantage when events began to accelerate rapidly.

Some analysts made an analogy with the Asian financial crisis of 1998. No one foresaw that such a crisis would start in Thailand, which is hardly a financial driver for the region. One could make similar analogies with the recent financial crisis in Europe, which began with comparatively marginal players in Greece and Ireland.

Some, however, seized on the protests in Tunisia and extrapolated to other countries, asking where might unrest spread? One firm focused on finding “copycat” self-immolations, which had helped catalyze opposition. Several looked at levels of inequality, succession issues, and imminent elections to predict where trouble might occur. They fixed on Egypt, Jordan, Syria, Yemen, and Bahrain, though at this stage the impact of such events was not clear.

The unrest in Egypt now turned to outright protest and demonstration. At least one firm saw this for what it was: the beginning of the end for Mubarak. The Army, they believed, was essentially looking for an excuse to push the Mubaraks out, and the street demonstrations gave them that opportunity. Although analysts did not anticipate the timing of the street demonstrations, they believe the prime importance of the demonstrations was to induce the Army to act. Others, however, did not see the end of the Mubarak regime until he signaled it in a speech. They had expected the regime to persist, struggle, and survive, and that the army would back it.

Several had foreseen that Bahrain would face a fight. They did not believe the oil-rich Gulf nations to be at risk, and anticipated that Bahrain would be a wild card that the other Gulf states could contain, particularly as events in Bahrain would be seen in light of traditional

Sunni-Shi'a rivalry, and therefore much less likely to inspire social restiveness elsewhere in the Gulf Cooperation Council (GCC) – indeed, analysts felt such restiveness in Bahrain would have much the opposite effect elsewhere in the Gulf.

As previously noted, few made the imaginative leap to Libya; it was seen as *sui generis*, and resistant to analysis.

Overall, the risk analysis sector found itself surprised by the beginning of the Arab Spring, and felt unsighted by events. As things moved on, some found their analytical bearings quickly. Most geared up rapidly, helping clients to understand how things were moving. A few seized on elements of the picture to help guide them through the fast-moving events and see what might be coming.

Methodologies and Sources

The risk consulting sector and analysts working for companies tend to be relatively conservative. They are eclectic in terms of how they gather information and how they use it, with few adhering to particular schools of thought. Many use what might be termed a “synthetic narrative” analytical technique: they synthesize material (usually a mixture of local and international media, sources from professional networks, and expert judgments) then they turn it into largely narrative accounts of what is happening, and what is expected to happen next. This is sometimes tailored to client requests. Others use a more methodical approach, with a template of issues to consider (social, political, economic, security, etc), and in some cases, a formal scoring method that may be quantitative (aimed at rating a country as unstable; very unstable; etc). Many use regular reports, on a monthly or quarterly basis.

We found little evidence to suggest that having or not having a systematic methodology necessarily helped get things right. One that did have a methodology had found it helpful, as it emphasized regular, structured analysis. Another felt that it might have impeded their speed of reaction. Still another firm that stresses use of a very structured methodological approach felt that even though it failed to anticipate the timing, nature, and outcome of popular revolt in Tunisia, continued adherence to its methods had helped it to anticipate outcomes elsewhere, and to avoid over-reaction in the other direction. For example, once the contagion had begun to spread, many observers in the popular media leaped to the conclusion that the entire region would go up in flames, and that regimes would begin to fall wholesale.

One strength of the sector is the variety of inputs that go into the mix. Many said that local sources, networks, and local media were critical. Some highlighted the importance of local-language social media. However, they noted that their scrutiny of such media often had focused on jihadi websites and information sources. In many cases, analysts were looking for the threat of terrorism, not popular unrest. While elite, government opinion would have been useful to predict and understand regime reactions, it would not have helped understand the protests that galvanized events. And in some countries (Libya and Tunisia), they were largely unsighted.

All the companies we spoke to are staffed by people with experience in the region, and with local contacts. Most work not only through their staff but also maintain networks of contributors – usually in the region. Most pride themselves on their local insight and their connection to the region, even if much of the written work is done outside, elsewhere, by non-local staff. Most make a point of rigorous cross review of output by other analysts within the same company or by management, and some move analysts around countries and regions to ensure that they do not “go native.” Many have advanced degrees in their specialties. However, some said they would have preferred to have had more insights from the ground before and during events.

Some of the analysts we spoke to made a point of having a clear, articulated viewpoint (an articulated argument, rather than simply a cluster of facts) about a country, region, or issue. This was helpful where it encouraged analysts to make a point about change.

Research Methods and Reform

Several analysts said that they envisaged making changes to their practices, though these changes were not wholesale revisions.

- Some had noted the gap in argument, which meant that regional comparisons (within the broader Middle East, or to other regions) had not effectively been made. They discussed making more of an effort to share analysis between regions.
- Some also had noted the need to do more intra-regional work, and to highlight comparisons and impacts among neighboring states, to help understand which other states might face similar issues, and how different states interacted.
- Several had begun making more use of social media.
- Some had revised or rethought their publication schedules. Where revisions were on a strict schedule (month by month or quarter by quarter – often inherited from paper reports), there needed to be more of an effort to be sensitive to moving news.
- Some mentioned the need to examine more outlying scenarios, and to be bolder in examining change.
- At least one firm concluded that faults in its analysis were attributable not to lack of sufficient inputs or to inadequacies of methodology, but to a failure to adhere with sufficient rigor to the structured methodology of their organization. The conclusion was not to change, but to do the same thing better.

Most were still preoccupied with following events in the region and analyzing what might come next. They rapidly had added analytical resources and geared up to produce more, faster.

Conclusion

In general, the sector seems to feel that it understood the “why,” and the “what next” of the Arab Spring; it did not grasp the “when” or the “how” of change. But the consensus seemed to be that this was a broader failing, not confined to the risk analysis sector.

It is worth distinguishing between different stages of events:

- Most had understood and pinpointed the structural foundations of what occurred. The fuel: political stagnation, corruption, economic inequality, political dissent, social tensions. Few had any illusions about the popularity of the regimes.
- None claimed any insight, though, into the nature and timing of the initiation of events. The spark: few had anticipated a popular uprising that brought the middle and working class onto the streets. They had not systematically studied or targeted Tunisia, and few were set up to follow popular or street sentiment.
- Some had anticipated the spread and escalation of events – the regional translation into events in Cairo, Bahrain, Sana, Damascus, etc. – but some had not. In general, before the events, the Middle East tended to be seen as a series of more or less *sui generis* polities with few interconnections.
- The nature of the regime response – the failure to douse the flames when they started burning – took some by surprise. They had regarded the regimes as more stable, more united, and more deadly. They believed that as authoritarian states, security states, they would have responded faster, harder, and more effectively. But some firms, on the contrary, had expected divisions or even active support from elite actors for the end of regimes. There was a difference here.
- Some said they had anticipated the structural effect of a significant increase in stresses on the political system. In this case exerted by street protests, a regime change. At least one Western company told us that they had anticipated such change in both Tunisia and Egypt, and prepared for it. Few, however, had anticipated regional change. They tended to see the countries as single, stand-alone entities.

The significant issues for the risk analysis sector, in conclusion, were threefold:

- The revolution from below that came about on the streets of the Middle East in early 2011 was not anticipated, because few were looking for it, and they had not focused on Tunisia.
- The revolution from above – the decision of security forces to intervene against the regime – was not foreseen in Tunisia, but some firms did expect it in Egypt. In Libya and Bahrain, the regimes did essentially defend themselves, as most firms would have forecast.
- The regional conflagration – the rapid spread of unrest – was not anticipated because few were looking at the region as a single political, social, or economic space.

It seems likely that the direct impact for the sector will be to increase the focus on understanding the Middle East as clients adapt to a new and fast-changing reality. The

new reality of changing regional governance norms will have effects not only in the more inherently unstable countries of the region, but also in those, which thus far, have exhibited considerable stability during the recent upheavals – particularly those in the Persian Gulf, which are of disproportionate concern to clients of the industry. In short, there is much more work to be done.