



INSIGHTS

S SYNERGIA FOUNDATION

APRIL 2021 | EDITION II | WEEKLY

IT'S RAINING DATA

EXPERT INSIGHTS



Ariel Levite
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Former Chairman of NTRO

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A LEAKING 'CLOUD'

The universality of IoT and cloud usage has rendered the most well-protected spaces vulnerable by requiring individual level protocols to secure our cyberspaces – personal, public, corporate and governmental



Video surveillance TV feed of a high-profile security company was intercepted over multiple locations and leaked to the media by activists to prove once again the depth of vulnerability of our cybersecurity systems.

Silicon Valley security startup, Verkada, received unwanted free global publicity last week when its cloud-based security camera services to high profile corporate customers were breached. Hackers were able to access more than 1,50,000 of the company's cameras installed in multiple places —Tesla factories, Cloudflare offices, Equinox gyms, hospitals, jails, schools, police stations, and Verkada's own offices.

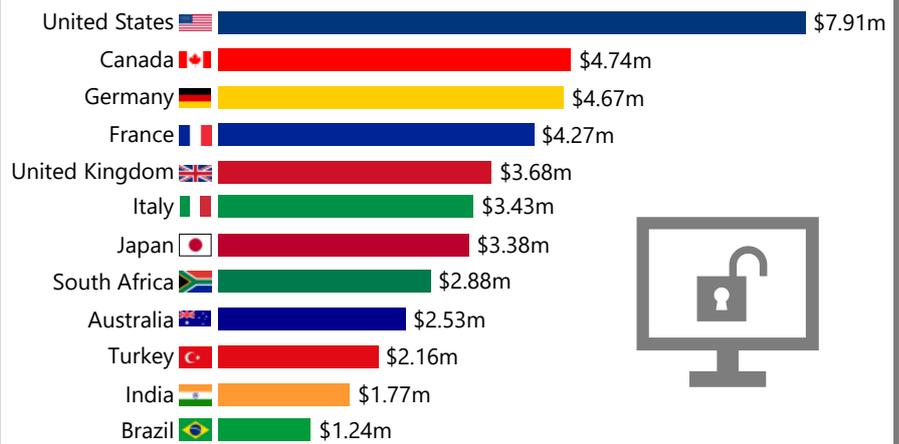
A DEADLY DEMONSTRATION

The collective initiating the hack had no mala fide intentions other than to expose to the media, the dangers lurking in cloud-based data storage systems. Tillie Kottmann, 21, a member of the collective, claimed that the hack was meant to showcase how security cameras are easily accessible to anyone. Kottmann has been sharing leaked files from various companies for months. One, in particular, was a huge collection of secret documents and source code of the chipmaker, Intel.

Verkada's claim offering internet-connected security cameras, with a "software-first approach" to make security "seamless and modern" sounded hollow after the intrusion. Its cloud-connected cameras come with a web-based interface for companies to monitor their feeds and offer (optional) facial recognition software. This very feature of openness is

AVERAGE COST OF A DATA BREACH HIGHEST IN THE U.S.

Average total cost of a data breach by country in 2018



Source: IBM

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what led to the attack. The collective managed to gain admin-level access to the Verkada systems they found publicly on the internet.

A GATHERING STORM

This is just a taste of things to come. An Accenture report estimated that between 2019 and 2023, nearly \$5.2 trillion in global value would be at risk from cyberattacks.

Around 22.5 billion devices are

expected to be connected to the internet by the end of 2021, and these are open opportunities for hackers. Increased interconnectedness needs to come with its own manual of increased security and protection. This includes anything connected to the Internet of Things (IoT), ranging from wearable medical devices, security cameras to critical national infrastructures like power grids and railway systems. The Verkada systems breach was primarily due to

Trey Herr

Director of the Cyber Statecraft Initiative, Scowcroft Center for Strategy and Security at the Atlantic Council



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If the essence of resilience lies in the capacity to adapt and fail gracefully, then governments can drive resilience in cloud by ensuring flexibility. Governments should work to design regulations native to the needs of cloud computing systems, focused on security outcomes rather than their specific design, while being rigorous about auditing the cloud provider's architecture. Flexibility is facilitated when industry and government agree on common and effective technical and governance pillars for cloud security.

”

 Expert Q&A


Sathish Jha, is former
Chairman of National Technical
Research Organisation (NTRO).

Q How can one effectively
implement a cloud security
strategy at the government level,
and build resilience?

A **Sathish Jha:** IoT devices flooding the market are primarily designed for convenience and ease of business rather than security. Moreover, security comes at a cost. Notwithstanding the above, encryption can be added to surveillance devices both as an overlay or at the design stage itself. The cost will escalate exponential (not proportional) to the grade of security required.

It emerges that encryption is the easy part. The main concern is that it would add to the overheads in terms of additional packets, thus decreasing the throughput, resulting in sluggish response and freeze frames, unless the bandwidth is extremely high. We will have to wait for 5G.

Regarding cloud security strategy at the government level, it can be implemented easily by providing various levels of encryption required or specified for different use cases.

Security must be built in at the very architecture level. Any implementation, later, to cover gaps, may not be quite adequate. Security is essentially of data and is quite feasible. How storage, access and transmission are planned and implemented hold the key. Security must be a mandatory consideration at the design stage while implementation must be in coherence with the security design.

a lack of in-house security control, along with insufficient regulations to stop the attackers from getting to the cameras.

SECURING THE CLOUD

Devices interconnected via IoT can communicate with each other. They therefore need sufficient security to block a direct gateway into personal, corporate, and governmental networks. While cloud security offers ease of access to the data one chooses to record, the constant connectivity and exposure to the internet make it easy for hackers to potentially exploit the devices.

In fact, if hackers can breach one IoT device, the same approach can be applied to other devices, making it much cheaper to hack.

Most networks leak data due to poor "cyber hygiene". It could be caused by something as simple as a lack of alignment between the IT and security teams, or failing to follow and update IT security policies.

A common problem for cloud computing security relates to balancing the responsibility of maintaining security between the cloud service provider and the user. Many cyber breaches occur solely due to human error and lapses in the protocol. A survey showed that the top three cybersecurity challenges in the cloud are data loss (64 per cent) and data privacy (62 per cent), followed by accidental leakage of credentials (39 per cent) tied with compliance issues (39 per cent).

As for services that affect a larger population, governments are now working on developing their digital capacities to meet citizens' demands via cloud computing. It is customary for governmental institutions to allow only certain IT personnel to view data, but that is not the case in cloud computing.

A case in point is the U.S. Defence Department's data vulnerability in 2017. Some of its data were stored on the Amazon Web Services cloud. The Pentagon databases held around 1.8 billion internet posts scraped from social media, news sites, forums, and other publicly available websites, going as far back as 2009. There

was no indication that attackers accessed the databases. However, the Defence Department secured the data by October 1st, the same year. The information that was exposed had been publicly available earlier, and while it was not sensitive user data, the failure to fully secure data raises concerns about government cybersecurity practices when it comes to cloud computing.

INDIAN VULNERABILITIES

While India takes pride in the pace at which digitalisation is changing the quality of life across the entire face of the country, irrespective of the income divide, very little is being debated about the vulnerabilities that accompany it. Even when a major intrusion takes place, like the recent strike on Mumbai's electric supply alleged to be initiated by Chinese hackers, it is brushed aside as a 'one-off incident' and soon forgotten.

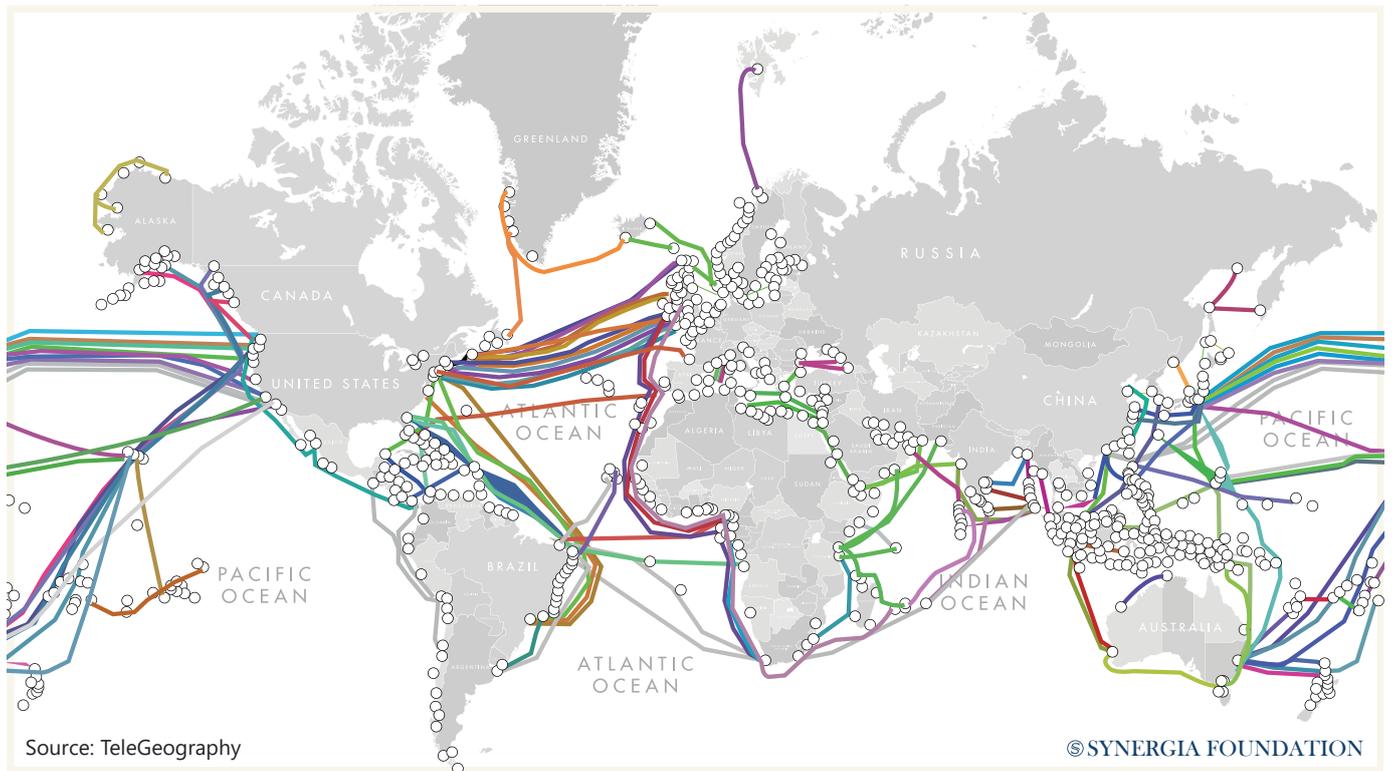
Between March and April 2020, India witnessed a staggering 86 per cent increase in cyberattacks. A Subex report showed that 51 per cent of the registered cyberattacks were through IoT devices. Among the 15 Indian cities from which data was gathered, Mumbai, New Delhi, and Bengaluru attracted the maximum number of cyberattacks.

The National Digital Communications Policy of 2018, formulated in place of the National Telecom Policy of 2012, aims to expand the IoT ecosystem in India to 5 billion connected devices by 2022. However, there is no detailed approach on how to further secure cloud computing servers. The draft IoT policy framework in 2015, which gained impetus through the Smart Cities and Digital India initiatives, falls short of a framework to promote centres to aid capacity building.

The lack of efficient infrastructure while the usage of IoT devices increases, is a major challenge. With unsteady and unstable internet connections across the nation, India faces a big hurdle in ensuring safe internet connectivity across its boundaries.

A CLOUDY FUTURE

With risks multiplying by the day, governments need to tackle cloud security issues before it is too late




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On March 10th, over 100 firefighters battled with raging flames in the historic border town of Strasbourg in Eastern France, close to the Swiss and German border. As dawn broke, one of the four data centres of OVHcloud, Europe’s largest cloud service provider, lay in total ruins. Another one was severely damaged.

This single fire disrupted millions of websites — government portals, banks, retailers, news websites etc. The French government and the cryptocurrency exchange Deribit were forced to activate their disaster recovery plans.

Netcraft, the UK based network security company, estimated that the fire impacted 3.6 million websites spread over France, Britain, Poland and even as far as Ivory Coast.

In 2017, a global outage on Amazon Web Services cost publicly traded companies a whopping \$150 million. Even a reliable brand like Google had a multi-hour outage in mid-2019, resulting in disruption of its entire range of services — Gmail, Google Docs, Google Drive, Google Cloud, and YouTube. Third-party services such as Vimeo, Uber, and Snapchat were also not spared.

There is a sense of worry emanating from the fact that there are only few companies that can offer such hyper skilled service. If anything goes amiss, there is a

high possibility of systemic failure. This results in an asymmetry in the relationship between customers and oligopolistic companies, which then renders the former incapable of negotiating.

A GROWING DEPENDENCY

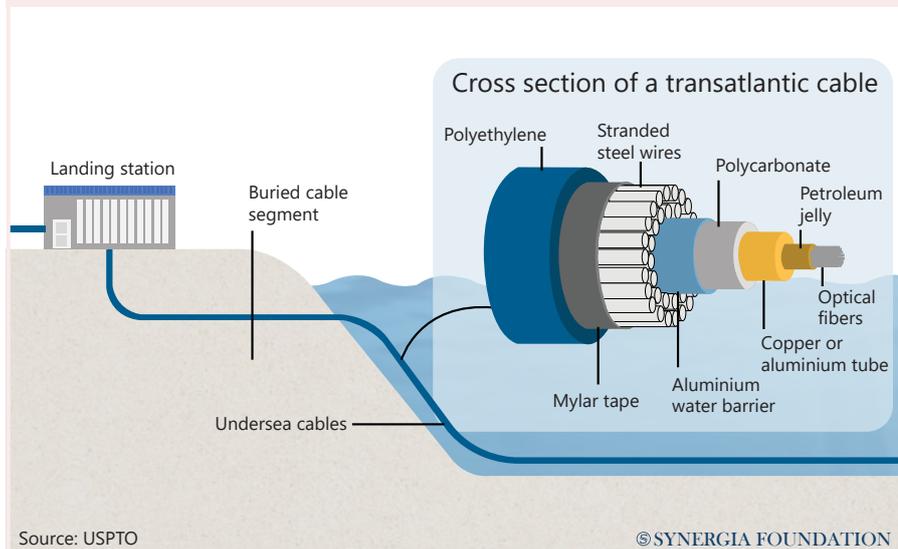
Simply put, cloud service implies that instead of storing the data in your own computer/ server, the user hires space in someone else’s server located anywhere in the world. This is enabled through a global network of remote servers that function as a single ecosystem.

While cloud systems have been around since 2000, businesses did not trust their security or resilience. It is only in the last five years that negative perceptions were overcome. The benefits of cost, ease of use, scalability and flexibility made them so attractive that many companies migrated in their entirety to the cloud.

Cloud computing has been

Structure of transatlantic cables

The fiber optic pipes which transmit 99% of all internet data are around the width of the garden hose.



the full picture, cannot also move an inch forward. Their hands are tied, thanks to promising talent herded by financial prospects into the private sector.

GOING OCEAN DEEP

Finally, we must address cloud services' dependency on underwater cables and the risks associated with them. The cloud is beneath the ocean. Severing or disrupting these cables can shut down the entire globe. In the deep sea, they are covered only by a thin polyethene sheath and thus become targets for foreign submarines with a mission to intercept.

Submarines can pinpoint systems using underwater sensors and can carry equipment to tap the cables and intercept sensitive data. Governments need to compulsorily invest in military capabilities to build resilience and overcome this issue as national interests are on the line.

THE WAY AHEAD

Securing cloud computing is encumbered by the nature of its ecosystem, which leverages a host of technologies. In the process, their vulnerabilities are inherited too, with storage, network and virtualisation being the gravest threats. Any protocol that seeks to secure cloud computing must focus on the relationship between vulnerabilities and threats. This will generate new security solutions and processes as current measures are proving to be grossly inadequate. In fact, there is a multi-billion-dollar emerging market for securing your data on the cloud.

Lured by its ease of use and cost advantages, businesses and governments are gradually coming to the realisation that cloud computing is here to stay. Every user of this technology must assiduously follow industry best practices in selecting, installing, and managing cloud services while ensuring that they protect their sensitive data. The software, the standard operating procedures and the behavioural codes of conduct are all there; one only needs to follow them strictly.

growing seven times faster than overall IT spending, and as per ReportLinker, the market is expected to grow from \$ 272 billion (2018) to \$ 623 billion in 2023.

With improved technology, organisations have become comfortable moving sensitive data over the cloud. They bank upon the software to secure it while using backups to guard against outages.

Today, the cloud computing landscape is dominated by a handful of service providers. They are the only ones with skillsets and infrastructure substantial enough to fulfil the mass needs of a rapidly growing digital society. These tech behemoths, Google, Amazon, and Microsoft, to name a few, have come to act as a safe for sensitive data. Placing trust in the hands of a few, especially considering both the quantity and the kind of data in question, is asking for trouble. Hardware-wise, too, for instance, Intel is the only major supplier of chip.

BEYOND BORDERS AND ABOVE LAWS

What makes cloud storage especially concerning for both private and governmental agencies is the footprint of data centres across several countries. While local issues related to the hardware might not affect colocation centres built around

the world over, it is not the same case with software. As cloud services are being run on the same software, an update can cause complications across multiple geographies due to the single point of failure.

Adding to this challenge is the rapid pace of innovation and the scaling of business. The operations become so complex that the employees themselves are unclear about the huge vulnerabilities involved.

Secondly, cloud service providers are almost never transparent with customers and the government. Customers, as mentioned earlier, do not anyway possess negotiating power to demand so. On the other hand, the government's need for transparency entails a different set of concerns.

Several governments insist on access to the cloud. While that may be for reasons of security, it will allow easy access to vast swathes of discreet public data and eventually fly in the face of personal privacy. More importantly, there are good chances of it being misused by third parties for malicious activities such as disinformation and fraud.

To effectively implement a cloud security strategy at a government level, we first need skilled force. The larger challenge here is its lack thereof. Governments, irked by cloud providers' hesitancy in offering

TIME FOR AFRICA

The tone and tenor of the White House foreign policy is indicative of President Biden's intention to redefine America's relations with the African continent



From the recently organised Quad summit to the Asian tour undertaken by the U.S. Secretaries of State and Defence, the foreign policy imperatives of the new Biden administration have leaned towards the Indo-Pacific region. As Washington seeks to gain the upper hand on its arch-rival Beijing by making this theatre its primary area of involvement, relatively less emphasis has been placed on the 'African flashpoint.'

Perceived as a secondary front in the overall U.S.-China cold war, the 'Dark Continent' has suffered from strategic neglect over the past few decades. This trend was particularly accentuated during President Trump's single-minded pursuit of the 'America First' agenda. Although his administration had acknowledged the great power competition in this region, it had done little to formulate a substantive policy to counter it.

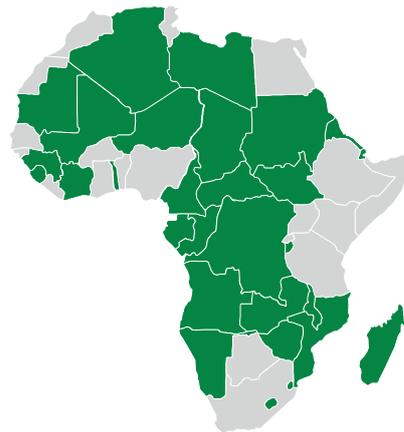
Signalling a departure from this approach, President Biden has now pledged to implement a 'shared vision' with the continent, based on 'solidarity, support, and mutual respect.' At the 34th Summit of the African Union (AU), he has reiterated the U.S.'s commitment to active diplomacy and multilateralism. It remains to be seen whether this promise translates into a nuanced Africa policy, devoid of neo-colonialist tropes and based on credible action on the ground.

DEFYING PIGEONHOLES

Failure to move beyond Western stereotypes and study local complexities in the continent has often led to simplistic strategic conclusions by Washington. With

AFRICA REMAINS UNCHARTED TERRITORY FOR U.S. PRESIDENTS

■ African countries that no U.S. president has ever visited.



Source: Office of the Historian

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the exception of a few key military bases, Africa has been severely underprioritised in American foreign policy initiatives.

In the past, most of its engagements were framed within the age-old narrative of poverty alleviation and countering of warlords or extremists. The fact that Africa was home to some of the fastest growing economies in the world, along with a largely untapped entrepreneurial youth, was largely ignored. While Corporate America was an eager consumer of African mineral resources, it lagged behind China, and even some of the erstwhile European colonist powers, in increasing its commercial footprint in Africa. Even the criticality of rare earths and metals like Cobalt in the future of high-tech manufacturing failed to stir Washington, much to the advantage of Beijing.

In a half-hearted bid to counter the Dragon's relentless expansion over Africa, Mr. Trump had attempted to expand trade and commercial ties through initiatives like 'Prosper Africa' and the 'Development Finance Corporation' (DFC). However, such zero-sum thinking undercut the opportunity for a more nuanced and

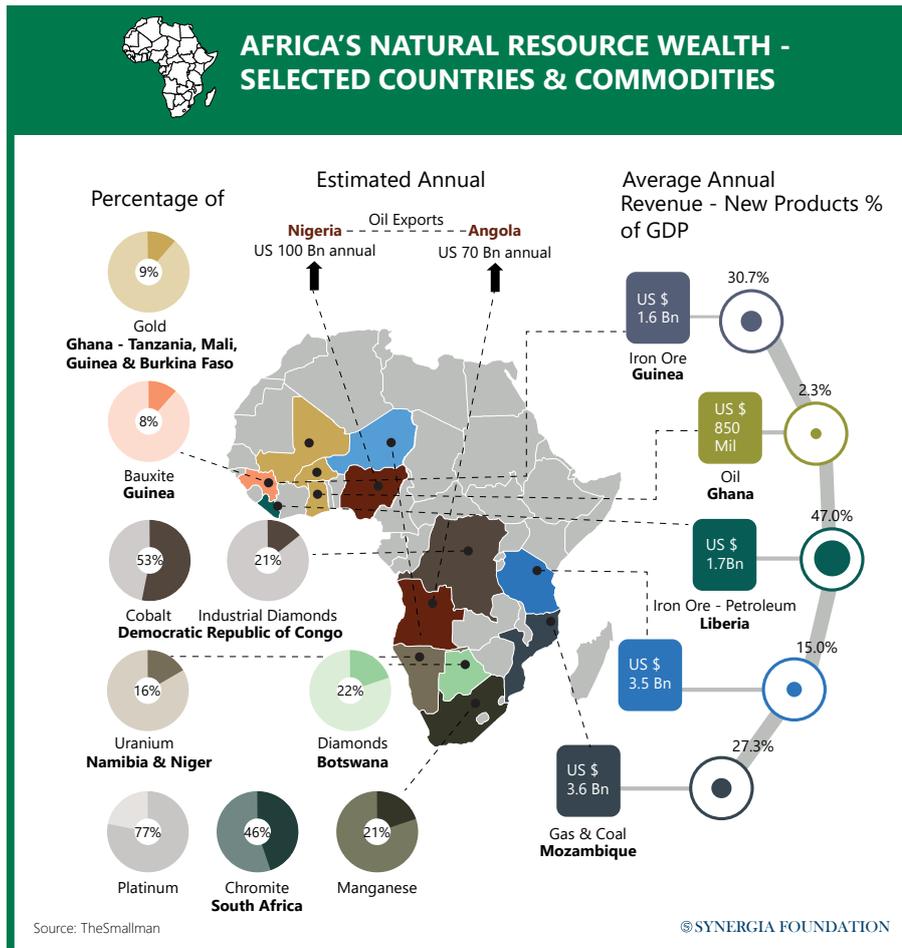
mutually beneficial partnership with African allies.

UNDOING WHAT'S DONE

Complicating relations even further, the Trump administration imposed an immigration ban on citizens from Muslim countries, thereby affecting ties with Somalia, Nigeria, Sudan, Eritrea, Egypt, Libya and Tanzania. It also blocked the appointment of the first African head of the World Trade Organization, Ngozi Okonjo-Iweala, whose candidacy was actively supported by several African states.

Unilateral actions like exiting the World Health Organisation (WHO) as well as the Paris Accord, further weakened Africa's confidence in the stability of American policies. More broadly, a resurgence of racist rhetoric in the U.S., along with incidents like the Capitol Hill riot, undermined Uncle Sam's status as a global watchdog for human rights and democracy.

All of this portends a challenge for Mr. Biden, as he seeks to restore America's 'moral authority' in the region and sharpen scrutiny on countries like the Ivory Coast, Guinea, Cameroon, and Uganda,



the ease of access in poorer African nations. Over the coming days, all eyes will be on President Biden as he reconsiders South Africa's request for waiving COVID-19 vaccine patents at the WTO.

As far as the equation with China is concerned, there are several areas where American interests are likely to converge. Protecting economic investments from corruption and maladministration as well as the advancement of the African Continental Free Trade area is a case in point.

Similarly, although Djibouti has been touted as a fertile ground for U.S.-China competition, both sides are keen to protect their military bases there and ensure the safety of the Red Sea trading route. The two countries are also supportive of a more effective and integrated AU. By identifying such potential areas for trilateral cooperation, the Biden administration can usher in a new chapter in its Africa policy.

Assessment

Blessed with rich mineral resources and a population that is slated to reach 2.2 billion by 2050, Africa represents a land of opportunities. This will need to be factored in by the White House as it looks to renegotiate its relations with the continent.

As geopolitical and economic systems are realigned in the post-pandemic world, it will be critical for the U.S. to transcend its Cold War dynamics with China and devise new frameworks for cooperating and competing in the Land of the Sahara.

While regional heavyweights like Nigeria, South Africa, and Egypt are crucial for boosting economic investments and partnerships, the U.S. is likely to afford strategic priority to the Horn of Africa, owing to the brewing crises in Ethiopia, Eritrea, Somalia, Sudan and South Sudan. In fact, reports indicate that the Biden administration has already contemplated a Special Envoy for this region.

where democratic norms have suffered a significant setback of late.

Against this backdrop, he appears to have made a promising start by reversing some of the policies of the Trump era. He has not only backed the appointment of the new WTO chief, but also revoked the contentious immigration policy. Re-joining the WHO as well as the Paris Accord has been another positive move. There is, however, a long way to go before cooperation with African nations can be meaningfully institutionalised.

LOOKING AHEAD

Counterterrorism and security cooperation are significant aspects of the U.S.-Africa relationship. The Islamic State, Boko Haram, Ansar al-Sunna, Nusrat al-Islam, and the Al-Shabaab continue to pose existential threats for peace and stability in the region. Although the U.S. Africa Command conducts extensive military cooperation with over 53 African militaries, it is located in Stuttgart, Germany, which

is more than 1500 kms from Africa. Moving to a closer location like Rota in Spain could be a potential first step in this regard.

However, the focus has to shift from hard power to economic, political, and social dimensions of these conflicts. In doing so, a balance will have to be struck between U.S. and African interests. Even though offsetting Chinese influence is a strategic necessity for Washington, it may have to strengthen Africa's collective trade position in its own right. By lessening the latter's dependency on aid and fostering sustainable partnerships in the long term, the U.S. can induce a multiplier effect on the global economy.

Pandemics like Ebola and COVID-19 have also demonstrated the need for global cooperation in containing the scourge. In recent times, Beijing seems to have stolen the march on Africa through its vigorous 'mask-and-covid vaccine diplomacy'. In this context, it ill behoves the U.S. and its European allies to stockpile vaccines and other medical supplies, thereby frustrating

A BRIDGE TOO FAR

Expectations of the Biden administration bridging the growing gap in economic and geopolitical relations with China were dashed in the first meeting itself

S
MAJ. GEN. AJAY SAH (RETD.)
CHIEF INFORMATION OFFICER

It was pretty evident that the U.S. Secretary of State Antony Blinken and National Security Adviser Jake Sullivan came prepared to be blunt with their Chinese counterpart as both sides squared off in Anchorage, Alaska. If this first meeting is taken as a marker, then the rest of the world can only hold its breath and await the ensuing fireworks.

The Americans' scathing opening statement took the Chinese diplomats by surprise. Still, Yang Jiechi, Chinese Communist Party's senior-most foreign ministry official and one of the new breeds of Wolf Warriors, quickly recovered to reply in equal measure. For over 17 minutes, he lambasted the U.S. for its alleged military misadventures and toppling of legitimate governments.

The public display of animosity was a disturbing sign as it shows how large the chasm is in their perception of each other's place in the global community. If the mutual suspicion continues, it evokes the spectre of strategic miscalculation, especially in Taiwan, Japan, and the South China Sea and in the race for control of critical mass-use technologies.

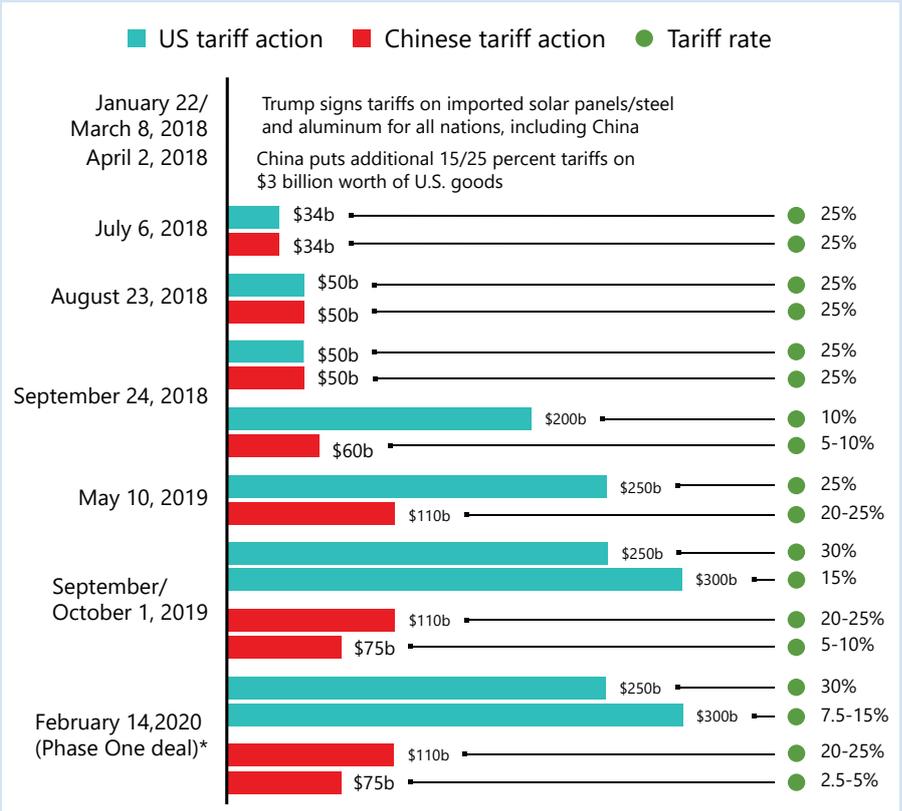
THE AMERICAN PERSPECTIVE

Secretary Blinken rattled off his list geopolitically speaking, calling them issues where both sides are "fundamentally at odds." Chinese human rights violations in Xinjiang topped the list, followed by Hong Kong, Tibet, South China Sea, and Taiwan. Other geographical areas included Iran, North Korea and Afghanistan, where the interests of both intersect.

The blunt exchange at Alaska should not have come as a surprise for perceptive observers as Secretary

U.S.-CHINA TRADE WAR: A TIMELINE

Cumulative tariffs between the U.S. in China in 2018-2020



* China/the U.S. have also been accepting tariff exemption applications for a range of products
Source: Media reports

Blinken had already set the stage at his first pit stop in Tokyo. He had warned China not to resort to "coercion and aggression", sending a signal to Indo-Pacific countries that the U.S. was ready to stand with them as they face up to an increasingly assertive China. Coming in the wake of the highly successful Quad Summit attended by the heads of states of Australia, Japan, India and the U.S., the U.S.'s intentions could be interpreted as forging an anti-China axis in the Indo-Pacific.

The U.S. has been deeply concerned with repeated Chinese unilateral actions to convert its 'unlawful' claims in the East China Seas and the South China Sea into possessions through coercive action. The new Chinese law passed in January this year that gives

carte blanche to armed Chinese coast guard vessels to use lethal force on foreign ships can incite violent clashes on the high seas.

Hong Kong remains the most convenient stick to beat Beijing even though it is an integral part of the People's Republic of China, albeit under the 'one country two system' regime till 2047. A day before the now-famous Anchorage meeting, Secretary Blinken released a provocative update on the Hong Kong Autonomy Act. He objected to the Act's unilateral passing by the National People's Congress undermining the democratic electoral system existing in Hong Kong and its autonomy. The update went further to identify 24 PRC and Hong Kong officials (and entities) and imposed sanctions

on them.

The ongoing Australia-China trade war is another friction point as the former is America's staunchest ally in the Indo-Pacific. Australia has been in the Chinese cross-hairs since it publicly demanded an international enquiry on Chinese culpability in the spread of the COVID 19 pandemic.

Since then, the otherwise healthy trade relationship headed south with China imposing trade bans and massive tariffs amounting to \$ 20 billion on Australian exports. On March 16, the White House released a press statement declaring its determination to stand by Australia and not allow any concessions to China until Beijing stops its economic coercion of Australia.

The U.S. is seeking global acceptance to declare China's international behaviour as inconsistent with the existing international order, thus posing political, economic, military, and technological threats to the international community. There are many nations, especially in the Indo-Pacific, who tend to agree with the U.S.

CHINESE COUNTERVIEW

The Chinese vehemently reject the western version of the international rule of law, and at times even

countries like India would be inclined to agree. Minister Yang made this categorical by stating, "What China and the international community follow or uphold is the United Nations-centered international system and the international order underpinned by international law, not what is advocated by a small number of countries of the so-called rules-based international order."

China also refutes the American claim to be the global role model of democracy and gleefully points at the recent Presidential elections' chaos and the Black Lives Matter movement.

China has been rattled by the coming together of like-minded countries in opposition. The recent Quad meeting made it clear that the alliance sought to create "freedom of navigation" and maritime security its focus.

Beijing feels it is being unfairly dragged into bilateral equations between the U.S. and its allies (Australia, Japan, South Korea and even India). This came out clearly in the statement of Mr Zhao Lijian, the high-profile foreign ministry spokesperson in Beijing, when he declared that bilateral ties "shouldn't target or undermine the interests of any third party" and should boost "peace and stability in the Asia-

Pacific".

SEEKING MIDDLE GROUND

However, there are areas where the U.S. and China can come together. These can then act as building blocks to reinvigorate areas where there is some agreement between the two. North Korea and even Iran are two such geopolitical hot spots where Beijing enjoys a measure of influence and can leverage it to improve its standing with the U.S. Climate change, which is back on the agenda in the White House, along with the pandemic and global economy, would be other areas where both powers can cooperate.

Assessment

From the American perspective, the meeting was more of 'testing the waters' to calibrate the various components of its future relationship with China — trade, technology, cyber warfare and geopolitics. Unlike the Trump Administration's 'whole or nothing approach,' the Democrats want to assess where they need to compete/collaborate/oppose the Chinese.

Beijing is confronted with a new set of strategies being fine-tuned in Washington after the fiery but largely ineffective anti-China tirade launched by Mr. Trump. For one, Mr. Biden's tactic is fundamentally in variance with that of Mr. Trump in that it takes into account the priorities of its allies in trade and geopolitics with China. White House is more frequently consulting its friends in Asia and Europe before tabling its strategy against China.

China will be keen to create misunderstandings and fissures in any such evolving alliance, especially where they encourage smaller countries in the Indo Pacific to stand up to Beijing's dictates. India's honourable and relatively bloodless disengagement on the LAC may assure other Asian nations that, standing up to China may not be as disastrous as it is made out to be.

SOUTH CHINA SEA DISPUTE

- Nine-Dash Line: China's claimed territorial waters
- China and Vietnam dispute ownership
- Disputed islands between China, Taiwan, Vietnam, Malaysia, Brunei, Philippines



Source: Anadolu Agency

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A MULTIPLIER EFFECT

Biden's \$1.5 trillion push is bound to have a ripple effect on emerging markets, necessitating each nation to model its own macroeconomic responses



The passage of U.S. President Joe Biden's \$1.9 trillion stimulus package amounts to a whopping 25 per cent of the GDP. The legislation targets smaller socio-economic entities and individuals, with an extension of jobless benefits; another round of household payments; funds for vaccinations and virus-testing programmes; and a massive one-year expansion for the child tax credit programme aimed at curbing child poverty.

The reliance on a fiscal stimulus to boost growth is in sharp contrast to the 2008 global financial crisis (GFC) policies, where monetary policy was the main tool used. However, the increased spending now makes sense due to the interest rates already being close to zero.

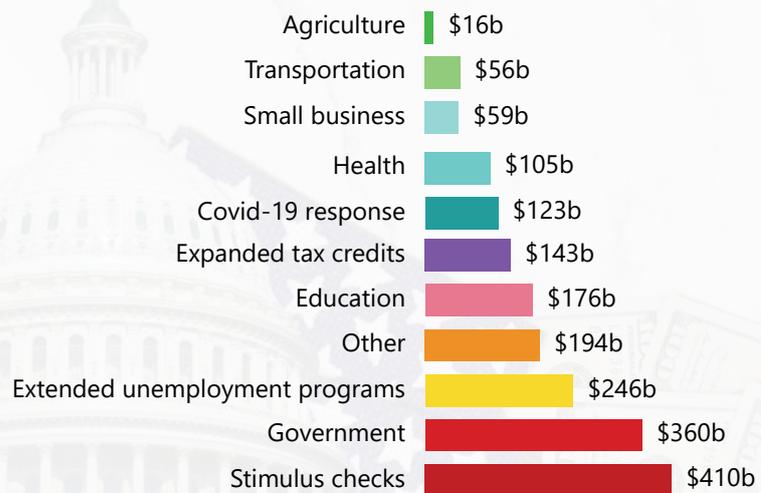
What this means for the U.S. and emerging economies is that while there could be a slight spillover effect in other economies like China and India, U.S. asset prices would be sensitive to the eventual rising interest rates. It could lead to plunges in stock and bond markets, as investors tend to sell stops when stocks are falling to protect their positions. This has shown to be the case in stock markets elsewhere as well.

STIMULUS IMPACT

Simply put, the increased government spending makes for reduced private expenditure, which would then boost the demand overall and bridge the output gap. According to the International Monetary Fund (IMF), global fiscal support of \$14 trillion has been spent on securing lives and livelihoods. However, with economic contraction leading to

What's in the \$1.9 Trillion Stimulus Package?

Composition of the American Rescue Plan Act
(in billion U.S. dollars)



Source: The Wall Street Journal

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lower earnings, such support has led to a rise in public debt and deficits. If large deficits persist, many emerging market economies are expected to tighten their fiscal policies in 2021.

The Organisation for Economic Cooperation and Development's (OECD) latest outlook is that by the end of this year, the U.S. economy will be back to pre-pandemic levels of growth, unlike other emerging economies. Some economists opine that the stimulus might be too big, warning of increasing inflation next year. People have questioned whether the U.S. economy in 2018-19 was performing above potential after all, since inflation rose to only 2.3 per cent in 2019 despite the unemployment rate falling as low as 3.5 per cent. Variations in U.S. employment and output generally have small effects on wage and price inflation.

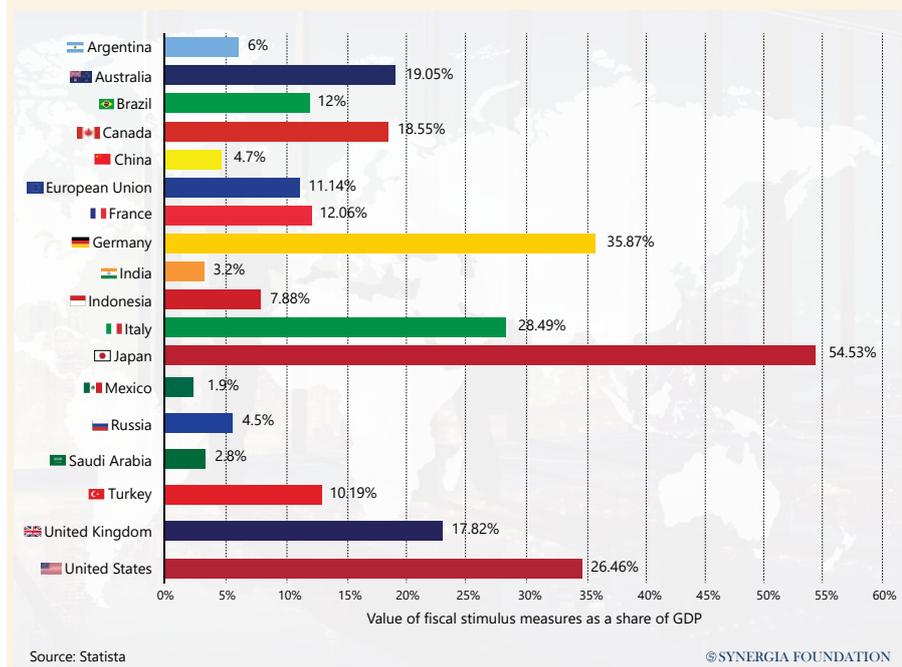
The interest rate on 10-year U.S. Treasury bonds has now risen to 1.7 per cent, up from 0.9 per cent since January. Investors have started to capitalise on a swift recovery, dumped government bonds and

pushed cash into other assets. The 10-year-yield rose as high as 1.6 per cent last week, the highest level since the pandemic. The jump immediately cut into stocks' appeal and dragged major indexes lower in the week. Since yields on bonds serve as a benchmark for the worldwide credit market, a sudden rise can increase borrowing costs, sending rates for loans and utilities soaring. If the yields gain too much and too quickly, it can cause destabilisation, especially when real unemployment is still at around 10 per cent, and industries that have been hit hardest by the pandemic remain far from total recovery.

WORLDWIDE MEASURES

The U.S. is not the only country that has given a fiscal stimulus to the economy. Canada has committed to an additional \$70-100 billion stimulus (3-4 per cent of GDP) over the next three years, depending on the progress of the pandemic. The European Union's (EU) overall fiscal stimulus proposal in May, funded by

Value of COVID-19 fiscal stimulus packages in G20 countries as of March 2021, as a share of GDP



bonds issued by the EU itself, was an \$860 billion package called the 'Next Generation EU'. This included \$450 billion in grants and \$410 billion in loans. Germany and Spain individually are proposing some of the most aggressive measures in 2021, with each stimulus accounting for around 16 per cent of their GDP.

China's approach has been significantly different. It exercised restraint in stimulus policies, allowing for government bond yields to increase. The stimulus has been further scaled back in 2021, with regulators focusing on controlling asset prices in the real estate and stock markets.

China's macroeconomic performance is better than the U.S. as of now, with its growth rate in 2021 on track to be around 7 per cent. Most of the government's limited stimulus, however, went to the state sector, leading small entities to suffer losses. This would see China's economy facing weak demand. It might reduce the risk of debt and financial crisis but will make investment and consumption sluggish. However, were U.S. capital markets to fall sharply, they would do so drastically — corporate and residential balance sheets would decline rapidly, and the effects would be felt in the EU and Japan.

Compared to China's relative stability and prosperity, many would consider the U.S. response to have failed.

China is also the world's second-largest holder of the U.S. Treasury and has \$3.2 trillion in foreign exchange reserves, denominated by the U.S. dollar. When going for tighter monetary policy, there will be the need to consider external risks like the potential for imported inflation and the long-run depreciation of the U.S. dollar as a result of the stimulus.

EMERGING ECONOMIES

While the U.S. surges ahead with the stimulus, there are also positive spillovers for some other economies, especially Canada and Mexico. A buoyant U.S. economy is good for global trade since it leads to an increased demand for goods and services from emerging markets. In India, foreign portfolio investors (FPIs) extended their buying spree, pumping Rs. 971 crores into stocks. With the Reserve Bank of India's (RBI) accommodative stance and low-interest equity is expected to remain the best asset class, and bond markets are expected to remain volatile.

Asian stocks and currencies were

near highs as capital flowed into the region after relief measures in the U.S. Yet, this can also become problematic as it pushes financial and property assets into a bubble that could eventually burst. A buoyant U.S. economy also means higher inflation, leading to higher instances of sell-offs in emerging markets, India included. Generally, a weak dollar leads to high commodity prices, and a strong dollar causes commodity prices to reduce. As of now, commodity prices are rising mostly because of supply disruptions and also due to increased demand, which is a result of economic activity picking up in places.

Assessment

This unequal nature of growth presents a policy challenge for many emerging economies, which is different from what they had to face after the GFC. Back then, a combination of zero interest rates and quantitative easing, in advanced economies, led to a surge in capital inflows in emerging countries looking for a higher yield, which then led to an appreciation of their currencies. But now, the differential rate of recoveries has led to capital outflow from emerging economies, and the hardening of the U.S. yield may further increase these outflows to tighter monetary conditions in emerging markets.

Depending on the macroeconomic fundamentals in each country, the emerging economies could respond by letting their currency depreciate or by increasing domestic rates to prevent outflows. In India, the foreign exchange reserves remain at high levels, with the inflation rate remaining within the target band of the RBI. When outflows increase, the RBI should let the currency depreciate to preserve external competitiveness and avoid increasing interest rates so as to not hurt the economic recovery.

SHIPPING WOES

Merchant Marine is the lifeblood of global trade, but its galloping unbridled growth is now creating geopolitical tensions and a new set of challenges to trade and environment



The world woke up to the biggest and costliest sea traffic jam ever. The 200,000-ton super container ship, the Ever Given, loaded with 20,000 containers, ran aground in the Suez Canal, blocking the single channel to all traffic.

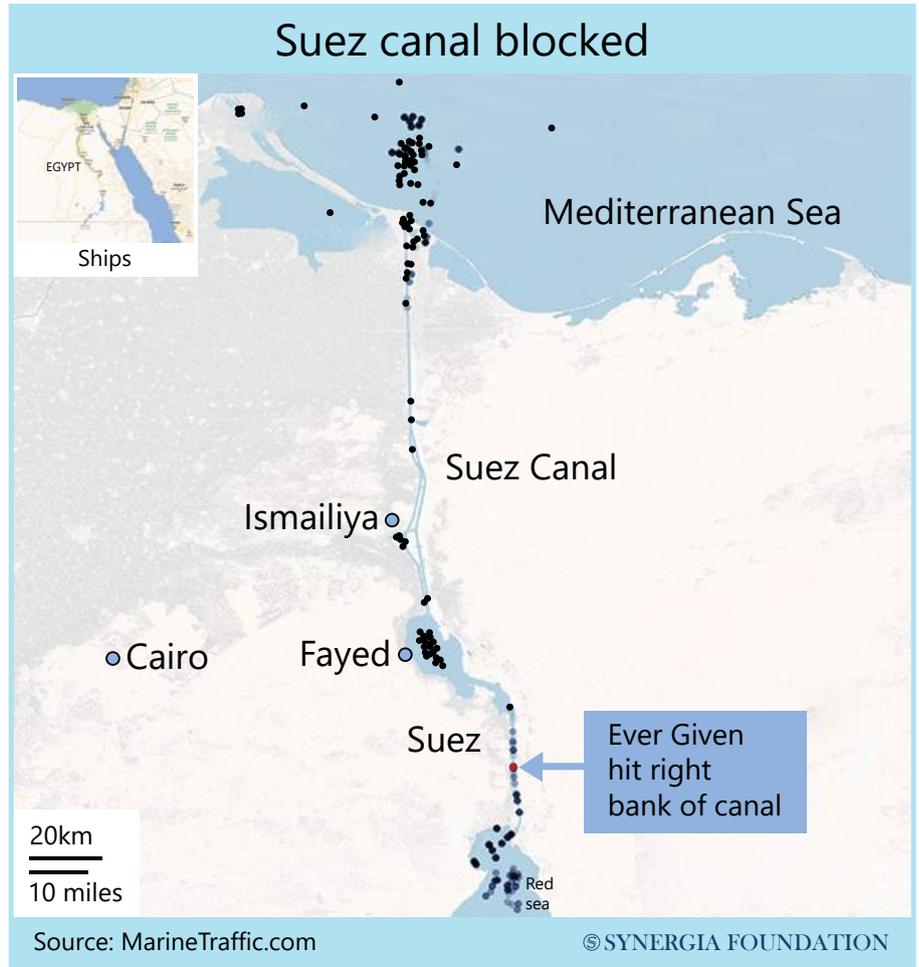
The crushing dependence on the Suez Canal, a mostly one-way traffic canal, was painfully exposed. The consequences of a prolonged blockage of the canal were fearsome for the global economy already struggling with the pandemic, with the supply chains between Asia and Europe under threat of disruption.

As the waiting areas on both ends of the canal filled with over 600 ships, many masters took the expensive and time-costly decision to go around the Cape of Good Hope, adding over 8,000 km to their journey. This was the traditional sea route to the Far East before the French entrepreneur; Ferdinand de Lesseps threw open the Suez Canal in 1869.

Thankfully, the blockage lasted only six days and did not disrupt the flow majorly through the supply chains as most manufacturers retain adequate backup stocks for such a contingency. The antecedents of the ship itself are illustrative of the byzantine process that dominates the industry—owned by the Japanese, flagged in Panama, and operated by Evergreen Marine, a company registered in Taiwan. Interestingly, it was manned by an all-Indian crew!

THE SHIPPING INDUSTRY

The international shipping industry carries around 90 per cent of world trade, with over 50,000 merchant



ships trading internationally. The life of the seafarer onboard these mega-ships is not an easy one, despite generous pay packages, and therefore, mostly attracts men and women from the developing world. Presently, China, the Philippines, Indonesia, Russia, and Ukraine are roughly the top five largest suppliers of seafarers, as per a report by the International Chamber of Shipping. In 2018, the number of Indian seafarers employed on Indian and foreign-flagged ships crossed 1,50,000, as per India's maritime administration, the Directorate General of Shipping (DGS).

ECONOMICS OF SIZE

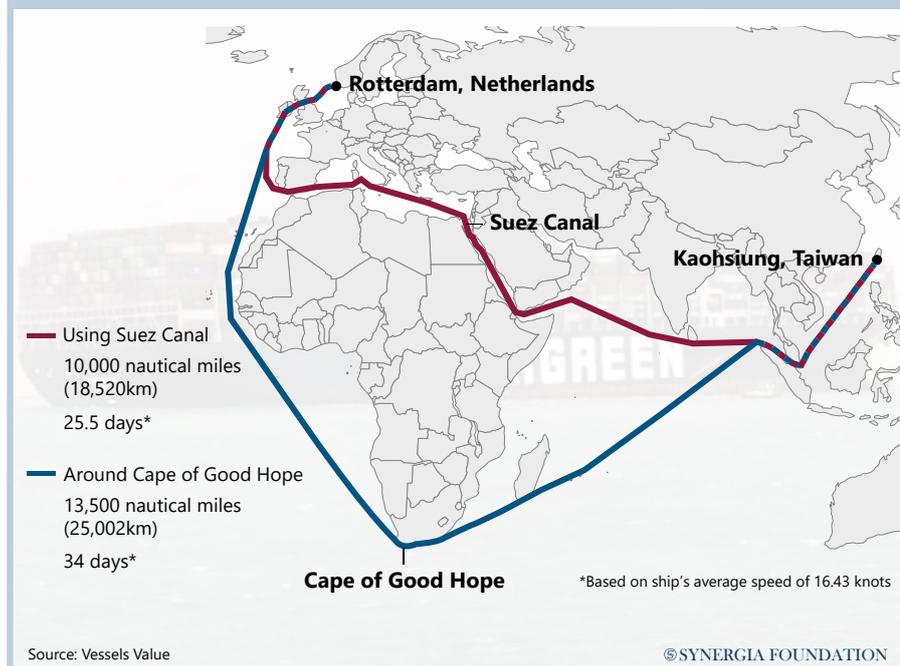
With advancements in marine

technology, mega-ships have become popular. Touted as economical to operate and environmentally friendly, they dominate the shipping industry. According to Alphaliner, a shipping-data firm, the worldwide fleet of container ships includes 133 of the largest ship types - like the Ever Given.

Yet, they pose serious dangers to shipping. The high stacking of containers makes such ships susceptible to high winds and harder to steer in tight spaces, such as ports and canals. Unloading them, in a contingency, is no mean task.

An OECD/ITF project on the impact of mega-ships highlights that while there are cost savings, they are decreasing. It concludes by noting that "the cost savings of the newest

Alternative route for shipping while Suez Canal blocked



in preference to ship for its lucrative trade with Europe. Pressures of a global container shortage and the longer transit times make train shipment over Central Asia and Russia an attractive alternative. The Financial Times (29 Mar 21) reports that over 2000 trains runs every month from China to Europe in 2021, doubling the rate from the previous year and a seven-fold increase since 2016.

Whenever there is trouble on the Suez Canal, speculations on its alternative resurface. The Israeli 'Ben Gurion' waterway has always been discussed but never got the financial backing to turn it into a reality. It has the advantage of a shorter transit through the canal between Eilat and the Mediterranean. In fact, a report in the U.S. Newspaper Business Insider, claims that a declassified secret U.S. Memo of 1963 talks about using controlled nuclear explosions to blast the channel through the Negev desert.

generation of containerships are four to six times smaller than the savings from the previous round of upsizing." Most of the cost savings are related to more efficient engines and not through scale. Supply chain risks related to bigger container ships are also rising. There are concerns about the insurability of mega-ships and the costs of needing to salvage them in case of accidents. There also results a limited supply chain resilience since bigger ships have coincided with increased cooperation between the main shipping lines.

Ultra-large ships have existed for many years and have sailed safely through the Suez Canal without issues previously, yet as was seen recently, it was a disaster waiting to happen.

SUEZ AS A CHOKE POINT

The Suez Canal is a man-made sea-level waterway in Egypt, connecting the Mediterranean Sea to the Red Sea through the Isthmus of Suez and dividing Africa and Asia. It was owned and operated for 87 years by the French and the British while finally being nationalised in 1956 by Egypt.

The Suez has played a strategic role as a naval short-cut and chokepoint. Closed by the Six-Day War in June 1967, when Israeli forces

occupied its Eastern banks in the Sinai, the canal reopened only in June 1975.

About 12 per cent of global trade, one million barrels of oil, and roughly 8 per cent of liquefied natural gas pass through the Suez Canal each day. Data from Lloyd's List showed that the blockage was holding up an estimated \$9.6bn of trade each day.

For Egypt, the canal is more than just an economic issue, for which it fought a war against the combined forces of the British, French and Israel in 1956. For each day that the Ever Given was stuck, Egypt's revenues were taking a \$14m-\$15m hit. Before the pandemic, trade passing through the Suez Canal contributed to 2 per cent of Egypt's GDP, according to Moody's.

Another important chokepoint is the Panama Canal, the gateway to South America. Operated by the U.S. since 1914, it underwent an expansion programme in 2016 to increase its capacity. However, mega-ships cannot enter the canal as the capacity is limited by both its width and the size of locks needed to lift the ships over the gradients.

ALTERNATE ROUTES

The world's largest trader, China, is looking at switching to 'steel camels'

Assessment

There is a need to review whether global trade can be held ransom to the mercies of a single shipping canal forever, as it has been over the last 250 years. While the Ever Given incident hardly means the death of bigger ships or the insufficiencies of the Suez Canal, it does highlight the relation between the two.

Efforts towards building bigger ships, especially the 24,000 TEU-range ones, will continue in full swing. However, this would mean that further expansion projects on the canals and chokepoints need to take place in accordance with the shipping industry's growth.

It is also advisable to think of ships as part of a larger ecosystem that includes ports and canals, rather than seeing them as isolated units.

BIDEN'S MIGRATION CONUNDRUM

As the U.S. seeks to neutralise the root causes of Central American migration through its foreign aid efforts, the onus is on the new vice-president to handle the humanitarian issue with sensitivity and imagination



Within months of taking residence at the White House, U.S. President Joe Biden has undertaken a slew of migration-related executive decisions, with implications for Central American countries. Effectively reversing the policies of the previous Trump administration, he has allowed unaccompanied minors in the region to cross the U.S. border and ended the 'Remain in Mexico' programme that requires asylum-seekers to wait in Mexico until their claims are heard.

More recently, a Citizenship Bill was introduced in the U.S. Congress, which dedicates a \$4-billion plan to address the 'root causes of migration' in this zone and stem the flow of refugees. Sensing a departure from the heavy-handedness of the Trump regime, millions of migrants have started to flood the southern border, placing the vulnerable unaccompanied minors at the forefront. With a steady influx of such children, the American authorities are scrambling to process and find shelter for them.

Predictably, this has triggered a political storm, with Republican lawmakers condemning it as a 'border crisis'. In a bid to stave off the heat, Biden has appointed Vice-President Kamala Harris to be the point person on this issue. While she has not been tasked with the entire immigration portfolio, she will be leading the administration's long-term efforts to reduce the surge of migrants from Central America.

This will include the possible distribution of development aid to Mexico and the Northern Triangle countries (comprising of Honduras,



Guatemala, and El Salvador), which have emerged as the largest source of migrants in recent years.

THE PUSH FACTORS

Socio-economic conditions in the Northern Triangle region, which is already a hotbed of gang violence, poverty, and government corruption, have deteriorated over the last few months. With back-to-back 'Category 4' and 'Category 5' hurricanes that made landfall in November 2020, thousands of people have been displaced from their homes and deprived of their livelihoods. Moreover, the storms have eviscerated subsistence farms, destroyed livestock, and impeded large-scale agricultural production, thereby exacerbating the existing food security situation triggered by shifting weather patterns.

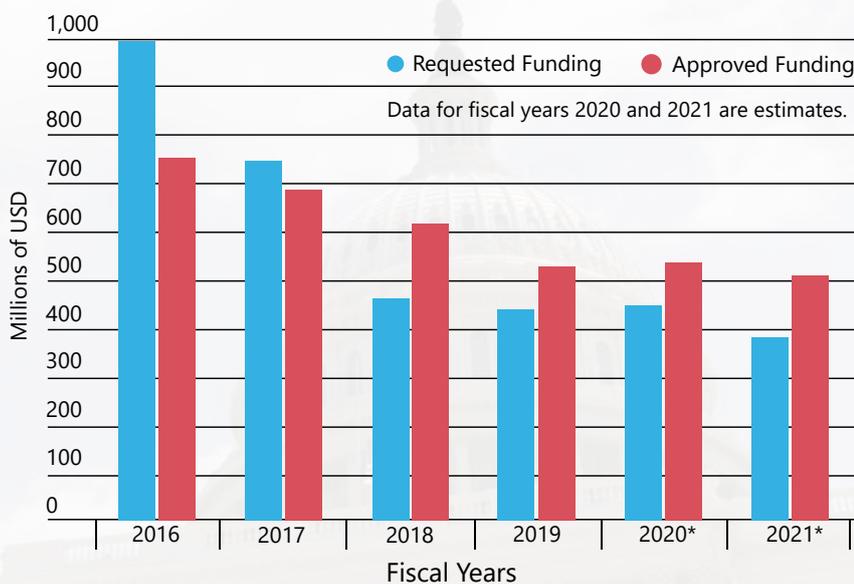
Together with the devastating impact of the COVID-19 pandemic, this humanitarian crisis has pushed several citizens out of their home countries towards the U.S. border.

Many are also migrating with hopes of reuniting with their kin. According to the estimates of the U.S. Customs and Border Protection, the number of migrants being apprehended on the border has drastically increased over the last 10 months. It is against this backdrop that the Biden government is seeking to develop a comprehensive rescue plan that deters migration flows.

DISTRIBUTION OF AID

As early as January 2021, President Biden had indicated his intention to distribute \$4 billion in aid to the Northern Triangle countries. Contrary to his predecessor, who had resorted to law-enforcement methods in addressing the migration issue, the new president has emphasised structural reforms that give migrants a reason to stay put in their home countries. By disbursing the aid over a period of four years, U.S. can be a critical partner in augmenting development, security, and anti-corruption efforts in the

U.S. Assistance for Central America Approved by Congress



Source: Congressional Research Service

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region.

This channelling of American funds to facilitate development in Central America is not a novel concept. For over half a century, different administrations, guided by similar objectives, have been allocating enormous financial and technical aid with mixed results.

Under the Obama regime, for instance, an initiative called the 'Alliance for Prosperity' had been launched, which earmarked \$1 billion to support police training, judicial reforms, and other projects in the Northern Triangle. While some analysts believe that this expensive programme contributed to a decline in homicide rates and enhanced accountability measures, others are of the view that it failed to provide tangible results, with most of the money disappearing into the pockets of corrupt officials.

As a result, Washington has signalled that it will be limiting the amount of funds allocated to governments this time around. Rather than pouring the \$4 billion aid into the national treasuries of Central American countries, it will distribute them among non-governmental and civil society organisations, local communities, and other international establishments. Any direct government-to-government

aid will be strictly conditioned on the implementation of anti-corruption measures. A portion of the aid is also to be utilised for setting up 'Centres' in the region, from where prospective asylum-seekers can apply for refugee resettlement in the U.S.

CHALLENGES AHEAD

There are several factors that can throw a spanner in the works for the new Biden-Harris team. For one, it will not be easy to reverse the effects of opaque political systems and electoral practices in the Central American region, which have allowed clientelism to have free rein. Even the mere suggestion of reconstructing an anti-corruption agency has invited opposition from certain quarters.

While the Biden administration has placed part of the blame on former President Trump — for willfully turning a blind eye to the malpractices of his Central American allies — the problem is more pervasive. Successive U.S. governments have suffered from a 'failure of imagination' in incentivising target states to frame long-term integration plans for asylum-seekers.

In fact, this phenomenon has been observed in other parts of the world as well. Despite substantial refugee funding to the Middle East

and North Africa, European nations have been largely unsuccessful in improving education, employment, and social services to dissuade migrants in the region.

Second, local institutions in Central America are often not equipped to absorb the millions of dollars that the U.S. is willing to grant. Accounting procedures are shoddy, to say the least. Apart from such regional incapacities, funds may also remain under-utilised due to internal problems in Washington. For example, the effective streamlining of priorities, execution of budgets, and coordination between different government agencies remain a principal concern for the U.S. The real impact of American-funded programmes can be assessed only when these issues are mitigated.

Faced with increasing political scrutiny, therefore, Harris will have her work cut out in navigating these turbulent waters.

Assessment

In the coming months, it will be imperative to design migration models that incentivise Central American countries to improve the living conditions of prospective asylum-seekers. This will have to be accompanied by transparent accountability and good governance initiatives.

As climate change threatens to intensify the stream of refugees, substantial investments will need to be made in disaster-risk-reduction measures as well as resilient infrastructure.

Reactivating multilateral forums to identify donors and coordinate assistance is another area that the U.S. could spearhead. After all, it has historically played a role in fomenting instability in the Central American region through support for military coups and other interventionist policies. Now is its chance to play the role of a genuine Good Samaritan.

A GLOBAL SHAKE-UP

The emerging China-Iran axis has sent ripples across the oceans, causing extra-regional powers like the U.S. and even India, to recalibrate their geopolitical calculus

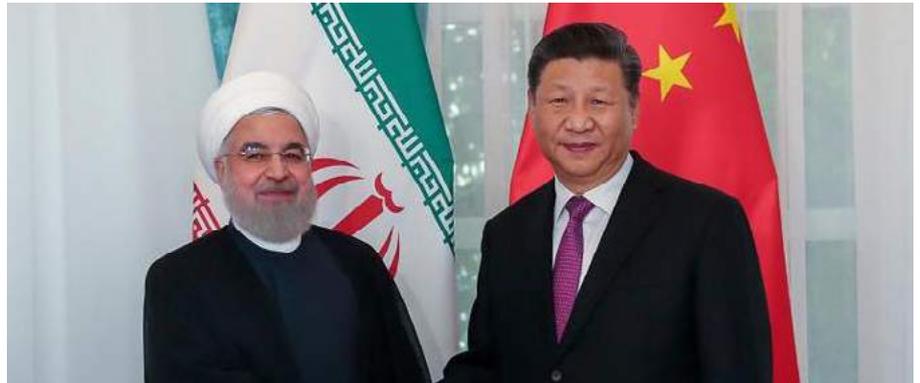


Fifty years since the establishment of diplomatic relations, China and Iran have inked a 'Comprehensive Strategic Partnership' pact. Seeking to anchor Tehran to the Belt and Road Initiative (BRI), this accord bolsters reciprocal cooperation in economic, strategic, and political matters over the next twenty-five years. Beijing has reportedly promised to scale up investments in infrastructure, agriculture, industry, transport and petrochemicals, in return for a stable and cheap oil supply.

While trade has always had a strong presence in the China-Iran bilateral relationship, the new agreement has grabbed global headlines for its 'strategic' overtones. It envisions a robust expansion in military, intelligence, and counterterrorism collaboration, apart from the joint development of weapons.

Although such a deal has been in discussion since 2016, a draft copy of the same was leaked last year, triggering intense political scrutiny in Iran. Projections that the Chinese were preparing to invest \$400 million had sparked fears of 'loss of sovereignty' and 'compromise of national interests' amongst the domestic population, exacerbated by an acute deficit of public trust in the government.

Therefore, this time around, the Chinese Foreign Ministry has been quick to clarify that the strategic partnership forms a general framework for cooperation and does not include any quantitative goals or specific contracts. It is an aspirational document, that builds on existing norms of engagement



with regional powers.

RECIPROCAL BENEFITS

For Iran, the prospect of this long-term relationship has come at an extremely critical time. As it grapples with a deepening economic crisis, the COVID-19 pandemic as well as the continuing weight of sanctions, imposed after Mr. Trump's withdrawal from the Joint Comprehensive Plan of Action (JCPOA), any boost in Chinese investments will be music to its ears.

Apart from undermining U.S. efforts to keep Tehran isolated, the accord grants the Iranian administration some strategic leverage over incumbent President

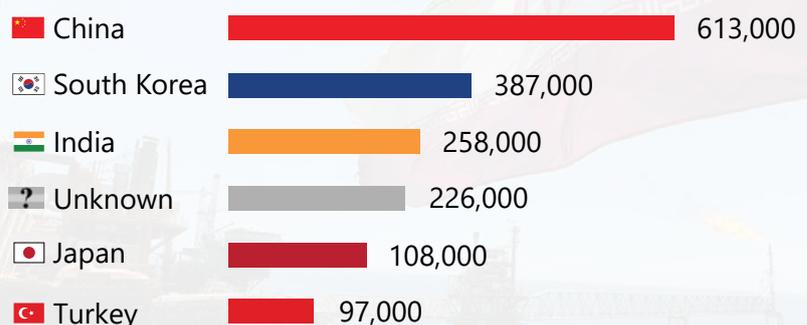
Joe Biden, as he seeks to reverse the policies of his predecessor and re-join the nuclear pact. The support from Beijing has strengthened Tehran's hands in insisting that the U.S. lift sanctions before it re-commits to the JCPOA.

Meanwhile, for China, the partnership grants access to trade channels for the movement of goods from East and Central Asia to the Middle East and Europe. It has also been guaranteed an expansion of the BRI, through infrastructural development in port cities like Chabahar.

Energy security is yet another attraction. As its economy revives from the devastating impact of COVID-19, China has embarked on

Who Imports Iranian Oil?

Oil imports from Iran in March 2019 (barrels per day)*



Source: Bloomberg Tanker Tracking

an oil-buying spree. Since at least 75 per cent of its requirements are fuelled by imports, the country has been stockpiling supplies in order to safeguard itself from oil shortages once the global economy gets cranking. This will also help it to avoid potential war premiums, if the security situation deteriorates.

As Beijing seeks to diversify its supplies, therefore, Tehran has emerged as a lucrative option. Given that the costs of Iranian cargoes are lower than the average benchmark, Beijing has been one of the few countries to bypass JCPOA sanctions and import Iranian oil on the sly.

CHINA'S MIDDLE EAST STRATEGY

The cooperation agreement is yet another indication of China's desire to play a greater role in the Middle East. It has made no secret of its ambition to conclude a free trade agreement with the Gulf Cooperation Council and oust Western competition. In fact, it has emerged as the largest foreign investor in the region.

However, it will not be easy to pull off a balancing act between Iran and the Arab states, who continue to face-off against each other, entrenching the traditional Sunni-Shia rivalry. The new strategic partnership will kindle some concern in the oil-rich kingdom of Saudi Arabia as well as its other Arab

allies, who view Tehran's growing influence in Iraq, Syria, Lebanon, and Yemen with increasing trepidation.

Even Israel, which has reasonable military cooperation with China, will be wary of the latter's proposal to share intelligence with Iran. It will be interesting to see how Tel Aviv collaborates with Washington to counter any gains made by Tehran, through its new partnership with the Dragon.

EMERGING AXES

Given that Tehran and Beijing enjoy close ties with Moscow, there are speculations about an emerging triangular axis that pits itself against the U.S., EU, and other Western allies. In fact, a senior Iranian official has touted the strategic partnership with China as a framework for fostering 'cooperation in the East' and expediting 'the end of America'. If Ankara can tide over its differences with Moscow in Syria and Libya, then Turkey might also be a potential candidate for this 'anti-U.S. alliance'. As it is, the country has been drifting apart from its NATO partners.

INDIAN CONCERNS

For New Delhi, any agreement that increases Beijing's influence in Tehran and provides it unfettered access in the Indian Ocean region is extremely concerning. Chinese investments in Iranian ports may eventually be turned into

military bases, turning the widely-hypothesised 'string of pearls' theory, into a grim reality.

Moreover, India is keen to safeguard its involvement in the Chabahar port that allows it to establish an alternate route to Afghanistan, thereby circumventing Pakistan. Projects like the International North-South Transport Corridor (INSTC), which seek to move freight through Iran, are also crucial for securing market access to Central Asia.

Finally, given Iran's considerable clout in Afghanistan, it will be a vital partner in neutralising the Pakistan-Taliban nexus. Any Iranian alignment to the contrary, actively backed by China, would portend disastrous consequences for India in the South Asian neighbourhood.

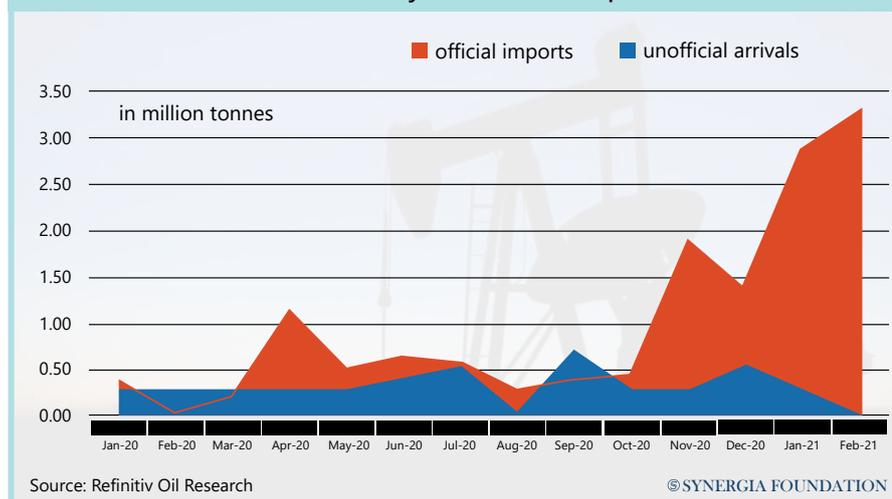
Assessment

Emboldened by the strategic partnership accord with China, Iran may refuse to blink first in the JCPOA negotiations. U.S. President Joe Biden will have his work cut out in imposing tougher conditions like the limiting of missile production.

Historically, Iran has not allowed its close relations with China to get in the way of its long-standing friendship with India. However, in recent times, the alleged delay in the joint development of the Chabahar-Zahedan rail link, as well as India's adherence to the JCPOA sanctions regime, have proven to be points of friction.

New Delhi must rekindle its relationship with Tehran by stressing the advantages accruing from its connectivity projects as well as its oil markets. Any foreign policy imperative that requires the courting of Washington to offset Beijing should not come at the cost of bilateral relations with Iran.

China's Iranian oil purchases hit record in early 2021 bolstered by unofficial imports





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