

New Perspectives IN FOREIGN POLICY

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DRIVER'S ED IN SESSION IN SAUDI ARABIA

BY WILLIAM BASS

September 27, 2017 removed a substantial road-block for women in Saudi Arabia. Fueled by a newfound political will, the Saudi king signed a decree allowing women to apply for driver's licenses.¹ This strategic move is central to the Crown Prince Mohammed bin Salman's Vision 2030, an initiative aiming to bolster Saudi Arabia's presence in the region and world as a political, cultural, and economic power.² As the last country in the world to unbar women from driving, this reform marks a step toward the realization of Saudi Arabia's gender equality agenda.³

Initially, this development will catalyze the expansion of the domestic automotive market, while simultaneously straining Saudi Arabia's highways and necessitating significant infrastructure investment. Such a drastic social policy shift will generate economic growth and ultimately outweigh the initial sunk costs in infrastructure improvements brought on by an influx of new drivers. However, expectations of the legitimate sociopolitical benefits and rights afforded to women in Saudi Arabia through this reform should be tempered.

ECONOMIC IMPACT LONG-TERM GROWTH WILL OUTWEIGH AN INITIAL INFRASTRUCTURE DEFICIT

Over time, the rapid expansion of Saudi Arabia's automotive market will exhaust the country's roads and transportation infrastructure. A PwC report estimates that this reform will engender 3 million new female drivers compared to only half a million new male drivers by 2020.⁴ The same report predicts that car sales and car leasing will maintain an annual growth rate of 9 percent and 4 percent until 2025, respectively.⁵ A sharp uptick in car sales will place roads under duress as the influx of new drivers introduce their freshly purchased automobiles to highways. The gradual dilapidation of paved highways will demand the attention of the Transport Ministry to reinforce existing infrastructure and maintain the functionality of roads. Certain regions, including the Mecca province, Eastern province, Medina, and Riyadh, will experience a more significant expansion in the number of new drivers on the roads.⁶ These cities will simultaneously witness an increase in the degree of traffic and traffic-related wait times, which could galvanize demand for the construction of new highways.

The proliferation of new automobiles will also demand additional gas stations and parking areas throughout the country. While primary responsibilities for road construction and maintenance could fall upon the shoulders of regional governments, such a massive increase in infrastructure demand may catalyze regional leaders to appeal to the federal government for financial and technical support.

However, the opportunity for economic expansion will outweigh the initial demand for infrastructure investment. Economic growth and job creation are central objectives of Saudi Arabia's Vision 2030.⁷ The legalization of driving rights for women will play a vital role in fulfilling these ambitions. The enhanced mobility that Saudi women now possess will lead to greater participation in the job market over time. This policy change has already profoundly impacted the Saudi economy and will continue to do so as the economy adapts. An uptick in the number of job-seeking women will boost the size of the workforce, increase overall incomes and output, diminish the demand for foreign labor, and enhance consumer purchasing power.⁸ The expansion of consumer purchasing power will fuel an increase in spending throughout multiple sectors. Granting women the ability to drive will also bolster Saudi Arabia's overall economic productivity by allowing men to remain at their jobs throughout the day instead of periodically taking time off work to drive female relatives to jobs and appointments.⁹

... GIVING WOMEN THE RIGHT TO DRIVE COULD INJECT A MUCH-NEEDED ENERGY INTO POLITICAL DISCOURSE WITHIN SAUDI ARABIA.

the country. The state will establish schools specifically for women to provide appropriate driver education classes. By lifting the driving ban on women, a significant reduction in the number of foreign chauffeurs is expected to reduce foreign transfers by \$1.3 billion annually.¹¹ Bloomberg explains that altogether the reform "could add as much as \$90 billion to economic output by 2030, with the benefits extending beyond the date."¹²

SOCIO-POLITICAL IMPACT ONLY ONE PIECE OF AN ELABORATE PUZZLE

A petrostate such as Saudi Arabia confines women to the agricultural labor force due to its dependence on the revenues from the male-dominated industry of oil production. This entrapment of women into the domestic sphere has extensive political consequences.¹³ Fewer women working outside the home constrains the exchange of information and propensity for collective action. In turn, women living in a petrostate are less likely to mobilize and lobby for expanded rights, which leads to less representation in government. While Saudi Arabia will remain dependent on its male-dominated oil industry for the foreseeable future, the legalization of women's right to drive could reduce the impact of this petrostate pathology. The enhanced mobility engendered by this reform could increase connectivity and the exchange, debate, and mobilization around political issues. Overall, giving women the right to drive could inject a much-needed energy into political discourse within Saudi Arabia.

Yet, the sociopolitical benefits are unlikely to be realized due to the tapestry of discriminatory policies and actions upon which this reform is introduced. Just a

Saudi Arabia will also experience the expansion of industries complementary to the automobile sales sector. Between 2017 and 2020, the motor insurance industry is expected to grow by 9 percent annually to reach \$8 billion, according to a press release from PwC.¹⁰ The proliferation of additional garages and automobile maintenance shops will reflect the increase in the number of automobile owners throughout

month before the law took effect, the Saudi Press Agency reported the arrest of seven campaigners, five women and two men, working to create a non-government organization called “Amina” that would offer support and shelter victims of domestic abuse.¹⁴ Accused of “collusion with foreign entities to undermine the security of the state,” these individuals will be persecuted for their criticism of the government’s feigned commitment to recent social openings being pushed by the Crown Prince. Furthermore, the Saudi government’s tokening of this singular reform—in an effort to appear “centrist,” thereby attracting additional foreign investment and international support—could distract from the substantial and persistent gender inequality.

CONCLUSION

Economic opportunity fueled the motivation behind this reform. However, constructing an insincere façade of gender equality without acknowledging a multitude of other discriminatory policies cannot hide the sweeping inequalities that remain throughout the country. While this decree represents a triumph for activists in Saudi Arabia, numerous roadblocks to attaining complete gender equality persist, with the largest being the mandatory guardianship of women.¹⁵ The residual impact of traditional gender roles may limit the willingness of women to embrace their new right. Institutionalized sexism will continue to limit Saudi women as they pursue equal treatment under the law and throughout society.

However, the economic benefit of this single reform will have ubiquitously positive impact on Saudi Arabia. Therefore, the manner in which Saudi leaders adapt other social policies to complement this drastic new shift will demonstrate their true commitment to advancing gender equality.

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U.S. MISSILE DEFENSE AND THE THEATER-STRATEGIC NEXUS

BY RYAN FEDASIUK

Washington that it would be impossible to defend against the entire arsenal of Russian strategic weapons, because Russia can field warheads and decoys “at dramatically less cost than the United States can add missile defense interceptors.”² So instead, the Pentagon is aiming to defend NATO forces in Eastern Europe that are vulnerable to Russian ballistic and cruise missile attacks without further fueling a competition for nuclear supremacy.³ To accomplish this, the Missile Defense Agency (MDA) may expand the role of Aegis Ashore to include homeland missile defense against intercontinental ballistic missiles (ICBMs),⁴ deliver THAAD missile batteries to Germany,⁵ or deploy PAC-3 interceptors in Lithuania and Estonia.⁶

But any decision to explicitly counter Russian and Chinese missiles would be a substantial break from past policy. Even after withdrawing from the Anti-Ballistic Missile Treaty in 2002, Washington’s ambitions to establish missile defenses were tempered by concerns over strategic stability. MDA’s most challenging mission has been to prove the merit of U.S. systems to patrons in Congress while also down-playing their capabilities to foreign ministries in Russia and China. The contortions reached a climax in 2007 when MDA was tasked with proving to Russian defense agencies that proposed Aegis Ashore systems could not intercept Russian ICBMs flying over the polar ice cap.⁷ In 2013, MDA even scrapped the fourth phase of its European missile defense plan, which would have developed an interceptor capable of chasing Russian ICBMs.⁸ But all signs indicate that the forthcoming Missile Defense Review will direct the Pentagon to abandon its policy of assuaging Russia and China.⁹

Russia has long protested U.S. missile defenses for two reasons: First, Russians argue that missile defense is destabilizing because it undermines mutual vulnerability afforded by nuclear weapons.¹⁰ Although Russians agree that their full arsenal would overcome most missile defense deployments, they worry that a U.S. first strike could eliminate enough of their capabilities that missile defenses would be sufficient to deal with what is left—thus obviating Russia’s ability to retaliate. Second, some Russians are convinced that the launchers in U.S. theater

The Pentagon would be wrong to assume it can selectively counter Russian missile threats in Europe.

The United States is signaling a willingness to compete with its near-peer rivals in the realm of missile defense. Leaks about the forthcoming Missile Defense Review indicate the Pentagon is looking to counter burgeoning threats from Russia and China “in regional theaters such as Europe and Asia,” but not strategic threats to the U.S. homeland.¹ There is consensus in

missile defense (TMD) systems can be repurposed to launch offensive weapons capable of threatening Russian troops or even Moscow itself.¹¹ But many in the West have come to see Russian concerns as disingenuous. Despite U.S. assurances that theater defenses cannot neutralize the Russian strategic deterrent nor launch offensive missiles, Moscow asserts otherwise and uses this as justification to build advanced strategic weapons.¹² Because of Russia's apparent willful ignorance, many in the Trump administration have come to believe that crying foul is part of a broader Russian strategy to abandon the Eurasian arms control framework.¹³

Ultimately the authenticity of Russian concerns over missile defense is neither clear nor relevant to U.S. strategy. The larger problem is that Russians, willfully or accidentally, have cultivated a disproportionate and deep-seated fear that conflates all forms of U.S. air and missile defense. In March 2018, Russian Deputy Defense Minister Alexander Fomin accused the United States of “encircling Russia with 400 anti-ballistic missile systems,” which “significantly diminish the potential of Russia’s nuclear deterrent.”¹⁴ Claims like this erroneously transform the myriad of U.S. missile defenses into a highly-capable monolith. Russians’ mental homogenization of U.S. missile defenses is important because it neuters any strategy predicated on the idea of escalation control.

But the forthcoming Missile Defense Review fails to account for this theater-strategic nexus in missile defense. In its new mission to counter Russian missile systems in Europe, the Pentagon assumes that it can selectively battle and win an arms race at the theater level. But history has repeatedly shown—from the development of the strategic cruise missile¹⁵ to the breakdown of the SALT II agreement—that the politics governing theater missile defenses and nuclear-capable ICBMs are inextricably bound.¹⁶ Defending against one kind of weapon necessarily alters the significance of and strategy surrounding the other. Conversely, if an adversary fails to distinguish between theater and strategic weapon posturing, as Russia does, conflict can easily breach the nuclear threshold.¹⁷

The regional-strategic nexus is made possible mainly because Russian media rarely distinguishes between the capabilities of different U.S. missile defenses. Although the ranges and roles of U.S. missile defense systems vary drastically, from 20-km point defenses to 2,500-km regional shields, most news articles and statements from the Russian government do not discriminate between the two. Russian media almost always refer to a “US global missile defense system,” which the Russian Foreign Ministry calls “a dangerous global project aimed at establishing omnipresent and overwhelming US military superiority.”¹⁸

The White House has in turn lambasted Russia for building “destabilizing weapons systems . . . in direct violation of its treaty obligations,” but there is no reason to believe that Russia will cease weapons development in response to expanding U.S. TMD.¹⁹ In fact, expanding and repurposing TMD only vindicates Russian concerns about U.S. missile defense, which threatens U.S. national security in two ways.

First, doubling down on TMD makes it much easier for the Russian defense industry to justify building even more strategic weapons. Russian and U.S. sources have assessed that many of Russia’s new strategic weapons unveiled on March 1 are “nowhere near” ready for deployment, and that the threat of their development

THE PENTAGON SHOULD TREAD CAREFULLY, LEST IT INVITES RUSSIA TO DEVELOP STRATEGIC WEAPONS IT HAS NO METHOD OR INTENTION OF COUNTERING.

may be used as a bargaining chip to negotiate with the United States.²⁰ Expanding TMD declines the gambit, ensuring Russia funnels more resources into threatening strategic capabilities—exactly what the Pentagon had hoped to avoid.

Second, expanding TMD would contradict U.S. efforts to bring Russia back into compliance with the Intermediate-Range Nuclear Forces (INF) Treaty, a cornerstone arms control

agreement. The Trump administration's INF strategy is based on coercing Moscow to the negotiating table through economic, diplomatic, and military measures. However, expanding TMD imperils negotiations in two ways. For one, the entire point of a strategy based on coercive diplomacy is to change the behavior of an adversary. In this case, the prerequisite for behavior change is to rekindle dialogue. Vindicating Russian concerns over missile defense only strengthens anti-American resolve and eliminates any incentive to negotiate by convincing Russian defense hawks that they are right not to trust the United States. Second, expanding TMD removes the most valuable chit from the negotiating table. Next to sanctions, U.S. missile defenses in Europe are probably the top foreign policy concern of the Russian Federation. Refusing to negotiate their deployment outright removes the incentive to negotiate on other important national security issues like the INF Treaty, Syria, or chemical weapons.

Rather than expand TMD in Europe at the expense of homeland security, the Pentagon ought to invest more in left-of-launch capabilities like cyber and electronic warfare, which are just as credible but less escalatory. Alternative defenses for NATO could include incorporating more U.S. troops in the tripwire force, threatening additional force deployments, or improving civilian resilience in the Baltics.²¹ All of these actions would successfully contest Russian forces in Eastern Europe without forcing a strategic arms race. But as it stands, the planned strategy of forsaking arms control in the name of coercive diplomacy is bound to backfire. The Pentagon should tread carefully, lest it invites Russia to develop strategic weapons it has no method or intention of countering.

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IT'S A (DEBT) TRAP! MANAGING CHINA- IMF COOPERATION ACROSS THE BELT AND ROAD

BY DYLAN GERSTEL

unsustainable debt. For example, China is funding a high-speed rail line in Laos that will cost equivalent to half the country's GDP.²

The International Monetary Fund (IMF), China, and other stakeholders should cooperate to help countries along the Belt and Road facing financial imbalances and high debt. This will not be easy. Before providing aid, the IMF will require transparency into BRI loan terms, which are notoriously opaque and can burden countries with high debt.³ China has resisted international involvement in the BRI, yet the foundation for cooperation already exists. To reconcile these competing perspectives, the IMF and China should expand communication channels and launch pilot reforms that address problems on both sides. If these conditions are met, the United States should encourage IMF assistance to BRI countries to protect sovereignty and promote higher lending standards.

BRI spending in developing countries has raised serious concerns about debt sustainability. A recent Center for Global Development report found that eight BRI recipient countries—Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan—are at a high risk of debt distress due to BRI loans.⁴ These countries will all face rising debt-to-GDP ratios beyond 50 percent, with at least 40 percent of external debt owed to China once BRI lending is complete. These countries will need support to service BRI loans as repayments peak and will likely turn to the IMF and other smaller lenders. Discussions for an IMF bailout have already begun in Pakistan, where China has invested \$62 billion, or one-fifth of Pakistan's GDP, in infrastructure and energy projects.⁵

The IMF has scrutinized multiple aspects of the BRI, repeatedly warning of unsustainable debt levels, predatory lending, and the lack of project transparency.⁶ To assuage these concerns, the IMF will request greater clarity on foreign currency

Five years ago, Chinese President Xi Jinping announced his flagship foreign policy project, the Belt and Road Initiative (BRI). Currently, total Chinese BRI investment is estimated at over \$1 trillion, more than eight-times the size of the Marshall Plan in today's dollars.¹ When it was launched, China heralded the BRI as a "golden opportunity" to "revitalize" the region. Today, many countries are wary about China's intentions. Unlike the Marshall Plan, which mainly dispersed aid in the form of grants that did not have to be repaid, China uses loans that often come at commercial interest rates. While the BRI provides vital infrastructure funding to developing countries, it also leaves many with

payments, including the details of BRI loans, before authorizing a credit line. An IMF program should include BRI debt restructuring or reevaluating proposed infrastructure investments to determine if they are financially sound. At a minimum, the IMF will need to see the terms of BRI loans to complete the necessary debt sustainability analysis.⁷

Given these constraints, there is a possibility for disagreement between the IMF and China over the future of BRI projects in debt-distressed countries. Chinese loans violate several international lending best practices involving procurement, transparency, and dispute settlement. Chinese contractors dominate infrastructure projects, and Chinese-funded loans are less transparent than those from multilateral development banks.⁸ Beijing has demonstrated a reluctance to abide by international investment standards, establishing two courts to resolve BRI-related disputes outside of existing settlement venues.⁹ China also enshrined BRI into its constitution last year, putting pressure on state companies and officials to continue lending.¹⁰

WORKING WITH THE INTERNATIONAL COMMUNITY WOULD HELP CHINA FURTHER REDUCE RISKY LOANS AND ENSURE SUSTAINABLE RETURN ON INVESTMENT.

However, China is now publicly recognizing the need to reform BRI lending terms to address international and domestic concerns. In the wake of Malaysia's decision to cancel two large Chinese-funded projects, Beijing launched a publicity blitz to defend the BRI.¹¹ Deputy Chairman of the National Development and Reform Commission Ning Jizhe said China should be "objective and rational"

when addressing debt concerns and work to facilitate international cooperation.¹² Beijing has also agreed to open investment in BRI projects in Pakistan to foreign companies, although it did not name any specific partners that would be joining.¹³ At home, President Xi has prioritized fighting China's "three tough battles" of limiting financing risk, reducing poverty, and curbing pollution.¹⁴ As part of this effort, Beijing has pulled back on profligate BRI spending, signing 6 percent fewer contracts in the first five months of 2018 than during the same period in 2017.¹⁵ Working with the international community would help China further reduce risky loans and ensure sustainable return on investment.

Beijing can demonstrate its commitment to addressing concerns about the BRI by partnering with the IMF to improve lending practices. The two sides have already improved communication and expertise sharing this year. In April, the IMF announced the opening of the Chinese funded China-IMF Capacity Development Center to help train development officials and support the BRI.¹⁶ China also unveiled its International Development Cooperation Agency in April in an effort to put BRI decisionmaking under a single agency, a decision the IMF applauded.¹⁷ The next steps will be to deepen these channels and launch targeted pilot reforms to boost confidence on both sides. A successful program for both sides could set the stage for broader changes.

A model for serious reforms palatable to Beijing can be found within one of China's own initiatives, the Asian Infrastructure Investment Bank (AIIB). The Beijing-led development bank was launched in 2015 and, despite some initial skepticism, the organization's operating procedures follow international standards.¹⁸ A majority of its projects are co-funded with Western-backed institutions and have clear documentation.¹⁹ In April 2017, the AIIB announced a memorandum of understanding with the World Bank to deepen cooperation, a framework that China can apply to discussions with the IMF on debt relief.²⁰ Adopting these reforms will help legitimize the BRI and ease some of the economic tension between China and the United States.

Under the current circumstances, U.S. concerns about IMF assistance being used to bail out Chinese creditors are valid. However, if Beijing commits to cleaning up its act, Washington should encourage IMF involvement in BRI countries. In doing so, the United States can encourage vital investment in developing countries while working through the IMF to encourage China to improve investment standards. At a minimum, the IMF process will improve the transparency of projects and put countries on a path to debt sustainability. More importantly, it will reduce the risk that recipient countries forfeit strategically important assets in return for Chinese debt forgiveness. Without the IMF, countries facing financial distress from BRI loans will have limited options for support outside of China and will fall deeper into debt.

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RUSSIAN PRIVATE MILITARY COMPANIES IN SYRIA AND BEYOND

BY ANDREW LINDER

attack. The use of PMCs provides plausible deniability for the Russian government, as the links between such groups and Russia's leadership are often unclear. This uncertainty is leveraged by the Kremlin in its military strategy to stall adversaries' responses and make short-term strategic gains. With Russian PMCs expanding to new regions, the United States and its allies need to develop a clear strategy for countering the threats from these groups.

In the days leading up to the attack, U.S. military personnel watched as pro-Syrian troops amassed near a U.S. outpost. Military intelligence revealed that many of these troops were speaking Russian and likely belonged to a Russian PMC named the Wagner Group.² According to Pentagon statements, U.S. military commanders used U.S.-Russian deconfliction lines to question the group's actions and to warn of a U.S. response, but their Russian counterparts claimed no involvement, even once the attack had begun.³ The four-hour firefight demonstrated deft use of U.S. air support in combat and resulted in no U.S. casualties while an estimated 300 of the Russian mercenaries and Syrian fighters were killed.⁴

The official narrative from Moscow—that no Russian citizens were involved—began to shift after the attack, and slowly some Russian casualties were reported.⁵ While the Kremlin's numbers have stayed low, other sources suggest many more casualties, with some placing the number of Russians dead at roughly 100, with 200 more wounded.⁶ It is unlikely that the Russian military and foreign ministry would lack its own intelligence about the attack and resulting casualties. In fact, since the incident in February, reports have surfaced that Yevgeny Prigozhin, who is believed to control the Wagner Group, was in touch with Kremlin officials shortly before and after the attacks.⁷ Prigozhin enjoys close ties to Russian President Vladimir Putin and is said to have "secured permission" from a Russian minister to move ahead with the affront.⁸ The plausible deniability afforded to the government by the use of PMCs means that whether Kremlin officials played a large role in planning or approving the attack, or no role at all, the government can refuse blame.

On February 7, 2018, a firefight broke out between U.S. troops and pro-Syrian government forces in Deir al-Zour, Syria. The pro-regime forces that led the attack included private Russian mercenaries, marking the first time that Americans and Russians had directly engaged in Syria.¹ Shifting narratives from the Kremlin, and the fact that the Russians involved were members of a private military company (PMC), have raised questions about the extent to which the Russian government knew of—or directed—the

Russia's shifting public narrative points to the difficulty of addressing these groups to domestic audiences. The private nature of PMCs allows many of their actions to remain secret, and some suggest that Russia employs private militias in areas of conflict to avoid having to report deaths, which would be required with regular soldiers.⁹ In the case of Deir al-Zour, the Russian government likely sought to keep news of the deaths under wraps in order to prevent further erosion of domestic support for the military's role in Syria.¹⁰

This incident is just one in a string of many in which the Russian government has been accused of using PMCs to advance its foreign objectives while maintaining plausible deniability.¹¹ And the presence of Russian PMCs is spreading internationally: in addition to Syria and Ukraine, the Wagner Group is reported to have soldiers in Libya, Sudan, and the Central African Republic, where the groups are often hired by governments and corporations to provide security for natural resource facilities, in addition to their work for the Russian government.¹² Russian PMCs are primarily composed of veterans and former officers of the military intelligence agency (GRU) and federal security agency (FSB).¹³ Some contend the FSB played a role in the creation of the Slavonic Corps, an early Russian military com-

... THE UNITED STATES MUST MAKE CLEAR THAT IT WILL HOLD THE RUSSIAN GOVERNMENT ACCOUNTABLE FOR THE CONDUCT OF ITS COUNTRY'S PRIVATE MILITIAS.

pany, and later the Wagner Group, which notably shares a location with a Russian military base.¹⁴ In 2014 in Eastern Ukraine, when Russia used "little green men" to bolster the ranks of the Ukrainian separatists, members of the Wagner Group were discovered to have taken part in some of these separatist militias and contributed to the fighting.¹⁵

The deniability resulting from Russia's use of private military groups makes crafting a response difficult. Yet there are a number of steps the United States and its allies can take to counter the threats posed by these groups. First, U.S. leadership should focus on transparency regarding foreign government ties to proxy forces. Even if a PMC is not led or directed by a government figure, using intelligence to expose links between the group and the government can help to hold that government accountable. Russia's military adventures in Syria are a business opportunity for Prigozhin, given his role in the Wagner Group and close relationship with Putin.¹⁶ Exposure (and proof of) these financial links to the Russian public would raise the question of whether Putin's friends are profiting off of Russian deaths abroad. This would have serious political ramifications. A credible threat of exposure of these links could act as a deterrent for Russia's future use of PMCs in its military strategy. Some have argued that by not placing the blame fully on Russia for the Deir al-Zour attack, the United States has set a dangerous precedent that enables the Russians to continue using proxy actors.¹⁷

Furthermore, the United States must make clear that it will hold the Russian government accountable for the conduct of its country's private militias. In situations of armed conflict, PMCs, like armies, must abide by international humanitarian

law, and it is in part the responsibility of the state that hired the group to ensure those standards are met.¹⁸ Of course, the United States is no stranger to the use of private military groups. The U.S. government is the number one employer of PMCs worldwide and in some areas, such as Afghanistan, contractors greatly outnumber regular service members.¹⁹ By holding its own PMCs to standards of international law *as well as* U.S. laws—as happened with the indictment of officials from Blackwater—the United States might work to establish norms of PMC conduct that would deter events similar to that in Deir al-Zour. It is also important that the United States use clear language to first define what it considers provocative actions and then to identify how it will respond to these offenses, before finally following through with these repercussions to discourage the adversary from repeating such offenses.²⁰

With the number of Russian mercenaries seemingly on the rise and their presence spreading globally, it's vital for U.S. security that the role of these groups in Russian foreign policy is understood. The current Russian use of PMCs not only poses a threat to a norms-based international order, but also a very real physical threat to Americans, as seen in the February 2018 incident. Some steps to counter these threats have been taken: Yevgeny Prigozhin was indicted in February 2018 for his role in interfering in the 2016 U.S. presidential election, exposing his ties to the Russian government. There have also been several recent examples of strong U.S. messaging and follow-through with threats, like the diplomatic response following the poisoning of Sergei Skripal in the United Kingdom and the use of deconfliction lines in the case of Deir al-Zour to warn of U.S. military action.²¹ These types of firm responses should be emulated and bolstered in response to other coercive actions. By holding Russia accountable for the hostile actions of its private militias, tying officials to the actions of these groups worldwide, and following through with stated consequences, the United States and its allies would signal that the Kremlin's use of PMCs in such a way is not viable and would help prevent another incident like that in Deir al-Zour from happening again.

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THE SNAKE THAT ATE ITSELF: FINANCIALIZATION OF CHINA'S NEGOTIABLE CERTIFICATES OF DEPOSIT

BY ANN LISTERUD & MARIA SINCLAIR

interbank lending in the People's Republic of China: the negotiable certificate of deposit (NCD).

INTRODUCTION TO NEGOTIABLE CERTIFICATES OF DEPOSIT

NCDs are bonds that banks can issue to one another that generally have a short-term payback window and a minimum face value of \$100,000. In an NCD exchange, Bank A lends cash to Bank B, and Bank B issues a negotiable certificate of deposit, which Bank A holds until Bank B returns its capital with interest. The certificates can be re-sold to other banks or other institutions like Money Market Funds (MMF). Put another way, NCDs are “IOUs with interest” issued by banks to other banks.¹ Since NCDs must be bought and sold between banks, they are a useful tool for liberalizing interest rates and giving banks greater flexibility setting their own interest rates. This was the case when the first NCDs were invented in the United States in the early 1960s and appears to be why China introduced them in December 2013.^{2,3}

In the short time since their introduction, the use of NCDs in China has grown rapidly, from just 28 billion yuan in 2014⁴ to 8.69 trillion yuan in March 2018.⁵ As of July 2017, NCDs made up approximately 17 percent of all Chinese bonds.⁶ By April 2018, NCDs made up the fourth-largest type of bond in China's rapidly expanding bond market, coming after sovereign, local, and policy-bank bonds.⁷ China's NCD growth comes at a time of record-slow deposit growth and slow Wealth Management Product (WMP) growth.⁸

Not every kind of bank has used NCDs to the same degree. Joint-stock commercial banks—a bank with both a public and private owner—and city commercial banks issued 98.5 percent of all NCDs as of August 2017.⁹ For some small banks, these NCD “IOUs” comprised a significant amount of their funding—as much as 40 per-

China's rapid growth and enormous size have turned it into a global financial leader. Much like China's digital giants, China's closed-off financial sector quickly came to house some of the world's largest banks and mutual funds. But while foreign actors' involvement in China's financial system have been carefully regulated, that level of regulatory care and attention does not necessarily describe China's financial regulatory system writ large.

Risks to China's financial sector have been explored before, from “off-the-books” shadow banking, to systemic debt accumulation by local governments. This paper focuses on one often overlooked and relatively recent aspect of

cent.¹⁰ This is likely because smaller banks are less attractive to depositors and thus small banks were forced to borrow money through NCDs so as to maintain enough capital to continue operating.

Small banks' debt problems did not originate with NCDs. Even before the advent of NCDs, interbank lending and small bank debt was a problem China's financial regulators recognized and tried to address. After an interbank credit crisis in 2013,¹¹ the People's Bank of China (PBOC) and China Banking Regulatory Commission (CBRC) decided interbank credit was growing too quickly and in May 2014 set ceilings on interbank loans to not exceed one third of a bank's total liabilities.¹² However, due to a loophole in regulations, from 2013 to 2017 NCDs were not required to be listed as interbank loans on banks' balance sheets, meaning that regulators were not tracking NCD risk as stringently as other risks.^{13,14}

In only three years, NCDs quickly became a prominent part of China's bond market and did so while evading strict bank debt caps and regulatory inspection from the PBOC. During that time, it is likely that central authorities grossly undervalued banks' interbank debts—and therefore those banks' levels of risk. In some cases, banks' interbank lending ratios doubled when NCDs were finally incorporated.¹⁵ Furthermore, the proportion of NCDs to all outstanding bonds has grown, meaning NCDs make up an ever larger portion of China's outstanding bonds.¹⁶ This suggests NCDs were substituting other types of bonds—filling a demand that had previously been serviced by a different type of bond rather than meeting the needs of new demands.

The NCD-bank balance sheet oversight was finally addressed by regulators in 2017, when new rules limiting the use of NCDs were announced.¹⁷ In September of that year, China's central bank banned issuance of new NCDs with maturity rates longer than one year, and in so doing, removed some of the NCDs with the highest interest rates.¹⁸ In early 2018, NCDs were officially recategorized to become part of banks' interbank loan total.¹⁹ The PBOC also started requiring banks to request permission both to issue new NCDs and to determine annual NCD quotas. Many banks have already cut down new issuance dramatically. The Bank of Jilin and Bank of Guangzhou, for example, cut NCD issuance by one third and one quarter, respectively, after the new requirements were announced.²⁰

RISKS ACROSS THE VALUE CHAIN

Still, these piecemeal reforms do not solve the most worrisome aspect of NCDs. In addition to the debt accrued by individual institutions, there is now an even larger problem: compounded risk built up as non-bank institutions trade and re-trade NCDs. As China's overall economic growth slows, large banks seek out low-risk, low-yield investments including NCDs purchased from medium-sized banks. Medium-sized banks then use the funds they received from selling NCDs to large banks to purchase investments with slightly higher risks and slightly higher yields, including purchasing NCDs from small banks. Small banks then use the funds they received from selling their own NCDs to invest in higher risk and higher yielding wealth management products.²¹ In other words, these products must profit enough to allow small and medium bank

intermediaries to fulfill their respective obligations up the value chain. Thus, large bank lenders are increasingly, though indirectly, dependent on high-risk wealth management products.

Compounding this problem is the trend at the bottom of the value chain. When NCDs first came onto the market, the majority of NCDs were issued to allow higher-risk small, commercial, and rural banks to receive capital from safe, deposit-rich state-owned banks. Yet over time, small banks began selling NCDs to non-bank intermediaries.²² Between December 2013 and September 2015, state-owned banks were the primary purchasers of NCDs, but after September 2015 MMFs held 30-40 percent of all NCDs.²³ After selling NCDs, many small banks used the cash they received from large banks to invest in higher yielding MMFs.²⁴ Thus, small banks became both the client and the creditor of non-bank intermediaries.

Each transaction is accompanied with a slightly higher degree of risk with the promise of slightly higher returns. And if these two sectors purchase and sell NCDs between each other without investing in the real economy, both entities' balance sheets become more departed from real value creation—what is sometimes referred to as "financialization," where profits occur through financial trading instead of through trade or production.

Selling NCDs to investment funds transforms NCDs into something beyond an interbank problem. In fact, mutual funds now make up about 2.5 trillion yuan of such debts, with NCDs making up over 20 percent of many funds' portfolios.²⁵ For example, Yu'e Bao is the world's largest money mutual fund and is owned by Ant Financial, the payment affiliate of Alibaba Group Holding Ltd. According to Macrobusiness, an Australian economics and markets blog, a major driver of Yu'e Bao's asset growth for the last few years has been the increase in Yu'e Bao's investment in NCDs.²⁶ As recently as 2014, Yu'e Bao's NCD holding made up 87 percent of their overall portfolio.²⁷

The pressure is now on for Yu'e Bao and other funds to perform well—not only to pay back investors on their promised high rates of return, but also to pay back rural banks who invested in them. Rural banks expect to get back enough profit on their investments so as to repay the medium and large banks they sold NCDs to. In other words, large banks which are considered "safe" investments are purchasing NCDs from smaller banks which are considered "riskier" investments. Small banks in turn are selling NCDs to mutual funds as well. The ability to repay NCD capital plus interest requires other NCDs to be repaid. Debts can only be repaid if other debtors make good on their payments.

Evaluating the losses incurred from NCDs and their risks relative to other financial instruments can be difficult. Efforts to reduce the most unstable aspect of the NCD bond system—small banks selling NCDs to MMFs and purchasing WMPs and other securities—have been central. Analysts of China's bond market have speculated whether PBOC officials would allow smaller banks to default on their NCDs. Instead, Arthur Lau of Pinebridge Investments suggests that "they [the PBOC] are likely to ask strong banks to take over, especially to avoid any systematic crisis"²⁸ rather than risk allowing smaller banks to default on their securitized NCDs en masse. This suggests that such a default could have an

THE STORY OF THE NCD PAINTS AN IMPORTANT PICTURE FOR HOW “WHACK-A-MOLE” PIECEMEAL REGULATIONS WITHOUT A COHESIVE REGULATORY FRAMEWORK CAN FAIL TO CONTROL GROWING FINANCIAL RISKS.

existential risk on China’s bond market. As of April 2018, it seems that big banks are indeed issuing more NCDs. In Q1 of 2018, China’s five largest lenders issued 424 billion yuan in NCDs, doubling the previous record set in Q3 of 2017, supposedly in reaction to low deposits over that time.²⁹

LARGER IMPLICATIONS

While the growing rate of banks in China dependent on interbank lending and NCDs may sound dry and obscure, they play into a larger trend the Chinese Communist Party (CCP) is very aware of: China’s economy is overly dependent on unstable investments. At the 19th Party Congress, Xi Jinping

identified financial risk as one of China’s three biggest priorities. Dubbed the “Three Battles,” (三大攻坚战) reducing financial risk alongside reducing pollution and poverty has become a key focus of the CCP. Having been set as a goal by Xi Jinping himself, losing the financial risk “battle” is not an option. Yet local governments and banks are struggling to balance this alongside the needs of the real economy.³⁰ The lack of available credit is already preventing banks from lending to China’s private sector, which is contributing to defaults among small, medium, and large enterprises.³¹

The story of the NCD paints an important picture for how “whack-a-mole” piecemeal regulations without a cohesive regulatory framework can fail to control growing financial risks. This normally benign, low-risk loan has been used to skirt restriction policy meant to curb overspending. Though NCDs have existed in other contexts, China’s financialization of NCDs is unique and creates the illusion of profits while creating little real value in the economy.

NCDs are also a keyhole into the often-locked door of policy decisionmaking within China’s financial system, especially as it pertains to reeling back financialization and securitization. One method demonstrated was to cauterize the way that Chinese banks had begun to use the NCD in non-traditional ways, mainly by removing the inordinately long repayment period of five or more quarters back to the Western standard for NCD repayment of less than one year.

It’s important to avoid over-extrapolating based on one poorly performing aspect of China’s financial system, though their size and scale warrant analysis as a real risk to China’s financial system. In isolation, NCD purchases seem like sound investments, but on a grand scale the financialization of this product amounts to a slowly decreasing pile of money being passed between institutions. Or put more viscerally, for lack of other sources of meat (high-return investments) this snake (the banking system) is eating its own tail. In a worst-case scenario, if not properly managed NCDs could easily assume the same role in China’s economy as housing mortgages played in the United States in 2008.

Within the context of a trade war with the United States, pressure is now on China’s financial system in a way that has not been in recent years. Such pres-

sure may reveal holes in China's economic policy infrastructure that, if not smartly plugged by policy in the future, will continue to beguile central policy-makers and slow or freeze whatever real economic growth China is producing. China doesn't just need smart financial policies; it needs a comprehensive policy framework to avoid these types of risks.

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COLD WAR LESSONS FOR COUNTERING COVERT ACTION

BY NATE LOW

GRU or Internet Research Agency. They are examples from the early 1980s of what the Soviet Union called “active measures,” a mix of covert and deceptive operations—including propaganda, disinformation, front groups, media manipulation, political influence operations, and forgeries—intended to influence opinions and/or the actions of individuals and governments.¹ Today, such operations are also referred to as information warfare, and in the digital age, democracies are even more vulnerable to their implementation.

United States policymakers continue to reiterate the need to learn from the 2016 election to formulate a defense for active measures. They tend to characterize Russia’s actions as a new type of threat requiring a new tool kit to combat. In doing so, they risk ignoring lessons from our past for confronting these threats. Indeed, methods developed by the U.S. government during the Cold War, such as the establishment of an interagency group that initiated educational programs, the formulation of innovative technical solutions for detection and attribution, and the active funding of independent media abroad, offer an arsenal of tactics for countering active measures today.

The first and most vital facet of any strategy to combat active measures is education. On October 9, 1981, the Active Measures Working Group (AMWG) ignited international interest in Soviet active measures when it published its first report, *Special Report 88, Soviet Active Measures: Forgery, Disinformation, Political Operations*,² which defined the terms the U.S. government used in classifying various Soviet tactics in information warfare and identified specific instances of Soviet active measures. Established during the Reagan administration, the AMWG was the first interagency organization dedicated to combating Soviet active measures. It had the publication legitimacy of the State Department and the resources to pronounce where and how forgeries emerged, allowing it to expose falsehoods and educate the public on foreign efforts to distort information.

Similar media and digital literacy training are particularly important in today’s information environment. The Soviet act of selective replay in its active measures, which during the Cold War required KGB and other intelligence agents to coerce newspapers or radio broadcasters to publish their material, is now being done by “trolls,” automat-

A Russian intelligence agency forged letters from the Ku Klux Klan threatening the lives of black athletes in an upcoming Olympics. The same agency initiated a propaganda campaign against the enhancement of nuclear weapons and covertly organized what appeared to be grassroots protest in the United States. The group also sent pamphlets to civil rights organizations allegedly created by the far-right Jewish Defense League that advocated violence. These divisive actions are not the recent work of a Russian online troll working within the

ed bots and unaware citizens on social media. Today, the impetus to detect and shut down fake Twitter accounts, Facebook pages, and Google ads has mostly fallen to technology companies. However, taking lessons from its Cold War history, the U.S. government should complement these efforts by identifying and shutting down suspicious accounts and network activity. Early detection and attribution of fake news will reduce the likelihood that such stories are “replayed” by Kremlin-backed outlets such as RT and Sputnik, making the dissemination of these stories more difficult. The establishment of the Foreign Influence Task Force (FITF) within the FBI to identify and counteract malign foreign influence operations is a promising start. But this effort should involve significant coordination with other intelligence community agencies, as well as with state and local law enforcement partners and election officials. Such a task may require the creation of an independent interagency group similar to the AMWG.

The AMWG also developed a campaign aimed at educating international audiences on Soviet active measures and disseminated its contestation strategy of “Report-Analyze-Publicize.” In the spring of 1983, then AMWG Director Dennis Kux and several members of the Group embarked on their first “road show.”³ The Group travelled to two countries per week to brief officials in U.S. embassies and foreign intelligence services and to make presentations to local journalists and media organizations on Soviet disinformation efforts. Today, most countries facing the threat of disinformation don’t need to be lectured on its existence. However, a single U.S. government body tasked with coordinating disparate international efforts to counter Russian active measures would be beneficial. The U.S. Agency for International Development’s Office of Transition Initiatives (OTI) has started to fulfill this role by traveling to meet with civil society organizations, media groups, and governments in Europe targeted by Russian influence operations. OTI aims to increase access to balanced information, promote constructive political discourse, and support democratic reforms.⁴ Using the model of AMWG, the U.S. government should formalize and expand OTI’s role as a coordinating body for counter-disinformation efforts.

The next prong of an effective strategy to combat active measures is developing technical expertise and creative technical solutions. During the Cold War, the U.S. government invested in and drew from its own technical know-how to identify active measures, which often took the form of forgeries. For example, in 1983, the Soviets forged diplomatic cables asserting that the United States orchestrated assassination attempts on Pope John Paul II and a Nigerian presidential candidate.⁵ According to Kux, the forgeries were excellent, but skilled analysts were able to identify minor errors such as the mis-transliteration of Brazil as “Brasilia” and the use of the word “wet affair,” a Soviet euphemism for assassination, which revealed that the documents were of Russian origin.⁶

Today, technological development has created new dangers but also new solutions. With developments in AI such as language and image detection, the U.S. government should be at the forefront of algorithms that autonomously detect fake news sources. While the private sector should be enlisted in this effort, the U.S. government should also fund public and military research into these technologies,

including through National Science Foundation grants and/or through the technical divisions of the armed forces. A third and equally viable path is to direct more public funds to one of America's greatest assets: universities. In March 2018, Harvard's Belfer Center for Science and International Affairs hosted an Information Operations Technical and Policy Hackathon in which students presented ideas such as "honey bots" to counter malicious bots, algorithms that limit echo chambers, and an app called Sanity Check, which uses natural language processing, bot detection, source greylisting, and reverse image searching to identify information operations over social media.⁷ Efforts of this nature should be supported in earnest.

Educating the public and increasing our ability to identify and disrupt active measures is important, but the U.S. government must also take its fight abroad. Here, too, there are historical examples to borrow from. As Seth G. Jones identifies in his new book, *A Covert Action*, during the Cold War, the Reagan Administration successfully supported the Solidarity Movement in Poland by covertly providing duplicator machines, paper products, and aiding in the production of propaganda. At the same time, the CIA operated a covert "book program" in

which it sent books and periodicals to states in the Soviet Union through front organizations.⁸ Using a different type of offensive action, the U.S. government funded Radio Free Europe and Radio Liberty to air its values and create space for independent reporting in biased, Soviet-dominated information environments. Today, as during the Cold War, there is room for different types of offensive action that do not replicate Soviet active measures, but effectively thwart them. The U.S. Cyber Command should establish a group similar to Joint Task Force Ares, which conducted an effective cyber offensive

against ISIS, to disrupt the computer networks and operations of foreign adversaries implementing active measures from within their home countries. Policy-makers can also publicize possible responses to active measures and pass legislation such as the Defending American Security from Kremlin Aggression Act of 2018. These actions may or may not change Russian behavior, but they signal clear consequences for future active measures.

However, the U.S. government must be careful not to securitize the issue. Disinformation and cybersecurity are both threats to democratic processes and interconnected in important ways, but as James A. Lewis of CSIS notes, "information warfare covers a range of activities of which cyber-attacks may be the least important."⁹ Policies should recognize the distinction. Hague Centre for Strategic Studies cyber expert Alexander Klimburg identifies that: "especially in the West, we seem conceptually trapped in thinking of the new challenges of cyberspace as being purely technical, instead of being very much human."¹⁰ The U.S. government should focus on human solutions to active measures by improving the quality of the media environment at home and abroad through increased investment in programs like those offered by OTI, Radio Free Europe, and Radio Liberty. Policymakers should also follow the example of countries such as the Czech

THE U.S. GOVERNMENT SHOULD FOCUS ON HUMAN SOLUTIONS TO ACTIVE MEASURES BY IMPROVING THE QUALITY OF THE MEDIA ENVIRONMENT AT HOME AND ABROAD

Republic and the Ukraine, which have signed decrees prioritizing media literacy in the national curriculum.

A democracy such as the United States is especially vulnerable to information warfare due to its beliefs in transparency and the open exchange of information. Such vulnerability was present throughout the Cold War information wars with the Soviet Union and has only been exacerbated in the digital age. Yet, the methods developed during that time, such as the establishment of an interagency group dedicated to combating active measures through education, the formulation of new technical solutions for detection and attribution, offensive actions such as those offered by U.S. Cyber Command, and funding for free media, remain democracy's best defense.

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BLUE GOLD: WATER MANAGEMENT IS KEY TO CENTRAL ASIA'S FUTURE

BY KIMBERLY SCHUSTER

the region resulting in hotter summers and colder winters.¹ Increased environmental degradation will affect the quality of agricultural land, reducing crop yields and profits, which could ultimately lead to economic instability.² Inequality of water usage between upstream and downstream countries is another marked area of discontent, with upstream countries preferring to release water in winter for hydropower and downstream countries preferring increased flow in summer for irrigation.³

In 2018, strides have been made to boost regional cooperation with renewed dedication to collaborating on water issues. The effects of climate change will likely demand increasing high-level engagement by all five Central Asian countries on water management and environmental issues and strengthening international support for sustainability projects. With the shadow of the recent history of water disputes and the effects of climate change, the ever-dwindling supply of water could lead to regional conflicts if not sustainably managed.

COMING TO THE TABLE

Fortunately, 2018 has been a year of thawing regional tensions and discussions of water issues. The leaders of the five Central Asian countries met this year for the first time since 2009 at a summit in Astana in March.⁴ After almost a decade of inaction, this was a significant, positive shift spurred by Uzbekistan's opening relations with its neighbors under the new regime of President Shavkat Mirziyoyev. The former president of Uzbekistan, Islam Karimov, preferred isolation over cooperation with neighboring states and took an aggressive stance on water issues.⁵ In August 2018, the Central Asian leaders met again to discuss the fourth installment of the Aral Sea Basin Program, a long-term, comprehensive international action plan for environmental protection and regional water management.⁶

The August 24, 2018 summit culminated in a joint statement in which the five presidents agreed on the importance of cooperation on the problems of the Aral Sea Basin and expressed concern over the negative impacts of the Aral crisis and the aggrava-

Once the fourth largest lake in the world by surface area, the Aral Sea is now a mere 10 percent of its original size. The desiccation has led to negative effects on the region's climate and ecosystems, as well as the health and livelihoods of the local people. Water is already a valuable resource in Central Asia, and the Aral Sea is a potent illustration of how continued unsustainable use could undercut stability in the region. Poor water management could intensify the harmful impacts of desertification, including dust and salt storms that blow pesticides long distances, poverty from the collapse of the fishing industry, and changes to the weather patterns in

tion of the negative effects because of climate change.⁷ All sides also agreed on the need to adopt coordinated environmental protection measures, with a request for coordination with the UN.⁸ They also noted the importance of hydropower in the region and expressed a desire to improve the organizational structure of the International Fund for Saving the Aral Sea to help improve regional cooperation on water management and protection of water resources.⁹

...POLITICAL, GEOGRAPHIC, AND ECONOMIC DISINCENTIVES MUST BE OVERCOME IF THE REGION IS SERIOUS ABOUT TACKLING ITS WATER ISSUES.

DISINCENTIVES

However, political, geographic, and economic disincentives must be overcome if the region is serious about tackling its water issues. For example, Uzbekistan allows oil and gas extraction in the dry lakebed, which would be far more difficult if water levels began to rise. The oil and gas sector of the Uzbek economy constitutes 16 percent of Uzbekistan's GDP.¹⁰ Uzbekistan's agricultural sector, of which cotton, a very water-intensive crop, is the principal agricultural export, makes up

17.6 percent of GDP and 26 percent of the labor force.¹¹ The importance of agriculture and oil and gas to the economy creates a disincentive to prioritize environmental concerns over economic growth.

The Rogun Dam in Tajikistan also underscores the political difficulties that can stem from commoditizing water. The dam project added to the deterioration in relations with Uzbekistan due to fears that it would cause water scarcity in summer and flooding in winter, even before construction began in 2016. Karimov was adamantly opposed to the construction of the dam, arguing that it would restrict water flows and could lead to a confrontation.¹² So far however, the new president, Mirziyoyev, has not taken a strong stance against it and has been more willing to engage on water issues.¹³

The increasing willingness to engage and the accomplishments under the Aral Sea Basin Program represent positive steps forward, but increased engagement should continue to build on the efforts of individual countries and leverage past successes. For example, Kazakhstan's Kokaral Dam, an \$85 million joint project with the World Bank completed in 2005, has been successful at increasing the water volume and lowering the Sea's salinity, allowing for the reintroduction of fish.¹⁴ There are also historical precedents that could provide models for future cooperation. Under the Soviet Union, there were water sharing agreements whereby the upstream states, Kyrgyzstan and Tajikistan, would release water for irrigation in the summer in exchange for oil and gas from the downstream states in the winter (Kazakhstan, Uzbekistan, and Turkmenistan). After the collapse of the Soviet Union, these agreements deteriorated and disputes became more common. But with the increased impacts of climate change exacerbating the issues inherent in the Aral Sea crisis, the time is ripe for renewed collaboration.

CLIMATE CHANGE

The Aral Sea is fed by glaciers and snowfields in Central Asian mountain ranges, but global climate change is causing these glaciers to shrink.¹⁵ By 2030,

discharge from the rivers that feed into the basin will be reduced by an estimated 25-50 percent from today's level. By 2050, experts predict that all the small glaciers that feed into the rivers will be gone.¹⁶ Meanwhile, the effect of warming temperatures on agriculture is predicted to increase water demand by as much as 30 percent by 2030.¹⁷

This means that states in the Aral Sea Basin will need to reduce their water usage or drastically improve the efficiency of irrigation in the face of climate change. Yet countries have been slow to adapt. So far, economic incentives to keep using water for irrigation or hydropower and, in the case of Uzbekistan, to focus on oil and gas production, have outweighed calculations about environmental costs.

If collaborative efforts are not seriously pursued to reduce these issues, the negative impacts could be dire. Disputes over water in the region could intensify, causing security concerns. The lack of water for irrigation, combined with increased salinity of the soil and more frequent dust and salt storms could damage the regional agriculture industry and thereby exacerbate poverty. Competition for water resources may deteriorate the slowly improving relationships between Central Asian countries, and existing tensions in the region, such as the various border disputes, could be drawn into conflict over water use.

Outright war between Central Asian countries over water resources seems unlikely, but in the not-so-distant future, climate change will take a heavier toll on the region, which could contribute significantly to instability. There is hope if the upward trend of regional relations continues with the August 2018 summit and collaboration on the fourth phase of the Aral Sea Basin Program. While relations are improving in Central Asia and there is a desire to solve problems regionally, tensions could resume as water resources become scarcer, suggesting that international involvement in projects would be beneficial. The five Central Asian countries should increase high-level engagement on water management and environmental protection of the Aral Sea Basin and strengthen international support for environmental projects.

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A RISING INDIA IN THE INDIAN OCEAN NEEDS A STRONG NAVY

BY AMAN THAKKER

In the region, it should increase investment in its navy. In particular, completing construction of new aircraft carriers and attack submarines, modernizing India's naval assets, and improving its maritime domain awareness capabilities will ensure that India has a modern navy that can counter growing Chinese influence in the Indian Ocean region (IOR).

INDIA-CHINA COMPETITION – WHAT'S AT STAKE

The IOR is quickly becoming the home of a contest between India and China.¹ China has made aggressive moves to advance its strategic interests in the region, particularly by gaining access to military bases and strategic ports by employing illiberal and predatory economic practices.

Indeed, former Secretary of State Rex Tillerson pointed out that China has used “opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt” to advance its own strategic interests and gain access to key ports in the region.² Sri Lanka is a prime example, where Chinese companies gained access to the country’s port in Hambantota in a 99-year lease following Sri Lanka’s inability to pay off a nearly \$1.1 billion debt to China.³

Furthermore, data from the Center for Global Development shows that four countries in the IOR, namely Djibouti, Laos, Maldives, and Pakistan, find themselves “vulnerable to above average debt” to China.⁴ When China’s inroads in the Maldives, Pakistan, and Sri Lanka are seen in the context of its acquisition and construction of a military base in Djibouti, it becomes clear that China is encircling India in its backyard.⁵

Indeed, India sees these steps as attempts to create a “string of pearls,” or a network of strategic naval outposts constructed by China to advance its economic, military, and strategic interests in a region India considers its strategic preserve.⁶ India now recognizes that it cannot allow China to replicate the playbook it used in the South China Sea and challenge territorial claims and international norms of freedom of navigation, overflight, and unimpeded commerce in the IOR.

The Indo-Pacific is increasingly becoming a geo-strategic focal point for China and India, as both countries engage in a growing competition. While China has aimed to secure access to strategic ports to gain an economic and strategic advantage, India’s role in the region is increasingly seen as a protector of the international order set up by the United States, particularly as it pertains to maintaining open sea lanes and the freedom of navigation.

As India looks to counter growing Chinese influence, it must focus on its naval power. In addition to its cooperation with democratic allies and neighbors in the region, it should increase investment in its navy. In particular, completing construction of new aircraft carriers and attack submarines, modernizing India’s naval assets, and improving its maritime domain awareness capabilities will ensure that India has a modern navy that can counter growing Chinese influence in the Indian Ocean region (IOR).

INDIA'S RISING PROFILE IN THE INDIAN OCEAN REGION

India has recognized the growing Chinese activity in the IOR and has already taken steps aimed at countering Chinese deployments. Without naming China, India's naval spokesperson told the Straits Times, "Initially, the Indian Navy's foray into these places was once in a year for overseas deployment. Now there is a change in the dynamics and the presence of an extra regional power has necessitated that our presence be increased."⁷

India has negotiated agreements with several states in the littoral IOR to obtain military access to their bases. Such agreements, including access to Indonesia's strategically-located deep-sea Sabang port⁸ and Oman's Duqm port,⁹ enhance New Delhi's geopolitical positioning as it looks to counter Beijing's "string of pearls."

DESPITE SUCH ENGAGED NAVAL ACTIVITY, INDIA STILL NEEDS TO FOCUS ON ITS INVESTMENTS IN NAVAL HARD POWER IF IT HAS ANY CHANCE OF CONTAINING CHINA IN THE REGION.

India has also engaged with powers outside of the IOR, deepening cooperation with France and the United States through logistics agreements, which grant India access to port facilities at the U.S. base on Diego Garcia¹⁰ and the French base on Reunion Island.¹¹ The United States further engages with India through the informal Quadrilateral Security Dialogue, or the "Quad," which also includes Australia and Japan.¹² Similarly France has called for the creation of a "Paris-New Delhi-Canberra" axis in the Indo-Pacific, underscoring India's growing influence on geopolitics in the IOR.¹³

The physical manifestations of India's rising profile are showcased through its joint exercise in the region. India concluded the twenty-second iteration of its "Malabar" naval exercise, which began as a bilateral exercise with the U.S. Navy and was expanded to include the Japanese Maritime Self-Defense Force in 2015.¹⁴ In 2018, India

has also held multilateral naval exercises called "Milan" in the Andaman and Nicobar Islands with 16 other countries¹⁵ and in the Rim of the Pacific Exercise (RIMPAC), sailing alongside the Australian, Japanese, and U.S. naval forces.¹⁶

Despite such engaged naval activity, India still needs to focus on its investments in naval hard power if it has any chance of containing China in the region.

THE NEED FOR HIGHER NAVAL INVESTMENTS

Although India continues to be active in the IOR, it continues to spend far too little on its navy compared to its peers and competitors. Figures from FY2017-2018 indicate that India spends only 15 percent of its total military expenditure on its navy, far lower than its peers in the Quad.¹⁷ The United States leads the pack, spending nearly 30 percent of its military expenditure on its navy,¹⁸ while Australia and Japan spend nearly 25 percent¹⁹ and 23 percent,²⁰ respectively. Official numbers from China are hard to obtain, but reports indicate that China spends nearly three times as much as India on its military overall.²¹

This lack of expenditure on India's part also comes at a time when India has recognized the need to increase its naval capabilities. India's Vice Chief of Naval Staff, Vice Admiral P Murugesan, has outlined that India aims to become a 200-ship navy by 2027, noting that the current force stands at 137 ships.²² While India already has one commissioned carrier, the INS Vikramaditya,²³ and plans to com-

mission a second, the INS Vikrant,²⁴ it has outlined an ambitious plan to develop a class of aircraft carriers to follow the Vikrant,²⁵ which has already faced delays and cost overruns.²⁶ India's navy has further outlined plans to procure 57 carrier-based fighter jets, as well as modernize its submarine fleet with a new Arihant-class of nuclear-powered attack vessels.²⁷

However, when compared to India's actual expenditure on its navy, there is a clear mismatch between its ambitions and its spending. Indeed, during FY2017-2018, India's navy requested \$5.2 billion but was only allocated \$2.9 billion.²⁸ This under-allocation means that India's navy could barely cover its planned expenditure, leaving no money for new purchases or further modernization. As a result, the delays in building the Vikrant-class of aircraft carriers or Arihant-class submarines mean India is less capable of deterring China.

The lack of funds has also meant that India has underutilized its strategically located Andaman and Nicobar Islands. While India has built a tri-service theater command²⁹ on the island aimed at protecting its strategic interests in the Strait of Malacca, India continues to place limited assets on the island, forcing it to act as a logistical facility³⁰ for supporting the planning and coordination of the navy's deployments in East and Southeast Asia rather than a true joint command that can deepen collaboration and cohesion among India's three military services. Developing a true combined services command can build upon India's acquisition of the P-8 platform,³¹ as well as potential acquisition of the Sea Guardian,³² and advance its ability to conduct surveillance and maximize its maritime domain awareness.

The Indo-Pacific is increasingly becoming a center for a growing geopolitical contest, with China already making several moves from strategic military bases to predatory economics to advance its own interests in the region. India has begun stepping up and successfully engaging countries in the region to a degree of success. However, without the necessary investments in its hard-power capabilities, India's vision of a "safe, free, and open Indo-Pacific" will remain unfulfilled. India must take necessary steps to increase investments in its navy as it looks to counter growing Chinese influence in the IOR.

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