



Regional Security Outlook

September, 2003

The biggest security threats to businesses operating in Asia are North Korea, further Al Qaeda linked terrorist attacks, Taiwan, the Philippines and Kashmir.

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com

Regional Security Outlook – 11 September 2003

This is our third regional security outlook that we have produced for our clients and contacts.

The previous two were produced immediately after the Bali bombing in October 2002 and upon the imminent US attack on Iraq earlier this year.

We began researching this third report immediately after the Marriott Hotel bombing. Since that time we have seen the UN bombing in Baghdad, continued attacks against coalition forces in Iraq, more suicide attacks in Israel and the collapse of the Middle East Roadmap, the arrest of Hambali, the sentencing of Abu Bakar Ba'asyir for subversion, the second of the Bali bombers being sentenced to death, and a serious bombing in Bombay. There have been six way talks regarding North Korea and the North has said that it wants to test a nuclear weapon.

The on ground situation in Iraq has not yet stabilized and a number of foreign terrorists seem to be arriving in Iraq to attack coalition forces there, and to attack and inconvenience the Iraqi public.

Over the last few weeks, and again this morning, it is being reported that Osama Bin Laden is planning something very big, something 'amazing'.

It is fair to say that the regional security situation is evolving rapidly. In this report we try and put into perspective what this means for businesses operating in Asia.

Right now there are five key security issues in the Asian region that could threaten regional business, personnel and the economic outlook. These are:

- North Korea
- Continued attacks by Al Qaeda linked terrorist groups
- Taiwan
- The Philippines
- Kashmir

The War on terror is the major factor to consider in evaluating risk scenarios for the region.

BACKGROUND ASIA
RISK SOLUTIONS

Ian Gordon:
+65 9036 0079
ian@backgroundasia.com

Bryan Toki:
+65 9690 4340
bryan@backgroundasia.com

We are of the view that the two most worrying threats are currently North Korea and the risk of further terrorist attacks.

In this report we are not going to address Taiwan, the Philippines and Kashmir other than to say the possibility of the Taiwanese doing something that would lead to China invading Taiwan is always a risk, that the southern Philippines have been dangerous and continue to be so, and that Kashmir could flare up, particularly if the government in Pakistan becomes unstable.

The War on Terror

We believe that the US led war on terror is the major factor or driver that needs to be considered in assessing outcomes for these five issues and for the two that we believe present the most immediate threat to the region.

So much so that in order to assess these issues it is as if we are viewing them through the prism of the Bush doctrine on pre-emption and US policy on non-proliferation and counterterrorism.

During the last two years the Bush Administration has successfully launched two invasions and regime change operations (albeit with significantly different on ground tactics) in distant lands, with minimal casualties and devastating military effectiveness. While the Americans have yet to prove they can rehabilitate a country after they have taken it over, they have proved conclusively that they can swiftly knock out a rogue regime if they perceive that it is in their interests to do so.

So in evaluating these five regional security issues we ask (and try to answer) what does the Bush Administration think, and what will it do in response to each threat to regional stability and prosperity?

North Korea

In our view North Korea is the most dangerous situation developing in the region.

In a recent paper on North Korea by the Australian Security Policy Institute ("ASPI") (www.aspi.org.au) sets out three potential scenarios:

1. War (ASPI says this is the least likely scenario)
2. A deal (ASPI says that while the structure of deal is simple, verification and enforcement seem difficult)
3. Stalemate (A continuation of the current standoff)

While the background section of the report is very interesting, and we recommend reading it, we do not agree with their assessments in terms of what is most and least likely.

We believe that the North Korean issue could end in tears. The US just does not trust Kim Jong II.

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com

A deal is indeed simple to imagine but is not only difficult to enforce and verify, but while Kim Jong II remains in power the US simply will not trust assurances given by him or his regime.

Kim Jong II needs to go if a deal is to be given a chance by the Bush Administration. We believe that the Bush Administration looks at the failure of the Clinton Administration in agreeing to bargain with North Korea and then being duped, as a significant error of judgment and policy that they will not repeat and that now poses a considerable threat to US interests. Bush seems to define himself in terms of how he is not Clinton to the point where if Clinton did it one way then the right answer or policy was probably the opposite.

Several former Clinton advisors have now said that a military solution in North Korea needs to be considered.

Bush has said time and again that his time as President will focus on one issue – protecting America.

While our argument may seem somewhat esoteric, the key factor today is time. North Korea continues to state that it either has a bomb or it is producing weapons grade plutonium or both. North Korea's recent statements to this effect in front of the other five nations at the six way talks were brazen, and frankly embarrassing, to its long time friend, China.

It would appear from their actions and the various reports and advice from experts, that North Korea has the technology to produce a bomb and deliver it. Therefore most commentators believe that North Korea either has a bomb now or is very close to having one. They also believe that over the next two years North Korea will continue to increase its nuclear arsenal and capabilities. The Bush Administration does not have the luxury of time in deciding how it will deal with North Korea. It cannot, for instance, enter into a game where it tries to draw out negotiations with the North Koreans while it waits for that economy to collapse.

One of the potential scenarios given by ASPI is that China will facilitate regime change so that the Americans have someone in power that they feel they can deal with. We believe China is in a very difficult position here and that President Hu is unlikely to want to be seen to be taking steps that would result in a new North Korean administration that may want to consider the issue of reunification with the South more seriously. A phrase once used by the USSR about the two Germanys, that "we love them so much we want two of them", would seem to capture Chinese strategic views that two (divided) Koreas are better than one.

We do not see a lot of domestic upside for the new Hu administration in trying to help the US out by facilitating regime change, and China's ability to actually do it in the face of opposition from Kim himself is questionable.

The South Koreans for their part currently seem the least concerned. If

We are looking at techniques, tactics and strategies being adopted overseas in considering what types of threats are likely to evolve in this region.

BACKGROUND ASIA
RISK SOLUTIONS

Ian Gordon:
+65 9036 0079
ian@backgroundasia.com

Bryan Toki:
+65 9690 4340
bryan@backgroundasia.com

the North were to initiate a nuclear strike then the South may not be their target. An attack against Japan, as the US proxy within striking distance, would seem more likely than an attack on Seoul.

We are not optimistic that the North Koreans can find a way to back off from their current position quickly enough for the US to trust whatever representations they make. Our view is that this issue will end in tears and that the possibility of a US preemptive strike against the North is high.

We would watch for large troop movements in South Korea and a buildup of anti missile warships in the Sea of Japan as precursors to a US strike against the North. The next three to six months are the riskiest time in this respect.

We recommend that companies operating in South Korea closely monitor the developing situation and ensure that evacuation and contingency plans are current. We note, however, that the ability to execute an evacuation may be questionable if the security situation rapidly deteriorates. We do not recommend shutting facilities or evacuations at this point, but plans should be checked to see how quickly they could be implemented. Speed of response may well be a critical factor in mitigating potential losses if this becomes a war.

We agree with ASPI that a war in Korea would result in a huge number of casualties and such a conflict will have a significant effect on the region's economies. We sincerely hope that a solution can be found and the next few months will be critical.

Further Terrorist Attacks

The arrest of Hambali was a significant breakthrough in the war on terror. Importantly, since he was arrested outside of Indonesia and quickly delivered into US hands it means that he will no longer be a threat.

But the situation in terms of risk in Asia is increasing.

We share the view of some experts in this field that the struggle against extremist Islamic groups is a global struggle being fought along a number of fronts along fault lines fanning out from the middle east.

These groups have a very basic view of their enemies. They are us. They are anyone who is not them – no matter your political persuasion, nationality, color, race, economic circumstance or religion. If you are not one of them, then you are either targets for conversion or death. By bringing about your death they are fulfilling what they believe is their religious duty.

We also share the view that these groups are learning from each other. They are watching what is effective in the middle east and elsewhere and adapting local tactics to take advantage of what works and what

Indonesia remains risky, 'its not a question of if there is going to be a bomb but when.'

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com

does not.

For the business manager in Asia we believe that if one accepts that this might be the case then you have a way of evaluating the threat of further terrorist attack on your interests and also in considering the likely tactics that may be adopted, and hence the appropriate countermeasures to be employed.

Right now suicide bombing works. Truck and van bombs have been successful in getting targets in Asia. Over time this may become more difficult. Key embassy facilities have now been hardened against these types of attacks. The terrorist have then moved to softer targets. As these targets harden their defences against a truck or van bomb you can expect that the terrorist will look at belt bombs (such as those in Israel) or assassination or kidnap or some combination of these terror techniques.

Law enforcement in Asia is getting better. The Hambali arrest was an excellent example of cross border co-operation in finding and arresting him. This is the type of ongoing co-operation that is needed to interdict the operations of these groups and remove talent from their organization.

Two years after the awful events of September 2001 the risk to business in Asia has not significantly decreased and we can expect to see further incidents over the next 12 months.

Indonesia

In relation to Indonesia, our on ground sources are of the view that it is not a question of if another bomb will go off but when. Despite the arrests, and there have been many, there are still many more individuals at large and recruitment from radical schools continues. The failure of the government in Indonesia to show leadership to the public on this issue means that their efforts continue to be driven by law enforcement and the continual game of trying to catch the bad guys (and girls in some instances), rather than looking at the root of the problem.

Megawati has an election coming and it would be politically unacceptable for her to initiate some of the strong action being demanded by neighbours and the US that would address parts of the root of the problem.

In our view Indonesia remains a risky place to visit and do business in when compared to other regional centers. But it is a large country and the chances of actually being the victim of a terrorist target remain significantly lower than being in a serious car accident.

One important factor, in our view, for businesses that operate in Indonesia, is not to be swept up by the fear factor. Most businesses can address the evolving threat situation in Indonesia by calling in expert advice, having in place appropriate monitoring and intelligence functions

The threat to Australia of an attack on the mainland is increasing.

**BACKGROUND ASIA
RISK SOLUTIONS**

Ian Gordon:
+65 9036 0079
ian@backgroundasia.com

Bryan Toki:
+65 9690 4340
bryan@backgroundasia.com

and in having a well trained and maintained security force.

Some businesses in Indonesia have been investing heavily in technical solutions like metal and explosives detectors. However those tools are not always being employed in situations where they can be effective, some of the staff using them are inadequately trained and sometimes they are more for show than practical effect.

Firms operating in Indonesia should be using well qualified consultants and manpower suppliers to ensure that they are doing what they can to minimise the risk of an attack on their facility.

We have recently visited Jakarta and spent time with the management of the Shangri-La hotel. At the end of this paper we set out our advice that we are of the view that if you have to visit Jakarta that the Shangri-La is a hotel that takes security seriously and is doing as good a job as any hotel in Jakarta to mitigate the security threat. If you have to go to Jakarta, the Shangri-la is a good choice of hotel.

Australia

The threat situation in Australia is, in our view, increasing. While the Government has been taking steps to upgrade the counterterrorism infrastructure, business within the country itself does not seem to be taking the threat as seriously as counterparts in the United States. Recent security scares involving the airlines and airports are of concern to us.

Australia is also a big country and your actual chances of being involved in an incident are small. However with Hambali and others reportedly saying that Australia is now a major target of extremist groups the possibility of an attack in the next six months seems higher than in our last report.

Singapore

The threat situation in Singapore is, in our view, unchanged. The arrest of Hambali is significant but there remain other idiots who still want to target Singapore and its interests and we continue to liken the threat to that of the a major city in the United States.

Of course the major reason why the threat level is considerably less than in Indonesia is the fact that while there may be the motivation to strike at Singapore by the terrorists, their ability to function here and deliver a strike are severely limited by the excellent work that law enforcement and intelligence do and have done.

One source said to me recently that Singapore has had a terrorist and extremist threat for a long time going back to the communist threat from Malaysia and Indonesia. They said that this new threat is just another

If you would like to know more about what we do then there is more information on our website at www.backgroundasia.com

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com

version of that old threat and that the infrastructure that worked so well in the past is now evolving to address these new issues.

Hong Kong

The threat level in Hong Kong seems to be declining. We previously had Hong Kong on a par with Singapore. But we are now of the view that the continued efforts at degrading the operational capabilities of the terrorist groups and the geographic distance between South East Asia and Hong Kong as well as improving domestic law enforcement and law enforcement co-operation would indicate that the threat level in Hong Kong is less than it previously was.

China

We have not been to China recently and will report further on that in our next report. The threat level in China is less than Hong Kong and Singapore but exists due to problems with law enforcement co-ordination and a number of extremist groups still located within the country.

India

The threat level in India has also gone up. The tragic bombings in Bombay were really to be expected if you look at the pattern of global terrorist attacks over the last two years. India is an enemy of the radical Islamic groups and its citizens considered targets. It does not have a well co-coordinated law enforcement infrastructure although it does have some units including those providing intelligence, that are very competent.

We are not yet convinced that India is able to address this threat and we will be visiting India shortly to conduct some detailed research into this and set out some specific recommendations for businesses operating there.

Thailand

Thailand remains a risky location somewhere above Singapore but below Indonesia. The Hambali arrest was positive but it did highlight what intelligence agencies had been saying for some time to the chagrin of the Thai government, that Al Qaeda & Company are present in the country and planning attacks.

We remain concerned about visits to Thailand to the popular tourist locations and in particular the shopping markets and night club areas. While the overall risk, like the other locations mentioned in this report, is

The threat of piracy in the Malacca Strait is a growing and serious issue for shipowners. Certain types of ships also pose considerable security threats to port facilities if they were hijacked.

BACKGROUND ASIA
RISK SOLUTIONS

Ian Gordon:
+65 9036 0079
ian@backgroundasia.com

Bryan Toki:
+65 9690 4340
bryan@backgroundasia.com

low when you compare it to the risk of other types of misfortune, the public tourist areas of Thailand are more likely to be at risk than other locations in the country.

Malaysia

The Malaysian attitude to dealing with radical Islam within its borders continues to be its greatest strength in protecting against attacks within the country. It cannot be ignored though that Malaysia has produced a large number of the worst of the terrorists active in the region over the last two years and it would be foolish to assume that they have all been caught or that there are not more being trained or nurtured at present.

We believe that the threat level in Malaysia is stable since our last report although it remains a level higher than Singapore. This is due to weak border controls, particularly in the north, its proximity to Aceh and rising crime levels.

However we also believe that if an attack was to be launched in Malaysia it would target an overtly foreign interest. Foreign businesses operating in Malaysia need to ensure that their security and crisis response plans are not neglected just because they are in an Islamic country.

Piracy in the Malacca Straits is an ongoing and rising threat to shipping business in the region. As will be seen on US television this evening, Prime Time will be highlighting the risks of terrorism at sea and the potential hijacking of certain types of ships present a major threat to port facilities around the Asian region.

We have been researching this topic in more detail and have a paper available for those interested in shipping security issues.

What Background Asia has done about it

In response to a number of client requests for assistance with security consulting issues, we have decided to form a subsidiary company dedicated to security consulting, crisis management and risk response in Asia. This new company will operate alongside Background Asia's existing fraud investigation and commercial intelligence business.

BACKGROUND ASIA RISK SOLUTIONS ("BARS") is presently being formed and will be fully operational very shortly. It will be based in Singapore, be able to supply consulting and expert assistance around the region and will maintain ground resources in Indonesia, Thailand, China, India and other selected countries.

The company is led by Ian Gordon, former Assistant Commissioner of Police in Singapore and a former military officer who commanded forces in Hong Kong, Bosnia, Europe, Brunei and Oman. Ian will be Director of Operations for the new company.

Also joining us will be Bryan Toki, who will be the BARS Director of Resources, and comes to us with 20 years military experience in a number of countries and is a specialist in training, training development, security operations and quality control. Bryan has also worked in training and development for the private sector.

Ric Beggs will also work closely with both Ian and Bryan on delivering first class solutions to regional businesses with security issues or concerns.

The company will be undertaking a wide range of security consulting services for regional businesses including security surveys and audits, close protection of executives, security and crisis planning and response, security training, incident management training, stress testing and response, as well as regional threat assessment and advice.

Clients of **BACKGROUND ASIA RISK SOLUTIONS** can subscribe to a regional threat, crisis and incident alert service operating 24/7 and providing monthly threat assessments, an alert service for serious incidents and response in the event of a crisis or potential crisis.

More information on BARS will be available shortly including updates to our website and some specific brochures and facts sheets.

If you would like to discuss capabilities you can contact either Ric, Alex, Ian or Bryan on the numbers shown in the columns of this paper.

Hotel Recommendation - Indonesia

Following on from the Marriott Hotel bombing in Jakarta our clients and contacts have been very concerned about what hotel they should stay in when they visit Jakarta.

Almost continually since the Jakarta riots in 1998, we have been recommending the Shangri-La (www.shangri-la.com) as the hotel that has the best plans and security procedures. However the principal 1998 and 1999 threats were civil disturbance or riot and the phenomena of suicide attacks on hotels is something that hotels need different procedures to address.

With this in mind Ric Beggs recently visited the Shangri-La to speak with senior management at the hotel about how they are addressing this threat.

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com

Shangri-La Hotel – Jakarta, Indonesia

BACKGROUND ASIA has carried out a survey of the facilities afforded by the above hotel in relation to its current and planned security measures. We are of the view that while Jakarta itself remains a city with a high ambient threat level in terms of future terrorist attacks against Western businesses and interests, government facilities, Christian and secular targets, if you need to visit Jakarta, this hotel affords its customers and guests some of the best, if not the best, security arrangements offered in the city.

While it is impossible to anticipate every eventuality, and one of the key elements of the continuing threat from terrorism is that the methods of attack evolve and change in response to countermeasures being implemented, we believe this hotel has made best efforts to provide a high level of security and has a solid plan in place to continue to improve and develop security as the threat situation evolves.

BACKGROUND ASIA met with Shangri-La management in Jakarta and reviewed their plans and procedures to counter and manage:

- Bomb Threats - Car bombs or Improvised Explosive Devices
- Riots and Civil disturbance
- Vehicle & Personnel Access
- Disaster response

We noted that Shangri-La has a well managed and trained full-time security officer force; current communications and backup facilities, ongoing surveillance of critical entry and access points, intelligence monitoring of the threat situation, adequate supplies of provisioning (food & drinking water) in the event of an emergency and independent water & power supplies. The Shangri-La also has a tested system of emergency evacuation under a number of scenarios.

Shangri-La gave us the firm impression that they take the issue of hotel safety and security very seriously.

BACKGROUND ASIA is satisfied that this hotel is making every effort to meet the practical needs of its guests while providing a high level of security within the premises and we therefore recommend it to our clients and use it ourselves if we need to visit Jakarta.

Please note that this newsletter is for information purposes only and, as we are not lawyers, does not constitute legal advice. See your lawyer if you would like legal advice, drop us a line if you would like specific advice on these topics relating to your specific circumstances.

BACKGROUND ASIA

Ric Beggs:
+65 9633 8489
+61 418 545 785
ric@backgroundasia.com

Alex Duperouzel:
+65 9117 3450
alex@backgroundasia.com