



INTERNATIONAL RISK ASSESSMENT 2008 TERRORISM TRENDS IN ASIA

2008

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Introduction

The assassination of Benazir Bhutto and the menace of resurgent extremist and terrorist networks in Pakistan have overshadowed some encouraging improvements in the fight against terrorism elsewhere in Asia. Most notably, progress has been achieved in the former terrorist hotspots of Indonesia and the Philippines.

The 2008 International Risk Asia-Pacific terrorism outlook addresses two key issues. First, can the terrorist challenge in Pakistan be contained or will extremist and terrorist groups threaten Gen. Pervez Musharraf's hold on power? Second, is the present decline in terrorist activity in Southeast Asia sustainable over the longer term?

Violence in Pakistan, instigated by terrorist and militant Islamist groups has been escalating for the past few years but has significantly worsened since last spring. If Musharraf were to fall from power or the political process were to become totally paralysed, this could potentially trigger a slide into chaos and allow terrorist and militant groups to expand their influence in outlying border areas in the north and northwest and to move into the country's heartland and major cities.

These are dangerous times for Pakistan and the potential for its descent into anarchy is one of the biggest sources of geo-strategic concern to the international community. This is because Pakistan has played a central role in the U.S.-led global "war against terrorism" by recently cracking down against Al Qaeda and other militant and terrorist groups within and along its borders with Afghanistan. Of greater concern to the major powers is Pakistan's possession of nuclear weapons. Although the country's nuclear arsenal appears to be in safe hands for now, the U.S. and particularly India are concerned that sustained instability in the country could compromise the command and control of those in charge of these weapons and allow them to fall into radical Islamist hands.

Another country that faces an uncertain terrorism outlook in 2008 is Thailand. The Thai authorities have been unable to put down a four year old extremist separatist insurgency in the South and there is concern that the situation could worsen if external

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terrorist networks elsewhere in Southeast Asia and even the likes of Al Qaeda were to become involved. The Thai security services have shown a worrisome lack of capacity in dealing with the counter-insurgency and terrorism challenge.

By contrast, the security services in Indonesia and the Philippines have scored some solid successes in unravelling local terrorist networks over the past year. With extensive advice and support from Western intelligence agencies and militaries, these two countries have adopted forward-looking strategies that combine the use of robust military and law enforcement methods with softer approaches, providing economic aid and development assistance designed to win the support of local populations. This nuanced approach has led to some victories that have significantly weakened the capabilities and staying power of the major home-grown terrorist networks such as Jemaah Islamiyah and Abu Sayyaf.

Overall, the terrorism outlook for Southeast Asia in the coming 12 months is cautiously optimistic. International Risk rates the risks of a major terrorist incident such as on the scale of the 2005 Bali bombings as medium to low across Southeast Asia, including Indonesia and the Philippines. This is because none of the indigenous terrorist groups appear to have the capacity currently to mount such operations. This will mean that these terrorist outfits will likely focus instead on smaller-scale suicide bombings and kidnappings that require less organisation and resources.

Overview of the Current Regional Terrorism Dynamics

The Terrorism Situation in South Asia

South Asia is second only to Iraq as the most deadly region of the world for terrorist-related deaths and attacks. Sri Lanka and India have traditionally suffered the highest number of casualties and terrorist incidents, but Pakistan overtook India for the first time in 2007 to claim the dubious distinction of second spot behind Sri Lanka.

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Pakistan

Pakistan's slide into anarchy picked up considerable momentum in 2007 as the Musharraf government failed to contain the rise of powerful extremist and terrorist groups in strategic areas of the country. Terrorist and insurgent attacks,¹ especially suicide strikes, have soared in the past year resulting in more than 2500 deaths, according to the South Asia Terrorism Portal. This compares with 1471 terrorist-related deaths in 2006 and 648 killings in 2005. In 2007, more than 1000 terrorists were killed, while nearly 1000 civilians and 500 security personnel have died. Another 300 Pakistani soldiers are being held hostage by terrorists in outlying border areas.

Growing portions of Pakistan appear to be sliding into terrorist-dominated lawlessness. Islamic militants have taken control of an expanding swathe of territory in the Federally Administered Tribal Areas (FATA), such as Waziristan, and the North West Frontier Province (NWFP) in the past year, effectively turning these areas into enclaves for Al Qaeda and the Taliban.

The NWFP has traditionally been under strong central government control but in the past five years has come under the firm grip of Muttahida Majlis-e-Amal, a radical Islamist pro-Taliban alliance. The NWFP, which extends from the Himalayas in the North, Baluchistan and Punjab in the South, and Afghanistan to the West, has become a hotbed of militant operations with more than 650 officially reported terrorist-related deaths last year. The Swat valley in the NWFP in particular became a bastion for terrorist militants during 2007 as they confronted local government and security forces. This forced the Pakistani army to launch a major military offensive led by helicopter gunships to clear out this enclave at the end of November.

Militant and terrorist groups have become increasingly emboldened and have conducted a number of major attacks at the heart of the Pakistani establishment over the past 12 months. Besides the assassination of Bhutto, which the Pakistani authorities currently blame on Al Qaeda, terrorists tried unsuccessfully to shoot down a plane carrying Musharraf in July, militants carried out a siege of the Lal Masjid mosque

¹ *Statistics for terrorist incidents and deaths resulting from terrorist activities vary widely because of different ways in which incidents are categorized and counted. Figures compiled, for example, by the South Asia Terrorism Portal (SATP) are significantly higher than statistics put forward by the U.S. National Counter-Terrorism Centre (NCTC). Statistics from both these two organizations are quoted in this report and are used for different comparative purposes. The SATP statistics are employed to compare terrorist-related deaths within South Asian states only. The NCTC statistics are used to provide comparisons across major regions and countries of the world.*

and madrasah complex in Islamabad, the country's capital, also in July, and terrorists have undertaken repeated attacks against military targets around the country. Other centres of militant and terrorist influence include Quetta and Karachi.

Although popular support for these radical Islamist groups is assessed to be to no more than 10% of the national population, they are able to punch well above their weight through their close-knit discipline, aggressive tactics and formidable means to mobilize supporters. Western intelligence agencies claim that one of the most powerful extremist terrorist groups operating in Pakistan is Jamaat ud-Dawa (JD), which previously operated under the name of Lashkar-e-Toiba (LT). It waged a major terrorism campaign against India during the 1990s and first few years of this decade with the goal of incorporating majority Muslim states in India such as Kashmir into Pakistan.

After the Pakistani government banned LT, its leaders reconstituted the organization under name of JD, which is legal but closely watched by the authorities. JD is designated as a terrorist organization by the U.S. government but JD representatives claim they operate as a charitable organization and political party that has thousands of loyal supporters and enjoys close ties with the Pakistani government and Al Qaeda. JD is headquartered in Lahore, a growing militant centre of power, and is believed to run at least 10 terrorist training camps in border areas neighbouring India and Afghanistan.

The killing of Bhutto and the growing power of terrorist and militant groups could possibly accelerate Pakistan's descent into chaos, which would pose the biggest source of geo-strategic concern for not only the Asia-Pacific region but also the rest of the world. Pakistan has been a lynch-pin in the U.S.-led global war on terrorism as well as being a nuclear armed power. If Musharraf is unable to stem this surging tide of Islamic fundamentalism and halt the militant resurgence, the U.S. (alone or with others) may decide to intervene to secure the country's nuclear arsenal and strike against Al Qaeda and Taliban strongholds in the FATA. This approach would pose huge risks, including unleashing a fierce anti-U.S. backlash which would imperil Musharraf's increasingly shaky hold on power.

India

India is anxiously watching the enveloping instability in Pakistan and Afghanistan because it would almost certainly be the next target for terrorist and militant groups should they gain the upper hand in these neighbouring states. JD, Al Qaeda and other terrorist networks have articulated goals of bringing portions of India into their spheres of fundamentalist influence as part of their aspirational goal of establishing an Islamic state stretching from Iraq to Southeast Asia.

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2007 was a mixed year for terrorism in India. The death toll of around 2,500 from terrorist-related attacks was a slight dip from the 2,765 deaths in 2006, although there were some noticeable bright spots such as Jammu and Kashmir that recorded a sharp fall in fatalities and incidents with less than 1,000 killings for the first time in 17 years.

The country suffered a number of major terrorist attacks in the past year, including the bombing of an express train from Delhi to Attari Samjhauta in February that left 68 people dead, the murder of 55 police officers by Maoist terrorists in Chhattisgarh in March, a series of explosions in Hyderabad in May and August, and bombings of court premises in Varanasi, Faizabad and Lucknow in November.

In addition, there have been a series of bombings against Islamic mosques and Sufi shrines across the country over the past year, including a blast in Hyderabad in May that killed nine people. Some terrorism experts speculate that extremist Islamic organizations may have been behind these attacks to radicalize mainstream Muslims into joining their cause by sparking communal tensions. JD leaders such as Hafiz Mohammed Saeed have spoken approvingly of their desire to carry out terrorist strikes in India to undermine the country's stability.

The reduction in terrorist activity in Jammu and Kashmir was overshadowed by a sharp escalation in terrorist attacks in Northwest India caused by the activities of local Maoist rebel groups. Assam took over from Kashmir as the terrorist epicentre of the country with more than 400 terrorist-related deaths, caused by dozens of explosions in crowded market-places. The principal culprit is the United Liberation Front of Asom, which has been fighting for an independent state since the end of the 1970s. Manipur also witnessed a major surge in insurgent and terrorist violence with more than 370 killings last year. As the operations of these rebel groups are geographically limited, they do not spill over outside of India and they have little or no link with Al Qaeda or other global terrorist networks, they have attracted little international attention.

Sri Lanka

Sri Lanka topped the rankings in South Asia and the Asia-Pacific region for the most terrorist and insurgent-related deaths in 2007 with more than 4,000 killings, an estimated three-quarters of whom were believed to be Tamil Tiger fighters. Nearly all of these deaths were linked with the 30 year civil war that flared up again in 2006 following the breakdown of peace talks and cease-fire agreements between the two sides.

The Tamil Tigers have carried out major terrorist attacks against military and civilian facilities and conducted assassinations against senior government officials, but these

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operations have failed to slow down the success of the Sri Lankan government and armed forces in a succession of military offensives that have pushed the rebels back from much of the territory they once ruled over. Indeed, Sri Lankan military commanders have indicated that they may be close to wiping out the Tamil Tigers on the island in the not-too-distant future if they maintain their tempo of military operations.

Nepal

Nepal has become notorious as the kidnapping centre of the world, but the scale of abductions has sharply declined in the past 2 years. The number of abductions fell nearly 70% in 2006 compared to 2005, although statistics from the U.S. National Counter-Terrorism Centre still showed that 10,300 people were taken hostage.

This downward trend in kidnappings and violence continued last year as the fragile peace agreement between the Maoists and the government persisted, although not without serious political divisions. Deaths caused by insurgent and terrorist incidents are reported to have dropped to around 100 last year compared with 480 fatalities in 2006.

The Terrorism Situation in Southeast Asia

Terrorist incidents in Southeast Asia continued to decline in 2007, extending a trend beginning in 2005. The overwhelming bulk of terrorist attacks currently take place in Southern Thailand and the Philippines. Although terrorist-related deaths and incidents in Thailand have shown a modest decline, the Thai authorities have been unable to put down the Muslim separatist insurgency and there is considerable apprehension that the level of violence could escalate if neighbouring terrorist networks become involved.

Indonesia and Jemaah Islamiyah

The counter-terrorism situation in Indonesia has been encouraging with no successful major terrorist attacks since 2005. This has won Indonesia international praise for the execution of a highly successful counter-terrorism campaign.

The security authorities have dealt a number of severe blows to the organisation and operations of Jemaah Islamiyah (JI), the country's principal terrorist outfit, by

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apprehending a number of senior leaders. This includes Abu Dujana, billed as the country's most wanted terrorist suspect and who is alleged to have been in charge of JI's military wing in control of weapons and explosives. Some intelligence experts speculate that he may have been JI's top leader.

An assessment of JI by the International Crisis Group in July 2007 suggests that the terrorist outfit:

- Has a solid core of no more than 900 members operating in Indonesia, which is less than half its size at its peak earlier this decade.
- Is no longer growing in size but retains deep roots within the country and still aspires to the long-term goal of establishing an unified Islamic state extending from Southern Thailand, through the Malay Peninsula, including Singapore, across the Indonesian archipelago and into the Southern Philippines.
- Is in a rebuilding and consolidation phase to overcome the major losses that it has recently suffered and consequently is unlikely, and perhaps unable, to conduct large-scale expensive terrorist operations that had been its modus operandi in the past, such as with the 2005 Bali bombings.
- May have formed a new military structure to carry out operations in Java.
- Has little effective operational presence outside of Indonesia. A handful of JI activists are now living in the Philippines but appear to be fugitives escaping justice in Indonesia, although they are under the protection of local terrorist groups in the Philippines.

Besides JI, there are a number of much smaller terrorist and militant outfits operating in Indonesia, including Anshar el-Muslimin, which is the only local group that closely follows Al Qaeda, Ring Banten that splintered from JI and operates in West Java, Mujahidin Kompak that is a loose network of veterans from separatist conflicts in Ambon and Poso, and Jama'ah Tauhid wal Jihad, a group founded by a bomb-maker and is based in Bandung.

To support its operations, JI has reportedly been involved in business operations to raise funds. Outfits with suspected links to JI are said to have opened up retail outlets selling magazines, VCDs, as well as daily goods such as bread and coffee. JI has operated on a shoestring and the cost of many of its major terrorist attacks has been in the range of a few thousand dollars.

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Southern Thailand

Although terrorist-related deaths and incidents in Southern Thailand have shown a tentative decline in the past year, the Thai authorities have been unable to put down the Muslim separatist insurgency and there is concern that the level of violence could escalate if neighbouring terrorist networks operating in Indonesia and the Philippines were to become involved.

The Thai government insists that most attacks are due to local criminals, but there is abundant evidence that Islamic separatist groups are playing a role. Groups such as the Pattani United Liberation Organisation (PULO), Barisan Revolusi Nasional (BRN) and Gerakan Mujahadeen Islam Pattani (GMIP) have been linked to the violence in Southern Thailand and some foreigners, including an Indonesian national, have been arrested in the past year.

More than 2,200 people have so far died from these terrorist and insurgent attacks since 2004, although the actual figure could be as high as between 3000-4000 casualties, according to law-enforcement sources. Killings have also included beheadings and machete attacks, which are practices that may have been copied from insurgent operations in Iraq. There have been more than 10 beheadings and a similar number of machete-related deaths in 2007. In a new development in the past year, Muslim insurgents have been instigating sectarian attacks by hacking and clubbing Buddhist monks to death. This has sparked fears of a spiralling outbreak of religious and communal violence in the near-future.

If these local separatist groups receive training and support from outside terrorist groups such as Al Qaeda or JI, the fear is that they could expand the scope of their activities to other parts of Thailand as well as target foreigners. This has occurred in a handful of incidents, but these local groups have not so far shown any appetite to extend their footprint to the rest of the country.

A major reason that this insurgency continues to flourish is the inability of the Thai security services to master counter-terrorist and counter-insurgency skills. For the first couple of years of the insurgency, the security authorities conducted a harsh crackdown and placed the three affected provinces under martial law. This however only served to fuel the backlash against the regime and alienate moderate Muslim voices. This was replaced by a policy of conciliation by the junta which took power in a coup in 2006. However, this proved unsuccessful, violence flared up in the first half of 2007, including a well-coordinated campaign of 28 bombings in February that killed or injured about 60

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people. In response, the military has deployed more than 20,000 additional troops that patrol the region in armed convoys and man checkpoints.

The Philippines

The adoption of modern counter-insurgency and counter-terrorism strategies has enabled the Philippines government to claim major success over the past 18 months in neutralising the threat from terrorist and rebel groups such as Abu Sayyaf (AS) and the New People's Army (NPA).

The government in Manila launched a military operation in the summer of 2006 called Oplan Ultimatum in which the armed forces, supported by U.S. military advisors and special operations units, targeted AS in Basilan, its birthplace. From a peak of around 1000 members in the mid-1990s, AS has dwindled to less than 500 members. The military campaign appears to have been successful in driving the hard core remnants of AS out of Basilan and the remaining members, which are now estimated to number less than 200, are believed to be in hiding on the Sulu Archipelago.

Besides using military force, the Philippine authorities have also sought to win the hearts and minds of local inhabitants in Basilan, Sulu and Mindanao by providing support to improve local conditions. With U.S. assistance, Philippine military and government units have distributed aid, participated in the building of public infrastructure projects such as roads, bridges and hospitals, and established medical services and repaired run-down mosques. This has successfully seen a sizeable portion of the local population switch allegiance and throw their support behind the central government.

Nonetheless, the surviving elements of AS still pose a major security threat, although their ability to mount a major terrorist attack is limited. In August, more than 40 Philippine soldiers were killed in fire-fights with AS insurgents. There have been reports that AS groups may have linked up and formed alliances with rogue elements of the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front. The MNLF has been engaged in peace talks with the government in Manila.

More than 1,700 people are believed to have been killed or wounded by Islamic militant attacks in the Philippines over the past seven years, which is the highest number of casualties in Southeast Asia. The bulk of these attacks were carried out by AS and the Rajah Solaiman Movement.

Northeast Asia

No major terrorist incidents have taken place in Northeast Asia for the past several years and this trend continued in 2007. A number of countries do have concerns though about small-scale terrorist and extremist threats. China, for example, suffers from occasional separatist challenges to its rule in the Xinjiang Autonomous Region in Northwest China and the central government is stepping up security measures in the run-up to the Beijing Olympic Games this summer.

North Korea is pressing the U.S. to remove its name from a list of countries designated as state sponsors of terrorism. This is one of the conditions demanded by Pyongyang in the Six Party Talks on ending its nuclear weapons programme. North Korea is currently in advanced negotiations with the U.S., China and other regional countries to disable and dismantle its nuclear facilities in return for the normalisation of relations with the U.S. and Japan and the opening up of its doors to international economic assistance and trade.

The Asia-Pacific Region in Global Comparative Perspective

South Asia and Southeast Asia, to a lesser extent, rank prominently as terrorist hotspots when compared with other regions of the world. In its annual global assessment of terrorist incidents for 2006, the U.S. government's National Counter-Terrorism Centre pointed out that South Asia was second behind the Near East (namely Iraq) for the volume of terrorist incidents and related fatalities. Of the approximately 14,350 reported attacks for 2006, 45% occurred in Iraq, 25% took place in South Asia and East Asia, and the Pacific (predominately Southeast Asia) accounted for 7% of total attacks.

As for the level of fatalities caused by terrorist activities in 2006, seven of the top 15 countries were from the Asia-Pacific region, of which five were located in South Asia and the remaining two were from Southeast Asia. India ranked second with 1,256 reported fatalities followed by Afghanistan (3rd with 1,042 deaths), Sri Lanka (5th with 627 killings), Thailand (7th with 520 deaths), Pakistan (9th with 387 deaths), Philippines (10th with 291 fatalities), and lastly Nepal (11th with 261 related terrorist activities).

Long-Term Considerations

The medium to long-term prospects in the struggle against terrorism in Asia are mixed. A number of positive developments offer hope that the improvements in Southeast Asia are sustainable:

- There is growing sophistication in the use of advanced and nuanced counter-terrorism strategies by governments in Southeast Asia that seek to tackle both the immediate operational threats as well as the fundamental socio-economic, religious, ethnic and other causes. This improvement in counter-terrorist capabilities and methodologies will help considerably to mitigate the threats of future major terrorist attacks. But while Indonesia and the Philippines have made strides in strengthening their counter-terrorist operations in the past year, they still have a long way to go. In Indonesia, for example, the cadre of security personnel trained in these more advanced counter-terrorism skills remains thin.
- The successful disruption of JI and AS through the arrest and killing of top leaders and driving them out of safe havens over the past year has left these networks vulnerable, operationally weak and on the defensive. They will need a considerable amount of time and effort to rebuild their capabilities.

But there are plenty of reasons for concern that the long-term trends in the terrorism situation in South and Southeast Asia could become more complicated:

- For South Asia, the near and medium-terrorism picture is bleak because of entrenched ethnic, religious, nationalistic, and other drivers. The high annual levels of terrorist incidents and deaths in Pakistan, Afghanistan, India, Nepal and Sri Lanka are likely to remain high for the foreseeable future.
- A sizeable number of governments are still struggling to get to grips with successfully suppressing the terrorist challenges within their borders. They lack the expertise, resources and effective inter-agency coordination among security services. India, Thailand, and Pakistan are the most obvious examples of states with poorly developed and coordinated counter-terrorism capabilities.
- Longer-term, terrorist networks and insurgent movements are likely to draw strength from deepening political, social and religious disenchantment among local populations and from the continuing rise of global fundamentalist terror

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networks that offer resources, expertise and ideological inspiration for local militant groups.

Most Asian governments continue to be hard-pressed to tackle the underlying structural causes of terrorism. This is because these are deep-seated socio-economic and ethnic factors that cannot be easily or quickly resolved using pure security or counter-terrorism measures. This means that occasional tactical successes such as the capture of terrorist leaders or the thwarting of terrorist plots should not be confused with the strategic nature of the conflict against terrorism, which concerns the struggle in winning over the hearts and minds of civilian populations.

The Business Implications

Although the improvement in the terrorism picture in Southeast Asia is an encouraging development, International Risk believes that businesses still face a number of key risks:

- Terrorist groups are still able to mount small-scale opportunistic attacks against soft civilian and foreign owned targets. In particular, International Risk is concerned about the continuing threat of kidnappings, which groups such as JI and AS regularly use as a terror and fund-raising tactic. Foreign diplomats, engineers and hotel managers are viewed as targets for abductions and foreign companies operating in Southeast and South Asia should exercise vigilance and regularly review their procedures and contingency preparations for such an event.
- The terrorism situation in Thailand, especially in the South, remains a source of concern, and violence could potentially spread to major cities and tourist areas if insurgent groups decide to broaden their campaign. The uncertainty over Thailand's near-term political future could increase the risk of terrorist attacks because the current leadership is severely distracted and is not dealing with this problem.
- Companies with business interests in South Asia should carefully review their business plans to take into account the heightened terrorism risk in the region. The growing instability in Pakistan and the potential spill-over into India and elsewhere in the region means that companies throughout South Asia are not

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safe from possible attack. Terrorist groups have shown their preference to strike at economic targets such as Mumbai, India's financial capital, and Hyderabad, the country's technology centre.

- The current state of the world's financial markets can result in smaller scale terrorist incidents taking on a disproportionate impact. This is one of the key goals of the terrorists, and companies, governments and the media all have a role to play in not letting such incidents cause an effect out of proportion to the actual attack.

For more detailed analysis of current political and business risks in Asia, please contact Steve Vickers, President and CEO of International Risk in Hong Kong at (852) 3120-8688 or any of our worldwide offices.

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