

SIMPLICITY DATA SYSTEMS, LLC.

ISRAELI-HEZBOLLA WAR

CONTEXTUAL ANALYSIS OF
ARAB GOVERNMENTS' REACTION

July 2006

ISRAELI ATTACKS ON HEZBOLLAH

CONTEXTUAL ANALYSIS AND IMPLICATIONS FOR THE WAR ON TERRORISM AND THE ECONOMY

BACKGROUND AND PURPOSE

This paper expands on our initial analysis of the escalating conflict between Israel and Hezbollah, which we released on July 21, 2006. The response from our colleagues and clients raised new questions on the conflict's potential implications for the war on terrorism, threats to American interests and potential economic impacts. This expanded analysis was authored in response to those questions.

APPROACH

Over the past four years, Simplicity Data Systems and AC Macris Consultants expounded on the importance of integrating context into the analysis of events, trends and developments to deliver practical insights and solutions for mitigating risks from man-made and natural disasters. As the war on terrorism approaches the end of its fifth year, businesses leaders need to better understand the direct and indirect effects of terrorism and related conflicts on their operating realities. Contextually, each industry in general, and business operation in particular, must grapple with the short and long term implications of terrorism and conflict in the Middle East and beyond, as the recent terrorist bombing in Bombay, India tragically illustrated. For businesses engaged in global trade, snapshot limited scope analyses need to give way to integrated contextual frameworks capable of assessing and adapting to the dynamic nature of today's operating environments. This paper follows the integrated contextual methodology to deliver insights into the military, political and economic implications of events now unfolding in the Middle East. This analysis extends beyond the immediacy of events to consider the historical legacy of the Sunni-Shia split and Arab-Persian struggles for leadership in the Middle East and Islamic World. It then looks forward in discussing the new dynamic created by Shia Islam's growing influence and power, and the Sunni establishment's reaction. The results will provide the context for assessing the Israeli-Hezbollah conflict's potential effects on the war on terrorism, Israeli-Arab conflict and the world economy.

As always, your comments are welcomed and may be sent directly to ozzie@simplicitydata.com.

ARAB GOVERNMENT SELF-INTEREST IN 'WATERSHED' REACTION TO ISRAELI ACTIONS AGAINST HEZBOLLAN

The Arab States' muted criticism of Israel's actions in Lebanon seems to have caught many in the US media and government by surprise. Surprise is often the root cause of poor thinking and this may be a representative case as many political, technical and editorial pundits were quick to portray Arab reaction as a watershed event in the history of the region. While the overt fashion in which Arab governments turned their back on Hezbollah was unusual, their motivations may well be based on self-interest, as opposed to real changes in their views of Israel. Our analysis points to the traditional view that the *'enemy of my enemy is my friend, at least for now'* as the fundamental driver behind the Arab governments' lack of support for Hezbollah.

A reflection of this alternative motivation view may be found in a religious ruling or fatwa issued by leading Saudi Sheik Hamid al-Ali titled "*The sharia position on what is going on*" in which he criticized Hezbollah's actions, linking them to Iranian imperial ambitions. For the Sunni Arab governments in the region, the threat to their leadership in the Islamic world posed by Shia governments in Iran and Iraq, combined with the Shia controlled Hezbollah sub-state in Southern Lebanon and Shia influenced HAMAS groups in Palestine are very real. Making matters worse is Syria's rapprochement with Iran, which is opening another channel for Iranian influence in the heart of the Sunni Arab world. Syria is particularly significant due to its historical role in the region (the Syrians were among the first to embrace and act on Egyptian President Nasser's call for the creation of a Pan-Arabic State to oppose Israel and check Western influence) and because the Allawites' who control the government trace their roots to the eleventh century Shia Imam Hasan al-Askari. Thus, in the minds of many conservative Sunni clerics, Syrian leaders are theologically suspect.

Any analysis of Sunni Arab reaction to Israeli action must give serious consideration to theological factors and the historical tensions between Shia and Sunni Islam, which have often spilled over into bloody conflict. Even today, in traditionally Sunni countries in the region, including Iraq before the ouster of Saddam Hussein and in Saudi Arabia, Shia Muslims have been and continue to be a discriminated minority, as a matter of State policy. Thus, viewed from the perspective of the Sunni establishment, an increasingly economically and militarily powerful Iran at the head of an Axis of Shia influence extending from the Persian Gulf, through Iraq and then to Syria, Lebanon and Palestine represents a direct threat to its traditional leadership in the Islamic world. Edward Gnehm, the J.B. and Maurice C. Shapiro Visiting Professor of International Affairs at George Washington University discussed traditional Sunni antagonism to Iranian ambition in a lecture delivered in 2005:

...One must never forget that in dealing with the Middle East. History lives as part of today not a study of things past. For example, the Arabs still talk of the Persian sack of Jerusalem as a horrifying event. You would think it was a decade or two ago. In fact the year was 614 AD.

As I mentioned above, our military defeat of Iraq removed the one Arab state that other states in the region saw as a bulwark against the Persians. The adage in the ME has always been: "Never let the Persians over the Zagros Mountains," a reference to the mountain chain that essentially defines the current border between Iraq and Iran. Now in the minds of Arabs, the Persians are over the Zagros and are the dominant influence in southern Iraq with no force or even geographic barrier between them and the rest of the Arab world.

The Saudis and other Gulf Arabs have always feared Iranian hegemony and in this they don't have to go far back into history. As recently as 1970 the Shah of Iran claimed the State of Bahrain as part of Iran. In 1971 the Iranians seized control of three small islands in the Persian Gulf that were claimed by the UAE. The Arabs remember the Shah and his statements that Iran was rightfully the hegemonic power in the Gulf. The 1979 revolution only compounded Arab fears. The Iranians were not only attempting to dominate the region territorially but were now seeking to change existing regimes through the export of their revolution.

And now the Arabs are deeply concerned about the unbridled presence of Iran --- even as Iran seems bent on developing a nuclear military capability --- and Arabs fear what will befall them given Iraq's current military impotence...¹

Our analysis of the Sunni Arab States' reaction to Israeli action against Hezbollah concludes that on this singular occasion, the Sunni establishment decided that it was preferable to allow its traditional enemy (Israel) to weaken its most significant opponent (Shia Islam/Iran) because, in the

¹ Gnehm, Edward, *The Middle Eastern Cauldron*, Shapiro Lecture, The Elliott School of International Affairs, The George Washington University, March 24, 2005, <http://www.gwu.edu/~elliott/news/transcripts/shapiro4.html>

end, their fear of Iranian ambitions proved more compelling than their traditional antagonism towards Israel. While their decision to essentially look the other way helps Israel in this instance, it would be a mistake to present it as a fundamental shift in the way that Israel in general and Jews in particular are thought of within Arab Sunni circles.

**ARE EVOLVING MULTIPLE CENTERS OF INFLUENCE
IN THE MIDDLE EAST GOOD FOR AMERICA AND ISRAEL?**

A more fundamental question is whether Iran's, or more generally Shia Islam's growing influence in traditionally Sunni areas could, indirectly, open new opportunities for American sponsored peace initiatives between Israel and the Palestinians. US support for the Shia led government in Iraq and that government's need for long-term American diplomatic, military and political support has opened the door to improved relations with the larger Shia community. A generally friendly Shia led government in Iraq would serve as a counter to Iran's troublemaking, as long as the Iraqi government is generally stable and Iran does not become a dangerous nuclear power. For the Sunni establishment, the implications of close ties between the US and Shia Islam are real causes for concern as they envision the evolution of this previously checked opponent into a major player at the heart of the Arab world. There is nothing like a potential threat to a beneficial status-quo to re-focus the minds and policies of governments, and fear of Iran/Shia Islam may convince the Sunni establishment to look for stability on the Israeli front, so they can concentrate on the evolving threat to their leadership in the region.

Our research and analysis of these developments point to a period of short-term instability, but with a new twist. The emergence of Shia influence and Iranian ambition are changing the dynamics of the region. In the long run, Sunni Arab concerns over the rise of Shia influence may force a re-thinking of their policies towards Israel and make instability in Palestinian controlled areas undesirable. For Western governments in general and the US in particular, these shifts may create opportunities to seek greater accommodations between Israel and the Sunni Arab States, while at the same time improving long term relations with nationalist Shia groups in Iraq as a counter to Iranian troublemaking. This strategy, viewed from an Israeli perspective, shares a common theme with Richard Nixon and Henry Kissinger's success in establishing diplomatic relations with Communist China as leverage against Soviet ambitions. That development greatly concerned the Soviet Union, then China's natural competitor for the leadership of the world Communist movement. The dynamics of having a third party at the table is the stuff that game theorists dream of and something that we applied by utilizing aspects of game theory to re-consider the implication of these developments to the future of the region.

The long history and memories of Arabs, Persians, Sunnis and Shia communities defined important contexts for our analysis of the current Israeli-Hezbollah conflict. They also serve as backdrops to understanding the implications of current events on the war on terrorism, energy prices and the world economy. Without an understanding of these contexts, Sunni Arab reaction to Israeli action would appear as revolutionary, when in reality, it is at least in part driven by self-interest and traditional fear of Persian ambition and deep antagonism towards Shia Islam.

WHAT ARE THE IMPLICATIONS FOR THE WAR ON TERRORISM?

There are multiple answers to this question, which depend on the underlying context. Regionally, assuming that Israel scores a clear victory, Hezbollah will be weakened, at least in the short run. More importantly, once the bombs stop falling, Hezbollah will have to dedicate significant energy and resources to re-establishing the infrastructure and services, which it has effectively

leveraged to build political support. If the Israeli weakening of Hezbollah is accompanied by reduced Syrian support, then the positive effects of Israeli action will be felt for a longer period of time, particularly if Syria decides that it is in its interest to deny Hezbollah access to Syrian territory as a channel for Iranian weapons, money and materiel. These are some of the local-regional contextual factors currently in play.

From the perspective of the Islamist movement, the effects are more complex. To the degree that Israeli action supports the perception of Arab victimization, it will serve as a traditional recruiting tool for Hezbollah and Sunni extremists. To the degree that the lack of Arab government support for Hezbollah reinforces the perception that they are puppets of the US, these events may contribute to greater Arab Street support for radical political parties such as the Muslim Brothers. Islamism's proven resilience and American promoted democratic reforms in the region, which have opened the doors of political power to radical political parties, will likely magnify these effects. HAMAS, Hezbollah and Muslim Brotherhood affiliated political groups have done very well in recent elections, underscoring this threat.

For the US, Hezbollah's implied threats to engage in direct terrorist attacks inside our country must be taken seriously. Historically, this group has intentionally limited its terrorist operations outside of Lebanon and Israel, and declared the US off-limit to direct attack as a tactical move to avoid American retaliation. Their decision, it is worth repeating, is a tactical one. Whether Hezbollah will stick to this policy if it finds its power severely threatened is another matter. Finally, the Iran card, defined as Iranian influence on Hezbollah and as it grapples with the decision to carry out direct attacks against the US, remains an open question. Thus, the impact of Israel's efforts to weaken Hezbollah on the threat of terrorism against the US are unknown and probably changing with the day-to-day calculus of the Hezbollah leadership and its sponsors.

In the long term, the current conflict between Israel and Hezbollah will be one more 'event' within the history of Islamism. The movement itself long predated these events and will long survive them, in better or worse shape, depending in large part on the degree of Israeli success. In terms of the war on terrorism, the impact of a perceived Israeli failure (which would be seen by the Arab Street as an American defeat) would be more significant than an outright Israeli victory² because it would raise Hezbollah's standing and reinforce the value of violence as an effective tool in the Islamists' struggle with the West. This is the conundrum that US policy finds itself in, particularly as Israel grapples with the decision of whether and how far to invade Southern Lebanon to forcibly eject Hezbollah from its northern border.

ECONOMIC IMPLICATIONS

American diplomatic success, measured not by the absence of conflict but by its quiet support for the emergence of multiple, competing centers of influence in the Islamic world may ultimately promote a stable détente between Sunni Arab States and Israel, thus improving future economic prospects through perceived lower risks to energy supplies and more stable supply-demand driven pricing. In the meantime, as the war on terrorism approaches the end of its fifth year, business leaders will need to keep in mind the historical contexts behind the interplay of forces in the region in order to better assess the direct and indirect effects of the current and future conflicts. Businesses engaged in global trade will also need to incorporate these effects and their contexts within their integrated risk management and global market strategies.

² See Radical Islamism and Its Implications for Muslim Communities and the War on Terrorism, available for download from the SDS web site at www.simplicitydata.com/Published.html.

Our research indicates that one of the most glaring security vulnerabilities for the US economy is the lack of a shared and actively supported partnership between the business community and government for mitigating the threat and impact of terrorism. While some industries such as air transport have had to take significant steps to mitigate these risks, much of the US economy remains highly vulnerable. The general viewpoint that many of our colleagues and our team have encountered in the private sector is that the threat of terrorism against any one facility is miniscule and that it is the role of local, state and Federal law enforcement to prevent terrorist attacks. This conclusion fails to understand the indirect effects of terrorism, whose likelihood is much higher and long term impacts equally devastating. The currently high and unstable costs of energy are just one example of how conflict and terror can combine to directly and indirectly affect not only specific industries, but the world economy as a whole.

In the short to mid-term, clear Israeli success in their current campaign against Hezbollah would have some positive effects for many industry segments, particularly after the 'guns fall silent'. On the other hand, Israeli failure is likely to have comparatively greater negative effects over a longer period of time. This conclusion is based on increased threats to friendly Arab governments and reliable energy supplies from a stronger Iran, Hezbollah, the radical Islamist movement and its affiliated political parties. These effects and poor private sector understanding and mitigation of indirect risks represent the greatest threats to world markets and the businesses that serve them.

CONCLUSIONS

This paper illustrates the application of historical and cultural contexts, which are often missing in traditional reporting, to the analysis of events in the Middle East. This approach places new events such as the Israeli war against Hezbollah within a contextual framework that considers factors, which are not natural to American thinking, given our traditional discounting of history. For most Americans, it is reasonable to say, that events such as the Civil War and World War I have faded into distant history. Even World War II is starting to slip from our minds, as the generation that fought and won the greatest struggle of the past century passes from the scene. The same is not true for other cultures.

Israeli action against Hezbollah and muted Sunni reaction reflect the effects of both near term and historical contexts. In the near term, Israel felt that it could not accept a direct threat on its northern border from a group intent on its destruction. Hezbollah's objectives, on the surface, would seem to coincide with that of the Sunni establishment, which continues to call, directly and indirectly for the destruction of the State of Israel. Viewed from a historical context, however, the expansion of Shia influence and growing Iranian ambition represent direct threats to traditional Sunni countries in the region and Sunni leadership of the Islamic world. In the end, the latter proved to be a more compelling threat than traditional antagonism towards Israel.

Politically, these events portend the first phase in a realignment of forces in the area, which may ultimately shift regional attention and interests away from Sunni sponsored violence against Israel. The Sunni establishment will now have to grapple with its historical opponent in the region, Iran, and a competitor for the heart of Islam, Shiism. This may ultimately lead to a period of greater stability and diplomatic success in Israeli-Palestinian negotiations, which together will translate into less volatility in energy markets. Our research continues to focus on identifying specific markers, which will allow us to better understand the short and mid-term implications of these events and future developments, within a viable historical context. These will in turn point to evolving risks and opportunities based on their effects on world energy supplies and the threat of Islamist inspired terrorism.

We trust that this short analysis illustrates the role, which historical context can and does play in understanding current events, and their political and economic implications. After years of studying the Isamist movement and the development of threat analysis models that incorporate religious, cultural and historical contexts, we have come to the conclusion that any risk assessment of Middle East events and developments that does not take into account the important role of history and culture will likely be incomplete. The analysis in this paper illustrates the application of contextual factors to develop and better understanding of current events and their implications for foreign policy and the economy.

ABOUT THE CONTRIBUTORS

Ozzie Paez spent eleven years in the civil nuclear industry and almost a decade supporting the US Department of Energy in various capacities, including engineering and quality assurance. He is a Senior Systems Engineer and Certified Information Systems Security Professional. Since 9/11, Mr. Paez has participated in various research projects focusing on systems for protecting the national critical infrastructure, emergency preparedness and the culture behind radical Islamism inspired terrorism. In this capacity, he has developed contextual methods for applying empirical analysis to quantify the risks stemming from radical Islamism, its adherents and their decision-making processes. Before 9/11, Mr. Paez spent many years researching and studying the Soviet block and its threats to the West in general and US in particular. His unique expertise is in integrating culture and decision making into the study of security, risk identification/mitigation and competitive business leadership. He is a co-developer, with AC 'Dean' Macris, of the Compete-Protect-Perform contextual business framework. Presently, Mr. Paez continues to research the business implications of terrorism and the efficacy of Federal policies in areas such as threat identification and mitigation. He may be reached at ozzie@simplicitydata.com.

A.C. (Dean) Macris began his professional life as a nuclear trained officer in the US Navy serving aboard fast attack submarines. His primary duties included operational intelligence gathering in addition to deployments to the Mediterranean in support of the 6th Fleet. Since leaving the Navy, Dean's career has focused in the areas of human factors as applied to military, commercial shipping and nuclear systems/operations, training and development; performance measures; and organizational development. Dean's ability to work across the workforce domain, from executive to performance level was developed during his Navy career aboard submarines and has proven equally effective in leading his private sector clients through the challenges and intricacies of the always changing economic and political marketplace. Beginning in 2002, Dean returned to his military roots as he engaged in projects directly related to Homeland Defense and the implications of terrorism for private sector leadership and governance. He is a co-developer of the Compete-Protect-Perform contextual business framework. He may be reached at acmpc@acmacris.com.