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The Evolution of IS

(Next week we will publish our Geopolitical Outlook for 2016. It will be our last issue of 2015.)

An Islamic State (IS) affiliate downed Russian Metrojet Flight 9268 in October. In November, IS-affiliated terrorists launched a series of attacks in Paris. These two events suggest a significant change in the behavior of IS. Prior to the Paris attacks, IS appeared to be focused on building a caliphate in Syria and Iraq. The shift to terrorist acts suggests a new strategy.

In this report, we will recap the two strategies radical jihadists have employed against the West, highlighting the differences between al Qaeda and IS. We will examine the current stalemate that exists in the area IS currently controls and how IS may adjust its future strategy. As always, we will conclude with potential market effects.

The Basic Strategies

There has been a persistent debate among Islamic extremists about the most effective way to create the caliphate, the true physical state of Islam.¹ Osama bin Laden believed that the best way to re-create the caliphate was to develop conditions that would lead to the spontaneous overthrow of corrupt nations in the Middle East. He believed that these puppet states would collapse if the West withdrew its support, and so he focused al Qaeda on attacking the “far enemy.” A series of attacks against U.S.

targets culminated in the horrific events of 9/11. Bin Laden believed that the West would either not retaliate from these steadily escalating strikes and show themselves as weak, or wildly retaliate and reveal that the West’s true agenda was another crusade against Islam. In either case, bin Laden assumed that local Muslims would rise up against their corrupt leaders and oust them from power, creating conditions for al Qaeda leadership to enter and create the caliphate.

The other position argued that attacking the West was folly and that the best way to create the caliphate was to simply create an Islamic state. Once the caliphate was declared, it would be the duty of all observant Muslims to join the effort to relentlessly spread the new nation’s boundaries until it was the only nation in the world.

Bin Laden’s assessment of the West’s reactions was generally accurate. The Clinton administration mostly failed to react to the attacks on the U.S. embassies in Nairobi and Dar es Salaam in 1998 and the attack on the U.S.S. *Cole* in 2000. The lack of action suggested the U.S. would not necessarily support its “puppets” if attacked and, in fact, local branches of al Qaeda began springing up on the Arabian Peninsula.² After 9/11, President Bush reacted strongly to the attacks on New York and Washington by ousting the Taliban in Afghanistan and invading Iraq. Bin Laden argued that this was clear evidence of a new crusade against the Islamic world; however,

¹ The concept of the caliphate was examined in detail in WGR, 4/27/2015, [The Ideology of IS](#).

² However, these franchises were mostly contained by local security forces.

his hope for spontaneous uprisings failed to develop. Al Qaeda's leadership found itself bottled up in the mountains of Afghanistan, facing constant attacks from drones and becoming increasingly irrelevant. In May 2011, Osama bin Laden was killed by a U.S. Navy SEAL team.

IS emerged from the local al Qaeda affiliate in Iraq that was run by Abu Musab al-Zarqawi. Al-Zarqawi was a controversial figure among jihadists. He had numerous disputes with al Qaeda's leadership over his methods, which included terrorist attacks against Shiites and Sunnis that al-Zarqawi deemed not adequately fervent. The leadership in Afghanistan did not want al-Zarqawi attacking other Muslims regardless of belief and tried hard to rein in this rogue leader. Al-Zarqawi was killed by a U.S. airstrike on June 6, 2006. In 2007, President Bush ordered the Iraq Surge. Gen. David Petraeus implemented a counterinsurgency strategy that effectively destroyed much of the support for al Qaeda in Iraq. Sadly, the sectarian policies of Former Iraqi PM Nouri al-Maliki, who treated Iraqi Sunnis as a threat, and the premature withdrawal of U.S. troops by President Obama squandered the gains from the surge.

In this maelstrom of Sunni discontent, IS was born. Built mostly from the remnants of al Qaeda in Iraq, the group, led by Abu Bakr al-Baghdadi, took the opposite approach of bin Laden and worked to create a local state, effectively erasing the border between Syria and Iraq.

The initial success of IS occurred for four reasons. First, it was able to hold Sunni areas in Iraq and Syria. We doubt many of the locals are enamored with the brutal state that IS created; however, even IS was considered a better alternative to being subjugated by the Shiites in Baghdad or the

Alawites in Damascus. Second, unlike the stateless al Qaeda, IS was able to acquire economic resources through conquest. It has several sources of revenue, including selling oil (some sales are to areas of Syria either under the control of Bashar Assad or opposition groups),³ selling antiquities, confiscating assets from captured banks, levying taxes on local areas under its control and collecting ransoms from kidnappings. Thus, it was able to pay fighters for their services, in many cases, better than other insurgent groups. Third, the emerging proto-state also benefited from Muslim foreigners attracted to the notion of the caliphate. A steady flow of fighters came from all over the world to help build the new caliphate. Fourth, IS benefited from the lack of focus from potential enemies, both near and far.

The Problem of Priorities

The fourth point is critically important. Although there is no established nation that would consider IS an ally, there are no states that view its removal from power as its top priority.

United States: Although the Obama administration would like to see IS destroyed, it also wants to see Assad removed from Syria. Destroying IS would likely allow Assad to remain in power. At the same time, eliminating IS will create a power vacuum in the region with an indeterminate outcome. And so, for the lack of a better alternative, U.S. policy has evolved into the containment of IS.

Turkey: The Erdogan government has two priorities, removing Assad from power and preventing the Kurds from developing a

³ <http://www.businessinsider.com/isis-selling-oil-to-biggest-enemy-2015-11> ; <http://www.aljazeera.com/programmes/insidestory/2015/11/buying-isil-oil-151127173736852.html>

state. Although it would like to see IS eliminated, Turkey's focus on its priorities has led Turkey to be somewhat supportive of IS by allowing foreign fighters to move across its borders and occasionally attacking Kurds aligned against IS. Vladimir Putin has accused Turkey of buying IS oil as well, although that hasn't been confirmed.

Russia: Putin's primary goal is the survival of Assad in Syria. Russian airstrikes have mostly focused on non-IS groups trying to oust the Syrian regime. Attacking IS appears to be a lower priority, even after the downing of Flight 9268.

Syria: Assad is mostly concerned about groups working to overthrow his government and has refrained from attacking IS directly. IS has reciprocated by attacking the same groups that Assad has been fighting. In addition, as noted above, Syria has been buying oil and petroleum products from IS.

Iraq: Although Baghdad would clearly like to eliminate IS, it refuses to create conditions that are inclusive to Sunnis (which was one of the key elements to the success of Bush's Surge). The performance of the official Iraq Army has been poor; at the same time, Shiite militias have fought well but have reportedly treated Sunnis harshly in areas where they have regained territory. Until Baghdad creates conditions that give Sunnis confidence that the Iraq government isn't an Iranian Shiite puppet, Sunnis will generally not turn strongly against IS.

Sunni Arab states: These nations see IS as a threat but view Shiism as a greater one. The containment of Iranian power is their primary goal and the removal of Assad is seen as necessary to achieve that aim. Removing IS is not a major priority.

EU: Until the refugee crisis developed and IS attacked Paris, European powers were mostly content to allow the U.S. to manage the containment of IS. France is now trying to create a coalition of European nations to attack IS, but it is unclear if they will do anything more than what the U.S. is doing. In other words, despite reports that the Obama administration is going to increase the pace and manpower of Special Forces in theater, we do not expect a significant expansion of Western ground troops anytime soon.

The Strategy of IS

As the previous section showed, there is no outside power that has the destruction of IS as an existential goal. That's the good news for IS. The bad news is that the default policy of containment of IS has been working. IS is mostly holding Sunni areas in Syria and Iraq but its expansion into Kurdish or Shiite areas has been stopped. Continued airstrikes have reduced IS's ability to move fighters in any significant numbers. In addition, Kurdish fighters have recently captured key chokepoints for IS, reducing their logistical capabilities, and Iraqi troops have made gains as well.

Part of the ideology of the caliphate is its continual expansion; in fact, to be the true Islamic state, it should steadily grow. Thus, containment is a major threat as it undermines the authority of IS leaders. The success of containment appears to have led IS to adopt bin Laden's strategy of attacking the "far enemy." However, unlike bin Laden, IS does not appear to be making these attacks to either show the impotence of the West or to trigger a new crusade. Instead, it appears IS leadership wants to show that it can still grab the attention of the world through terrorist acts in Western nations. In other words, this is a bid to boost morale. The terrorist acts in Europe are

more about IS's failure to expand the caliphate than to change the behavior of the West. If the leadership of IS cannot expand the caliphate, it will appear they are not favored by God and need to be replaced. It seems that the recent terrorist acts are designed to quell such threats.

As part of these terrorist operations, IS appears to be creating franchise operations. The Russian airliner attack was probably made by an affiliate, and it is not clear how much direction or support the leadership in Raqqa gave to the group operating in the Sinai. The problem with outsourcing terrorist acts to franchise groups is that they may attack targets that make tactical sense but create strategic problems. The decision to attack a Russian civilian airliner has already led Putin to step up attacks on IS; prior to this event, Russia was mostly attacking non-IS groups seeking to overthrow Assad.

Another interesting development was reported by the *New York Times*.⁴ IS has been sending fighters to the Libyan city of Sert over the past year and has gained a foothold in this failed state. If IS can shift to another area that lacks a formal government, it could repeat its initial successes enjoyed in Iraq and Syria. In addition, it would probably find Africa a better place to establish itself and likely avoid the attention it has garnered from the West in its current location.

Despite the fear in Western capitals that they are about to face an onslaught of IS terrorist attacks, the reality is that the IS leadership is probably more interested in building a caliphate. If IS needs to move from Syria

⁴<http://www.nytimes.com/2015/11/29/world/middle-east/isis-grip-on-libyan-city-gives-it-a-fallback-option.html?smid=tw-share>

and Iraq to Libya to accomplish this goal, it will most likely take that step. As noted before, IS is engaging in terrorist acts in the West as a sentiment-building measure for its own fighters to offset the concerns surrounding its current containment in the Levant. If IS establishes a foothold in another lawless region and expands its hold there, we would expect the terrorist acts in the West to decline.

Ramifications

Western governments are rightfully worried about IS directing or inspiring terrorist acts "at home." However, what we have seen thus far has been mixed. IS does appear capable of fairly sophisticated ground attacks; however, the capability of a mass event similar to 9/11 isn't evident.

If we are correct, and the recent terror attacks like we saw in France are mostly a diversion, they will likely stop once the need for the diversion ends. Given that the powers currently aligned against IS in the Levant are content to keep IS in place and contained, the leadership of IS will need new ground to maintain the aura of the caliphate. That area will likely be Libya. In fact, the faster IS shifts to Libya, the less important attacking the far enemy becomes.

What will a shift to Libya mean for markets? It might actually put more oil on world markets. IS has been able to continue to produce, refine and sell oil products in the areas it controls. It would not be a surprise to see it do the same in Libya. Would the rest of the world buy IS oil? History shows that, at the right price, oil cannot be completely sanctioned. Thus, we would view an IS transfer to Libya as a bearish event for oil prices.

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