

**U.S. PACIFIC COMMAND
ASIA PACIFIC ECONOMIC UPDATE**

• 2007 EDITION •

FOREWORD

I'm pleased to announce the launch of the 2007 edition of the *Asia Pacific Economic Update (APEU)*, our flagship economic document at the U.S. Pacific Command. We have expanded some of our older topics and introduced new ones.

The purpose of this product is to stimulate informed debate and challenge our readers to think creatively and critically about the vital economic challenges in the region and their implications for security. Therefore, the views, opinions and findings contained in this publication should not be construed as representing the official position or policy of the U.S. Pacific Command, the U.S. Department of Defense or the U.S. Government.

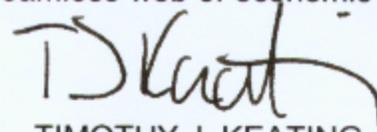
In the country chapters you will usually find a baseline economic assessment for each economy. Following this baseline assessment, Dr. Leif Rosenberger (our economic advisor) selects daily economic developments and discusses their importance.

In Volume I, you will find historical case studies on financial turmoil followed by more recent financial trends of concern to us all. While we highlight the economic rise of China once again, there are important new developments in Russia and North Korea that will be of interest to our readers.

In Volume II, we continue to look closely at the dynamic economic developments in South and Southeast Asia. While poverty is still a problem in the region, many economies that were struggling in the past are enjoying accelerating economic growth. In addition, we have put more emphasis on the South Pacific, an area of increasing importance to the command.

In Volume III we continue to look at transnational issues. We discuss the socio-economic strategy to counter terrorism and how to implement it via creative partnerships with the private sector. We expand our energy chapter to reflect the increasing importance of energy security in the region. We put a new emphasis on the strategic importance of food and water in Asia and around the world.

We are pleased to publish the 2007 edition of the U.S. Pacific Command Asia Pacific Economic Update as a military perspective on the seamless web of economic and security interdependence.



TIMOTHY J. KEATING
Admiral, U.S. Navy

ACKNOWLEDGEMENT

· VOLUME III ·

I was very fortunate to have a chance to serve as the deputy for Dr. Leif R. Rosenberger, the Economic Advisor at U.S. Pacific Command (PACOM), for the past two and half years. Thank you, Dr. Rosenberger, for your infectious enthusiasm, continuous encouragement, tireless mentorship, and for being generous with your time. Without your tutelage and wise counsel throughout the process, there would not be a Volume III. I want to wish him well in his new and challenging position as the Economic Advisor for Admiral William Fallon, Commander of U.S. Central Command (CENTCOM), which is overseeing two conflicts – Iraq and Afghanistan.

I am grateful to all the authors who have generously contributed to this volume and for sharing their expertise in various complex transnational issues that are facing the Asia-Pacific region today. It was my honor to be in company of these experts. I also want to take this opportunity to thank Mrs. Laura Emanovsky of University of Oklahoma for her assistance with editing of the publication and Ms. Faith Goodwin for her graphic support at PACOM.

To reiterate a similar sentiment as Dr. Rosenberger's acknowledgement in Volume I and II, we were fortunate to have strong senior leadership support throughout the process of our publication. The ringing endorsement from former PACOM Commander Admiral William Fallon opened crucial doors for us in the beginning. And Admiral Timothy Keating, the current PACOM Commander, thankfully kept those doors wide open for us and helped us reach the finish line. Thank you both for your votes of confidence.

I also want to express my appreciation to the Asia-Pacific Center for Security Studies (APCSS) and its faculty for their continuous encouragement and support along the way. It is a privilege and an honor working with all of them.

And finally, I dedicate this Asia Pacific Economic Update to my loving husband, Dr. John E. Byrd, for inspiring me, and believing in me.

Miemie Winn Byrd
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December 2007

ASIA-PACIFIC ECONOMIC UPDATE 2007

VOLUME III

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INTRODUCTION

VOLUME III

Miemie Winn Byrd

This volume of Asia-Pacific Economic Update 2007 highlights the dynamism of the Asia-Pacific region, at the same time provides an insight into the very complex nature of transnational challenges the region is confronting today.

Mark Harstad's chapter on "***The Global Economic Role of the Asia-Pacific Region***," demonstrates the economic vigor and strength of the Asia-Pacific region by following economic growth trends since the 1997 Asian Financial Crisis. Harstad discusses the regional government's shift in strategy from one of unmanaged growth, to a strategy of reserves accumulation and strengthened financial systems. Investors' persistent confidence and optimism towards the region continues to feed massive amounts of foreign direct investment (FDI) inflow into the region. As more and more economies in the region opened up and join the globally competitive system of trade and investment, the countries are adapting better business practices, increasing their incomes, and reducing poverty.

Harstad's second chapter on "***The U.S. Economic Stake in Asia***" illustrates how America benefits not only from order and stability in the Asia-Pacific region, but also from the deepening of economic interdependence. Developing Asia and Japan made up 38% of U.S. imports and exports in 2006 and has become an increasing important component of the U.S. economy.

Record high economic growth experienced by China and India in recent history has resulted in an unprecedented demand for energy. According to Mikkal E. Herberg in his chapter, "***The U.S. and Japan and the Energy 'Rise' of China and India***," the energy demand is outstripping the availability of domestic supplies. As both China and India reach out to access global energy resources, they are significantly impacting the global energy markets which in turn affect the U.S. and Japan, which historically had been the dominant consumers of world energy supplies. Increased competition for energy in today's tight global oil markets could give rise to greater tensions and disputes over energy. Therefore, Herberg provides recommendations for the U.S. and Japan to take leadership roles in managing the environmental impact of China and India's mushrooming fossil fuel consumption and to maintain global energy security for the long term. Along with U.S. and Japan, China and India are also required to make difficult political, economic, and energy policy decisions with innovative thinking to create an environment of multilateral cooperation to assure their future energy security.

Another side effect of explosive economic growth in the region has been the degradation of the environment at an alarming rate. Harvesting of natural resources and polluting the environment at an unsustainable rate could result in unintended consequences, disaster, and conflict. Dr. Kent H. Butts in his chapter, "***Environmental Security and Regional Stability***," discusses the tradeoffs between economic growth and environmental degradation. Environmental factors underpin economic activities, resource availability, healthy interstate relations, and government longevity. Therefore, it is an important variable in regional stability. Butts advocates that environmental security to be considered as an important element of U.S. engagement strategies for the regional combatant commands.

Sustained economic growth has created rising expectation for improved living standards. These expectations put pressures on governments to meet the countries' escalating water demands for drinking, industrial uses, irrigation of agricultural lands, the generation of electric power, fisheries, navigational and recreational uses and so on. On the supply side, water scarcity is already a fact of life in most countries of the South Asia region. Therefore, the demand in relations to water and river resources is formidable. Intrastate or domestic circumstances are as important as interstate circumstances in impeding South Asia's progress toward a more cooperative model of river resource management. Dr. Robert G. Wirsing highlighted the following three domestic impediments to interstate river resource cooperation in his chapter, "***Hydro-Politics in South Asia: The Domestic Roots of Interstate River Rivalry***"¹:

- The scale of national river resource problems, requirements, and development plans.

- The inefficiencies associated with irrigation use of water resources.
- Structural and systemic problems connected with the national management of water resources.

Wirsing argues that the region's failures in resource management cannot be explained away by pointing a finger at a neighbor. Although interstate cooperation is lacking, bad governance at home – no less than a neighboring state's intransigent, unreasonable, or bullying attitude – must bear a large share of the blame.

Despite explosive growth in the Asia-Pacific region in the past decade, poverty and negative socioeconomic conditions are still pervasive. Miemie Winn Byrd illustrates the challenges faced by the developing Asian nations in providing its citizens with basic human needs such as healthcare, education, and economic opportunities in her chapter, **“Creating Sustainable Socioeconomic Conditions to Maintain Stability.”** Terrorist organizations are able to exploit such conditions to recruit the “foot soldiers” to further their cause. Using the Southern Philippines as a case study, Byrd demonstrates the need to include socioeconomic strategy as a critical element in U.S. effort towards the war on terrorism in the region. The author advocates for leveraging of the private sector in creating sustainable economic growth in areas that are vulnerable to terrorist exploitation. Byrd highlights the connection between the counterterrorism strategy and the emerging trend of new business models and concepts as a solution to addressing the negative socioeconomic conditions that contributes to terrorism.

In order for societies to realize their growth potentials, considering gender issues are critical in formulating policies for the nations' governments according to Miemie Winn Byrd and Gretchen Decker in their chapter on **“Considering Gender in Economic Development and Counterterrorism Strategy.”** Byrd and Decker cited many case studies demonstrating gender inequality as not just a women's issue, but how it negatively affects the growth and well-being of entire communities. They describe the trend of development experts advocating gender consideration in development policies. Why should the military care about this topic? They argue that terrorist organizations are also recognizing the significant role women play in societies and have increased their recruiting efforts towards these women. Therefore, counterterrorism experts must also consider gender in their strategies.

Ms. Sara Weinstock tackles another dimension of counterterrorism in her chapter, **“Can Hollywood Help Counter Radical Ideology Abroad?”** She proposes that popular films could be the venue to turn the tide of violent extremists' views and spread of hatred throughout the world. The characters in film present the audiences with lives different from their own in unobjectionable manners that the films have the power to subtly shape and change the viewers' perspectives. The current trend of the film industries expansion and growth of cottage film industries throughout the world, to include Asia and the Middle East, are creating opportunities for American film makers to promote the true wealth of America, rich in culture, material resources, racial and religious tolerance and compassion. “The entertainment industry can serve as an enormously powerful emissary of hope and possibility to other parts of the world.” Weinstock proposes a public-private sector partnership in this area to “sow the seed of tolerance throughout the world.”

A recent qualitative shift in socioeconomic conditions and policies within Russia, has encouraged its reemerging interest in the Asia-Pacific region. Russia has resumed its diplomatic and economic ties with former communist allies in the region: Mongolia, Vietnam, Cambodia, and Laos. Russia joined APEC and enhanced its role in the ASEAN Regional Forum (ARF). Together with China, it created a new multilateral forum, the Shanghai Cooperation Organization (SCO). Despite this recent resurgence of interest in the region, it is still unclear as to the motives, sincerity, and consistency of Moscow towards Asian affairs. Dr. Rouben Azizian discussed the following two pressing questions in his chapter, **“Russia and the Asia-Pacific: Trends, Threats, and Common Threads,”**² as he examines Russia's intentions.

- Europe or Asia?
- Bridge or Axis?

Azizian offers that the Russian's divergent approach towards the Asia-Pacific region can be explained by the differences in the perception of threats between Moscow and the Russian Far East. Sustainable development of the Russian Far East is far more vulnerable to transnational criminal and international terrorist organizations. Among Russian regions, the Russian Far East has experienced the lowest level

of foreign investment despite its huge economic potential in fishing, timber, minerals sectors, and as a major transit route for oil and gas. By increasing its ties with the Asia-Pacific region, the Russian Far East hopes to have access to the regions' growing foreign direct investments and energy dependent neighbors. Also, increased Chinese immigration into the Russian Far East as the Russian population continues to decrease has caused concerns for the local officials. Azizian offers three potential areas for Russia to cooperate in the Asia-Pacific. However, Azizian concludes that the unsettled economic and demographic situation in the Russian Far East continues to be Russia's main obstacle in effectively reaching out to the Asia-Pacific region.

While Russia's interest is reemerging in Southeast Asia, Japan has traditionally been fully engaged with the nations of the region. Recently, Japan's role in ensuring maritime security in Southeast Asia has received some attention. Japan's primary focus on the Malacca Strait has resulted in close cooperation with the three littoral states (Singapore, Malaysia, and Indonesia), but Japan's newer initiatives for multilateral cooperation encompass a broader set of countries in East Asia. Japan particularly sees Thailand as a potential partner for maritime security cooperation. At the same time, divergence of interests and differences in institutional settings between Japan and Southeast Asian countries pose some obstacles to closer cooperation. Dr. Yoichiro Sato provides an assessment of Japan's maritime security cooperation with Southeast Asia and explores the implications for U.S. policy in his chapter, ***"Southeast Asian Receptiveness to Japanese Maritime Security Cooperation."***

Improved maritime transportation has been one of the lynchpins of economic globalization and has fueled the Asia-Pacific region's dynamic economic growth. Therefore ensuring freedom of navigation and maritime security is a critical component for economic security for the region and the U.S. Lieutenant Commander Hershel Weinstock explains how this interdependency shapes the U.S. military's thinking and efforts towards maritime security in Asia in his chapter ***"Influence of Economics on U.S. Maritime Security Efforts in Asia."*** He advocates that the application of "soft" power and improving the capacities of the littoral nations in the region are the most effective way to ensure stability and security in maritime arena.

Based on the trends, threats, and threads raised by the authors in this volume of Asia Pacific Economic Update 2007, there is no doubt that the Asia Pacific region is increasingly facing a dynamic range of complex and interconnected national and transnational risks. We hope some insights and recommendations provided by experts in this volume are useful for our readers and security practitioners.

¹ This is a reprint of the article which was originally published in *Asian Affairs: An American Review*, Volume 34, Number 1, Spring 2007, Heldref Publications, Washington, D.C.

² This is a reprint of a chapter from *"Russia, America, and Security in the Asia-Pacific,"* Asia-Pacific Center for Security Studies, Honolulu, 2006.

THE GLOBAL ECONOMIC ROLE OF THE ASIA-PACIFIC REGION

• CHAPTER 1 •

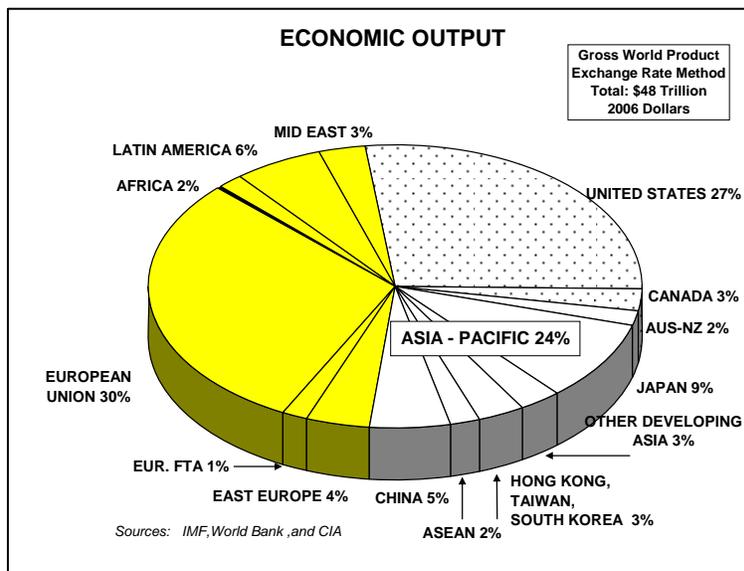
Mr. Mark Harstad

Introduction

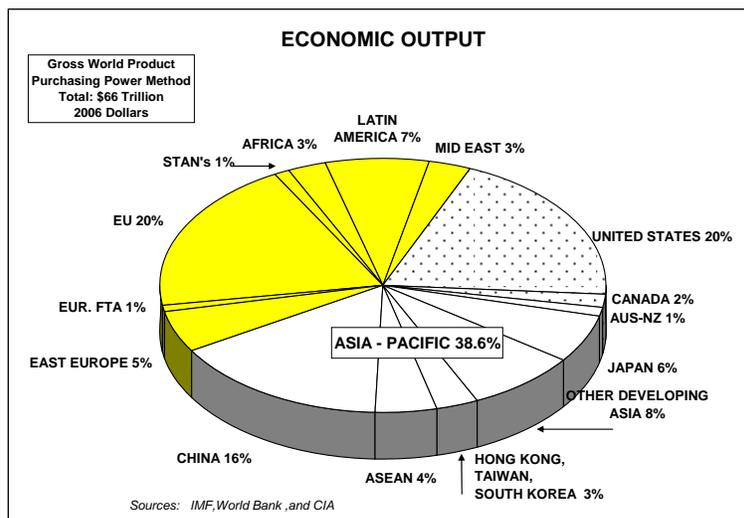
In the aftermath of the Vietnam War, many countries of the Asia-Pacific region focused their attention on producing goods to satisfy the economic demand of the United States and Japan. This resourcefulness resulted in some of the fastest economic growth rates that the world has seen. Much of this prodigious growth was due to a reliance on market economics and a security umbrella maintained by the United States. This chapter looks back at Asia's historical dynamism in order to understand the region's current global economic role.

Historic Asian Dynamism

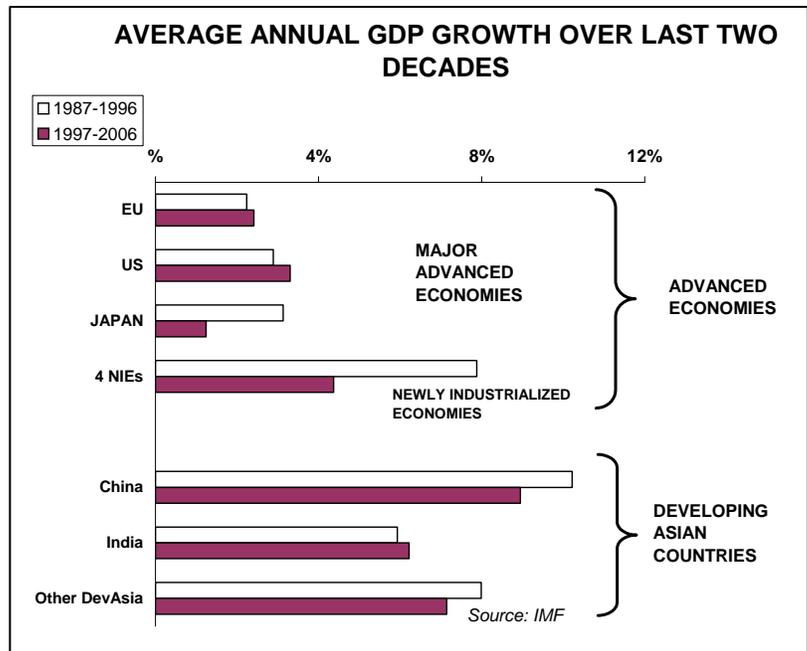
Size. In 1973, Asia accounted for just 15% of the world's economic output.¹ By 2006, the Asia-Pacific region's share was 23.9% of world output when measured on an exchange rate basis. The exchange rate method measures an entire economy based only on international sectors. Using exchange rates, the world's second largest economy is Japan (9.15% of total), while China (5.2%) is sixth-largest.



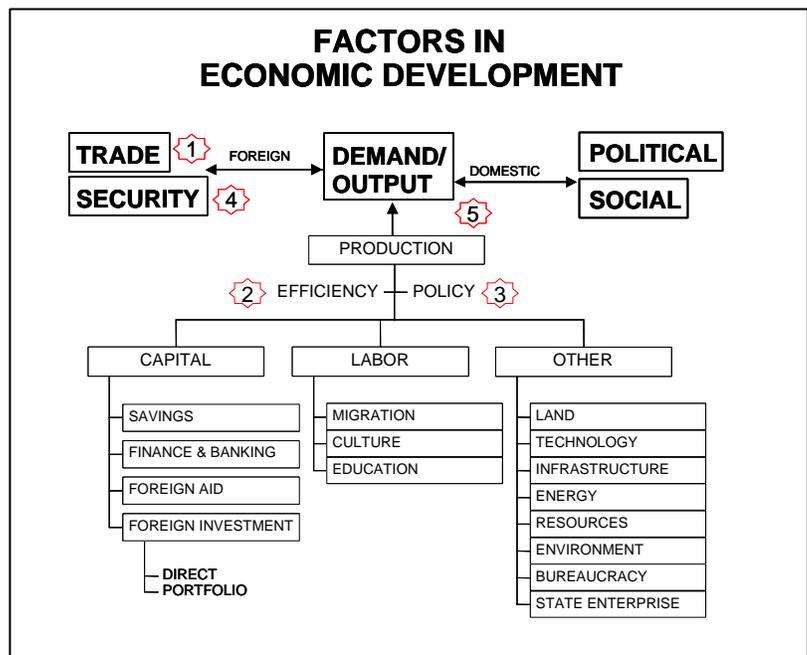
An alternate method, known as Purchasing Power Parity (PPP), makes technical adjustments to give weight to non-international, non-industrial markets.² When using the PPP measure, the Asia-Pacific region far exceeds U.S. and EU totals, producing 38.61% of world output. Further, by the PPP measure China is the world's second largest economy (15.9% of total), followed by Japan (6.2%).



Growth. Despite the Asian economic crisis of 1997, the region sees higher average economic growth than the industrialized world. The status of the four Newly Industrialized Economies (NIEs) of South Korea, Taiwan, Hong Kong, and Singapore has transitioned from "developing" to "advanced." They now see slower growth as their economies take on characteristics of industrialized economies.³ China sustains the world's fastest growing economy over the last two decades. Also despite high population and poverty pressures, India is seeing high growth.



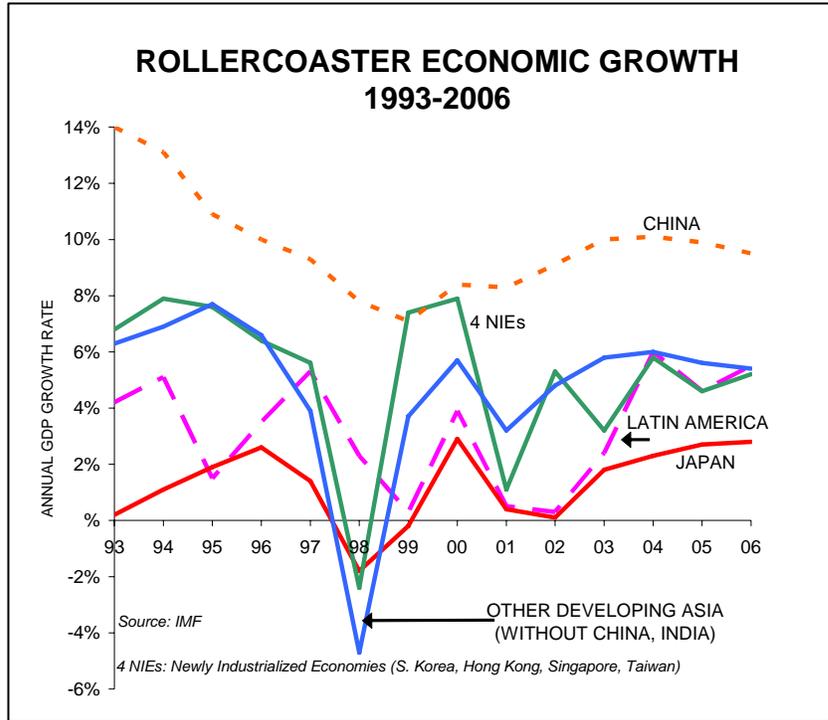
Fundamental Growth Policies. The region's growth reflects a harnessing of inputs towards internationally-oriented outputs. Long-term growth is sustained by prudent attention to economic policies. When growth falters, the mismanagement of these factors is clearly identifiable, such as when a bubble in property values is created.



- 1. Focus on international sectors.** Relatively open economies are characterized by vigorous trade and investment ties with the United States, Japan, and Europe. Governments let the private sector meet international demand for consumer goods and technology.
- 2. Harnessing of inputs.** High savings and mobile labor are directed towards modern economic sectors. Societies encourage high rates of national saving and aggressive investment in physical and human capital. Foreign capital is obtained in the form of direct investments in factories. Cultures value education and a strong work ethic. Energy is conserved. Productive infrastructure is encouraged. Land values are moderate.
- 3. Prudent policies.** The sound rule of law is maintained that encourages trade and investment through strong property rights. Macroeconomic stability is maintained through attention to trade deficits, current account balances, and sound financial market infrastructures. Investment and commercial activity are promoted.

4. Peaceful security umbrella. The forward presence of American forces helps dissuade the spillover of petty rivalries into larger regional conflicts. The security umbrella also allows countries to divert resources to economic growth rather than defense spending.
5. The “Coin” of Growth. Over the past decade, the countries of the Asia-Pacific have been developing lucrative resource- and consumer-oriented markets that stimulate demand across the region. This combination of competition and cooperation are the two sides to the coin of growth.

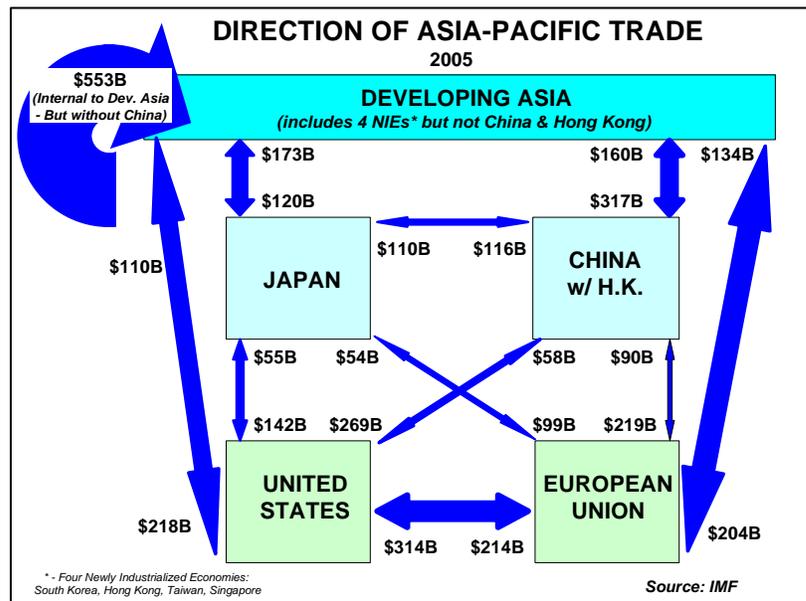
Asian Economic Crisis. In the early 1990s, exports to industrial countries steered the region’s domestic economies at a healthy pace. This openness to global markets drew foreign capital into the region in the form of direct investments and, by mid-decade, portfolio investments. However, macroeconomic policies left overexposed trade balances and currency rates, while microeconomic policies were supported by inadequate financial institutions. In 1997, global investors began to withdraw portfolio capital, leading to a chain-reaction of financial crisis across the region. Fortunately, foreign trade remained stable with industrial countries, and an unsteady recovery ensued.



Trade System

Multipolar System. In 2005, for the first time, China’s world-wide production of exports exceeded that of the United States. Of the world’s \$10.7T of exports, China made 9.3%, the United States 9.0%, Japan 6% and the rest of Developing Asia 13.6%. Thus, Developing Asia also represents a significant force in the global trading system.

- Asia-Pacific trade is multipolar, with neither the United States nor Japan nor China being the region’s, dominant trade partner.⁴

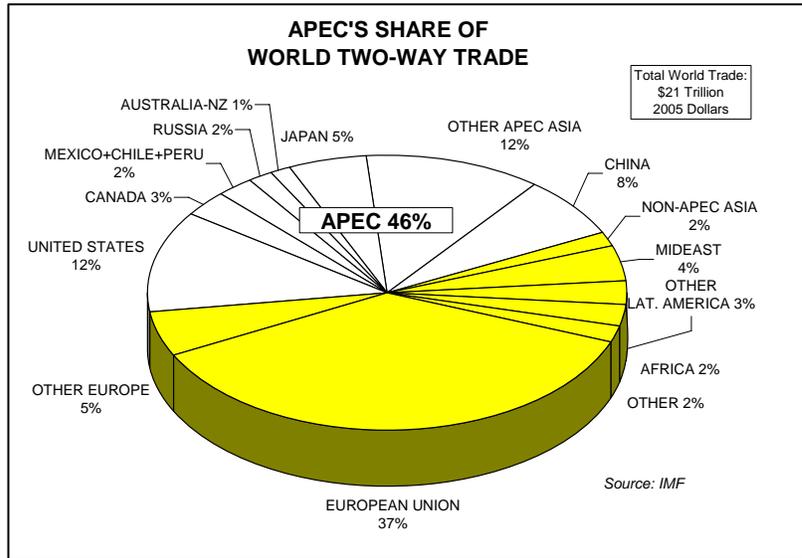


- Further, regional trade with the European Union is at an equal magnitude.
- Current trading trends are highlighted by the stimulation of China's resources demand on regional trade flows.

Trade-Driven Institutions.

Multilateral trade groups not only promote tariff reduction, but seek a free, fair, and rule-based environment, where healthy competition improves security.

- World Trade Organization (WTO) membership entails the restructuring of protected sectors. Labor problems ensue, but in the long run producer costs and consumer prices decline. China and Taiwan became members in November 2001.



- Asia-Pacific Economic Cooperation (APEC). APEC is an organization of 21 economies on both sides of the Pacific whose key goal is sustaining growth through economic openness. APEC maintains high visibility through annual Ministers Meetings and concomitant APEC Leaders Meetings.

- Emergent Organizations. Free Trade Agreements (FTAs) were established by the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC) in 1992 and 2006, respectively.

Trends in Capital Accumulation

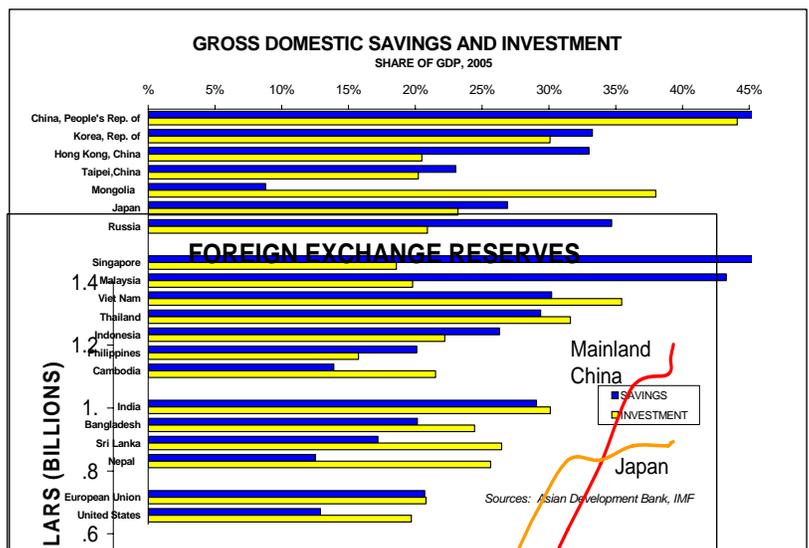
The Asian Development Outlook 2007 notes that, "governments have lowered their ambitions on growth (as outlined in various planning documents) and, through rapid reserves accumulation, have revealed strong precautionary instincts."⁵

Savings & Investment

Public and private savings and investment have been a key factor in spurring regional growth. However, the Asian Economic Crisis has decreased the impact of these input factors on economic growth. ADB observes that, "the challenge of lifting investment and investor confidence lies in

- lighter but more effective regulation,
- improved governance,
- exposing sheltered activities to more competition, and
- building modern and efficient financial systems."

Foreign Exchange



Reserves. To avoid re-living runs on their currency, many Asian economies are shoring up their exchanges with sizable reserves. Capital inflows and large current account balances sustain the growth of reserves. However, such sizable reserves also become a political tool that supports US economic needs, but on a transient basis.

Flows of Foreign Capital

Portfolio investments (i.e., foreign purchases of stocks and bonds) typically have a shorter term than foreign direct investment, which represent a foreign company's long-term commitment to an economy while providing direct control over the management of the investment. Throughout the Asian economic crisis, direct investors sustained a rather confident inflow to the region. U.S. companies in particular have an interest in a prosperous Asia, since U.S. direct investments typically have been used to multiply their access to Asian import markets.

Foreign Direct Investment (FDI)

Developing Asia is the world's foremost destination of FDI going to developing countries.⁶ It received 31% (or \$101B) of all such flows in 2006.

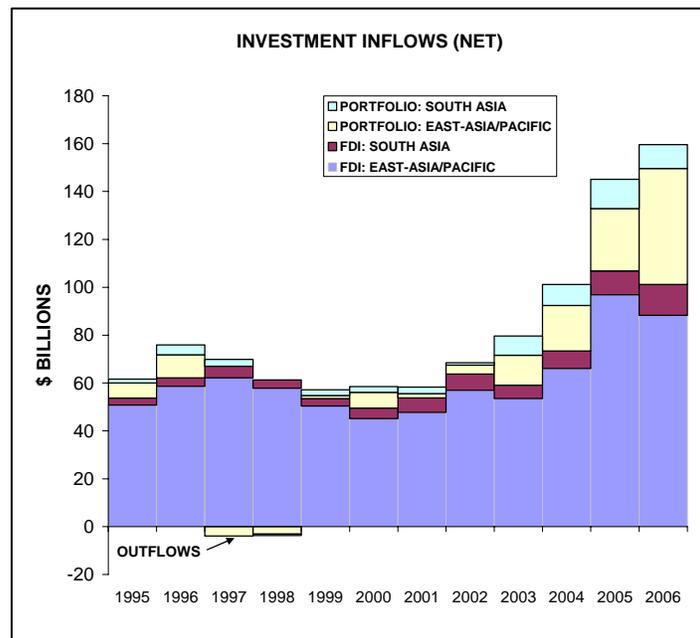
- Most went to China (\$67B).
- Japan's direct investment position in Developing Asia (including the 4 NIEs) was \$124 B in 2006, while U.S. holdings were a significantly higher \$432 B.⁷

Portfolio Investment

The Economic Crisis induced a temporary net portfolio outflow from the region in 1997 and 1998. By 2000, however,

a trend resumed in which foreign investors preferred Asian developing markets over others,—the region annually receives over 62% of portfolio flows to developing countries.⁸ However, net inflows to individual countries—especially China—vary each year according to investor sentiment.

Source: World Bank



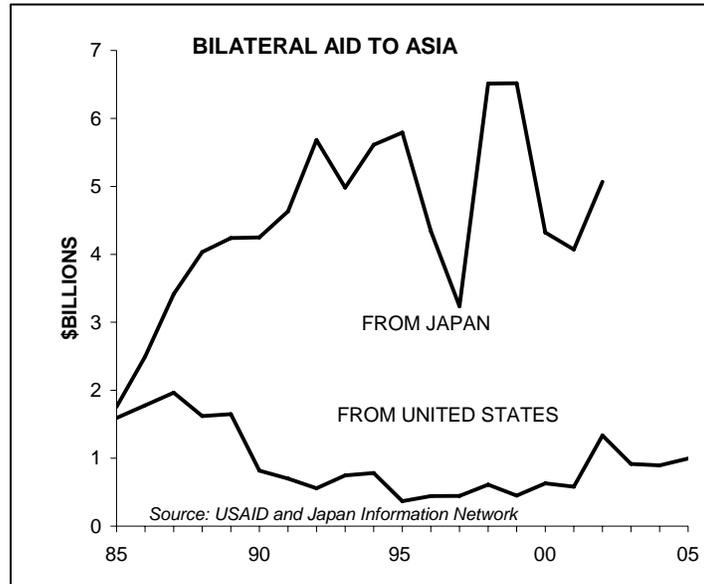
Foreign Aid and Other Official Flows

Official aids projects typically are undertaken when private sources are insufficient or risky, when public sources have the organizational and authoritative capabilities, or when social benefits and economic profits are of a long-term nature.

- The leading Asian recipients in 2005 were Viet Nam (\$1.9B), Indonesia (\$2.5B), Bangladesh (\$1.3B), China (\$1.8B), Pakistan (\$1.7B), India (\$1.7B), Philippines (\$0.6B), and Sri Lanka (\$1.2B).⁹
- While 55% of Japan's aid goes to the region, only 4% of direct U.S. aid does so.¹⁰

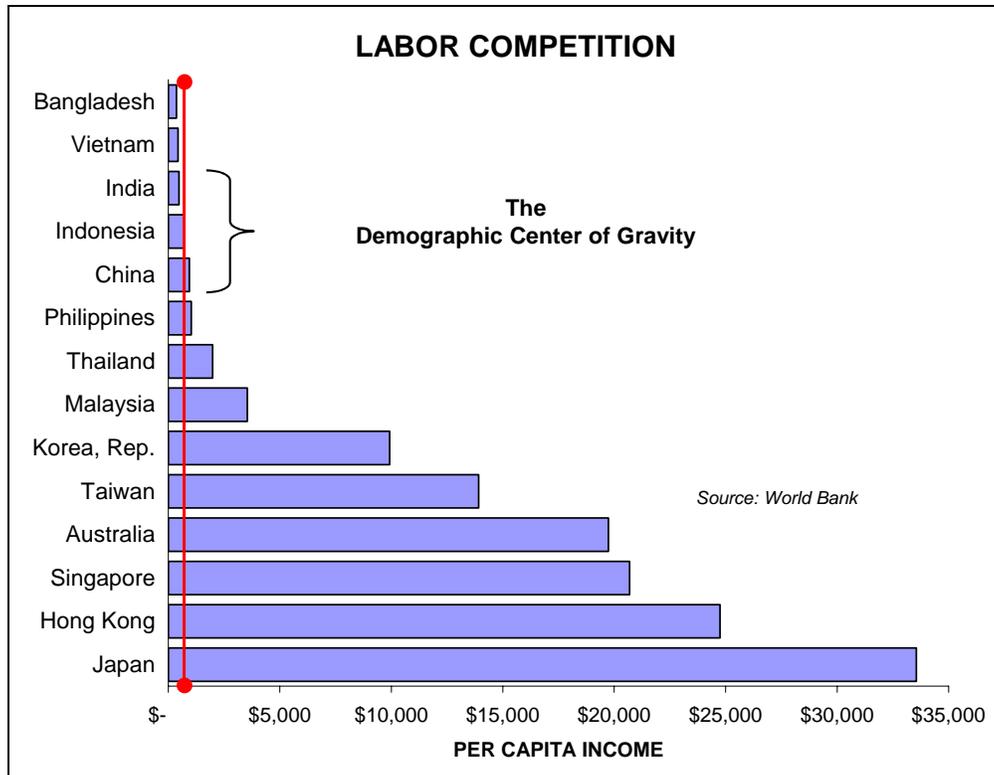
Labor Trends: Competition and Demography

By participating in a globally competitive system of trade and investment, countries learn better business practices, increase their incomes, and reduce poverty, even among the poorest segments.¹¹



Competing Labor Markets. The viability of many economic sectors in an open system is driven by labor costs. Using per capita income as a measure of a country's average labor costs, one can observe that the most populous countries have low incomes and place downwards competitive pressure on other countries seeking to compete in these sectors. That is, the center of gravity in an open system is driven by the most populous countries. Earlier members of the global economy obtained high income levels due to strong U.S. demand after World War Two (e.g., Japan), the Korean War (South Korea) and the Vietnam War (e.g., Thailand). However, the added participation of populous and poor countries (e.g., China and India) to the World Trade Organization in the 1990s has increased competition significantly. Populous economies like China, India, and Indonesia are more open and now represent a demographic center-of-gravity that attracts sectors using cheap, unskilled labor.

- The per capita incomes of populous Asia-Pacific countries like China, India, and Bangladesh are much higher than two decades ago. These countries experienced initial growth through privatization, followed by attention towards foreign markets.
- Those who do not employ globalization practices, such as North Korea and Burma, do not see sustained economic growth.
- Research indicates that growth is positively correlated to institutional governance; however, governance is not necessarily correlated to growth, especially in cases of crony capitalism and "state capture" of profitable assets.¹²



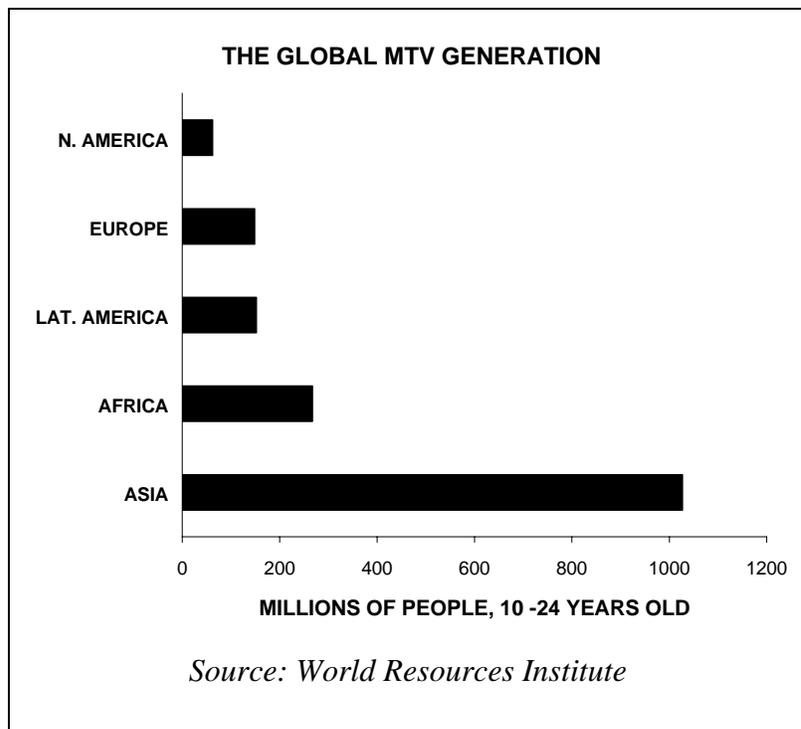
Asia's Demographic Trends

Youth Potential.

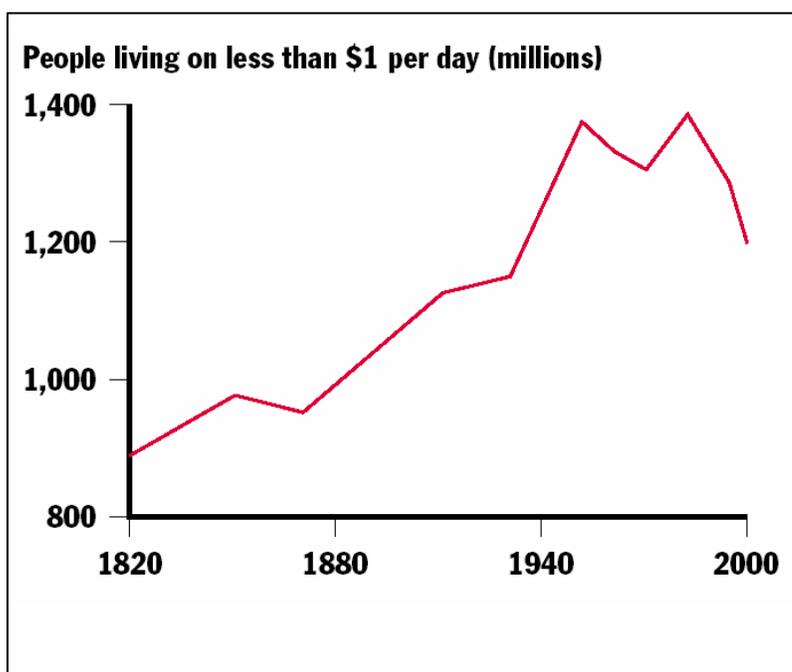
The magnitude and youth of Asia's population present a huge market for trade and investment in Asia. The Asia-Pacific region's 3.4B people comprise 56% of the world's population. About 1B of Asia's people are between 10 and 24 years old. This "MTV Generation" has been characterized as urban, educated and consumption-oriented—with a reluctance to save.

Urbanization.

Urban issues have taken on increasing importance as populations move to the cities, placing stress on physical and social infrastructures. At present, 33% of Developing Asia's population resides in urban areas.



Poverty. Global poverty has declined in the last two decades despite increased populations. The number of people living on less than \$1 a day has declined from 1.4B to 1.2B. The income of the world's poor has risen dramatically, and the level of absolute poverty has dropped sharply, from 75% of the population in 1988 to 37% in 1998. Poverty was cut in half in only 10 years.¹³



End Notes

- ¹ Maddison, Angus, *The World Economy in the Twentieth Century*, 1989 and *Monitoring the World Economy 1820- 1992*, 1995.
- ² World Bank, *World Development Report* and *World Development Indicators* (www.worldbank.org); and CIA, *The World Factbook*. The exchange rate method converts foreign currency to U.S. dollars using market exchange rates. It is fairly straightforward to calculate; however, it does not account for the buying power of a country's currency for those goods and services that are not transacted in the international trading system, but only trade in domestic markets. The PPP method of estimation is more cumbersome, but accounts for domestic purchasing vitality.
- ³ International Monetary Fund (IMF), *World Economic Outlook* (www.imf.org/). In 1997 the Newly Industrialized Economies were given "Advanced Economy" status. See also ADB, *Asian Development Outlook* (www.adb.org).
- ⁴ IMF, *Direction of Trade Statistics*.
- ⁵ Asian Development Bank, *Asian Development Outlook 2007*, www.adb.org/Documents/Books/ADO/2007/ado2007.pdf
- ⁶ World Bank, *Global Development Finance*, (www.worldbank.org/prospects/).
- ⁷ Japan Ministry of Finance, *Regional Direct Investment Position* (www.boj.or.jp/en/stat/bop/data/); U.S. Bureau of the Census, *U.S. Direct Investment Position Abroad* (www.bea.gov/bea/di/usdctry/longctry.xls).
- ⁸ World Bank's *Global Development Finance* does not include Taiwan, Hong Kong, and Singapore.
- ⁹ OECD, *Development Co-operation*, (<http://www.oecd.org/dataoecd/52/12/1893167.xls>).
- ¹⁰ Japan Bank for International Cooperation, JBIC2000 Statistics, www.jbic.go.jp/english/base/achieve/annual/2006/pdf/04.pdf
- ¹¹ Dollar, David and Aart Kraay, "Trade, Growth, and Poverty," *The Economic Journal*, February 2004.
- ¹² Kaufmann, Daniel and Aart Kraay, *Growth without Governance*, 2002 (www.worldbank.org/wbi/governance/pdf/growthgov.pdf).
- ¹³ World Bank, *Globalization, Growth, and Poverty*, 2002.

THE U.S. ECONOMIC STAKE IN ASIA

• CHAPTER 2 •

Mr. Mark Harstad

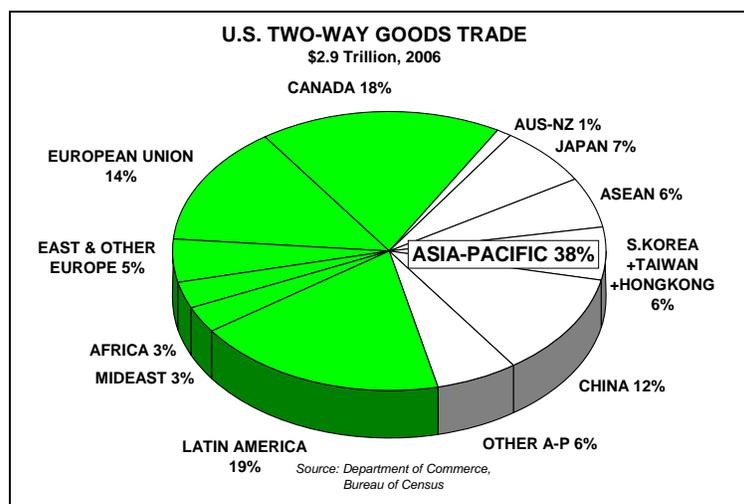
Introduction

America benefits not only from order and stability in the Asia-Pacific region, but also from our deepening economic inter-dependence. The mutual gain from competition and cooperation has grown to become a vital American security interest. Managing this interdependence, with its attendant benefits and problems, requires enhanced economic cooperation and increased attention to diplomatic and military security relations. As a result of Asia's demographic potential, U.S. producers will increasingly turn to Asia's markets and will capitalize on U.S. strengths in technology, agriculture, consumer goods, and media—critical to improving U.S. trade balances—and also on services such as telecommunications, banking, environmental cleanup, and tourism. Beyond trade, U.S. investors are discovering Asia's markets can be profitable, given sound market institutions.

Trade and the U.S. Economy

International trade has become an increasingly important component of the American economy, as reflected in the rising share of exports and imports in the U.S. economy.¹ U.S. consumption of foreign imports rose from 8% of GDP in 1975 to 17% in 2006. U.S. production of exports rose from 8% to 11% over the same period. This share of trade in the U.S. economy is small relative to other countries and reflects the sheer size of the U.S. economy. The low share also explains the low priority that American institutions—such as its schools and language programs—often give to improving their international foundations.

Developing Asia and Japan are key sources of U.S. imports and major markets for U.S. exports. Although most public attention focuses on America's persistent trade deficits with the region, trans-Pacific trade ties remain, on balance, mutually beneficial. The Asia-Pacific region accounted for an estimated \$1.1T—or 38%—of total U.S. merchandise exports and imports in 2006.²

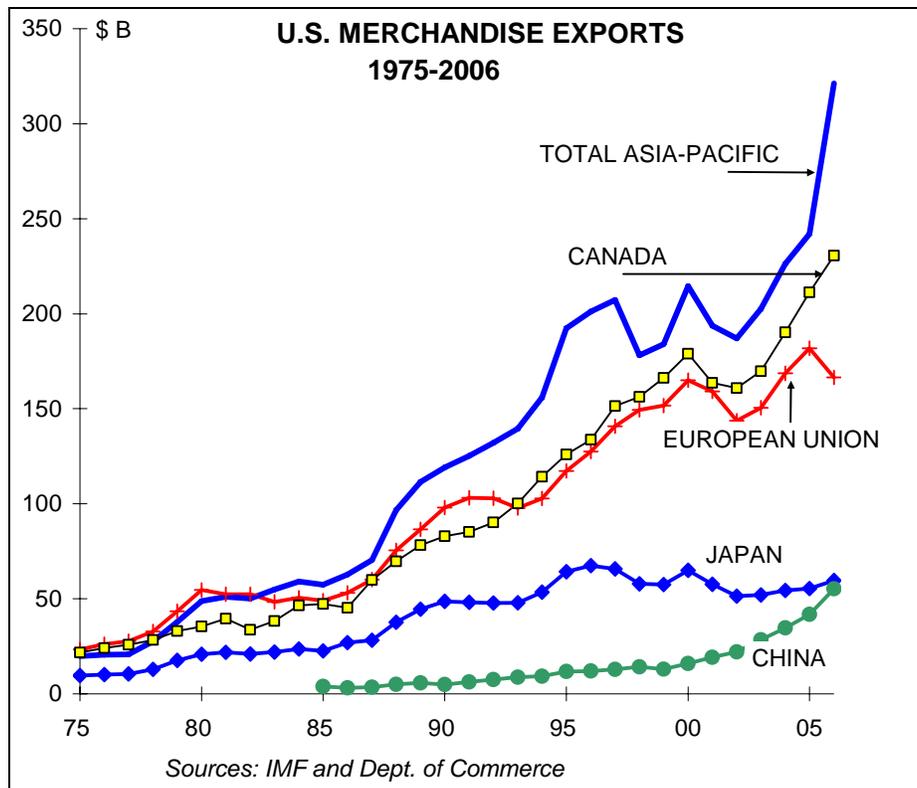


American companies and their workers both benefit from ties to the global economy. According to Commerce Department calculations, \$1B of exports correlate to between 14K to 19K jobs,³ indicating that more than four million jobs are generated by U.S. exports to Asia. Wages in export industries are about 16% higher than those firms concentrating on domestic sales.⁴

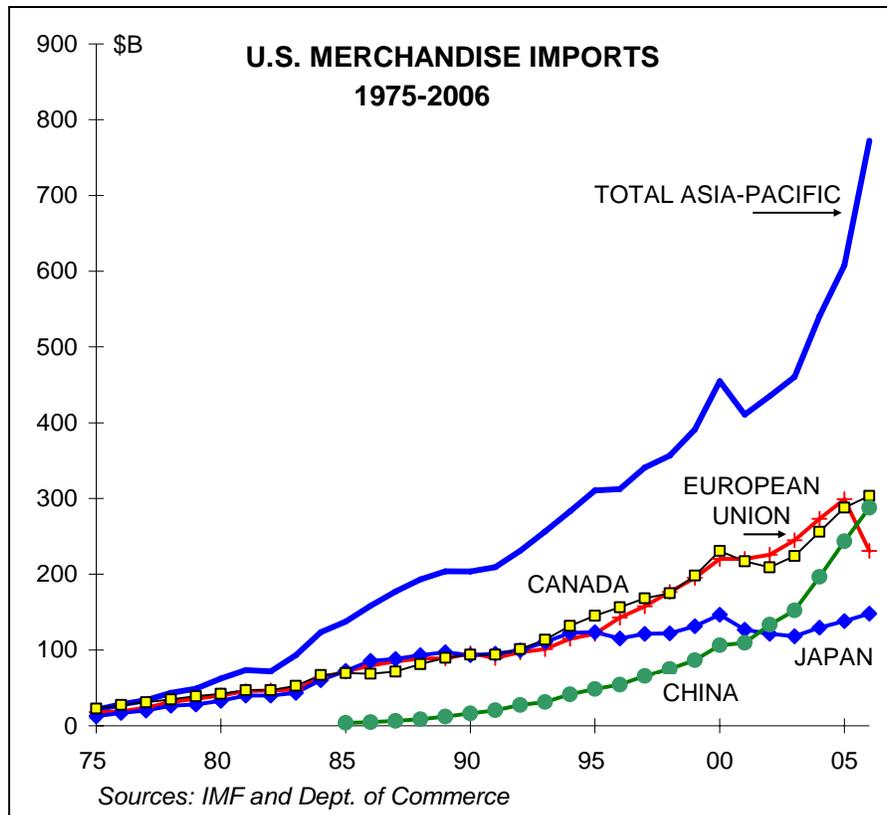
These linkages dictate a major stake in preserving an open trading system on both sides of the Pacific. With interdependencies due to trade and investment, international security frictions increasingly will be greased by economic lubricants. Trade sectors will promote peaceful methods within their own countries, and will challenge their governments to avoid heavy-handed shows of force that threaten profits. U.S. exports and imports are part of a broader security strategy that promotes the peaceful exchange of goods for the profit of all participants. That is, trade is a win-win strategy.

American business has yet to reach its full potential in the region. The attainment of mutual prosperity is impeded not only by foreign official tariffs, but also by other foreign barriers in the form of non-transparent or incomplete legal and regulatory frameworks, insufficient protection of intellectual property rights, bungled industry standards, and official corruption.

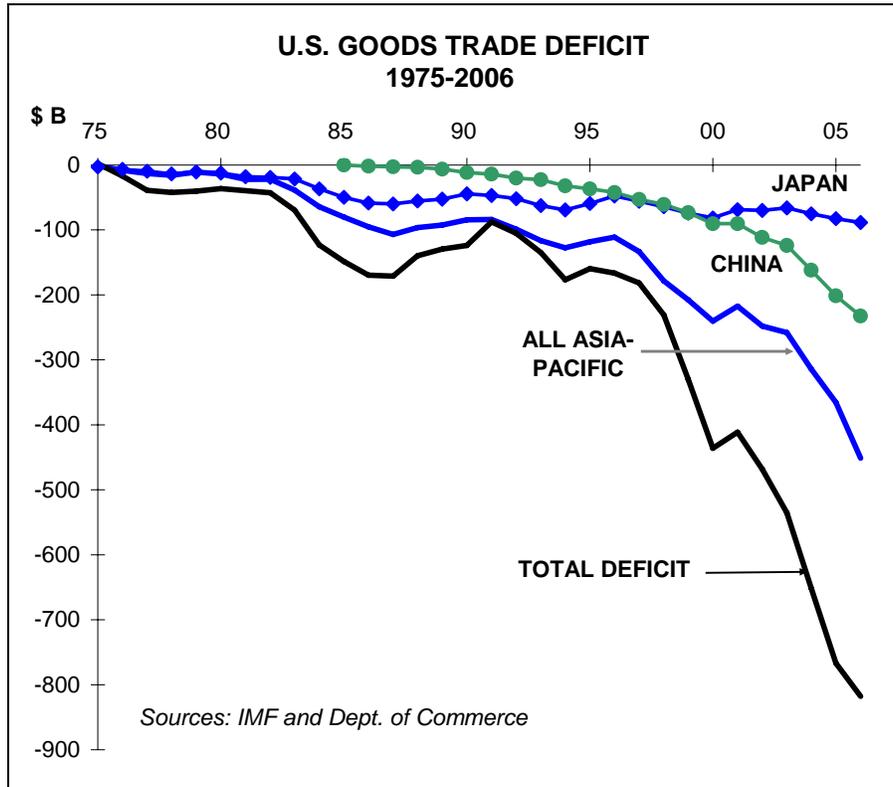
U.S. Exports. The Asia-Pacific region purchased 31%—or \$321B—of U.S. merchandise exports during 2006.⁵ Japan is America's third-largest export market (\$60B), after Canada (\$231B) and Mexico (\$134B). Developing Asia bought \$241B in U.S. exports, a huge 43% increase over 2005. Major American merchandise exports include agricultural products, power industry equipment, computers and electronics, and aircraft and parts. Trade in services—which includes such industries as finance, engineering, and transportation—is not reflected in the merchandise trade data, and represents another opportunity for American firms. The Asia Pacific region purchased an estimated \$113B of services exports in 2006 or 28% of total.⁶



U.S. Imports. In 2006, American consumers bought \$772B worth of goods from the Asia-Pacific market, a full 38% of total U.S. merchandise imports. The leading source of U.S imports is Canada (\$303B), followed by China (\$288B), Mexico (\$198B) and Japan (\$148B). Developing Asia (less China) as a whole sold \$325B to a broad spectrum of goods, including both low-end, labor-intensive production (such as toys and textiles), and high-tech electronics and machinery. The diversity of low-end and high-tech products sold by the region reflects the region's progress up the development ladder.



The U.S. Trade Deficit. The region alone accounted for 55% of the \$451B U.S. merchandise trade deficit in 2006. China now comprises 28% of the deficit and Japan 11%. Trade deficits are influenced more by macroeconomic policy than disputes over trade barriers. Such policy seeks to balance savings and investment, taxes and government spending, and foreign transactions of goods, services, and finance.⁷ Balances reflect not only government policies and market conditions but also domestic politics, management practices, and cultural dispositions toward savings and consumption.

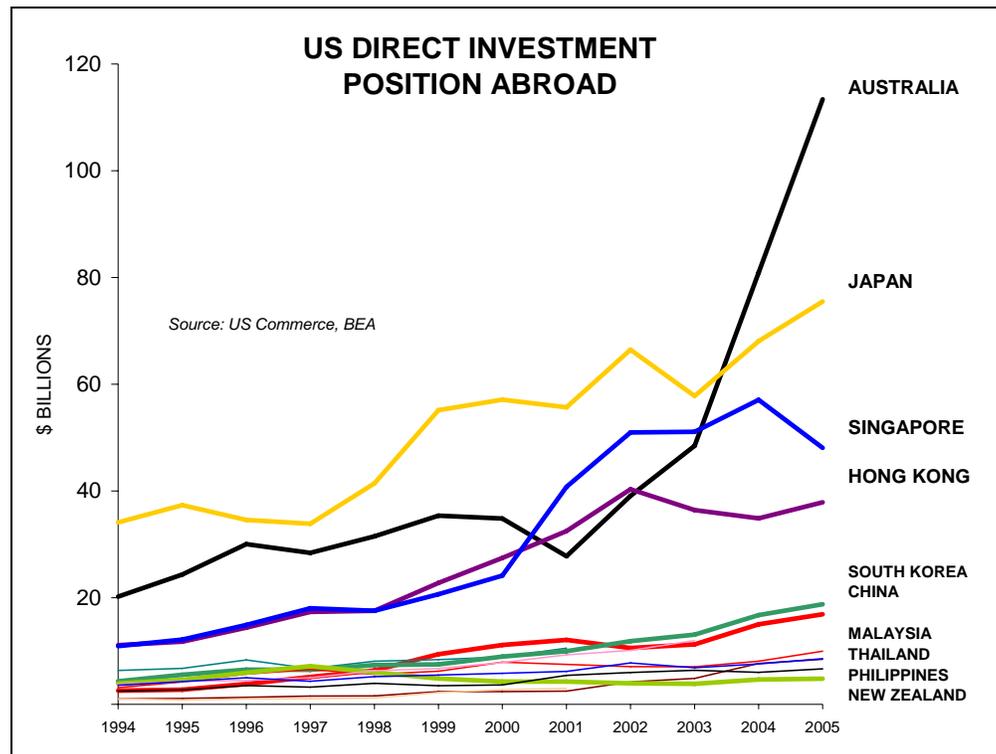


U.S. Investment Abroad

U.S. Direct Investment Abroad (DIA). * Typically U.S. companies use their direct investments in Asia to augment the market for U.S. export sales. U.S. holdings in the Asia-Pacific region increased substantially from \$46B in 1987 to \$293B in 2003⁸ and occurs primarily in the industrialized Asian economies of Japan, Australia, the Four NIEs, and China. American companies in Asia have yet to realize their full potential, since 33% of U.S. merchandise trade is with Asia, but only 16% of its DIA is in the region. This trade-investment mismatch is partly due to misgivings of U.S. investors in Asia-Pacific economic institutions, with investors concerned over internal stability more than traders.

* Direct investment occurs when an investor owns more than 10% of the targeted business.

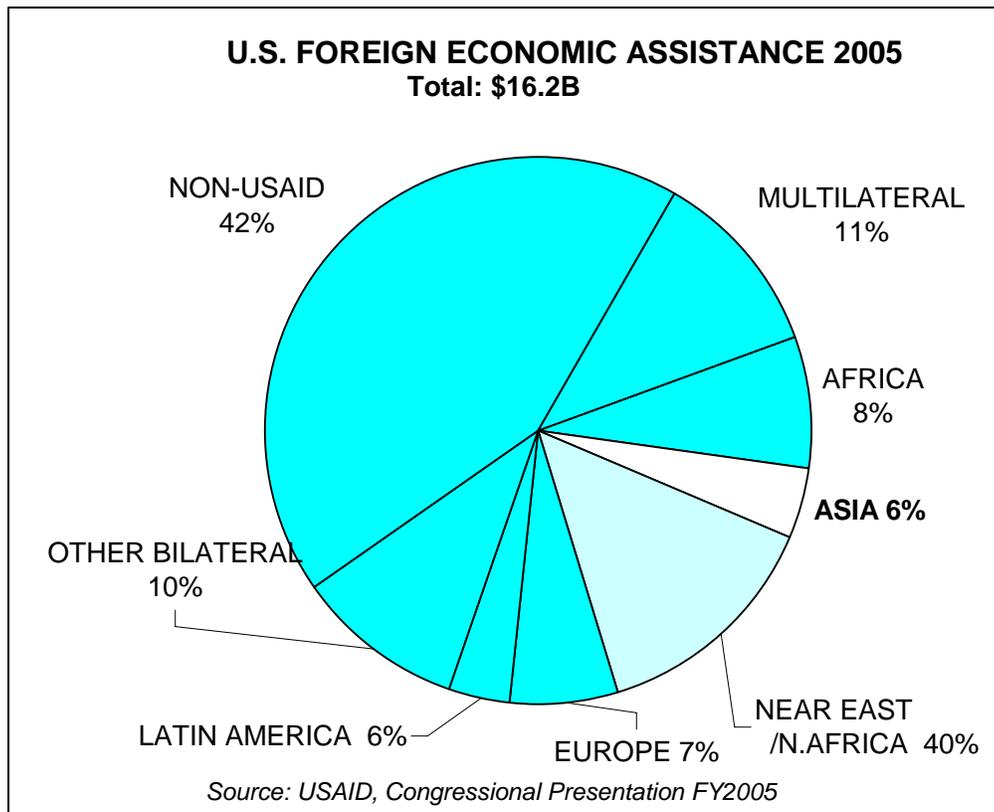
U.S. Investment in Foreign Securities.** In the mid-1990s, an overconfident inflow of portfolio investments to the region induced a withdrawal reaction among investors who belatedly learned, for example, that investments in Asia were directed to unproductive and inflated property markets. Not only were financial institutions weak in the region, but also basic business laws concerning bankruptcy were not instituted. Today, U.S. purchases of foreign securities are cautiously returning.



Multinationals and Labor Outsourcing. Statistical surveys⁹ indicate that the typical U.S. activity of outsourcing to foreign affiliates promotes sales and employment on both sides of the production chain. Outsourcing is a microeconomic activity that serves to adjust the absolute and comparative advantages of production for both parent and affiliate.¹⁰

Foreign Aid as Investment. Foreign aid is an order of magnitude smaller than private flows; however, it provides policy makers an opportunity to directly shape development. Such aid can be effective for large infrastructure projects, where market forces are difficult to mobilize. Top U.S. aid recipients are Egypt (\$535M in 2005), Afghanistan (\$397M), Israel (\$360M), Pakistan (\$350M) and Jordan (\$250M). The Asia-Pacific region directly received \$646M, or 6% of U.S. economic assistance in 2005.¹¹ American military assistance to the region is modest, going towards International Military Education and Training (IMET, \$9.5M) and Foreign Military Finance (FMF, \$32M) grants.

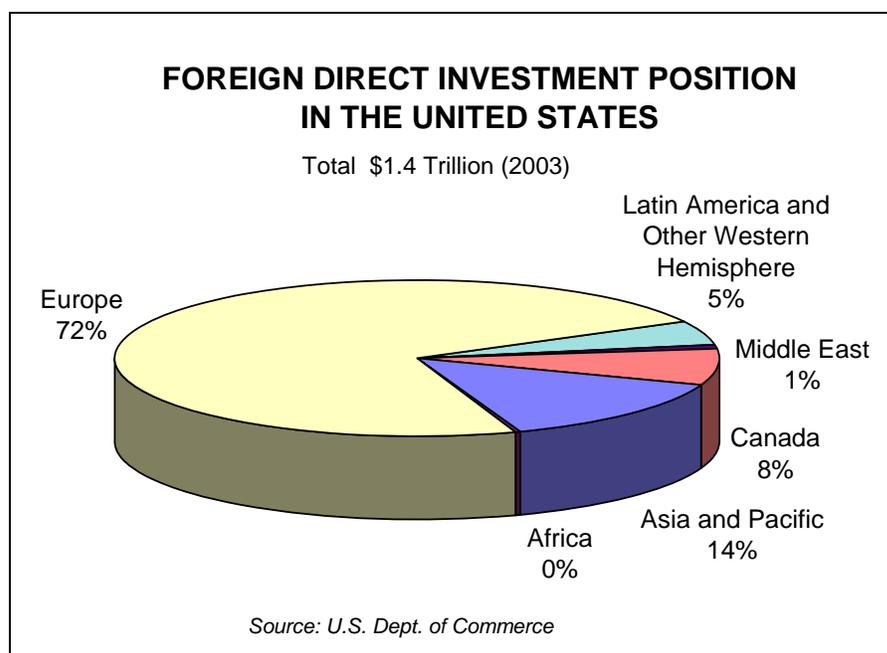
** Securities investments include those in corporate stocks and bonds, government agency bonds, and treasury bonds and notes.



Foreign Capital Investment in the United States

Foreign Direct Investment (FDI). Japan's sizeable FDI in the United States (\$159B in 2003) is driven at the macro-economic level by the availability of dollars caused by the imbalance of bilateral trade and at the micro-economic level by the desire of Japanese companies to reduce risks by establishing in-country manufacturing ties with U.S. markets. Emerging markets in Asia use FDI in U.S. markets to promote access and distribution networks. Nevertheless, the primary source of U.S. FDI remains Europe, due to the greater integration of multinational corporations across the Atlantic.

Foreign Investment in U.S. Securities. A striking trend of several Asian countries is to defend their currencies, their current account surpluses, and their trade flows by investing in U.S. securities. Following the lead established by Japan in the late 1980s, the Four NIEs, China, and Australia are increasing their claims on U.S. financial assets. Securities represent to these countries a reserve of stable U.S. assets that can also be used as a tool to defend their currencies against market raids. In general, the inflow of foreign securities investment lowers U.S. interest rates and provides alternate sources of capital to U.S. firms.



End Notes

- 1 Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts (www.bea.doc.gov/bea/dn/nipaweb/). Includes goods and services trade, and is based on a recent revision of the National Income and Product Accounts.
- 2 Department of Commerce, Bureau of the Census, FT-900 Supplement, (www.census.gov/foreign-trade/) February 2001. Census import figures do not include freight and insurance.
- 3 U.S. Trade Promotion Coordinating Committee, National Export Strategy, October 1995 and October 1996. Job ratio estimates are of limited use when applied to an economy in equilibrium.
- 4 U.S. Trade Promotion Coordinating Committee, National Export Strategy 2004, April 2004 (www.ita.doc.gov/media/Publications/pdf/nes2004.pdf).
- 5 Department of Commerce, Bureau of the Census, (www.census.gov/foreign-trade/) February 2004.
- 6 Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions Accounts," (www.bea.doc.gov/bea/international/bp_web) . "Other Asia" also includes a minor amount to Africa.
- 7 Economic Report of the President together with the Annual Report of the Council of Economic Advisors, February 2004 (www.gpoaccess.gov/eop/index.html).
- 8 Department of Commerce, Bureau of Economic Analysis, "International Economic Accounts," (www.bea.doc.gov/bea/di1.htm).
- 9 Matthew J. Slaughter, "Globalization and Employment by U.S. Multinationals," March 2004 (<http://mba.tuck.dartmouth.edu/pages/faculty/matthew.slaughter/MNEOutsourcing200304.pdf>).
- 10 Economic Report of the President together with the Annual Report of the Council of Economic Advisors, February 2005 (www.gpoaccess.gov/eop/index.html).
- 11 Agency for International Development (USAID), Congressional Presentation, Summary Tables, FY 2005. http://www.usaid.gov/policy/budget/cbj2005/pdf/fy2005summtabs4_alloc.pdf Note: In contrast to OECD foreign aid figures, U.S. government statistics also include military and other forms of assistance.

THE U.S. AND JAPAN AND THE ENERGY “RISE” OF CHINA AND INDIA

• CHAPTER 3 •

Mikkal E. Herberg

Introduction

The growing economic power and influence of China and India as major new players globally is being accompanied by another kind of rise, namely their emergence as major factors in global energy markets. Energy demand in both countries is growing at very high rates due to consistently high economic growth rates. This is occurring across the energy spectrum of fuels and sectors. As energy demand increasingly outruns the availability of domestic supplies, both countries are reaching out to access global energy markets and resources which, in turn, is beginning to significantly impact global energy markets. Moreover, efforts to access resources in a number of key energy exporting countries are making both China and India increasingly important players in the energy geopolitics of these vital regions. Mushrooming energy consumption is also rapidly raising enormous new environmental problems in these countries and these impacts are spreading regionally and globally.

The U.S. and Japan have major stakes in the shape and impact of China and India's energy “rise”. Today's high energy prices and tight global supply and demand conditions mean that rising oil demand from China and India is an increasingly significant factor in world oil prices. The U.S., which has traditionally dominated the world of global energy geopolitics, now faces growing competition for influence from China and India in key energy exporting regions. And major regional and global environmental concerns will require new efforts, which need leadership from the U.S. and Japan, along with courageous policy reforms in China and India, to manage the environmental impact of China and India's growing fossil fuel consumption.

This paper will outline the stakes for the U.S. and Japan and offer some recommendations on what needs to be done to manage the new challenges presented by this process. There are a number of key questions. In what ways will China and India's energy expansion impact important U.S. and Japanese interests? What can and should the U.S. and Japan be doing to respond the China and India's growing global energy role and impacts? What are the prospects for cooperation among the countries on key global energy concerns and what institutions and forms of dialogue are necessary to manage these new issues? What are likely to be the main sources of tension in energy relations and how can these looming tensions be managed effectively in the future? China and India's energy rise will create new opportunities for cooperation that could strengthen prospects for improving relations with the U.S. and Japan. At the same time, energy could be a growing source of tensions which could deeply undermine prospects for improving relations with the U.S. and Japan. The key question is whether the four countries can put aside a range of issues which divide them in order to find ways to manage energy problems and take advantage of opportunities for energy cooperation.

The Stake

The stakes surrounding the China and India's growing energy demand and reach outward for new supplies are extremely high. They can be divided into three categories: energy markets, the energy-environment nexus, and the geopolitics of energy.

The energy market impact of China and India's growing consumption, their “energy footprint” will grow in scale and scope over the next two decades. Combined, China and India will be among the most important factors in driving world oil prices in the future. Recent oil demand growth in China alone has accounted for roughly one-third of world oil demand growth over the past three years.¹ China is now the third largest oil importer globally while India is the seventh largest.² Current forecasts suggest that the two will account for over 30% of world oil demand growth over the next two decades.³ China's oil imports are likely to rise over the next fifteen years by an amount equal to the total oil production of Iran, Kuwait, and Iraq today. Both China and India,

through their National Oil Companies, are also becoming major investors in energy around the world and major competitors for U.S. and Japanese energy companies in global oil and gas development.

China and India are presently not major factors in global natural gas and liquefied natural gas (LNG) markets because they use relatively little. Compared to a global average of gas making up 23% of total energy use, in China it is just 3% and in India it is just 8%. But both China and India are developing policies to rapidly accelerate gas use for environmental as well as energy diversification purposes. Beyond 2010, both China and India will become major gas importers. As global and regional LNG markets become increasingly integrated in the future, demand from China and India will become significant factors in worldwide LNG flows and prices.⁴

China and India are enormous consumers of coal which accounts for fully two-thirds of China's total energy use and one-half of India's.⁵ Both rely largely on plentiful domestic coal supplies. To gauge their enormous impact on coal in the future, U.S. Department of Energy and IEA forecasts suggest that China and India alone will account for 75% of the entire increase in world coal demand over the next 20 years. Consumption is driven by rapidly rising electricity demand in China and India, which is expected to rise at twice the global rate over the next 20 years. Electricity demand in China is forecast to triple by 2025 while India's rises by two and one-half times, compared to an 82% increase worldwide.⁶ To meet future electricity demand, China will need to build five 250 megawatt power plants per week, almost all likely to be coal-fired, every week, for the next 20 years to continue to meet rising demand. The CO₂ implications of this are extremely serious.

Rapidly rising electricity demand also is driving plans for major expansions of nuclear power generation in both China and India. China plans to build an average of two nuclear plants per year over the next 15 years and India plans one per year on average. Even at this torrid building pace, by 2020 China's nuclear generation capacity will only meet 4% of China's electricity needs. Hydro-electric capacity will be expanded rapidly as well. For example, China plans to build the equivalent of a new Three Gorges Dam hydro-electric project every two years over the next 15 years.

The breakneck expansion of fossil fuel consumption in China and India, particularly rising coal consumption, raises disturbing regional and global environmental implications. China's total CO₂ emissions are expected to rise two and one-half times by 2025 while India's will double, and together they will account for 40% of the global increase in CO₂ emissions. With the U.S. included the figure is 56% of the global CO₂ increase. China and India together will account for roughly three quarters of the growth in global CO₂ emissions from coal burning over the period. Local air pollution in Chinese and Indian cities, already severe, will certainly worsen, adding to health problems. China is home to 16 of the 20 most air polluted cities in the world. Acid rain, which currently affect one-third of Northeast China, will increase significantly, affecting particularly Japan, South Korea, and Pacific Russia. Pollutants from power generation and transportation in India and China, including mercury, is now traveling by upper atmosphere currents to North America and landing on Seattle, a problem which will worsen over time.

Geopolitically, in the context of today's global sense of energy insecurity among all the four countries, China and India's efforts to reach out across the globe to gain national control over oil supplies and future natural gas supplies promise to create a range of new geopolitical challenges and tensions in relations among the four countries. Competition for energy supplies and fears over control of key energy transportation routes is already growing as a source of tension and this will need to be managed much better than they are at present. Add to this, a range of disagreements involving all four countries on policies toward future nuclear development in China, India, Iran, and elsewhere.

Responding to the Challenge

So the stakes are high to find ways to manage the rising impact of China and India on global energy consumption, on key environmental challenges, and on political relations among the U.S., Japan, China, and India. Meeting the challenge will require creative policies from the US and Japan as well as increased openness to policy change in China and India. What can and should the U.S. and Japan do? What is feasible? What can and should China and India do to facilitate their stable integration into global energy markets?

At the outset, efforts need to be rooted in the four countries' fundamental mutual interests regarding global energy development and use. The U.S., Japan, China, and India, despite a recent drift toward energy competition and nationalism, share a set of common interests on energy security, including the following:

- Assuring the relatively stable flow of energy supplies and at reasonable prices;
- Assuring reliable global trade and transport of energy, free from political interference, and based on a diverse mix of energy transit routes;
- Assuring stability in key energy exporting regions, especially the Persian Gulf;
- Accelerating development of new energy supplies as quickly as possible, from as many countries and regions as possible;
- Developing as diversified a slate of energy sources as possible, including oil, natural gas, coal, nuclear, hydro-electric, and renewables;
- The rapid development of new policies and technology to promote energy efficiency and lower energy costs;
- Reducing the environmental impact of fossil fuel energy consumption and assuring a sustainable energy mix.

Given this broad set of common interests, the principles to work for to achieve these goals include:

- A commitment to a market-based approach to supply and demand;
- Commitment to multilateral and regional cooperation as the most effective means to achieve energy security;
- Facilitating the diffusion and application of new, low cost energy saving technology;
- A strong commitment to demand management and competitive energy markets;
- Multilateral promotion of efficiency energy use;
- Improved environmental outcomes;
- Cooperation on regional stability, common regional energy solutions, and collaboration on energy diplomacy in key energy exporting regions.

Two Tracks Forward: Promoting Energy Cooperation, Managing Areas of Tension

Managing the widening energy impact of China and India will need to be approached by separating the issues into those that pertain to energy markets, those involving the environment, and those involving a range of geopolitical issues. In addition, many of the market and environmental issues are amenable to energy cooperation on a bilateral and/or multilateral level, assuming the political will exists among the countries. On the other hand, a number of geopolitical issues arising from China and India's widening circle of energy interests and relationships are likely to engender a level of bilateral political tensions that will need to be continually managed through careful diplomacy and dialogue.

Energy Market Issues

A broad range of energy market-related initiatives need to be pursued. First, energy security begins at home. In other words, China and India can only begin to mitigate the global impact of their growing energy "footprint" by advancing domestic energy policies to increase the flexibility,

diversity, and efficiency of energy use and development. Bilateral and multilateral assistance and encouragement by the U.S. and Japan will only be effective in the context of greater recognition and action by leaders in China and India on the enormous need for domestic energy policy reform. This is vital on both the demand and supply side of the energy equation.

Currently, the energy policies of both China and India are heavily biased toward supply-side and static solutions to energy shortages, rather than demand management and market-oriented strategies. Subsidized energy pricing, inefficient state-owned monopolies in the energy industry, severe limits on foreign investment in energy, severe bureaucratic interference in the energy sector, and opaque and unstable policies, all work to slow new investment, delay efficiency improvements, subsidize high demand growth, and undermine the introduction of new, energy saving technology. Energy market reform is essential to manage demand growth more effectively and to speed investment in a new, more diversified slate of domestic energy supplies. This requires that China and India begin moving as soon as possible toward a wide range of new policies:

- Movement as rapidly as politically possible toward market pricing for energy to slow the rampant rate of demand growth, especially for oil, electricity, and coal;
- Gradual de-monopolization of the energy industry by opening up the state-dominated energy industry to more private and foreign investment, gradual narrowing in the energy sectors dominated by state energy companies, and the development of more competitive and transparent energy markets;
- Policies to encourage a more diverse energy supply structure, especially encouraging natural gas use and imports. In electricity, development of nuclear power generation, hydro-electric production, and use of renewables needs to be accelerated;
- Both China and India lag badly in terms of efficiency investments so greater investment in efficiency is vital. Moreover, each needs to develop more effective energy policy and regulatory institutions, better energy expertise, and expansion of training;
- Since both China and India will continue to rely so heavily on coal use, greater government support for the diffusion of cleaner coal-burning technology, more efficient coal use, lower sulfur coal development, and coal demand reduction;
- Policies to slow the proliferation of private automobile use are critically important. Development of cost-effective mass transit systems in large cities is needed along with diffusion of new vehicle transport technology, such as CNG and hybrid engines.

Stronger domestic commitments to energy diversification and efficiency by leaders in China and India can be supported and encouraged by bilateral and multilateral cooperation, along with financial and technical assistance in which Japan and the U.S. need to take a lead role. Japan is far better qualified and credible regarding demand management policies and technology since it has been the global leader in efficiency improvement, energy efficient technology, and supply diversification since the oil crises of the 1970's. Japan's bilateral energy efficiency initiatives toward China and India have been relatively limited reflecting both limited Japanese efforts and limited interest and capabilities in the part of Indian and Chinese energy policy bureaucracies. In the context of the recent serious deterioration in relations between Japan and China, not much progress in the bilateral energy dialogue seems likely there.

Unfortunately, the U.S. has been a serious laggard on energy efficiency. For example, the U.S. consumes 80% more oil per capita than Japan and double that of the EU.⁷ But the U.S. has been in the lead in allowing markets, market pricing, private investment, and competition to flourish in the energy sector and this experience needs to be promoted among policymakers in China and India. The U.S. also has extensive experience and can provide assistance and encouragement on natural gas development and markets. Both Japan and the U.S. have much to offer regarding clean coal technology development and diffusion. The U.S. has developed a growing range of bilateral energy initiatives with both China and India, including Minister-Secretary level dialogues just recently started. All these efforts need to be given high-level political support and drive to reinforce weak but growing reformist forces in the energy policy sector in China and India.

Moreover, on a multilateral level, it is important that China and India be included more directly in the global institutions of the oil market, most importantly the International Energy Agency (IEA). The IEA includes members of the OECD and was established in the mid-1970's to provide a multilateral mechanism for managing oil supply disruptions and promoting energy cooperation. It makes little sense to have a global emergency oil management system that doesn't include two of the six largest oil consuming countries in the world. This will require some creative "institutional engineering" since neither China nor India are members of the OECD. The U.S. and Japan need to lead in the effort to bring China and India into the IEA mechanism. Involvement in the IEA also brings with it exposure to an enormous range of resources and expertise on energy efficiency, demand management, technology, and policymaking expertise that would be extremely valuable in accelerating the "learning curve" of energy policymakers in India and China.

The Energy-Environment Nexus

It is in the realm of the energy-environment nexus that perhaps the most important issues contained in China and India's energy expansion lie. It is also an arena in which U.S. policy is a critical determinant. As suggested earlier, rising energy consumption in India and China threatens to do enormous environmental damage over the next several decades in the absence of drastic action. The impact on disease and mortality are equally frightening. Diseases aggravated by sulfur dioxide (SO₂) emissions from coal and oil combustion account to 30-35% of the mortality rate in China. High ambient pollution in urban areas leads to the premature deaths of 178,000 people per year and another 111,000 premature deaths result from household use of coal.

The most critical issues concern rising coal consumption and rapidly rising oil demand for transportation use. Both are major sources of CO₂ and air pollution. Any success in reducing the rate of growth in pollution and carbon emissions requires special efforts to effect change in the trajectory of coal and oil use in China and India. The U.S. is also a major source of carbon emissions due to the scale of the economy and extensive use of coal and oil. Only Japan, among this group of countries, has made major progress in reducing pollution and carbon emissions.

The Kyoto Protocol is likely to prove relatively ineffective in reducing emissions in China, India, and the U.S. since none of the three is bound by its constraints, the U.S. because it has opted out under the Bush Administration, and China and India because, as developing countries, they are not bound by reductions mandated to Annex 1 countries. As a result, regional and bilateral efforts will be especially valuable in making progress. One hopeful sign was the recent inauguration of the U.S.-sponsored Asia Pacific Partnership on Clean Development and Climate (APPCDC) established to address climate change, energy security, and air pollution in the Pacific region. The members include the U.S., Japan, China, India, South Korea, and Australia. In the absence of closer engagement on the Kyoto Protocol, this kind of regional approach has the potential to be a very useful vehicle to accelerate the kinds of policies needed to reduce the growth in carbon emissions in China and India. Nevertheless, this is a very modest effort, given the challenge. It remains to be seen if the participants, particularly the U.S., will fund it and pursue it vigorously.

Beyond this regional organization, specific programs need to be expanded to directly address the main sources of these problems. In part, domestic energy reform and efficiency improvements suggested earlier would help reduce emission growth as a byproduct of slowing demand growth. But specific efforts are needed targeted particularly on coal and oil use. For example, both the U.S. and Japan have modest bilateral programs with China and India working on developing and disseminating clean coal technology. However, these efforts need to be drastically accelerated, given the gravity of the problem. A variety of clean coal technology is available in the market but is significantly more costly due to higher capital costs. More needs to be done jointly to accelerate the development of new cleaner coal technology. All four countries are working individually on this technology but either bilaterally, or regionally through the APPCDC, these efforts could be coordinated better to get more results per investment dollar.

Second, natural gas is a much cleaner burning fuel and its use needs to be radically accelerated in China and India where gas is a very small share of energy use. Increased gas use can slow the rate of growth in coal use in both electricity generation and industrial use. The U.S. and Japan have highly developed natural gas markets and could assist China and India in developing policies to accelerate gas use. However, this depends heavily on the willingness and capability of political leaders and energy policymakers in China and India to make the changes necessary to do this. Gas is a relatively expensive fuel compared to coal so pricing policies, regulatory policies to encourage gas use, and gas market arrangements need to reflect this. Also, the U.S. and Japan must work harder to encourage China and India to move much more quickly to expand Liquefied Natural Gas import capacity and terminals. China and India have plans to expand LNG imports but each is moving very slowly in developing the market and regulatory structures needed and in building the infrastructure needed for re-gasification terminals. This requires easing of re-gasification siting policies along with electricity and natural gas price reform.

Third, more effort needs to go into development of renewable energy, which is inherently more expensive with current technology. Energy policy in China and India needs to facilitate incorporation of renewables while absorbing the higher initial costs involved.

Beyond coal, special efforts also need to be made to slow the growth of oil consumption in order to address environmental concerns. Both China and India are moving on trajectories that will put millions of vehicles on the road over the next two decades. China's vehicle fleet is projected to rise from today's 22 million on the road to 120-150 million by 2020. As a result, both China and India's oil demand is expected to double over the next 15 years and vehicle pollution will grow exponentially. The risk is that even if progress is made in reducing the rate of growth in coal emissions, these emissions will simply be replaced by rapidly growing vehicle emissions. Changing this oil demand pattern will require joint efforts to spread the use of hybrid engine technology, encourage smaller and more efficient engines, and domestic political willingness in China and India to restrict the use and raise the cost of private vehicle use through tough tax and regulatory policies. This will be politically difficult because it means enforcing higher costs and tighter restrictions on the middle class dream of personal mobility. The U.S., unfortunately, has little credibility in promoting transportation efficiency due to its profligate use of oil and political unwillingness to impose tougher tax and regulatory policies, but Japan has achieved some of the highest average efficiencies in engine technology and restricted vehicle use.

Without drastic domestic action and strong regional cooperation and support, China and India will have an enormously negative impact on environmental outcomes.

Energy And Geopolitics

In the current atmosphere of profound energy insecurity among all four countries, China and India's efforts to reach out to secure oil supplies and natural gas supplies for the future promise to create a range of new geopolitical challenges and tensions in bilateral and regional relations. There is a strong perception among the leadership of each of these countries that they are in national "competition" for secure energy supplies, along with competition to control key energy transportation routes, and this is becoming a major source of tension. These issues need to be managed much better than they are at present. Markets and cooperation need to be pursued rather than competition and mercantilism. For example, China and India view themselves in direct competition over acquisition of secure future oil fields and supplies and have frequently ended up bidding for the same oil fields and oil deals in key oil exporting countries. This is already adding a layer of tension in their complex relationship. The Indians have called for bilateral cooperation with China to avoid this growing competitive atmosphere but China so far has only paid lip-service to the idea.

Moreover, Sino-Japanese relations are being seriously affected by energy disputes. The two countries are involved in an increasingly acrimonious dispute regarding sovereignty over a Chinese offshore natural gas field development in the East China Sea that could literally lead to a naval confrontation before long. They are also engaged in an intense competition to woo Russia to build a major oil pipeline from East Siberia to either northeastern China or, alternatively, to the

Russian Pacific Coast which Japan favors. Capricious Russian policies on this pipeline decision are aggravating these Sino-Japanese tensions. China and the U.S. also are coping with increasing bilateral tensions over energy. The U.S. is increasingly concerned about China's energy investments in "problem" states, such as Iran and Sudan, and the recent attempt by the China National Offshore Oil Company (CNOOC) to acquire Unocal set off a firestorm of fears in Congress over China's campaign to "lock up" oil supplies around the world. This has played into the domestic debate and divisions in both China and the U.S. about a broader strategic rivalry developing between the U.S. and China. From China's perspective, the U.S. appears to be intent on denying China its opportunity to acquire secure energy supplies and may be using U.S. power in global energy geopolitics to "contain" China.

Generally improving U.S.-India relations are also suffering from growing U.S. displeasure over India's energy involvement in Iran. India has plans to purchase large future supplies of LNG from Iran, plans to invest in a large oilfield development, as well as proposals to build a large natural gas pipeline from Iran to India. Other Indian proposals to build a large natural gas pipeline from Myanmar to India also are creating new sources of tension in the relationship. The U.S. and Japan, while broadly in agreement over most energy issues, have significant disagreements over several energy security issues. Most importantly, Japan continues to advance on plans for investing in a major oilfield development in Iran, the Azadegan field, in spite of growing U.S. pressure to reduce ties to Iran in the light of growing standoff over its nuclear development. So the geopolitical stakes are increasing as each country pursues its vision of energy security in the context of broader geopolitical and diplomatic issues, with political rivalries spilling over into energy disputes and energy disputes spilling over into geopolitical rivalries.

These energy disputes are likely to be difficult to manage in the context of today's tight global oil markets, given the level of political angst among each country's leadership about the reliability and cost of future energy supplies. There are no easy answers. But there are a number of measures which could be pursued and the U.S. and Japan will need to lead. Most importantly, there needs to be an order of magnitude leap to develop a more open and cooperative dialogue among the countries at every level: multilateral, regional, and bilateral. The level of mistrust among the countries over energy is high and rising. Dialogue and confidence building efforts are badly needed to prevent geopolitics from getting in the way of energy solutions. Following are some key proposals:

- All four countries need to work toward creating an Asian regional forum for dialogue over energy issues, to begin to steer the dialogue toward cooperative, regional solutions, rather than bilateral competition. APEC, ASEAN+3, and other regional forums are not structured to be effective in this regard. A new institution or forum needs to be established;
- China and India must become more closely involved in other multilateral meetings and arrangements that deal with regularly with energy security issues, such as the upcoming June 2006 G-8 meeting, hosted by Russia and focused on energy security. This is an excellent opportunity to build confidence and give China and India a "seat at the table" of global energy discussions;
- As suggested earlier, China and India must also somehow be brought into the International Energy Agency to become "stakeholders" in the institutions of global energy governance and global market system;
- Dialogues must be established to try to end the illusion among the four countries that they are "competing" for scarce energy supplies. The U.S. is the strongest advocate for relying on flexible and deep global energy markets to deliver energy security. All four countries need to recognize their common interests in stable energy markets and reliable supplies;
- Bilateral energy dialogue and the pursuit of cooperative arrangements need to be invigorated. This needs high level political attention at the Head of State level to move these discussions forward, and consistency in the message and effort;
- It appears that China, India, and Japan will continue to build energy ties with what the U.S. believes are "bad actors". This will remain chronic source of tension and will need to

- be managed effectively so that these problems don't spillover into broader cooperative diplomatic and energy efforts;
- The U.S. needs to begin coming to terms with the inevitability that China will become a major player in key oil and gas exporting countries and regions, in particular the Middle East and Central Asia. The U.S. is used to being the dominant outside power in these areas. This will require increasingly sophisticated U.S. and Chinese diplomacy to avoid a competition for influence that can derail otherwise cooperative efforts;
 - All the countries have a common interest in more rapid expansion in the use of nuclear energy for electricity generation. However, expanded nuclear development also raises risks of proliferation and safety concerns. The controversy surrounding the recently proposed U.S.-India deal on putting a portion of India's nuclear industry under international safeguards demonstrates that bilateral arrangements can undermine multilateral understandings among the four countries. China in particular sees the U.S.-India nuclear deal as threatening to its interests. Hence, there needs to be better multilateral development of nuclear policies to avoid nuclear issues generating new bilateral tensions.

Conclusion

China and India's energy "rise" will create major energy market, environmental, and geopolitical challenges and the US and Japan have enormous stakes in the outcome. There are both opportunities and risks in the process. An effective response by the four countries to these energy challenges could permit China and India's energy "rise" to become a catalyst for broader cooperation among the four on a broader range of geopolitical and economic issues. In particular, energy could play an important role as a catalyst for better U.S.-China relations as well as for Sino-Japanese relations. A cooperative outcome would mean lower world energy demand growth, more efficient energy use, greater stability world in energy markets and prices, improved environmental outcomes, and better global and regional energy cooperation.

On the other hand, if the four countries fail to respond positively to these challenges, the energy emergence of China and India is likely to become a source of worsening global energy supply and price instability, inefficient and unbalanced energy consumption, frightening environmental deterioration, and a deepening source of conflict, competition, and energy insecurity among the countries.

Leadership must come from the U.S., along with Japan if a positive outcome is to be possible. But it will also require difficult political, economic, and energy policy decisions and innovative thinking by leadership in China and India to radically revise traditional energy policies and to change attitudes and accept relying increasingly on global markets and multilateral cooperation to assure their future energy security. Is the U.S. up to the task? So far, U.S. efforts to draw China and India into a more collaborative and market-oriented approach have been modest and often contradictory. Japan also has a strong statist and mercantilist instinct in its approach to energy security that tends to provoke similar mercantilist responses from China and India. It is said that in the geopolitics of global energy, all the hot lines lead to Washington DC. Will the U.S. answer the phone?

Endnotes

¹ International Energy Agency, *Monthly Oil Market Report*, February 2006, OECD, Paris.

² BP, *2005 Statistical Review of World Energy*.

³ IEA *World Energy Outlook 2004*; U.S. Department of Energy, Energy Information Administration, *International Energy Outlook 2005*, Washington, D.C.

⁴ For more see Stern, et. al., *Natural Gas in Asia*, Royal Institute for International Affairs, London, 2002.

⁵ China is the largest and India the third largest coal consumers in the world (the U.S. is second to China), DOE, *IEO 2005*.

⁶ DOE, *IEO 2005*.

⁷ IEA, *IEO 2004*.

ENVIRONMENTAL SECURITY AND REGIONAL STABILITY

• CHAPTER 4 •

Dr. Kent Hughes Butts

A generation of increased awareness of the relationship between the environment and the security of the nation state coupled with the end of the Cold War, has elevated the importance of environmental issues to global political affairs. Environmental factors have been demonstrated to underpin economics, resource availability, health inter-state relations and governmental longevity, and are, therefore, an important variable in regional stability. They are particularly important to promoting democratic governments, preventing failed states and combating terrorism. Understanding the relationship between the environment and security is essential to formulating viable regional strategies and policies. This chapter clarifies important elements of that relationship, evaluates the environment as a United States (U.S.) national security issue, both in the interagency community and among the regional combatant commanders, and suggests policies to leverage environmental security as a vehicle with which to promote regional stability in the Asia-Pacific region.

The economic vitality of a country depends in a large measure upon its geographical setting and resources. Timber, fertile soil, and the mineral resources that supply the economy are sources of economic wealth. Access to safe water underpins the health of the people, the success of the agricultural sector and the growth of industry. However, these resources and other elements of the environment can be harvested at an unsustainable rate, destroyed by natural or man made disasters, rendered unusable by pollution or put at risk by Global Climate Change. When this occurs, the ability of the government to meet the demands of the people is reduced and the security of a nation may be threatened. To effectively address these environmental security threats, governments need all elements of national power, working in concert, to include the military. Although rarely the lead agency, the military may play an indispensable role in addressing the environmental security challenges facing a country.

The tradeoffs between economic growth and environmental change have long been known, but the security implications are just being taken seriously at the global level with the recognition of Global Climate Change (GCC) and the “growing scientific consensus that human activity is a substantial cause of greenhouse gas accumulation in the atmosphere.”¹ In the United States, the Senate, the National Intelligence Council and the Center for Naval Analysis have all examined the security implications of GCC and are finding that it impacts security in a number of areas. Critical variables being considered include: economic sustainability; humanitarian crises; resource competition and conflict; mass migrations; water and food security; health and disease; stability of governments and non-state actors; security planning factors; defense and military challenges; and regional challenges to stability and security.

The 2004 Net Assessments examination of climate change and security written for the Pentagon by Peter Schwartz and Doug Randall was a scenario driven look at climate change implications for defense planners. Since then a number of climate change studies e.g. the February 2006 Intergovernmental Panel on Climate Change Report and television specials have changed the attitude of many American people on the likelihood of climate change and the need to undertake planning to deal with its consequences. President Bush’s comments in his State of the Union address reflected not just the Democratic control of Congress, but feedback from Republican pollsters that indicate 81 percent of Republican primary voters think that more should be done to curb automobile carbon emissions. This shift in attitudes opens the door for greater interest in analysis of the implications of climate change for U.S. national security. The variables listed above are also key variables in regional stability, failed and failing states, and combating terrorism. Climate change brings with it severe challenges for a number of important regional states to meet the demands for a strong economy and good governance by their populations. China is a case in point.

China

China's economy has been growing at between 7 and 9 percent annually since the 1980s and has doubled every decade. It has little choice but to continue this growth in order to sustain the control of the Chinese Communist Party (CCP), make the transition from inefficient state owned industries and to prevent social unrest.² The latter is increasingly problematic. Protests over such issues as employment, social services, environmental degradation and official corruption have increased approximately 50 percent in the last two years. Between the years 1993 and 2004, public protests rose from 8,700 to 74,000.³ Although not currently a threat to governmental survival, the protests have the potential to coalesce around a national incident and are of great concern to the CCP. China's population will increase to 1.45 billion by 2025.

China's economy is rapacious. In 2003 China purchased 7 percent of the world's oil; 25 percent of its aluminum and steel; 32 percent of global iron ore and coal and 40 percent of world cement.⁴ In 2004, this drove up oil prices by 33 percent, copper prices by 37 percent; and aluminum and zinc prices by 25 percent. In 2004 China was the second largest oil consumer behind the U.S. with total demand of 6.5 million barrels per day (MBD).⁵ Oil demand is estimated to reach 14.2 MBD by 2025 with 75 percent of that satisfied by imports. In the last 4 years, China has accounted for 40 percent of the growth in world oil demand. Because economic growth has been unconstrained by environmental controls, China's contribution to GCC and atmospheric pollution has risen correspondingly.⁶

In a quest for an economic supply of energy, China has made coal its primary source of primary energy production. Coal accounts for around 70 percent of total energy supply and 75 percent of electrical power.⁷ Because it burns dirty brown coal, China boasts sixteen of the world's twenty most polluted cities.⁸ In 2005 it burned 1.9 billion tons of coal.⁹ Because it must build a coal fired power plant every week to 10 days to meet power demand, China's contribution to global energy related carbon dioxide emissions will raise from 12.7 percent to 17.8 percent by 2025.¹⁰ The costs of this consumption are profound. China's annual pollution costs are between 7 and 10 percent and mass environmental protests are increasing by an annual rate of 29 per cent per year. According to official sources pollution kills over 400,000 Chinese each year.¹¹ Stability, health issues and pressure from those affected by cross border pollution are a major cost of economic growth.

In addition to the already growing problem in all types of pollution, China's recent economic boom is also causing other second level effects on the water tables. Due in large part to urban greenery projects such as lawn planting and fountain construction, and heavy runoff from agricultural fields containing pesticides and raw sewage further adds to the water shortage problem.¹²

As well, according to Mr. Thomas Friedman, guest columnist for the Atlanta Journal-Constitution, the Chinese economic boom is about to hit its environmental limits. Among other effects the robust economy is causing the changing of the landscape in China. Due to the growing population and demand for new housing, deforestation is becoming an important environmental issue. The growing Chinese economy also puts political pressure on Europe, which can no longer afford 35 hour work weeks and lavish welfare states because of the low wage, high aspiration Chinese.¹³

The Concept of Environmental Security

In his article the *Renaissance of Security Studies*, Dr. Stephen Walt makes clear what the security studies field of academia considers to be relevant subject matter. He states that, "Security studies assumes the conflict between states is always a possibility and that the use of military force has far reaching effects on states in society. Accordingly, security studies may be defined as the study of the threat, use, and control of military force." However, Walt goes on to say that legitimate security studies research may explore the "conditions that make the use of force more likely, the ways that the use of force affects individuals, states, and societies, and the specific policies that states adopt in order to prepare for, *prevent*, or engage in war."¹⁴

While academics and some environmental groups may disagree on the definition of environmental security, it is important to understand that there is an accepted definition of environmental security in the U.S. interagency community and a common U.S. government approach to environmental security and policies related to that definition.

"Environmental Security is a process whereby solutions to environmental problems contribute to national security objectives. It encompasses the idea that cooperation among nations and regions to solve environmental problems can help advance the goals of political stability, economic development, and peace."

Dr. Alan Hecht, National Security Council¹⁵

Simply put, all environmental concerns are not security issues. However, when environmental issues affect national security issues, they become environmental security issues. Thus, conflict over access to or control of natural resources that threatens regional stability affects U.S. national security interests; but so too, cooperation between regional countries to prevent transnational environmental crime, such as over fishing by foreign flag travelers or illegal logging, that promotes confidence building and communication enhances U.S. national security interests.

Until the early 1990s when crises such as Somalia, Haiti and Rwanda defined the use of military forces, many senior military leaders viewed missions such as the war on drugs and environmental security as diluting their ability to maintain operational readiness, and opposed them. It was the civilian leadership at the Department of Defense (DOD) that established policies requiring the uniformed services to apply military resources to environmental problems. Recognizing that regional environmental problems can evolve into difficult to control conflicts necessitating the costly involvement of the U.S. military forces, Sherri Goodman, Deputy Under Secretary of Defense for Environmental Security in the Clinton administration defined DOD's role in environmental security to include "assisting to deter or mitigate the impacts of adverse environmental actions leading to international instability."¹⁶

The end of the Cold War coincided with the election of the Clinton administration and the coming to power of Vice President Al Gore, who had an established record as an environmentalist. Vice President Gore used his office to promote environmental security globally and the involvement of the U.S. inter-agency community in addressing regional environmental issues that could lead to tensions or conflict. He was instrumental in establishing the MEDEA Project, which declassified large volumes of data collected by the intelligence communities through their technical means, and made that data available to a small group of cleared scientists for use in environmental research. Vice President Gore took the lead in establishing the Clinton administration's position on environmental security. "We have moved beyond Cold War definitions of the United States strategic interests. Our foreign policy must now address a broad range of threats, including damage to the world's environment, that transcend countries and continents and require international cooperation to solve."¹⁷ The strategic U.S. national security interests of the Clinton administration's national security strategies were promoting democracy, encouraging free trade and promoting regional stability; Gore's position was that "the world will fall short (of achieving these interests) unless people have a livable environment."¹⁸ The central theme of his approach to environmental security was *cooperation*. Vice President's Gore initiatives had two parts. One was focused on *global* environmental problems such as climate change, toxic chemicals, species extinction, deforestation, and marine degradation. An Under Secretary of State for Global Affairs was appointed to manage the efforts of State Department's Bureau of Oceans and International Environmental and Scientific Affairs, which negotiates key treaties and agreements on these issues.¹⁹ The success of this portion of his program was mitigated by the rise of a Republican Congress and the election of a Republican administration that has little enthusiasm for pursuing such global agreements.

However, a more lasting contribution came when Vice President Gore encouraged Secretary of State Warren Christopher to promote environmental security as an element of *regional* diplomacy. At his urging, the State Department established a formal Environmental Diplomacy Program and required U.S. embassies and regional bureaus to develop regional environmental policies to promote U.S. national interests. Because the regional bureaus are the center of

gravity for Department of State (DOS) power, their involvement ensured that the environment would become part of DOS's regional diplomatic processes and used to promote regional stability. To coordinate these efforts, the Department of State established Environmental Hubs at embassies in Costa Rica, Uzbekistan, Ethiopia, Nepal, Jordan, and Thailand. The Environmental Hubs were subsequently increased, with positions established in other important regional countries. While the Environmental Hubs provided assistance to DOS on global treaties such as Kyoto, their primary purpose was to promote regional cooperation on environmental issues.

This regional approach proved to be of substantial value to the Commanders of the Regional Combatant Commands (COCOMs) of the Department of Defense, who were looking for regional engagement strategies of their own. Over the years, there has been close cooperation between the regional Commanders and the Environmental Hubs; in fact, the Environmental Security Annexes to the COCOM Theatre Engagement Plans during the Clinton administration specifically established a working relationship between the Environmental Hubs and the COCOMs when identifying and building environmental security programs for the region. The value that has come from this cooperative effort in regional environmental diplomacy continues. Although engagement is now known as security cooperation under the Bush regime, the close cooperation between the Environmental Hubs and the COCOMs continues to promote multilateral cooperation and communication and is used to promote regional stability.

The concept of regional environmental cooperation was championed at Department of Defense as well. Secretary of Defense William Perry developed the Preventive Defense Strategy to promote trust, stability, and democratic reform, and so help to prevent the conditions for conflicts and build the conditions of peace.²⁰ The idea that U.S. defense forces would proactively seek to engage the countries of a region in order to promote stability, and defuse tensions that could lead to large scale U.S. military involvement was appealing, particularly to the regional combatant commander. Including the environment as a pillar in that concept proved to be valuable in spite of the initial objections of some senior uniformed leaders. From the perspective of the Services, an environmental mission was an opportunity cost that, while valuable, would require force structure and training time that could be dedicated more effectively to operational readiness and the primary purpose of the military, warfighting. However, the value of the environment as an engagement vehicle for the regional combatant commanders was soon proved and had powerful advocates such as General Anthony Zinni, then Commander of the strategically important Central Command and General Wesley Clark, then Supreme Allied Commander. When it was realized that proactive environmental security missions were not force intensive, did not result in a loss of combat force training time, and that environmental issues could bring the militaries of countries that in other ways were antagonists to a position of cooperation and communication, environmental security established itself at the Department of Defense and continues beyond the Clinton administration.

Other agencies soon developed environmental security programs that provided additional support to the regional environmental security efforts of DOD and Department of State. The Environmental Protection Agency (EPA) drafted its own environmental security strategy and published it under the title of *Strengthening National Security Through Environmental Protection*.²¹ The EPA correctly focused on a number of well publicized and well recognized environmental issues that were a threat to U.S. overseas interests: the Chernobyl nuclear power plant explosion; the destruction of forests in Haiti with the resulting erosion of topsoil and immigration of Haitian refugees to the United States; the 1997 through 1998 Indonesian forest fires that caused over 20 million cases of smoke related respiratory cases and one thousand deaths; and the Kuwait oil fires of 1991. All of these events demonstrated a need for technical environmental expertise overseas and the cooperation's of regional states to preclude their recurrence. The Central Intelligence Agency created the DCI Environmental Center (DEC) under the leadership of Terry Flannery to examine these types of issues. The DEC combined several groups within the intelligence community that had been working environmental security issues into one responsive arm that could provide policy makers the timely and relevant information they needed to craft U.S. foreign policy decisions. They also provided direct support to the

Department of State, Department of Defense, and other U.S. agencies. The Department of Energy reflected the importance of environmental security at the time by establishing environmental security research centers in several of its well-regarded research laboratories. Thus, a powerful resource base was created that is available to Combatant Commanders to promote their Theater Security Cooperation Plans.

National Security Strategies

The Goldwater-Nichols Department of Defense Reorganization Act amended the National Security Act of 1947 to ensure that the President create a National Security Strategy (NSS) to guide U.S. international behavior.²² The strategy included national interests, objectives and the resources necessary to achieve those objectives. Typically the national security strategies mandated by the Goldwater-Nichols Act begin by identifying U.S. national security interests and the threats to those interests. Staffed through the inter-agency community, the National Security Strategy recognizes the capabilities of the various elements of U.S. national power and seeks to apply them as resources with which to mitigate threats and achieve objectives. In his 1988 National Security Strategy, President Reagan, as one might expect, articulated the Soviet Union as the U.S.'s most significant global challenge. The document went on to say that in Europe, the Warsaw Pact constituted the greatest challenge to U.S. interests; in the Middle East it was a protracted war between Iran and Iraq and Iran's determination to dominate the Gulf region. Low intensity conflict and the spread of nuclear weapons were also mentioned as significant threats to U.S. national interests as was the hard currency debt of many of the developing countries. Interestingly, 19 years ago, the Reagan National Security Strategy identified critical shortages of food and other basic needs, as threats to U.S. interests and stated, "the dangerous depletion or contamination of natural endowments of some nation's soil, forest, water, and air... create potential threats to the peace and prosperity that are in our national interests as well the interests of the affected nations."²³

Some policy makers in the 2001 – 2004 Bush administration treated engagement and environmental security as Democratic concepts that emerged during the Clinton administration, so it is important to note that the environment and its roles in conflict and as a threat to U.S. national security interests, was articulated well by two Republican administrations. The George H.W. Bush Administration's 1991 National Security Strategy stated clearly, "the stress from environmental challenges is already contributing to political conflict."²⁴ In the same NSS, the concept of engagement began to emerge. "The stable foundation of our security will continue to be a *common effort* with peoples with whom we share the fundamental moral and political values and security interests."²⁵ The Bush NSS went on to say that in the Asia-Pacific region it hoped that the U.S. and Japan could cooperate and extend its efforts to "refugee relief, nonproliferation and the environment."²⁶ Recognizing the demise of the Soviet Union as the principle threat to U.S. national security interests and the growing threat of regional instability to those interests, the 1991 NSS made clear its future orientation, "a key task for the future will be maintaining regional balances and *resolving such disputes before they erupt in military conflict.*"²⁷

By the end of the first Clinton administration, the United States had moved away decisively from the focus on the Soviet threat and had clearly defined regional instability as the primary threat to U.S. interest. This remains the case today. In addition, transnational threats were seen as direct and indirect threats to U.S. interests, as was the proliferation of weapons of mass destruction. The Clinton administration had seen the value of international engagement on environmental issues and increasingly promoted the concept of engagement as a vehicle by which the United States could shape the international environment "in ways favorable to U.S. interests and global security."²⁸ The concept of proactively addressing regional issues before they could lead to conflict was now firmly established. The elements of national power, or resources, with which the United States was to initiate this shaping activity were diplomatic, economic, and military activities. Because of the important role that militaries play in the state governments of many regions of the world, and their important role in supporting newly emerging civilian democracies it was thought that U.S. forces that were forward deployed and cooperating with regional militaries through exercises and training, could promote regional stability by deterring aggression, reducing threats, and serving as role models for other military and emerging democracies. However,

primarily the United States military was thought to be able to serve as a “positive means of engagement, building security relationships...in an effort to keep these countries from becoming adversaries tomorrow.”²⁹

Environmental issues were seen as a threat to U.S. national security interests because they were transnational in nature, “and natural resource scarcities often trigger and exacerbate conflict.”³⁰ The military could address these environmental threats proactively, thereby reducing the possibility that environmental issues could lead to conflict. By doing so they would serve as a role model military support to civil authority, and they could promote multi-lateral cooperation and communication between the defense sectors of important regional countries. It is worth noting that the NSS concept of environmental security had evolved from its 1991 concept of contributing to conflict, to the 1997 concept of triggering or exacerbating conflict. This change in wording reflected the results of the research on the impact of environmental scarcity and violent conflict by Tad Homer Dixon and his colleagues, which, although failing to demonstrate that environmental issues by themselves could lead to violent conflict, clearly captured the imagination of the policy-making community.³¹ The national security community realized from this and other research that environmental matters were a significant variable in regional stability and though in concert with existing tensions, could indeed trigger the type of conflict that would threaten U.S. national security interests and lead to the large-scale introduction of military forces.

The National Security Strategies throughout these three administrations articulated the importance of environmental security to U.S. national security interests, either as transnational threats to national interests or as vehicles for promoting regional communication and cooperation and shaping the security environment in ways favorable to U.S. interests. The Defense Policy Guidance and the National Military Strategies that flowed from the National Security Strategy documents also encouraged the Regional Combatant Commanders, to undertake engagement activities, making it clear that a well planned and resourced engagement process could “prevent the drain on resources caused by intervention in a full blown crisis.”³² In addition to operational plans, the COCOMs were required to produce Theater Engagement Plans (TEPs) that delineated their strategies for engaging the priority countries in their region and maintaining regional stability.

The sophistication of Theater Engagement Plans evolved over the years and included such useful and clear objectives as gaining access, influence, and goodwill among the defense organizations of the region. The degree to which the regional COCOMs embraced the theater engagement planning process varied as one would expect, but was uniformly executed in a professional and effective manner. General Anthony Zinni, when Commander of the Central Command, said on numerous occasions, “my primary mission is engagement.”³³ General Zinni correctly understood that engagement strategies often provided the access and goodwill necessary to dissuade those countries whose behavior might destabilize a region. His historic visit to Pakistan that ended the mountain conflict with India demonstrated the value of the engagement process.

Environmental security became an important element of regional engagement strategies for most of the COCOMs. It was found that environmental issues were often considered benign in nature, yet were important to the economies of most countries, while engagement activities that stressed military interoperability in warfighting could be seen to certain countries in the region as threatening. However, military cooperation on environmental issues, such as disaster response or disease identification and prevention, were legitimate military missions to address common threats. Environmental problems were compelling, easy to understand and lent themselves to engagement in difficult situations where all other efforts to identify areas of common interests had failed.

The Role of the COCOM's

The United States divides most of the globe into operational areas and assigns COCOMs, to conduct operations within their given area of responsibility (AOR). The primary combatant commands are: the Central Command (CENTCOM), the Southern Command (SOUTHCOM), the European Command (EUCOM), and the Pacific Command (PACOM). The areas of responsibility of the combatant commanders vary substantially. Each of the COCOMs is responsible for maintaining operational readiness with its forces and being able to fight and win any military conflict into which the United States may enter. In addition to the responsibility for fighting and winning, the combatant commanders must also maintain political relationships with the countries of their AOR that will allow them to influence the behavior of regional states, gain access to strategically important airfields, ports, and secure over-flight clearances. The latter functions are accomplished through a Joint Staff mandated Theater Security Cooperation Plan (TSCP), formerly the Theater Engagement Plan (TEP). The regional combatant commanders develop operational contingency plans so that they are prepared to execute military operations in the region and they develop a TSCP that allows them to promote U.S. security interests through regional engagement.

Environmental security figures prominently into the theater engagement activities of the regional COCOMs. Environmental issues such as competition for scarce resources such as water or petroleum, can lead to tensions or conflicts that undermine the stability of the region and therefore threaten U.S. national security interests. Environmental issues left unattended could well involve the regional combatant commander in military conflict or relief operations such as those that occurred in Somalia, Haiti and Rwanda. At the same time environmental issues can serve as a venue for promoting communication and cooperation among regional states and the often elusive goal of multilateral cooperation. All four of the regional combatant commands drafted environmental security annexes to their Theater Engagement Plans. The degree to which these draft engagement plans influenced the behavior of the COCOMs varied and only two of the Theater Engagement Plan annexes have been altered to become part of the Theater Security Cooperation Plan. Thus, the importance of environmental security in the engagement activities and operations of the combatant commands reflects the personality and vision of the commander, and the political-military situation within the AOR.

Environmental Security in Regional Engagement

During the Clinton administration the Principle Assistant Deputy Under Secretary of Defense for Environmental Security and the Director of the DCI Environmental Center visited the COCOM Commanders to promote the concept of using environmental security as an engagement vehicle and offered the support of their organizations in developing vehicles that would encourage environmental security within the various regions. Thus, encouraged the COCOMs began to address environmental issues as part of their regional engagement strategy.

In the U. S. Pacific Command (PACOM) area of responsibility, environmental security has played a growing role in regional engagement activities, and multilateral security cooperation planning. From the early, region wide, DOD sponsored, trilateral (U.S./Canada/Australia) Environmental Security Conferences, and the Asia Pacific Center – US Army War College Environmental Security Conference that led to a memorandum of Understanding between the Chinese PLA and DOD, environmental security has evolved into a useful engagement vehicle for the Pacific Command.

The Pacific Command has been quite active in promoting multilateral cooperation on environmental security issues, particularly in the areas of combating terrorism and promoting governance through disaster preparedness. The combating terrorism strategy of the U.S. has three areas of emphasis: protecting the homeland; attacking and disrupting terrorists and their organizations; and countering extremist ideology. The latter element supports the “long war” concept of building good governance and governmental legitimacy and so removing the discontent that often encourages anti-government activities. Specifically, the goal is to diminish the underlying conditions that terrorists seek to exploit.

Within the PACOM Component Commands, the U.S. Army Pacific (USARPAC) took the lead in promoting environmental security as a security cooperation vehicle in Southeast and South Asia. Beginning in June of 2003, USARPAC cosponsored a series of multilateral environmental security conferences in Bangkok, Manila and Honolulu focused on the military role in helping civil authority address the underlying environmental conditions that terrorists seek to exploit, from development to consequence management and seismic disaster response. These conferences led to Southeast Asian, Environmental Security and Combating Terrorism workshops hosted by Thailand and the Philippines. In these, the host country demonstrated the best practices with which their militaries cooperated with the civilian governments to address the roots of insurgency and build governmental legitimacy. The Royal Thai Army is using its “development” program in the border areas and in the South, where the Muslim minority feels disenfranchised from Thailand. The Philippine Armed Forces have successfully met the terrorist challenge on Basilan and Jolo Islands by working with U.S. forces to execute an environmental security program that mitigated the underlying conditions being exploited by the terrorist groups.²¹

PACOM has the resources to continue its successful environmental security program and many pressing opportunities to do so. The humanitarian affairs and disaster response elements of the environmental security concept have long served as valuable PACOM engagement and security cooperation vehicles within the region. With the threat of Pandemic Influenza and the droughts, flooding, sea rise and stronger storms associated with Global Climate Change, the need for the militaries of the region to address the humanitarian dimension of environmental security will increase, as civilian elements of the region's governments alone cannot meet the challenge. PACOM's disaster preparedness group, the Multilateral Planning Augmentation Team (MPAT), provides rapid non-warfighting, coalition crisis action planning expertise in disaster management events and several contingencies. There remains substantial interest in the J5 Directorate, which recently supported the seismic disaster preparedness conferences for Southeast Asia and South Asia, the latter of which brought the militaries of India, Pakistan and China and together for the first time since rapprochement. There are two DOS Environmental Hubs in the region with strong embassy and Security Assistance Officer interest and a history of providing excellent support for the PACOM environmental security activities.

Moreover, the command has a growing staff, interagency presence, and access to three exceptional centers with much experience in environmental security missions: the Pacific Disaster Center, the Center for Excellence in Disaster Management and Humanitarian Assistance and the Asia-Pacific Center for Security Studies. Thus, substantial potential exists for environmental security to become an even more valuable element of the Pacific Command's Security Cooperation Program, providing TSOP menu options with substantial potential to promote regional communication and cooperation and to defuse existing tensions among neighbors.

In order for environmental security to serve as a military engagement vehicle, many key actors must be involved. The Regional Combatant Commander must endorse the concepts and direct his staff to include the project in the Theater Security Cooperation Plan. The next important actors are the Mission Chiefs of the U.S. Embassies and the Defense Attaché and, or a Security Assistance Officer to represent the U.S. military with the host nation military. Embassies have Mission Performance Plans in which the guidance provided to the embassies by Washington is integrated into an annual strategy for accomplishing policy objectives. If environmental security is to be undertaken by those embassies, then environmental security must be shown to have a positive impact on the embassy's ability to successfully address its mission. In many cases, Ambassadors are pleased to see the military support civil authority in addressing the largely humanitarian environmental security activity, particularly if the military is trying to overcome a poor human rights record. For the most part, however, environmental security is a new concept for these military representatives and embassies. For them to request an environmental security activity or provide their full support to Command initiatives involving their country, they must understand the concept of environmental security. Therefore, the regional command should explain how environmental security is to be used in the command to these Ambassadors and embassy military representatives at their annual conference. As demonstrated in the Central and

Southern Commands, the ambassadors, once they fully understand the concept, often become a driving force in regional environmental security activities. Educating the mission chiefs is best accomplished during their visits to the combatant command.

Summary

Environmental security has been demonstrated to be a process wherein environmental problems can be used to contribute to national security objectives, both in reducing tensions over environmental issues and by using commonly held environmental problems as confidence building measures to bring together countries that may themselves have other sources of tension. The Pacific Command has an interest in environmental security because it has a mission of promoting security cooperation in the region that will ensure stability and facilitate its ability to fight and win America's wars. Environmental security issues because of their benign nature lend themselves to promoting multilateral cooperation in regions of significant tensions such as South Asia and the Sea of Japan, or with countries such as Indonesia where the role of the military affects bilateral relations. The military is uniquely suited for addressing many environmental security issues. The military has good communications, a presence on the frontiers and in border areas, relatively good transportation assets, technical expertise, an existing security mission, and the role of preparing for disasters and other crisis. Moreover, involving the military creates military support to civil authority while broadening the resource base with which democratic regimes must meet the political demands of their constituents, and address critical economic issues.

Defense cooperation on environmental security provides support to environmental initiatives from nongovernmental organizations, multilateral organizations, the donor community and other U.S. regional diplomatic efforts. United States interests turn on regional stability. Environmental issues are now recognized as a major variable in regional instability and conflict; however they offer a powerful option to U.S. preventative diplomacy and the combatant commanders' Theater Security Cooperation Plan.

ENDNOTES

¹ Senator Pete Domenici and Senator Jeff Bingaman, "Design Elements of a Mandatory Market-Based Greenhouse Gas Regulatory System, Unpublished Manuscript, February 2006, p 1

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¹⁴ Stephen M. Walt, "The Renaissance of Security Studies," *International Studies Quarterly*, Vol. 35, 1991, pp. 211-239.

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¹⁶ Sherri Wasserman Goodman, Deputy Under Secretary of Defense (Environmental Security), Statement before the Subcommittee on Installations and Facilities of the House Committee on Armed Services, May 13, 1993, p. 9.

¹⁷ Vice President Al Gore Jr., "Letter from the Vice President," in *Environmental Diplomacy: The Environment and U.S. Foreign Policy*, (Washington: Department of State, 1997), p. 1.

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¹⁹ See for example, *Environmental Diplomacy: The Environment and U.S. Foreign Policy*, (Washington: Department of State, 1997), p. 1.

²⁰ William J. Perry, Remarks Delivered at the John F. Kennedy School of Government, Harvard University, May 13, 1996.

²¹ See, *Environmental Security: Strengthening National Security Through Environmental Protection*, (Washington: USEPA, 1999).

²² Section 108 [50 USC 404a] (a) (1). *National Security Act of 1947*, as Amended by Public Law 99-433. *Department of Defense Reorganization Act of 1986*, 1 October 1986. Section 104 (b) (3&4). (Goldwater/Nichols).

²³ *National Security Strategy of the United States*, Government Printing Office, Washington, D.C., 1988, p. 6.

²⁴ *National Security Strategy of the United States*, Government Printing Office, Washington, D.C., 1988, p. 22.

¹² *Ibid.* p. 13.

¹³ *Ibid.*, p. 9.

¹⁴ *Ibid.*, p. 7.

¹⁵ *National Security Strategy of the United States*, Government Printing Office, Washington, D.C., 1997, p. 6.

¹⁶ *Ibid.*, p. 8.

¹⁷ *Ibid.*, p. 9.

¹⁸ Thomas Homer-Dixon, "Environmental Strategies and Violent Conflict: Evidence from cases," *International Security*, 19, 1994, pp. 5-40.

¹⁹ *National Security Strategy of the United States*, Government Printing Office, Washington, D.C., 1997, p. 9.

²⁰ General Anthony Zinni in his role as CENTCOM Commander was an outspoken advocate of using environmental security for engagement purposes. He said on numerous occasions, "I have two missions; war fighting and engagement. If I do engagement right, I don't have to do war fighting."

²¹ Colonel James Linder, immediate past JSOTF-P Commander, address to Senior Interagency Strategy Team, National Counterterrorism Center, December 13, 2006.

HYDRO-POLITICS IN SOUTH ASIA: THE DOMESTIC ROOTS OF INTERSTATE RIVER RIVALRY

• CHAPTER 5 •

Dr. Robert G. Wirsing

Introduction

In an earlier article,¹ Christopher Jasparro and the author argued that cooperation in regard to river resources between and among most of the South Asian region's co-riparian states (India, Pakistan, Afghanistan, Nepal, Bhutan, and Bangladesh) was severely limited. It was impeded by a number of things, we observed, including deeply entrenched interstate animosities rooted in the region's history, incommensurable national interests and policy priorities, and a paucity of either bilateral or multilateral agreements and institutional frameworks to facilitate dialogue and foster compromise. In that article, the authors held back from endorsing a view one often hears expressed in the region—namely, that its co-riparian states, or at least some of them, were hurtling inexorably towards violent “water wars”. We were no less reluctant, however, and in spite of its evident attractions, to encourage the expectation that the region's co-riparian states would soon move to adopt an integrated and comprehensive plan for the joint management and development of shared international river basins. That, we felt, considerably exceeded their governments' existing capacities or inclinations for cooperative behavior.

Since that article was written, the World Bank-appointed neutral expert, Swiss engineer Raymond Lafitte, has given his long-awaited verdict on the Baglihar dam, a controversy-riddled 450MW hydroelectric project built by India on the Chenab River in Doda district in the state of Jammu and Kashmir. Turned over to the Indian and Pakistani governments on 12 February 2007, his final determination in regard to the dam's conformity with the 1960 Indus Waters Treaty (IWT) between India and Pakistan, though it conceded some ground to the Pakistani side on three of the four objections it had raised to the dam's design, clearly upset knowledgeable Pakistanis far more than it did the Indians.² Though some observers held that Lafitte's decision, since it represented the successful implementation of the arbitration provisions of the IWT, stood as a rare and hopeful marker of India-Pakistan cooperation, others, including the present author, interpreted it in less sanguine terms. The conspicuously modest alterations to the dam's design called for by Lafitte, and his insistence on attaching more weight to the dam's efficient and cost-effective operation (the heart of the Indian side's argument) than to its strict adherence to the IWT's detailed, albeit ambiguous, provisions aimed at restricting New Delhi's ability to control the river's flow (of uppermost concern to Pakistanis), seemed more likely than not to add fuel to existing tensions over the future of Indus river waters.³

In this article, the principal issue remains the same: Why, when the need for it seems so apparent, is cooperation in regard to the management of river resources among South Asia's co-riparian states so difficult to generate? The focus shifts, however, to domestic impediments to river resource cooperation.

The region's domestic impediments are dealt with in this article under three headings: first, the scale of national river resource problems, requirements and plans; second, the inefficiencies associated with irrigation uses of water resources; and third, the shortcomings in management of water resource decision-making. The argument made in this article is that intra-state circumstances are at least as crucial as inter-state circumstances in thwarting the region's progress towards a more cooperative model of interstate river resource management—or, to put it more positively, that the success achieved by each of the co-riparian countries in addressing these three not always recognized or acknowledged categories of domestic determinants is no less important to regional cooperation in regard to water resources than is the overcoming of handicaps inherent in the quite obviously conflictive pattern of regional interstate relations. Along the way, the argument will inevitably implicate governance—bad governance especially—as a principal villain in the region's rapidly developing water crisis.

The Problem of Scale

A number of considerations come to mind when the problem of scale is brought into focus in relation to river resources in South Asia. On the demand side, the region's huge growth in population, rapid urbanization, and rising expectations for improved living standards ensure that in all the co-riparian states pressures on government will rise exponentially in coming decades to ensure exploitation of river resources adequate to meet the countries' escalating water requirements—for fresh drinking water, water for industrial uses, water for irrigation of agricultural lands, water for the generation of electric power, water for fisheries, water for navigational and recreational uses, and so on. On the supply side, there are huge variations among these countries; but water scarcity is already a fact of life in most of them, at least seasonally or regionally; and in at least one of them, Pakistan, scarcity has acquired critical national proportions. The combination of rapidly rising demand and supply-side deficits of various sorts has sent the region's governments scurrying about to close the widening gaps between resource availability and resource requirements.

In India's case, the problem of scale in relation to river resources is formidable indeed. Its population is expected to reach about 1.6 billion by 2050—a figure over four times the population of India at its independence in 1947. To feed this population, India's leadership will have to increase agricultural output commensurately; and that requirement is certain to dictate vastly expanded use of irrigation waters. To provide electricity for the population's homes and workplaces, there will have to be an equally vast expansion in the country's power output, including hydroelectric power. That will mean a huge investment of capital in energy infrastructure, including the building of many more dams.

India's Energy Requirements

By 2010, India is expected to take South Korea's place as the world's fourth largest energy consumer, after the United States, China, and Japan.⁴ Its energy requirements are growing at a rate of 5.6 to 6.4% per annum, which translates roughly into a four-fold increase in India's energy needs over the next quarter century.⁵ Coal, which presently meets about 55% of India's energy requirements, is bound to occupy center-stage on the energy supply side well into the future; but with energy consumption rising astronomically, greater efforts to expand and diversify energy sources are inescapable.⁶

As of the end of January 2005, India's total installed power generating capacity was 115,544 MW. Thermal resources (coal, oil, gas) accounted for 80,201 MW, hydro for 30,135 MW, nuclear for 2,720 MW, and wind for 2,488 MW.⁷ In 2003, the government of India identified a planned target by the end of the Eleventh Plan in 2011-12 of an additional 107,000 MW—a Herculean aspiration that would mean a near doubling of the current installed capacity. Hydropower, whose share in total power generation has been progressively declining over time, was being counted upon to supply about 50,000 MW of the targeted additional capacity.⁸ Whether this target was realistically reachable, and where in India such an expansion in hydroelectric (hydel) generation could occur, were major questions.

India's Hydro-power Potential

India ranks fifth in the world in exploitable hydel potential. According to a re-estimate made in April 2006 by India's Central Electricity Authority (CEA), identified hydel potential is 148,701 MW.⁹ The breakdown of this potential by region is shown in Table 1. Table 2 gives state-wise data on 162 new hydel dam schemes, totaling a bit less than 50,000 MW, approved by the Indian government in May 2003. In both tables, the importance of the country's northern and northeastern sectors is immediately evident. Considering the 16 states listed in Table 2, for instance, only 29 (17.9%) of the new hydel schemes will be located outside of the northern and northeastern sectors of the country. The importance of Arunachal Pradesh, where almost one fourth of the dams are to be constructed, stands out in particular. Also evident is that these sectors are precisely the ones that border on India's regional neighbors and with whom the waters to be tapped are shared.

Table 1. Status of Hydroelectric Potential Development in India, 2006

Region	Identified Capacity (MW)	% Capacity Developed/ Under Development	% Capacity Undeveloped
NORTHERN	53,395	36.0%	64.0%
WESTERN	8,928	68.9%	31.1%
SOUTHERN	16,458	59.7%	40.3%
EASTERN	10,949	31.9%	68.1%
NORTH EASTERN	58,971	6.8%	93.2%
ALL INDIA	148,701	28.7%	71.3%

Source: Central Electricity Authority, Government of India

Table 2. State-wise Status of 50,000 MW Hydel Initiative

State	Number of Schemes	Planned Installed Capacity (MW)
Andhra Pradesh	1	81
Arunachal Pradesh	42	27,293
Chhattisgarh	5	848
Himachal Pradesh	15	3,328
Jammu & Kashmir	13	2,675
Karnataka	5	1,900
Kerala	2	126
Madhya Pradesh	3	205
Maharashtra	9	411
Manipur	3	362
Meghalaya	11	931
Mizoram	3	1,500
Nagaland	3	330
Orissa	4	1,189
Sikkim	10	1,469
Uttaranchal	33	5,282
Total	162	47,930

Source: Central Electricity Authority, Government of India

Importance of India's Northeast

The Brahmaputra River is the world's fifth largest. Having a drainage basin that overlaps four countries (China, India, Bhutan, Bangladesh) and six Indian states (Arunachal Pradesh, Assam, Meghalaya, Nagaland, Sikkim, and West Bengal), and with a breadth that at some points extends as wide as 20 kilometers, it has been described as a flowing sea. The Brahmaputra river basin holds roughly 30% of India's total water resources potential, and, as can be seen in Table 3, a whopping 44.4% of the country's total hydel potential.¹⁰ Currently, only 1.9% of its hydel potential is installed—a powerful stimulus to the surge of dam-building activity being witnessed in the northeastern region. This is also a leading stimulus, of course, to the contemporary surge of water resource anxiety currently witnessed in Bangladesh.¹¹ Skepticism about a major source of that anxiety—New Delhi's much-publicized plan to transport water from the “surplus” Brahmaputra River to other water-deficit states (the River Linking Project discussed below)—is fairly common among India's river resource authorities.¹² There is little if any skepticism, however, about the northeastern sector's hydropower potential or the Indian government's determination to exploit it. In short, India has few equals when it comes to the scale either of its hydropower requirements or its hydropower plans.

Table 3. Hydel Potential of India's Major River Basins/River Systems

Basin/Rivers	Potential Installed Capacity (MW)
Indus Basin	33,832
Ganga Basin	20,711
Central India River System	4,152
Western Flowing Rivers of Southern India	9,430
Brahmaputra Basin	66,065
Total	148,701

Source: India Energy Outlook 2006, KPMG International

India's Irrigation Requirements

India, with a population nearing 1.1 billion, has an irrigated area of about 58 million hectares (143.26 million acres). On average, about 500 billion cubic meters of water per year is used to irrigate this area. India produces the majority of its food requirements, with about 40% produced on irrigated lands. As population grows, food and water requirements naturally increase—rapidly as living standards improve. Urban growth diminishes the amount of agricultural land available, and finding new land to cultivate, especially fertile land, is difficult. Hence, all eyes turn to water and the agricultural miracles that can be wrought through increased irrigation.¹³ Sadly, the expected huge increase in water withdrawal is up against relatively inelastic limitations in supply. This means that by 2025, according to hydrologists, India will be experiencing “water stress”—severe water shortages in food-producing areas.¹⁴ The threatened scarcity can be addressed in a number of ways, including purchase of food from water surplus countries and, to be examined below, improvements in irrigation efficiency. Meeting this challenge will increasingly exercise the imaginations of India's water planning bodies.

Inter-basin transfers & the River Linking Project

Inter-basin transfers of water are fairly common in India and they are likely to increase. However, no such certainty can be expressed about the “mother” of all such transfers, the proposed River Linking Project (RLP) that aimed at transporting mammoth quantities of water from India's northeastern sector to water-starved areas in India's western and southern states. Its ultimate

fate, in the face of a huge public (both national and international) outcry in the earlier years of this decade, remains shrouded in controversy.

Brought to the public's attention in 2003, the RLP envisions the inter-basin transfer of waters that would connect 30 Himalayan and Peninsula rivers in a gigantic national water-grid. Its proponents boasted that it would add at least 35 million hectares of irrigated land (an increase of about 60% to the existing total), generate 34 additional MW of electricity, increase navigational efficiency, benefit fisheries, control floods, and overcome chances of drought.¹⁵ Critics called it outrageously costly, an environmental nightmare, and a threat of catastrophic proportions to Bangladesh. With estimated costs running from \$120 to \$200 billion, the RLP would be—if implemented—one of the largest infrastructural projects in world history. Political opposition to the project, especially from some of the northeastern states whose waters would be withdrawn for use in other states, has been strong; and that alone may account for New Delhi's announcement in 2005 that the Himalayan component had been placed on temporary hold.¹⁶ Opinion is sharply divided over whether it will—or should—stay on hold; but the passage of time, which is bound to bring increasing symptoms of water scarcity, may ultimately prove advantageous to the RLP's advocates. For better or worse, their project's scale may at some future date come to seem appropriately matched to the scale of India's water requirements.

The Teesta Barrage Project: The West Bengal case

Nothing better illustrates the problem of scale—or testifies more emphatically to its potentially nettlesome interstate impact—than India's plans for multipurpose development of the Teesta (or Tista) river. The Teesta emerges from a glacier in the Himalayas and flows a little more than 300 kilometers through the northern reaches of West Bengal and Bangladesh before meeting the Brahmaputra River in the district of Rangpur in Bangladesh. Ranking fourth in size, following the Brahmaputra, Ganges, and Meghna rivers, among the 54 rivers flowing from India into Bangladesh, the Teesta is of unquestioned importance to the economic development of Bangladesh. It is also a hugely important river resource from the West Bengal point of view.¹⁷

The Teesta Barrage Project (TBP) was begun in 1976 with the launching of construction of the Teesta barrage at Gajoldoba. The largest such structure in northeast India, the Teesta barrage, finished in 1987, gives its name to a vast irrigation project—the TBP—that includes flood control, hydro-power generation, and drinking water supply among its purposes. The TBP, when finished, will have four main barrages (besides that on the Teesta river, two others—on the Mahananda river at Fulbari and on the Dauk river at Chopra—are already in operation, while a fourth on the Tangon river to the south in Dakshin Dinajpur is pending), an elaborate system of link canals, and will serve an estimated 30 million people in all or parts of at least six districts (Darjeeling, Jalpaiguri, Coochbehar, Uttar Dinajpur, Dakshin Dinajpur, and Malda). It is the largest irrigation project in West Bengal's history, in scale nearly equaling the total of all previously existing irrigation projects in the state.¹⁸

About 30% of the TBP—what its builders term substage 1 of stage 1, the first of three main stages—stands completed today. When the entire project is completed, its total “command area”, the area served by its irrigation waters, will encompass some 928,000 hectares (nearly 2.3 million acres). The project promises many benefits, not least of them that three cropping seasons will be possible in a region that was traditionally a one-crop area. Even now, in its fairly early stage, the project is resulting in visible signs of prosperity. Less immediately visible, perhaps, but of no less importance, India's TBP runs in direct competition with a smaller scaled, but still highly ambitious, project—the Teesta Development Project (TDP)—on the Bangladesh stretch of the Teesta. The finite water resources of the Teesta, facing steadily increased withdrawal on both sides of the international border, are thus being called upon to meet irrigation needs and development plans that are virtually bound to outstrip by far what the river itself can possibly deliver. Water resource officials on both sides of the international border freely admit this; and more than a few—including a senior civil engineer in the West Bengal Department of Irrigation and Waterways—declare in sober terms that a war over water shares is inevitable.¹⁹ Be that as it may, there can be no doubt that the scale of water resource development projects now underway on both sides of the India-

Bangladesh border, in both countries aimed understandably at satisfying rapidly mounting water resource requirements, vastly complicates the negotiation of river sharing agreements.

Pakistan's Water Crisis

When it comes to water resources, there can be no doubt that Pakistan is a country in serious crisis.²⁰ Per capita water availability in Pakistan, according to recent estimates, slipped from 5,000 cubic meters per annum in 1951, a few years after the country's founding, to 1,100 cubic meters per annum in 2006, a nearly fivefold decline. Severe water shortages are now a fact of life. With the country expected to have a population in 2010 of 173 million, it is almost certain that by that date it will slip below the internationally recognized scarcity limit of 1,000 cubic meters of water availability per capita per year, an alarming rate of decline that is projected to dip even further—to less than 700 cubic meters per capita by 2025, when Pakistan's population may have reached 221 million.²¹ The unpleasant fact of the matter, according to a just published and immensely disturbing World Wildlife Foundation (WWF) report on Pakistan's water crisis, is that "Pakistan is already one of the most water-stressed countries in the world, a situation which is going to degrade into outright water scarcity".²²

The cited WWF report paints an extraordinarily grim portrait of Pakistan's water pathologies. Included among them are:

- Serious deterioration in groundwater quantity and quality in almost all urban centers.
- Rapidly falling water tables in many areas, rural and urban, due to uncontrolled extraction of groundwater and extended dry periods. The water table in Islamabad, for example, has dropped 50 feet between 1986 and 2001, in Lahore about 20 feet between 1993 and 2001.
- Addition of tens of thousands of new private tube wells every year, in spite of an obvious imbalance between water withdrawals and recharge of groundwater supplies.
- Estimated 8% of urban wastewater treated in municipal treatment plants. Most domestic waste is discharged directly to sewer systems, natural drains or water bodies, nearby fields or internal septic tanks. Only 1% of industrial wastewater in the country is treated by industries prior to discharge into rivers and drains. An estimated 2,000 million gallons of raw sewage is discharged daily to surface water bodies.
- Steep decline in quality of drinking water. In Sindh province, for example, almost 95% of shallow groundwater supplies have been found to be bacteriologically contaminated. In the country's two most populous provinces, Sindh and Punjab, approximately 36% of the population is exposed to dangerous levels of arsenic contamination of the groundwater. Approximately 75% of water in Islamabad and 87% in neighboring Rawalpindi is reported unsafe for human consumption.
- Estimated 250,000 child deaths annually due to water-borne diseases.

The WWF report concludes that "water use practices in [Pakistan] fall far short of the required minimum for water conservation and water quality. In simple terms, Pakistan's water is drying up, and what little remains is heavily polluted".²³

THE PROBLEM OF INEFFICIENCIES IN WATER USE

In water use as in other matters, inefficiency is an obviously slippery concept, lending itself readily to misinterpretation and exaggeration. Who is to be the ultimate judge, for instance, of whether using, on average, 1,000 tons of water to produce 1 ton of grain, 280 liters of water to produce 1 kilogram of apples, or 4,000 liters of water to produce 1 kilogram of beef is or is not wasted water? Moreover, more efficient use of water resources is clearly not the only means available for confronting food scarcity. There is little doubt that, without making any improvement either in per hectare grain productivity or irrigation efficiency, an amount of food roughly equal to that produced today can be grown on the same land with less water. However, this could only happen if a massive shift to less water-intensive crops were brought about in combination with an equally massive change in the customary dietary habits of large numbers of people. As agricultural scientist Sietan Chieng observes, "there is a solution [to food shortages] if desperate measures are needed".²⁴

In India and in South Asia generally, circumstances do not appear to allow a relaxed attitude to inefficiencies in water use, most certainly not in regard to agricultural irrigation. For one thing, the region's population is predicted to grow by 2030 to an estimated 1.969 billion, considerably more than double its population in 1979-81.²⁵ These numbers, added to anticipated increases in food consumption and changes in dietary habits as incomes improve, are bound to put enormous additional pressure on agricultural productivity. For another, water withdrawal for irrigation accounts for an extremely high percentage of total water consumption in the South Asian region—in Pakistan for an estimated 93%, in India for 86%, in Bangladesh for about 70%, and in Nepal for over 97%.²⁶ For still another, crop yields in the South Asian region per cubic meter of available water are conspicuously low—a result closely related to unreliability of water delivery services. India's and especially Pakistan's unenviable rankings in this regard are readily visible in Tables 4 and 5. A final consideration is that the availability for irrigation of renewable water resources is rapidly nearing the danger point in South Asia. According to a recent UN Food and Agriculture Organization (FAO) report, "water availability is considered to become a critical issue only when 40 percent or more of renewable water resources are used for irrigation. This is the level at which countries are forced to make difficult choices between their agricultural and their urban water supply sectors".²⁷ Withdrawal for irrigation use in South Asia is currently running on average at about 36% of total available water. The figure is expected to grow to 40%—the danger level—by 2030. In Pakistan and in parts of India, this level has, of course, already been reached. Hence, the importance of highlighting water resource inefficiencies in South Asia.

Table 4. Cereal Production/m³ of Irrigation Water

Canada	8.72 Kg/m ³
USA	1.56 Kg/m ³
China	0.82 Kg/m ³
India	0.39 Kg/m ³
Pakistan	0.13 Kg/m ³

Source: Sardar Muhammad Tariq, "Indus Waters Treaty 1960 and Emerging Water Management Issues for Pakistan", paper presented at National Seminar on Problems of Water Sharing & Water Management in Pakistan, Islamabad Policy Research Institute, Islamabad, 7-8 November 2006, p. 5.

Table 5. Wheat yield/hectare

France	7.60 T/ha
Egypt	5.99 T/ha
Saudi Arabia	5.36 T/ha
Punjab/India	4.80 T/ha
Punjab/Pakistan	2.30 T/ha
Pakistan	2.24 T/ha

Source: Sardar Muhammad Tariq, "Indus Waters Treaty 1960 and Emerging Water Management Issues for Pakistan", paper presented at National Seminar on Problems of Water Sharing & Water Management in Pakistan, Islamabad Policy Research Institute, Islamabad, 7-8 November 2006, p. 5.

Irrigation Inefficiency In Agriculture

Agricultural irrigation inefficiencies are numerous, having their source in factors ranging all the way from crop selection to revenue collection. They are readily visible in Pakistan's Punjab province, whose irrigation system—one of the largest contiguous canal irrigation systems in the world—is comprised of 25 main canals extracting water from 13 barrages over the Indus river and its tributaries. The Punjab's canals themselves are notoriously inefficient. In spite of the fact that the system is over 150 years old, little canal improvement has been done since Pakistan gained its independence. Supply- rather than demand-based and thus configured to discharge continuous, albeit fluctuating and generally unreliable, flow of water, the system can't readily be adjusted to the variable cropping and seasonal requirements of modern agriculture. In the opinion of the current Secretary of Punjab's Irrigation and Power Department, canal water availability for most of the year does not come anywhere near demand or crop requirement needs.²⁸ Farmers have compensated for the system's deficiencies by turning to heavy reliance on tube wells. Salinity, sodicity,¹ and water logging, affecting, according to one estimate, over 20 million of the 38 million acres of land under the canal irrigation system in Pakistan, have been among the consequences.²⁹ An estimate by the same source places the number of small private tube wells in Punjab province today at over 700,000. These, it is claimed, pump about 45 maf [million acre feet] of the injurious saline drainage effluent for irrigation use, injecting about 150 million tons of injurious salts into the soil. The farmers are therefore destroying their lands unknowingly and invisibly by the indiscriminate pumping of the injurious saline drainage effluent for crop use. It is reported that in most of the area up to 76% of the groundwater is saline and is unfit for irrigation use.³⁰

Another irrigation inefficiency afflicting the canals and watercourses of both India and Pakistan falls under the technical rubric of "conveyance loss". Conveyance loss refers to the difference between the volume of water diverted from the intake point on the river and the volume of water delivered to the farming consumer. Evident in Table 6 is that India suffers an unusually high rate of conveyance loss, 60% on average, over four times as great, for example, as the Philippines. Conveyance loss in Pakistan has been estimated similarly at over 50%.³¹ The difference in volume between the intake and outtake point results from many things, including leakage, seepage, evaporation, theft, inaccurate metering, and so on. In both India and Pakistan, canal lining is yet in its early stages. Both governments have clearly been extremely slow to take advantage of existing innovative technologies to address the problem.³²

Table 6 Comparative Conveyance Losses (%) in Irrigation Water Supply Schemes

Country	Average	Maximum	Minimum
Philippines	13	n/a	n/a
Japan	16	25	8
Cyprus	24	26	22
Australia	28	55	0
South Korea	28	n/a	n/a
Malaysia	28	46	14
Taiwan	37	66	7
France	37	60	21
Austria	40	40	40
USA	41	50	30
Spain	42	n/a	n/a

¹ A sodium-related condition, often confused with salinity, that results in highly unstable soil.

Colombia	45	67	22
Germany	49	70	25
Mexico	50	69	23
Portugal	54	n/a	n/a
Egypt	54	n/a	n/a
Greece	57	69	49
Italy	59	64	53
India	60	71	42

Source: Marsden Jacob Associates, *Improving Water-Use Efficiency in Irrigation Conveyance Systems* (Canberra: Land & Water Australia, for National Rivers Consortium, May 2003), p. 15.

Another major source of irrigation inefficiency is to be found in the on-farm mechanics of the irrigation system itself. In India and Pakistan, as in most other countries where water is cheap and still considered abundant, the enormously wasteful flood irrigation system is in widest use. More water-efficient systems, such as the pressurized sprinkler and drip/trickle technologies, are extremely uncommon. While switching from flood to acceptably labor-intensive drip irrigation is said to cut water use in half, the share of irrigated land in India watered by the drip system is under 1%.³³ Also largely neglected has been the need for improved layout of farms and fields, a need that has been met successfully elsewhere with expanded employment of laser land leveling. The more water-efficient systems are accompanied by increased costs, to be sure; but simplified and relatively inexpensive methods are now available, and there is evidence that the costs are more than compensated by improved yields.³⁴

Yet another source of irrigation inefficiency, one that may be the most resistant to remedy, is to be found in the flat rate pricing for agricultural power that is characteristic of Indian states and deeply imbedded in their agricultural politics. Since farmers pay a fixed price per horsepower per month for electricity, “the marginal cost of pumping water is zero. This leads to energy wastage, over-pumping and inefficient selection of crops. Flat rate pumping also masks the true cost of power to farmers”.³⁵ The politically motivated subsidization of power, since it encourages water logging and depletion of aquifers, has harmful environmental effects along with irrigation inefficiency.

Irrigation inefficiencies pose formidable problems for those charged with water resource planning in India and the other countries of South Asia.³⁶ It is likely that they are far less formidable, however, than the problems stemming directly from the character of water resource management and policy-making in these countries. These problems, as will be suggested below, are deeply rooted in these countries’ domestic political circumstances and are, thus, extremely unlikely to yield to merely technical fixes.

THE PROBLEM OF MISMANAGEMENT

The management of water resources in South Asian countries is an enormous enterprise. Since it encompasses so many widely differing interests, from hydropower to flood control to irrigation to fisheries to navigation to environmental protection, and so on, it has spawned in all of these countries complex planning, development, and regulatory—statutory and institutional—frameworks, designed to address the problems reviewed earlier in this discussion. Ironically, the frameworks themselves, having given birth to a Byzantine array of often turf-conscious, wasteful, and inherently change-resistant bureaucracies, have generated large problems of their own. The result is that the management of water resources in South Asia, as elsewhere, has to operate under the heavy burden of bureaucratic political pathologies. Apart from this, however, exist at least two other often overlooked managerial problems which impact adversely on water resource policy making—one, the paralysis of the policy making process stemming in particular from the federal structure of governance in India and Pakistan, and two, the systemic political non-

accountability that stems from the profound institutional weaknesses found in the democratic or quasi-democratic setups of practically all the states of South Asia.

The problem of structural paralysis

Schedule VII of the Indian constitution divides responsibility for water resource management between the Union government and the state governments. Under state subjects (List II, entry 17), the constitution gives state governments authority over “water, that is to say, water supplies, irrigation and canals, drainage and embankments, water storage and water power subject to the provisions of entry 56 of List I”. Entry 56, in turn, grants the Union government indefinite but open-ended authority over the nation’s rivers. “Regulation and development of inter-State rivers and river valleys”, it states, “[is a Union responsibility] to the extent to which such regulation and development under the control of the Union is declared by Parliament by law to be expedient in the public interest”. The wording of these two entries is sufficiently ambiguous and overlapping to guarantee that the management of water resources in India has evolved untidily, with ample room for endless contention, not only between the central and state governments, but between and among state governments. In April 2002, a new National Water Policy (NWP), drafted by the Union Ministry of Water Resources, was adopted in India. It urged the states to adopt their own state water policies within roughly two years, taking into account the NWP.³⁷ The NWP is not legally binding on the states, however, and it seems an unlikely device for unraveling the tangle of water issues now confronting the country.

As in India, major responsibility for water resource management in Pakistan is vested in the provinces. Intense decades-long inter-provincial rivalry over water shares finally resulted in the signing by the four provincial chief ministers on 21 March 1991 of the Water Apportionment Accord. The Accord called for establishment of an Indus River System Authority (IRSA), which was brought into being by an act of the National Assembly in 1993. Far from generating harmony among the provinces in regard to water shares, IRSA quickly became a forum for continued inter-provincial feuding. A further effort at promoting water resource cooperation ended with a draft National Water Policy, made public in 2004. After reviewing the country’s water circumstances in exhausting detail, it concluded with an appeal for creation of an apex Federal Water Council (FWC), among whose responsibilities would be bringing about greater coordination of federal and provincial water resource management activities and agencies. The FWC would also lend its support to the enactment of comprehensive national legislation to govern water resources, replacing the innumerable and often out-of-date provincial statutes enacted over the preceding century and more. All of these efforts have failed to yield the desired level of inter-provincial cooperation.

Instead, in both India and Pakistan, the federal structure in company with the divided and disjointed structure of water resource management has helped politicize, delay, and bring enormous controversy to more than a few inter-state or inter-provincial water disputes. The dispute over India’s Narmada River, for instance, has endured for nearly a half century. India’s fifth largest river, the Narmada is an important resource for four states—Gujarat, where it empties into the sea, Madhya Pradesh, Rajasthan, and Maharashtra. The late Prime Minister Jawaharlal Nehru laid the foundation stone of the Narmada waters project in 1961. By 1963, it was enveloped in controversy. An Indian political scientist described the still-raging controversy thusly in 2001, nearly four decades later:

The Narmada water dispute ... surfaced in 1963, was referred to a tribunal on Gujarat’s appeal in 1969 and again in 1974 after two years delay in the prime minister’s office, and the tribunal made detailed recommendations only in 1979. New ground conditions were created by the Forest Conservation Act of 1987 and by 1990 the ‘big dam controversy’ over the proposed height of the Sardar Sarovar dam had exploded. The World Bank withdrew its financial support in 1992; [Government of India] made its own report in 1994 and this was followed by a five-member inquiry and report in 1995. The [Narmada Bachao Andolan (NBA) public interest group] submitted a writ to the Supreme Court,

which took six years to pronounce judgment in October 2000 that the project should proceed as mandated by the tribunal.³⁸

The dispute over the proposed Kalabagh dam on the Indus river in Pakistan seems destined to compile a history no less wrapped in controversy than that over the Sardar Sarovar dam on India's Narmada river. Under consideration since about 1953, the Kalabagh dam multi-purpose project, located about 100 miles southwest of Islamabad, Pakistan's capital, was officially announced in 1984. Planning for construction began almost immediately, and project completion was projected for 1994. The project was soon stalled. In 1998, then Prime Minister Nawaz Sharif announced that construction was finally to begin. His ouster from power soon thereafter again sidelined the project and reopened the issue. After nearly eight years in power, President/General Pervez Musharraf seems still far from resolving the matter. In the last few years, he has sought to get around the Kalabagh impasse by seeking to mobilize national support behind a plan to finish construction of three giant dams by 2016, but leaving indefinite which of those seemingly under consideration—Kalabagh, Bhasha, Akhori, and Skardu/Katzara—would actually be built, or be the first to be built. Each of them has its ardent advocates along with equally ardent opponents.³⁹ As of April 2007, the Kalabagh project remained just where it has been for over two decades—locked in a fierce dispute involving the central government and all four provinces. Kalabagh proponents remained unrelenting in their arguments that it was the only big dam project on which all preliminary feasibility studies and planning had been completed, that it would add 3600 MW of hydropower to the national grid, that it would vastly increase the country's storage capacity, and that it would provide water for irrigation of 4 million additional acres; but they could not overcome the deeply-entrenched hostility and suspicion the project aroused in the co-riparian minority provinces, the legislative assemblies of which all passed resolutions condemning the project. Opponents of Kalabagh have been equally persistent.⁴⁰ A consequence of the endless inter-provincial wrangling is that no major water storage project has been constructed in Pakistan, a country, as we have seen, already listed among those nearing acute per capita water scarcity, since the Tarbela dam was completed in 1976.

Without entering upon the pros and cons of any particular water resource projects, it is clear that the structurally-induced paralysis of domestic policy making in regard to the development of water resources that one encounters almost everywhere in South Asia accounts for more than a little of the difficulty met with in efforts to promote greater regional cooperation in regard to these same resources. The huge inter-provincial trust deficit in regard to water resources one encounters in India and Pakistan, for instance, inevitably reinforces the oversized interstate trust deficit that exists among virtually all the co-riparian states in the region.

The problem of systemic political non-accountability

Related to structural paralysis, but likely more deeply rooted, is the problem of systemic political non-accountability. Since all of the South Asian states, with the sole exception of Bhutan, are at least nominally parliamentary democracies, this problem is permeated with irony. Its meaning, simply stated, is that, democracy notwithstanding, there is a large and growing gap between the privileged elites and masses in these countries; and that gap manifests itself in the stunning failure of their public institutions to implement programs and deliver public services effectively, especially to those at the bottom. "No Indian city", states a recent and remarkably candid World Bank study,

provides 24 hour water supply, which brings important benefits to consumers in reliability and purity of water delivered and technologically to the maintenance of the infrastructure. Is the reason that there 'isn't enough water'? No. Cities in Africa and Asia maintain 24 hour water with much lower volumes (liters per capita per day). Delhi uses more water per person than the municipal average in France. Is the problem a lack of 'pipes'? No. Indian cities have created extensive assets for water delivery. Is it just a 'managerial' problem? No. The problem is deeper.

According to the study, “it is an institutional problem, it is not an organizational problem that can be fixed by changes within the agency responsible for water supply (though often internal reformers can make substantial improvements). The problem is in how the agency is imbedded in the relationships between politics and the citizens who are the consumers”.⁴¹ Institutional reform, observes the study, must focus on “the inclusiveness of economic growth, with emphasis not only on the distribution of gains but also on the security, vulnerability, empowerment, and sense of full participation that people may enjoy in social civic life”.⁴² Making these things the common and primary project of reform in all of the states of South Asia, not just India, is unquestionably both a mammoth and absolutely essential undertaking.

CONCLUSIONS

This paper has argued that intra-state or domestic circumstances are often as important as inter-state circumstances in impeding the South Asian region’s progress towards a more cooperative model of inter-state river resource management. In making the argument, it identified three major domestic impediments to inter-state river resource cooperation—first, the scale of national river resource problems, requirements and development plans; second, the inefficiencies associated with irrigation uses of water resources; and third, structural and systemic problems connected with the national management of water resources. Taken singly, any one of these impediments presents a formidable challenge to those charged with ensuring future national water security. Taken collectively, they seem almost overwhelming. It should be the rule, in other words, that in making judgments about river resource cooperation in South Asia every bit as much attention should be paid to pressures on water policy makers coming from within as from without the copariparian states of this region. That these pressures are sometimes overwhelming should at a minimum generate greater national, regional and international efforts to mobilize resources to address them. In company with this, however, the argument presented here is also meant to put South Asia’s governing establishments back where they belong—conspicuously on the hook of major responsibility for the sorry state of interstate cooperation in regard to river resources. The region’s failures in water resource management can’t be explained away simply by pointing a finger at a neighbor. Where interstate cooperation is lacking, bad governance at home—no less than the neighboring state’s intransigent, unreasonable, or bullying attitude—must bear a large share of the blame. In short, perhaps domestic circumstances, and in particular the failure of all South Asian governments to give water security for all their citizens the policy priority it so obviously deserves, ought to be the first place one should look to find practical opportunities for meaningful intervention and reform.

Endnotes

¹ Robert Wirsing and Christopher Jasparro, “River Rivalry: Water Disputes, Resource Insecurity, and Diplomatic Deadlock in South Asia”, *Water Policy* (UK) 9:3 (May 2007).

² For media commentary on the neutral expert’s verdict on Baglihar, see Masood Hussain, “Baglihar Dam: Spillways a Blow to Islamabad”, *The Economic Times* online, 14 February 2007, at <http://www.economictimes.indiatimes.com>; “J&K Can Plug Into More Power As Neutral Expert Clears Baglihar Dam”, *The Indian Express* online, 12 February 2007, at <http://www.jammu-kashmir.com/archives2007/kashmir20070212b.html>; “Neutral Expert’s Clean Chit to Baglihar Dam”, *India eNews* online, 13 February 2007, at: <http://www.indiaenews.com/india/20070213/39241.htm>; “MNAs to Be Briefed on Baglihar Dam in Light of World Bank’s decision”, *Associated Press of Pakistan* online, 15 February 2007, at: <http://www.app.com.pk>; and “Call for Scrapping Baglihar Dam Project”, *The News* online, 1 March 2007, at: <http://www.southasianmedia.net>.

³ For background on the Baglihar dam dispute, see Wirsing and Jasparro, “River Rivalry”.

⁴ Pramit Mitra, “Indian Diplomacy Energized by Search for Oil”, *YaleGlobal* online, 14 March 2005.

⁵ “Energy Overview”, *India Core: Information on Indian Infrastructure & Core Sectors* online, at <http://www.indiacore.com/overview-energy.html>.

⁶ Expanding India’s energy sector is going to be expensive. According to the International Energy Agency, India will have to spend upwards of \$800 billion on its energy sector by 2030. Vibhuti Hate, “India’s

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⁷ D. N. Raina, “India: Energy Scenario”, *South Asian Journal* online, v. 9 (July-September 2005).

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¹⁰ The most comprehensive study of the water resources of the Brahmaputra river basin is Vijay P. Singh, Nayan Sharma, and C. Shekhar P. Ojha (eds), *The Brahmaputra Basin Water Resources* (Dordrecht, The Netherlands: Kluwer Academic Publishers, 2004).

¹¹ On this, see Wirsing and Jasparro, “River Rivalry”.

¹² See, for instance, C. S. P. Ojha and V. P. Singh, “Introduction”, in Singh *et al* (eds), *The Brahmaputra Basin Water Resources*, p. 13; and R. R. Iyer, “Linking of Rivers: Vision or Mirage?” and “The Fallacy of Augmentation”, *Water: Perspectives, Issues, Concerns* (New Delhi: Sage Publications, 2003), pp. 250-54, 309-18.

¹³ Sietan T. Chieng, “Managing Water for Food Production: Challenging the Constraints”, Chapter 22 in P. Gallagher and L. Wood (eds), *Water & the Future of Life on Earth* (Vancouver: Simon Fraser University Press, 2003), pp. 1-3.

¹⁴ Chieng, “Managing Water for Food Production”, p. 3.

¹⁵ “Panel to Study River Linking Project”, *Business Standard* online, 20 November 2003.

¹⁶ At the 36th meeting of the Joint River Commission in Dhaka in September 2005, Indian Water Resources Minister P. Dasmunshi reportedly said in public comments that the Himalayan (northern) portion of the River Linking Project had been shelved. For background, see Wirsing and Jasparro, “River Rivalry”.

¹⁷ For a discussion of Bangladesh’s Teesta Development Project, see Wirsing and Jasparro, “River Rivalry”.

¹⁸ Most of the information for this section of the paper was drawn from interviews with senior officials of the Department of Irrigation and Waterways, Government of West Bengal, at Calcutta, and with the executive engineer-in-charge of the Teesta Barrage at Gajoldoba.

¹⁹ Interviewed in June 2006.

²⁰ The same can be said about nearly every country in South Asia. Pakistan’s water crisis, as will be evident in the discussion that follows, may be more immediately acute, especially in terms of water availability per capita. But on most other dimensions of water crisis, including polluted and depleted aquifers, water-borne diseases, and unchecked climb in the number of installed tubewells, most other South Asian states have a lot in common with Pakistan. On India’s own gargantuan water crisis, see, for instance, Ramaswamy R. Iyer, *Water: Perspectives, Issues, Concerns* (New Delhi: Sage Publications, 2003), Chap. 24: Assessments of Future Water Requirements, pp. 275-92. Iyer concludes the chapter (p. 291) with the comment: “The view of this writer [who at one time was Union Secretary of Water Resources] is that if we go by the demand-supply calculus and by the prevailing notions of ‘development’, a crisis is inevitable”. For additional recent comment on India’s water crisis, see Prमित Mitra, “Running on Empty: India’s Water Crisis Could Threaten Prosperity”, *South Asia Monitor* No. 103 (8 February 2007); Roger Bate, *India’s Woe Over H2O*, American Enterprise Institute online, 11 August 2004, at: <http://www.aei.org>; and Somini Sengupta, a three-part series: “In India, Water Crisis Means Foul Sludge”, 29 September 2006, “India Digs Deeper, but Wells Are Drying Up, and a Farming Crisis Looms”, 30 September 2006, and “The Debate: Water Management, Water Fees and Conservation”, 1 October 2006, *The New York Times* online, at: <http://www.nytimes.com>.

²¹ Figures given in the *Pakistan Strategic Country Environmental Assessment Report 2006*, cited in *Pakistan’s Waters at Risk*, Special Report (Lahore: World Wildlife Foundation, February 2007), p. 1.

²² *Pakistan’s Waters at Risk*, p. 1.

²³ *Pakistan’s Waters at Risk*, p. 23. An even more depressing list of Pakistan’s water pathologies can be found in a recent paper by the Punjab provincial Secretary of Irrigation and Power Arif Nadeem, “Water Sector Challenges: The Punjab Perspective”, paper presented at the National Seminar on Problems and Politics of Water Sharing and Water Management in Pakistan, Islamabad Policy Research Organization, 7-8 November 2006, pp. 2-3. His list includes: increasing water stress; no additional water to be injected into the system; a high-risk water environment; large-scale degradation of the resource base; overexploited and qualitatively degrading groundwater in many areas; likelihood of worsening flood and drainage problems, especially in the lower Indus basin; climate change; an inadequate knowledge base; much of water

infrastructure in poor repair; poor quality of project implementation; financially unsustainable water system; compelling need for Pakistan to invest, and invest soon, in costly and contentious new large dams; poor governance and low trust; and low productivity of water.

²⁴ Chieng, “Managing Water for Food Production”, p. 4.

²⁵ Table A1: Population & GDP, data and projections, *World Agriculture: Towards 2015/2030, Summary Report*, 2006, United Nations Food & Agriculture Organization, online at <http://www.fao.org/docrep/004/y3557e/y3557e13.htm>.

²⁶ *Pakistan’s Waters at Risk*, p. 3; and Toufiq A. Siddiqi and Shirin Tahir-Kheli (eds), *Water Needs in South Asia: Closing the Demand-Supply Gap* (Honolulu: Global Environment & Energy in the 21st Century, 2004), p. 35.

²⁷ *World Agriculture: Towards 2015/2030, Summary Report*.

²⁸ Arif Nadeem, “Water Sector Challenges”, p. 2.

²⁹ Engineer Fateh Ullah Khan, “Water Problem, Its Causes and Solutions”, paper presented at the National Seminar on Problems and Politics of Water Sharing and Water Management in Pakistan, Islamabad Policy Research Organization, 7-8 November 2006, p. 3.

³⁰ Engineer Fateh Ullah Khan, “Water Problem”, p. 3.

³¹ Engineer Fateh Ullah Khan, “Water Problem”, p. 1.

³² For a sober and enlightening discussion of innovative irrigation technologies in the Pakistan context, see Shahid Ahmad, “Innovative Technologies for Integrated Water Resources Management in Pakistan”, paper presented at the National Seminar on Problems and Politics of Water Sharing and Water Management in Pakistan, Islamabad Policy Research Organization, 7-8 November 2006.

³³ Lester R. Brown, *Outgrowing the Earth: The Food Security Challenge in an Age of Falling Water Tables and Rising Temperatures* (New York: W.W. Norton & Co., 2005), Chapter 6 online.

³⁴ See, for instance, Centre for Science and Environment (CSE), “More Crop per Drop”, at http://www.cseindia.org/dte-supplement/water20031115./more_drop.htm.

³⁵ “Energy Efficiency in Indian Agriculture”, at <http://www.renewingindia.org/eefagri.html>.

³⁶ Irrigation inefficiencies are not identical in all the co-riparian countries of South Asia. With the possible exception of Baluchistan province, for instance, there has been much less government subsidization of power for agricultural use in Pakistan than in India. On the whole, however, the region’s irrigation record is fairly dismal, with the most wasteful methods in common use everywhere.

³⁷ Ministry of Water Resources, Government of India, *National Water Policy*, New Delhi, April 2002.

³⁸ Surjit Mansingh, “Possibilities and Obstacles to Resolution of India’s Water Disputes”, paper delivered to the Biannual Conference of the Nordic Association for South Asian Studies, September 2001, at <http://www.svf.uib.no/sfu/nasa/papers/mansingh.htm>. Judging from more recent developments, the Sardar Sarovar dam project has not seen the last of controversy. Minister for Water Resources in the Congress-led government Saifuddin Soz, apparently angered at not having been consulted about clearance granted in March 2006 by the Narmada Control Authority (NCA) for an increase of about 11 meters in the dam’s height, overruled the decision. Not long afterwards, the chairman of the NCA, Secretary for Water Resources J. Harinarayan, who led the Indian team in the Baglihar dam arbitration proceedings, found himself transferred to a new administrative posting in Andhra Pradesh. “Go-Ahead on Dam Height Reversed”, *The Indian Express* online, 11 March 2006, at: <http://www.indianexpress.com>. For an unusually thoughtful and provocative comment on the Sardar Sarovar dam controversy by a renowned NBA activist, see Arundhati Roy, “The Greater Common Good”, *Frontline*, v. 16, n. 11 (22 May - 04 June 1999).

³⁹ The Katarah dam site upstream on the Indus at Skardu is vigorously defended, for instance, by Engineer Fatehullah Khan in “Choosing the Right Dam”, *Dawn* online, 17 October 2005, at: <http://www.dawn.com>.

⁴⁰ For a sampling of highly critical commentary on the Kalabagh dam dispute, see Ray Fulcher, “Pakistan: Kalabagh Dam Threatens Livelihood of Millions”, *Green Left Weekly* online edition, 15 March 2006, at: <http://www.greenleft.org.au>; Altaf A. Memon, “An Overview of the History and Impacts of the Water Issue in Pakistan”, paper presented at the International Conference on Sindh, the Water Issue and the Future of Pakistan, The World Sindhi Institute, Washington, DC, 9 November 2002, available at *Sindh Website* online: <http://www.sindh.ws>; and Engineer Fateh Ullah Khan, “Infeasibility of the Kalabagh Dam”, *Dawn* online, 1 November 2004, at: <http://www.dawn.com>.

⁴¹ World Bank, *India Development Policy Review: Inclusive Growth and Service Delivery: Building on India’s Success* (Washington, DC, 2006), p. 8, at: <http://www.worldbank.org/sar>. Italics added.

⁴² World Bank, *India Development Policy Review*, p. 1.

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It is widely recognized that leaders of terrorist organizations such as Al Qa'eda, Jemaah Islamiah, and Abu Sayyaf Group are from the ranks of the educated and mostly driven by extremist ideologies. However, the "foot soldiers of terrorism" are often recruited from the deprived masses that are at the bottom of the economic/social/ political pyramid. The leaders exploit inequitable, hopeless and poverty stricken environments and circumstances to attract the large numbers of people needed to effectively advance their extremist agendas.¹

Recently the U.S. Army War College hosted a conference on the underlying conditions of terrorism and the military role in addressing these conditions. During the conference, the participants agreed that the U.S. military has been successful in its efforts to attack and disrupt key terrorist organizations since 9/11; however, these organizations are able to replenish their ranks faster than we can reduce them because "poverty and inequality still prevails in many parts of the Muslim world with high illiteracy rates, lack of human development, and poor infrastructure."² "The center of gravity for war and terror are the populations that can provide sanctuaries, safe havens, and/or recruitment for terrorists."³ " These conditions are pervasive throughout the Asia-Pacific region.

According to Asian Development Bank's (ADB) statistics⁴:

- Asia-Pacific region is home to two-thirds of the world's poor.
- Nearly 1.9 billion people live on less than \$2 a day.
- At least 30% of the population in countries such as Cambodia, Laos, Philippines, and Vietnam still live in extreme poverty.
- 500 million Asians are conservatively estimated to be unemployed and 245 million new workers are expected to enter the labor markets over the next decade.

According to a 2005 CIA study, millions of young Muslim boys in Asia are coming of age and are creating a "youth bulge" in these societies. When the governments are not able to provide and deliver a vision of hope, mutual respect, and opportunity to these young men they end up in despair, being frustrated and humiliated. These conditions become ripe for religious extremism and nihilism, which can provide a perversely attractive escape from the grinding sense of hopelessness and despair.⁵ According to Lieutenant General Wallace Gregson, a former Commander, U.S. Marine Forces – Pacific, the decisive terrain of this war (global war on terrorism) is the vast majority of people not directly involved, but whose support, willing or coerced, is necessary to insurgent operations around the world.⁶ This populace is equivalent to the "swing voters," whose votes have contributed significantly to the decisive outcome of many U.S. presidential elections. As former President Ronald Reagan had said during the midst of the cold war, we have to turn these potential enemies into friends.

Thus, it is crucial for U.S. Pacific Command to develop a concept of operations to alleviate these conditions. Since the launch of Operation Enduring Freedom-Philippines (OEF-P) in 2002, the island of Basilan in the Philippines had achieved a secured environment, where a reign of terror ruled since the early 90s. However, this success will be short-lived if the local, state, and central governments are unable to provide a sustained secured atmosphere and meet the expectation of the local populace, as we've seen in Iraq today. Lt. Gen. Peter Chiarelli, Commander of Multinational Corps in Iraq, in his recent interview with U.S. News and World Report said "if we don't follow up with a build phase, then I don't think Bagdad can be secure." The same article on the current Iraq situation pointed out,

"the imperative to provide economic benefits to ordinary Iraqis is not born out of some vague humanitarian impulse, U.S. military officials here (in Iraq) emphasize, but one that directly affects the security of the country and the viability of the government."⁷

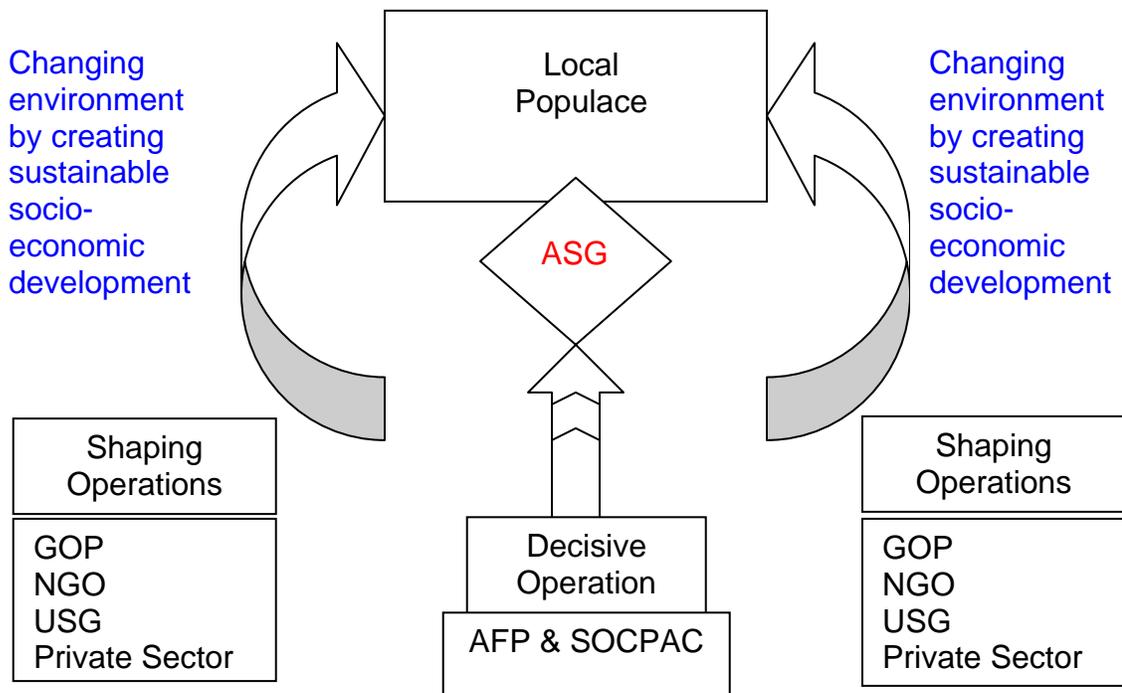
Although Basilan had made great strides in achieving better economic conditions in recent years, poverty and the lack of opportunity are still pervasive. Therefore, our long-term counter terrorism efforts "by,

through, and with” the government of the Philippines (GOP) must focus in on creating sustainable socio-economic conditions on Basilan island.

Applying Principle of War.

To put this concept in terms of a principle of war, this is equivalent to conducting an exploitative offensive operation following a successful attack. Exploitation takes advantage of tactical opportunities gained by the initiative. Exploitation pressures the enemy and compounds his disorganization.⁸

Creating sustainable socio-economic conditions should be viewed as an exploitative offensive operation. We conduct this type of operation by shaping, changing and maintaining the popular support for the AFP and GOP on Basilan. How do we maintain long-term popular support for our cause or, in another words, how do we deny popular support for the terrorist organizations? By encouraging socio-economic development that creates jobs, opportunities, and alternatives to violent extremism. This strategy is analogous to that used by epidemiologists to combat the disease malaria: The environmental conditions that foster the reproduction of the disease carrier (the *Anopheles* mosquito) are altered, effectively eliminating the disease by mitigating its transmission.



Building an Extensive Network of Stakeholders.

The U.S. military alone doesn't have the skills or resources to create sustainable socio-economic development. This type of operation requires an extensive network of stakeholders -- the host nation government (including the military), local populace, international organizations, non-governmental organizations (NGOs), private sector, academia, and U.S. Government (USG) (including the military). To attract all the necessary stakeholders, we need to activate the interagency process because the core-competency needed for this phase lies in other USG Agencies like the Department of Commerce, Department of State's Bureau of Economic and Business Affairs, State Department's Coordinator for Reconstruction & Stabilization (S/CRS), and USAID. However, Department of Defense (DoD) should and could be a proactive member of this interagency team. Building this non-traditional network of wide range stakeholders with varying interests and organization cultures is going to be an arduous task and process.

Therefore all interagency players, including the military, must think and act out-of-the-box. The recent Quadrennial Defense Review (QDR) Execution Roadmap published in May 2006 directed the DoD to develop a long-term, focused approach to build and increase the capacity for the international partners to deny sanctuary to terrorists and to separate terrorists from populations by utilizing all instruments of national power. To do so, the DoD was authorized to partner and cooperate with:

- Other departments and agencies of the U.S. Government
- State and local governments
- Allies, coalition members, host nations, and other nations
- Multinational organizations
- Non-governmental organizations
- The private sector

Leveraging the Private Sector.

The Department of Defense does not have to look very far to reach into the private sector. The U.S. military currently employs thousands of reserve and guard citizen soldiers, sailors, airmen, and marines who work in the private sector. Many of them hold significant decision-making positions with many of the Mac's, and regional and small firms. Many of them have valuable skills in such fields as public relations, marketing, business development, supply-chain management, finance, economics, agri-business, investment banking, etc. with MBAs from various prestigious U.S. business schools. Not only do we need to tap into this wealth of skills from these citizen soldiers, we need to tap into their relationship with the business community. They can open many doors to the business community as we develop the non-traditional network and partnerships. This real story of Lieutenant Colonel Allen McCormick demonstrates the power of our reserve and guard members as invaluable assets already embedded inside the U.S. military. Lieutenant Colonel McCormick, an Army Reserve officer with Special Operations Command – Pacific (SOCPAC) is from Cincinnati and also is a Brand Manager (lead marketing campaign developments) at Procter & Gamble (P&G) with an MBA from Webster University, was participating in an exercise at Camp H.M. Smith for two weeks to fulfill his annual training requirements in September 2006. When he heard about Pace's initiative to partner with the private sector, he was able to put us almost instantly in touch with the appropriate point of contact at P&G. Now, we are communicating with P&G to explore how the company can collaborate with PACOM in Indonesia. P&G has been working on water purification products to be marketed in developing countries such as Indonesia and Philippines. The company had collaborated with USAID and Center for Disease Control during the relief efforts after the Asia Tsunami of 2004. Lieutenant Colonel McCormick is teaching SOCPAC on applying commercial marketing methods to trigger, diffuse, and measure the penetration of messages in "word-of-mouth" cultures to counter extremist messages.

Also, there is a remarkable phenomenon of new thinking gaining ground within the business community. The concept of "eradicating poverty through profits" involves ways that businesses can gain competitive advantage in today's highly competitive global environment by servicing the needs of those who are at the bottom of the socio-economic pyramid (BOP). By doing so, they trigger sustainable economic growth in those areas. "Peace through Commerce" enhances the powerful role commerce plays in promoting peace. In a recent Wall Street Journal article, it reported that many U.S. business schools are adopting the new mission of promoting peace through commerce.⁹ The Association to Advance Collegiate Schools of Business (AACSB), which accredits business schools around the world, has put together a program called Peace through Commerce with the aim of raising awareness about what business schools can do to promote peace. Michael Porter, a Professor at Harvard Business School and a leading authority on competitive corporate strategy, has stated:

"it is becoming more and more apparent, however, that treating broader social issues and corporate strategy as separate and distinct has long been unwise, never more so than today...we are learning that the most effective way to address many of the world's most pressing problems is to mobilize the corporate sector...and partnerships where both companies and society can benefit...In modern competition, economic and social policy can and must be integrated...Not

only can corporate and social needs be integrated, but the success of the developing world in improving prosperity is of fundamental strategic importance to almost every company.”¹⁰

We must tap into and harness this new thinking in the business sector. The recent strategy paper published by the Department of State Bureau of Economic and Business Affairs stated that it is trying to explore ways that the private sector can help eradicate the underlying conditions that terrorists exploit.¹¹ The Bureau convened a meeting in September 2006 to discuss this initiative and PACOM was requested to participate as a member of the interagency. This is an indication of the USG awakening to the idea of engaging the private sector and recognizing the untapped resources and capabilities the business community possesses.

Military partnership with the private sector is not a new concept. A close cooperation between the military and corporations at both the political and technological level gave the U.S. a necessary advantage during WWII in aviation, communication, and radar developments.¹² Civilian-Military collaboration was a critical ingredient for innovations necessary for the U.S. to gain an advantage over the enemy. It is no different today. Specific circumstances for needing the private sector may be different but the concept is still the same. The private sector today has the capabilities, skills, resources, and innovations to solve the underlying socio-economic conditions that foster terrorism.

Beyond Economics.

While this article focused primarily on the sustainable economic development and partnering with the private sector, I am not suggesting that it is universal solution. The purpose of this article is to bring attention to the importance of the economic element in shaping and changing the environment as we conduct the Global War on Terrorism for the long-term. Other strategic elements: diplomatic, intelligence, and military, can not be dismissed. Economic development can only begin to occur when the basic security and physiological needs are being met. Efforts toward improved infrastructure (such as transportation systems, power, water, telecommunications, etc.), developed human/social capital (healthcare and education), good governance (to include sound macroeconomic policies) are the prerequisites for a continuous and sustained economic development. As Broad, Cavanagh, and Bello pointed out, “there are no shortcuts to development.” Enduring development strategies require equity, populace participation, and ecological preservation.¹³ Therefore, the capabilities and interests of other stakeholders, in addition to the military and the private sector, are still needed to develop and maintain the foundation for the sustainable economic development.

To initiate this process of engagement with the various stakeholders, a series of meetings/gatherings may be warranted. These gatherings should facilitate an environment for these diverse organizations to explore and understand each other’s organizational goals, capabilities, and requirements. By doing so, we hope to overcome organization-level cultural biases, build trust, and develop working relationships to generate synergy among the participating organizations. The military role within the network would be to facilitate the gathering, to point out the areas that are most vulnerable to terrorist recruitment, and to provide an assessment on the security situation in a specific location such as the island of Basilan. A unified vision and situational awareness among the participants would be the expected outcome from these series of gatherings.

In addition to sponsoring the meetings/gatherings as mentioned above, we need to proactively attend the private sector’s meetings/gatherings such as AACSB annual meetings, Business Executives for National Security (BENS) board meetings, Conferences sponsored by the Institute for Defense and Business, Flow (a grass-root global network of entrepreneurs practicing conscious capitalism for sustainable peace) Networking Events, Global Micro credit Summit, etc.. We need to let the private sector know that USG and the international community need their business expertise in creating products, services, and jobs for those who are at the bottom of the socio-economic pyramid. By doing so, they can create hope and opportunities for the populace and create additional markets for their products and services. The byproduct is creating environments inhospitable to violence and terrorism.

Beyond the “Basilan Model.”

The success of PACOM’s OEF-P has been contributed to the “Basilan Model.” The “Basilan Model” built host nation’s capacity, met basic physiological needs of the local populace, enhanced government of

Philippine's legitimacy and control, disrupted insurgent safe havens, etc. The emphasis on Civil-Military Operations resulted in improved infrastructure, increased availability of water, and secured mobility for commerce – overall improved living conditions on the island. Therefore, the “Basilan Model” was extremely effective in winning back the populace support and dramatically improving security in Basilan by reducing terrorist strong holds. The model laid the cornerstone for the beginning of the social and economic progress in Basilan, but more work is needed for a sustainable socioeconomic development.

Since 2002, U.S. military, U.S. Agency for International Development (USAID), local and international NGOs, and the government of Philippines have been working together to meet the basic needs of the populace on Basilan. We need to expand this network to include additional stakeholders such as private businesses, multi-national corporations (MNC's), local and international investment firms, local and international financial institutions, and academe to build capacity of the local populace, in addition to the capacity of the host nation's government, and increase human/social capital for further socio-economic growth.

For example, the ADB has already initiated a process to develop a strategy for the Philippines to achieve a long-term sustainable economic growth. In March 2005, ADB hosted the Philippines Development Forum, Meeting of the Philippines Consultative Group and Other Stakeholders, in Mindanao. Participants included government, civil society, academe, development partners, and the private sector. The group addressed development issues and factors, which are deterring development in the Philippines. These factors include unstable peace and order, weak infrastructure, inefficient financial sector, corruption, large bureaucracy, and large national debt. The group recognized that the private sector accounted for 86% of GDP and is responsible for the majority of job creation. They noted that the private sector is the key to sustainable economic development. The private sector was the leading job creator and it plays an important role in reducing poverty, raising living standards, and spurring social development.¹⁴ Entrepreneurs within a society are usually the engine of innovation, wealth creation, and social change.¹⁵

We should leverage ADB's on-going efforts and synchronize our plans, programs, and activities with them and facilitate the further expansion of the stakeholders' network – recruit, attract, and maintain connection to private sector businesses, institutions, and academe. Leverage their expertise, interests, goals, and resources towards creating sustainable social and economic progress in Basilan. The island of Basilan and the Philippines could be the next success story like Ireland. Ireland was one of the poorest countries in Europe fifteen years ago. Evidence has shown that the unprecedented economic growth had significant impact on reducing violence in Northern Ireland, which was considered the most violent region of northern Europe for the previous forty years. In ten years (1986 to 2006), unemployment declined from 17.6% down to 4.5%.¹⁶ Ireland's steady economic growth had been lead by private sector businesses.

It is critical that we expose a critical mass of international business sector players to Basilan. As always with new start-up investments and companies, the risk is extremely high and failure rate would be high also. Even in the developed markets and economies such as the U.S. and EU and fast emerging economies like Ireland and China, new start-up investments and companies still face high failure rates. Therefore, attracting a critical mass of private sector players, maintaining the network, and preserving their interests are the keys to netting a handful of successful new ventures and incoming steady stream of new investments.

In Basilan, the sustained economic growth and prosperity is the U.S. military's “exit strategy.” As President George W. Bush fittingly stated in his speech before the Inter-American Development Bank in March 2002, “development provides the resources to build hope and prosperity, and security.”¹⁷

A Horizontal World.

A big challenge for the military organization would be to overcome its need for control. It is embedded in our organizational DNA to want to control things because military organizations are traditionally hierarchical and have a top-down structure. We will have to recognize that the military will be unable to exercise any control over the actions of non-military partners. We have to inspire them into collaborating with us. As the globalization has flatten the world as Thomas Friedman had described in his book, *The World is Flat*, hierarchical relationships are dissolving and more horizontal and collaborative ones are emerging within the businesses, governments, and many organizations across the spectrum.¹⁸ Therefore, the success will depend on how well we are able to informally and horizontally influence and

persuade them. This can only be accomplished if we truly take the time and effort to understand their requirements, interests, and concerns. This is where we could leverage our reserve and guard members of the armed forces.

The Opportunity.

In our new, globalize flat world, new business models are emerging to stay competitive in the increasingly competitive business environment. As I had mentioned in my article, *Combating Terrorism: A Socio-Economic Strategy*,¹⁹ many firms are willing to operate in the bottom of the socio-economic pyramid (BOP) markets in today's flat world. They recognize that operating in this BOP markets require innovative thinking, products and services which in turn create competitive advantage within the firm for other developed markets. Therefore, operating in the BOP markets are becoming compulsory rather than a philanthropic activity. If we are able to capitalize on these emerging environments and new thinking and able to convince the private sector players to view this collaboration and partnership with us as an emerging business opportunity rather than a purely philanthropic activity, we may be able to successfully mobilize this untapped element of our national power to eradicate underlying socio-economic conditions that terrorists are exploiting.

ENDNOTES

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³ Terry Kalapakis and Kent Butts, *Executive Summary for Underlying Conditions Conference on Military Role in Addressing Underlying Conditions of Terrorism*. April 2006.

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⁶ Wallace C. Gregson, "Ideological Support: Attacking the Critical Linkage", Edited Volume *The Struggle Against Extremist Ideology: Addressing the Conditions That Foster Terrorism*, Center for Strategic Leadership, US Army War College, Carlisle Barracks, PA, 2005, P. 22.

⁷ Linda Robinson, "The Battle for Baghdad," *The U.S. News and World Report*, September 5, 2006, P. 56.

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¹⁴ 2005 Philippines Development Forum, "Working Together for Sustainable Economic and Social Progress," Summary of Discussions Paper, March 2005.

¹⁵ FLOW, Peace Through Commerce.

¹⁶ FLOW, "Understanding the Power of Economic Freedom to Create Peace," Peace Through Commerce

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**CONSIDERING GENDER IN ECONOMIC DEVELOPMENT
AND COUNTERTERRORISM STRATEGY**

• CHAPTER 7 •

Miemie Winn Byrd and Gretchen Decker

While many of the countries in the Asia-Pacific Region are flourishing economic “tigers” and “dragons”, poverty and negative socioeconomic conditions are still pervasive. These developing Asian nations continue to face many challenges: many rural areas lack basic human needs, such as healthcare, education, and gender equality while central governments lack resources and are ineffective (due to poor governance and corruption) to address these problems. According to Asian Development Bank’s (ADB) statistics:¹

- Asia-Pacific region is home to two-thirds of the world’s poor.
- Nearly 1.9 billion people live on less than \$2 a day.
- 500 million Asians are conservatively estimated to be unemployed and 245 million new workers are expected to enter the labor markets over the next decade.

Figure 1- World Development Indicators, 2004²

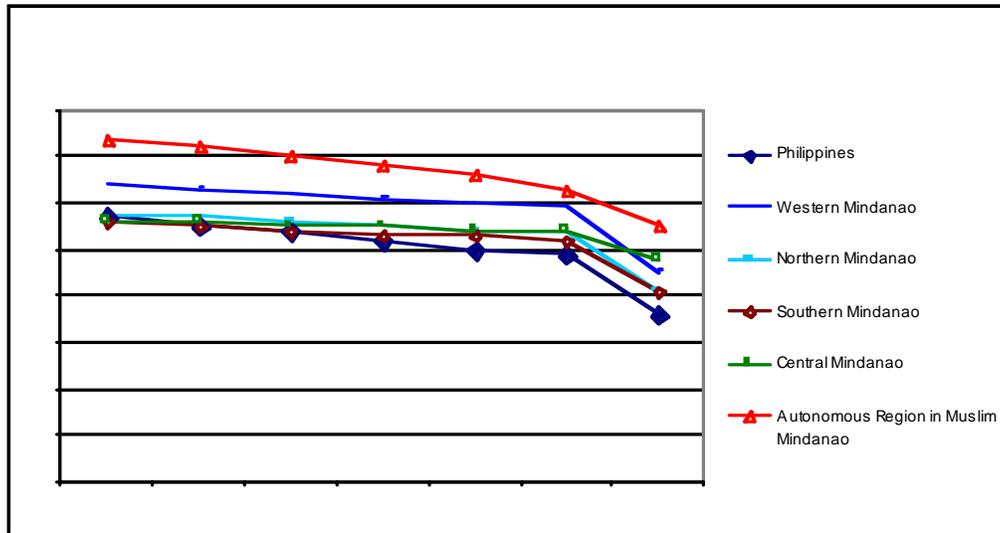
Country	Percent Population below \$2/day
Philippines	47.5%
Mongolia	50.9%
Indonesia	52.4%
Laos	73.2%
India	79.9%
Nepal	82.5%
Bangladesh	82.8%

Source: World Bank

As the gap between the rich and poor increases and unemployment rates in the rural areas fail to improve, the discontent among the deprived populace grows and creates an environment ripe for exploitation by violent extremist and terrorist organizations. Especially if the economic disparity aligns with the existing social cleavages based on race, ethnicity, religion, caste or region, then it can serve as kindling for conflict and instability.

A Rand Corporation report in 2003 discussed the causes of discontent found between the Northern Philippines provinces and the Muslim areas in the South. The study concluded that the discontent arises from the “economic neglect and the general exploitation of local resources to foster development in the central and northern islands of the Philippines.”³ The comparative infant mortality rates chart below corroborates the sentiment of the disparity between the North and the South and the position of general economic disadvantage of the Muslim south in comparison to the central and northern provinces.

Figure 2- Infant Mortality by Region in the Philippines



Source: National Statistical Coordination Board

Note: Infant Mortality Rate is a common surrogate indicator used to measure overall (Measured in % of deaths to 1000 live births; the lower the number the better.)

It is the perception of economic disparities, which happen to align with the differing religious affiliations, Islamic and Catholic, that has inflamed the Muslim South to become discontent and violent towards the central government. The central government is dominated by Catholics.

It is clear that the disposition towards violence is inextricably linked to the perception of inequities, and economic disparity accounts for a significant portion of this perception. What is typically overlooked, however, is the relationship between gender and inequity, and how women in societies vulnerable to terrorists might be influenced to curb terrorist activity. It is argued in this paper that the military can take measures to encourage women to be an asset in the fight against terrorism.

Women and Development.

Poverty affects men and women differently. Unfortunately, poverty disproportionately affects women and children. Women and children make up most of the world's poor demographic. According to the U.S. Agency for International Development (USAID) Women in Development (WID) Office:⁴

- 70% of the people living in poverty around the world are women and children.
- Two-thirds of the 876 million illiterate adults worldwide are women.
- Two-thirds of the 125 million school-aged children who do not attend school worldwide are girls, and girls are less likely to complete school than boys.
- More than three-quarters of the world's 27 million refugees are women and children.
- Every day 1,600 women die needlessly during pregnancy and childbirth.

Typically, women are less likely to receive healthcare and education in poor countries. In addition, without rights such as property, business ownership, or credit, they tend to be the most marginalized

group within these societies. Women typically make much less than their male counterparts; thus, as single parents they tend to suffer the vicious cycle of poverty more than any other group.⁵

Although on the surface the gender disparity appears to be most relevant to the plight of women, various studies have shown that “the full costs of gender inequality ultimately harm everyone.”⁶ Gender inequality directly and indirectly limits overall economic growth. When women are marginalized, essentially 50% of possible productivity is cut for the community as a whole.

More importantly according to myriad of developmental economic texts, the low status of women translates into lower rates of economic growth for the entire community in the long run, because the educational attainment and future financial status of children are much more likely to reflect those of the mother than the father. “Mother’s illiteracy and lack of schooling directly disadvantage their young children. Low schooling translates into poor quality of care for children and then higher infant and child mortality and malnutrition.”⁷ When women are educated, there is a high probability that her children will be educated. Also, educated women tend to ensure that nutrition and health needs are met for her family.

“Increasing women’s education not only increases their productivity on the farm and in the factory but also results in greater labor force participation, later marriage, lower fertility, and greatly improved child health and nutrition.”⁸ “Studies from around the developing world consistently show that expansion of basic education of girls earns among the very highest rates of return of any investment-- much larger, for example, than most public infrastructure projects.”⁹ More studies through the World Bank and United Nations Development Programme (UNDP) have shown that projects which target women realize higher returns on investment over any other developmental program.

Thus the benefits of current investments in human capital are more likely to be passed onto future generations if women are successfully integrated into the growth process. And considering that human capital is perhaps the most important prerequisite for sustainable growth, education and enhanced economic status for women are critical in achieving long-term development objectives.¹⁰ “Research findings suggest that countries that take steps to increase women’s access to education, health care, employment, and credit, thereby narrowing the differences between men and women in terms of access to economic opportunities, increase their pace of economic development and reduce poverty (Klasen, 2007; and World Bank, 2001).”¹¹

Women as Catalyst for Growth.

According to development experts, women are the most important agent in the development process due to their natural role as the first-in-line caretakers and teachers of the children. Therefore, women are increasingly being leveraged to catalyze development in many parts of the world today. A 2005 World Bank study in Uganda suggests that the country could gain as much as 2% of GDP growth per year by eliminating gender inequality.¹² A 2001 World Bank study showed a correlation between increased influence of women in public life and lower level of corruption within the government. This correlation suggests that women can be an effective force for rule of law and good governance.¹³

Since the beginning of humanity, women have played a key role in households and in communities. In almost all societies, gender norms dictate that women and girls take primary responsibility for household maintenance and care activities. Mothers are the first-in-line caretakers and teachers for their children.

Therefore, in the past, when leaders in developed and developing countries alike pondered ways to boost growth, reduce inequality, and improve living standards, the enduring battle of the sexes was likely the last thing on their minds.¹⁴ Now, they are re-thinking the problem. They are beginning to understand how gender differences in behaviors and roles can have significant macroeconomic consequences. Public policies have different effects on men and women and therefore, may lead to unintended outcomes due to gender differences in behavior. Thus, “economists are now taking a much stronger interest in how gender affects aggregate income as well as key components of overall economic demand, focusing on household decision making.”¹⁵ Since 1995 Beijing World Conference on Women, the “mainstreaming” of

gender into government policies has gained prominence – the systematic examination of budget programs and policies for their impact on women.

*“Mainstreaming” does not mean “to analyze only programs that are specifically targeted to females or to produce a separate “women’s” budget. Rather, it is intended to examine the gender effects of all government programs and policies. For instance, cutting back on clean water spending may disproportionately harm women and girls because they typically bear the time and physical burden of providing clean water to households when it is not readily available. Just as reducing a tax credit for child-care expenses may disproportionately burden women, who are responsible for the greater share of child-rearing activities.”*¹⁶

Microfinance industry seems to be one of the leading sectors leveraging the economic power of women in the poorest parts of the world. Microfinance has played an important role in improving conditions for poor women in the past decade. The Nobel Committee’s bestowment of 2006 Nobel Peace Prize to Dr. Mohammad Yunus, the founder of the Grameen Bank in Bangladesh, attests to the revolutionary role he has played in creating and developing micro-credit into an important instrument in lifting people out of poverty. The success of the Grameen Bank is primarily based on lending only to women, who traditionally have no financial security or assets, because the experience has shown that women tend to pay back loans at a higher rate than men. In addition, women tend to help the community as a whole when they have access to the micro loans. Women account for over 95% of the loans issued. The bank concluded, “annual household consumption expenditure increases 18 taka for every additional 100 taka borrowed by women from credit programs, compared with just 11 taka for men.”¹⁷

Why Should the Military Care?

Given that women have significant influence in societies at the grassroots level, we in the military need to thoughtfully consider and address gender issues in crafting our counterterrorism strategy of winning hearts and minds. In keeping with what governments and development organizations around the world are discovering - the need for “gendering” their policies, programs, and activities – we will need to do the same for the improved effectiveness of our long term strategy to win hearts and minds of the target populace.

Unfortunately, radical and terrorists organizations are also discovering the untapped talents and capabilities of the ‘lesser’ gender. There have been recent reports of increasing numbers of women joining radical organizations. Due to increased external pressures bearing on the terrorist organizations today, terrorists are forced to adapt and innovate their strategies, techniques, and tactics. Terrorists are viewing the inclusion of women as a pragmatic move to regain strategic advantage.¹⁸ The recruitment of women is a logical next step in an increasingly tighter security environment because society and security forces at large view women as “less likely offenders”. According to Jessica Stern, a lecturer on Terrorism at Harvard University, “the perception that women are less prone to violence, the Islamic dress code and the reluctance to carry out body searches on Muslim women made them the ‘perfect demographic’”.¹⁹ Targeting female population for recruitment opened up a whole new demographic pool, provides many possibilities for innovation, and new ways to reach the ‘enemy.’

Dr. Meir Litvak of Tel Aviv University explained that the terrorists are “exploiting the personal frustrations and grievances of these women for their own political goals, while they continue to limit the role of women in other aspects of life.”²⁰ They capitalize on the underlying sentiment of their unequal position as women, frustration nurtured in a society that offered them so little opportunity to employ their intellectual talents usefully, and an urgent need to prove their usefulness to society.²¹ Women feel that the only way they can achieve equality is in death. Radical and terrorist organizations greatly benefit from a traditional female virtue of selfless devotion to her family. For many women the primary attraction to join these organizations was the opportunity it offered them for self-sacrifice and heroic martyrdom.²²

When women are not participating in direct terrorist activities, they support men’s militancy in their traditional roles as mothers nurturing families committed to violent extremism.²³ Since women in most societies are traditionally charged with passing on cultural norms and expectations of their communities to

their children, cultural norms of violence, radicalism, and militaristic self-sacrifice are propagated to the next generation. Cultural transmission theorists refer to this as a 'vertical transmission.'²⁴ Women in this role provide a moral justification to militarist movements and encourage involvement.

Women as Catalysts for Change

Women in societies are considered "the vanguard of social transformation."²⁵ Women generally make up half of a community's population and they bear and rear the next generation. Women being the first-in-line caregivers and teachers, they serve as a key node for influencing and spreading the cultural traits to the next generation. Cultural traits are continuously being reshaped, repackaged, and reused by individuals and societies. If we want to affect the collective mindset of a community, then we need a layer in our strategy, plans, programs, and activities to consider and specifically address this very critical node of influence in a society. In many instances, the women have served as an important force in conflict mitigation and reconciliation.²⁶

Understanding how things affect men and women differently, it is important for the military planners to 'wargame' the effects of programs and activities on men and women during the planning phase – similar to understanding the second and third order effects under a traditional military planning process. The new June 2006 version of the Army's Counterinsurgency doctrine, FM 3-24, stressed the importance of Civil Considerations during mission analysis.²⁷ However, the Social Structure²⁸ section of this chapter should explicitly recommend gender consideration as one of the items planners must address, since it most likely pertained to 50% of the local populace and it is the most likely category of civil consideration that would be neglected.

For example, if we are planning to construct a water-well for a community under the humanitarian assistance and humanitarian civic-action activities, the planners must take into consideration how the distance of a well from the community may affect the women and girls. If the well is too far away, the girls will spend more time fetching water which may negatively impact other productive activities, such as their ability to attend school. If women and girls are the primary providers of water for the households in the community, then our information operations activities near and enroute to water-wells should be sensitive to their needs for these activities to be effective.

Leveraging U.S. Agency for International Development (USAID)

Since the U.S. Congress passed the "Percy Amendment," which required gender issues to be integrated into overall development efforts, to the Foreign Assistance Act in 1973, USAID has been integrating gender concerns throughout the agency's portfolio in the developing world. Women received 63% of the microloans issued through programs supported by USAID in 2004.²⁹ The agency has gained tremendous experience and insight into the significance of women's role in these societies in past three decades. The agency has an established Office of Women in Development (WID) under its Economic Growth and Trade (EGAT) Bureau.

By leveraging WID's expertise on gender integration and collaborating with USAID, we can cover another dimension and increase our effectiveness in addressing the underlying negative socioeconomic conditions in areas, which are ripe for exploitation by violent extremists and terrorist organizations, as a part of the comprehensive counterterrorism strategy. The process of integrating a gender perspective into all of the stages of both terrorism prevention and in formulating counterterrorism strategies ensures that the concerns of men and women are equally considered, to the benefit of society as a whole.³⁰

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CAN HOLLYWOOD HELP COUNTER RADICAL IDEOLOGY ABROAD?

• CHAPTER 8 •

Sara Richardson Weinstock

How Film and Television can be used to fight the Global War on Terror

On a typical Monday night in Tehran, the streets and sidewalks have emptied by 10pm and television sets by the millions are tuned in to what has become Iran's most popular television show. In stark contrast to the typically drab Iranian TV fare, the state-sponsored hour-long drama "Zero Degree Turn" centers on a passionate love story between an Iranian-Palestinian Muslim man and a French Jewish woman. Over the course of the 22 episode arc, the hero saves his love from Nazi detention camps as Iranian diplomats in France clandestinely forge passports to enable the woman and her family to sneak onboard airplanes carrying Iranian Jews to their homeland. It's a Persian Schindler's List, similarly based on a true story, in which the hero ultimately saves the lives of nearly a thousand Jews.

Iranian President Mahmoud Ahmadinejad has repeatedly made incendiary and anti-Semitic statements, even calling the Holocaust a myth, yet the country is home to approximately 20000 Jews, half of whom live in Tehran. Iran's Jewish population is surprisingly well-protected by their government and is assured equal rights in the country's constitution. They are constitutionally guaranteed one member in the Islamic Consultative Assembly¹ and are free to study Hebrew in school, pray in synagogues and shop at kosher supermarkets.² "Zero Degree Turn" is seen by some as an effort by the government to tone down the image that it may be anti-Semitic. By all outward appearances, the message appears to be working. The Wall Street Journal quotes Sara Khatibi, a 35-year-old mother and chemist in Tehran, as saying. "All we ever hear about Jews is rants from the government about Israel. This is the first time we are seeing another side of the story and learning about their plight."³

Admittedly, without the program's high budget – the highest ever on the Islamic republic's state-owned television - sophisticated production values and famous star, the production would likely not have been so popular. But since "Zero Degree Turn" has become such a cultural touchstone, it may succeed in its unstated mission of shaping the minds and hearts of the Iranians watching. The government's role in this production underscores the subtle and often sophisticated way in which the Iranian state uses its media to send out political messages. The aim of the show, according to many inside and outside the country, is to draw a clear distinction between the government's tolerant views about Judaism and its opposing stance on Israel.⁴ Can popular entertainment help turn the tide of ethnic hatred in Iran and in other parts of the world? And, if so, can America help facilitate the process?

Outright propaganda has been used successfully in the past. Leni Riefenstahl's Triumph of the Will, a film commissioned by Adolf Hitler to chronicle the 1934 Nazi Party rally in Nuremberg, is arguably the greatest propaganda movie of all time. Despite its controversial subject, the film is still recognized today for its influential revolutionary utilization of music and cinematography and is an important component of many film school curriculums. America countered with its own propaganda when the U. S. government commissioned filmmaker Frank Capra to create a seven-part series of films to support the Allied war effort entitled Why We Fight. But the world has become wise to the application of propaganda and there is now a strong backlash against its use. In 2002, a group of influential producers and entertainers including Laurie David, wife of Seinfeld co-creator Larry David and the woman who eventually produced Al Gore's documentary An Inconvenient Truth, produced a series of advertisements intended to convince Americans to scale down their automobiles. The commercials showed ordinary Americans looking out the windows of their cars, cheerfully announcing: "I helped hijack an airplane"; "I helped blow up a nightclub"; "I funded a terrorist training camp in a foreign country," and then proclaiming, "And we did it all just

by driving our SUVs.” The campaign’s tag line: “The biggest weapon of mass destruction is parked in your driveway.”⁵ When Arianna Huffington wrote an article in supposed support of these tactics, she compared their language to the “ridiculous and wildly inflammatory” anti-drug ads and called the use of such provocative rhetoric “shock-value tactics.”⁶ America, however, responded with a decisive yawn and proceeded to purchase SUVs and light trucks at the astonishing rate of every other vehicle sold in America, a pace which barely ebbed even as gas prices soared past \$3 per gallon.

A more subtle shaping of values occurs when viewers are presented with unobjectionable characters that live lives different from their own. This phenomenon has recently occurred in Japan, where the unparalleled popularity of Korean soap opera has begun to erode decades-long institutionalized xenophobia. In 2004, the Korean soap opera “Kyowool Yonga” began airing mid-day, a time slot traditionally reserved for popular American TV shows such as “The West Wing” and “Ally McBeal.” The show became a monster hit in Japan. The publishing arm of NHK, Japan Broadcasting Company, sold nearly 1 million novels based on the screenplay, nearly 300,000 program guidebooks, and 150,000 DVDs and videos in Japan. Japanese travel agencies even offered tour packages featuring visits to the drama’s shooting locations in Korea and opportunities to meet the cast. In early June of 2004, Japanese Prime Minister Junichiro Koizumi was quoted as joking that the starring actor, Yong Joon Bae, is now more popular among Japanese women than he was.⁷

By depicting realistic relationships between families, friends and lovers, the drama successfully attracted viewers to share in the characters’ happiness, sorrow, anger and conflicts, and transcended racial differences and stereotypes. The unprecedented popularity of “Kyowool Yonga,” or “Winter Sonata,” as it is called in Japan, is expected to help erode discrimination against the more than 700,000 ethnic Koreans residing in Japan who are excluded from mainstream Japanese society. Although these men and women were born in Japan, they cannot vote in Japanese elections and have no access to public sector employment and face other discrimination in schools and romantic relationships. As Japanese audiences become involved in the lives of the characters in the Korean hit drama, the hope is that they may rethink their image of Korea - and become more aware of the discrimination and legal barriers facing the Koreans living in their midst.

There is sufficient evidence in America to believe that this reconsideration of racial stereotypes in Japan may come true. As Americans increasingly have seen television shows and films featuring interracial romances, these relationships have become increasingly commonplace and acceptable. Until Sidney Poitier starred in the Academy-Award-winning film Guess Who’s Coming to Dinner in 1967, Americans had never seen a positive portrayal of interracial romance in popular entertainment and many were, to be charitable, unaccepting. But as interracial romances became more common, television began to reflect that reality; conversely as television began showcasing interracial romances, these once-hidden romances became more acceptable. Whether television and film images led or merely reinforced these romances, they certainly had a positive effect on the population being entertained by them. Capt. Kirk, a white Star Fleet captain, and Uhura, his African-American communications officer, shared TV’s first interracial kiss on “Star Trek” in 1968. The 1970’s gave America Tom and Helen Willis on “The Jeffersons,” a white man happily married to a black woman. “Ally McBeal” and “Sex and the City” also featured interracial romances as storylines, but in both of these instances, the interracial nature of the romances was not seen as an impediment to the romance and was, in fact, never openly discussed. Recent television fare such as “Supernatural,” “Grey’s Anatomy,” “Lost,” “My Name Is Earl,” “Veronica Mars,” and “ER,” have all prominently featured interracial romances.

Not that this march toward equality has not suffered setbacks. In the late 1980’s, “A Different World,” a spin-off from the popular “The Cosby Show” featuring daughter Denise Huxtable, included a story line about a black female student dating a white man, but the romance ended after viewers reportedly complained to the producers.⁸ As recently as 1991, Spike Lee was quoted in Ebony as saying that portrayal of love between blacks and whites was still

unacceptable. “The last taboo is still taboo.”⁹ He noted that at the screenings of *Jungle Fever*, his ground-breaking film on race relations, “Blacks and whites sat segregated in their own groups, there was this nervousness during the lovemaking” scenes between Wesley Snipes and Annabella Sciorra, a black actor and white actress.¹⁰ These examples stand in accordance with the research findings regarding American’s acceptance of interracial relationships. In a 1988 survey conducted by the Pew Research Center, only 44% of whites and 74% of blacks believed that interracial dating was acceptable. But by 2007, those numbers had soared to 81% of whites and 97% of blacks.¹¹ Obviously correlation is not causation, but certainly the explosion of positive portrayals of interracial couples on television and in film has kept pace with and occasionally led America’s rapidly changing attitudes regarding interracial dating.

Newsweek has tracked the same phenomenon in American acceptance of homosexuality and dubbed it the “Will and Grace’ Effect,” referring to the popular television show featuring two gay male characters and their female, straight friends. While older generations still feel that same-sex marriage should be outlawed, the younger generations tend to disagree. 41 percent of 18- to 29-year-olds support gay marriage, compared with 28 percent of Americans overall. 18-year-old Diana Benanti is typical of this juxtaposition, supporting gay marriage and saying that her views were solidified after she saw a just-married gay couple on TV.¹²

In many ways, America’s chief export is its culture. A quick walk down Paris’ Champs Elysees, Tokyo’s Omotesando-Dori or near Rome’s Piazza de Popolo with its Gap, Virgin Megastore, Niketown, or ubiquitous McDonald’s demonstrates the vast influence America has overseas. The entertainment world certainly appreciates the realities of profit-making opportunities abroad. International box office grosses clearly illustrate the popularity of American film in the rest of the world. In fact, the American film industry now heavily relies on international box office dollars to make a profit. Of the ten top-grossing films of 2007 to date, each of them has made more money internationally than domestically.¹³ Not surprisingly, and perhaps as a consequence of their exposure to American entertainment, most of the countries whose citizens are safe enough and financially secure enough to attend a screening at the multi-plex on a Saturday night are pro-American. During the week of September 17, 2007, *The Bourne Identity* was the top-grossing film in Austria, Belgium, France, Germany, The Netherlands, Portugal, Switzerland and several other countries closely allied with America. Many other friendly nations, such as Australia, Denmark, Finland, Greece, Spain, Sweden, Taiwan and Turkey all featured other American films as their top-grosser. In sharp contrast, that same week India and China both featured as their top-grossing film domestically produced features, *Dhamaal* in India and *Tai Yang Zhao Chang Sheng Qi* in China.¹⁴

It is not only the larger and wealthier nations such as India and China which maintain their own film industries and reject entertainment that originates from outside their own borders. Even Cambodia, one of the poorest countries in the region, has lately experienced a resurgence of its film industry. New production companies are springing up and there are now more than a dozen movie theatres open for business in Phnom Penh.¹⁵ The film industry is rapidly expanding in the Middle East as well. The Dubai International Film Festival, now in its fourth year, is cementing its reputation as a key event on the international fest calendar. Artistic director and Arab film expert Masoud Amralla Al Ali has helped create two of the UAE’s film competitions. “I worked in Abu Dhabi for the Emirates Film Competition, which was dedicated to films from the Emirates and the Gulf Cooperation Council,” Al Ali says. “Six years ago there were almost no films being made. Now, annually we have something like 120 films - shorts done by students and amateurs as well as by established filmmakers.”¹⁶ Certainly the film industries burgeoning in these countries should not be discouraged simply to promote American films. Far from it. The growth of cottage film industries around the world is highly encouraging. Not only do they give rise to open dialogue and candid discussion of relevant regional issues, but any time that artists are encouraged to tell their stories to wider audiences, the world reaps the benefits. Edith Wharton said, “Art is on the side of the oppressed. Think before you shudder at the simplistic dictum and its heretical definition of the freedom of art. For if art is freedom of the spirit, how can it exist within the oppressors?” Indeed, liberal ideologues gravitate towards the performing arts. Susan

Sarandon, Tim Robbins, Sean Penn, George Clooney, Angelina Jolie and a myriad of other Hollywood personalities make their liberal views well-known to the public. They also, in general, choose film projects that support their liberal-leanings. Filmmakers and artists in developing nations generally are similarly broadminded. Anti-Extremist sentiments by filmmakers around the globe can help shape the dialogue toward the more liberal views of understanding and compassion.

Many countries prefer domestically produced entertainment and disallow screenings of American entertainment for religious and cultural reasons. American entertainment can be very raw and provocative at times, and in some parts of the world sharing that entertainment sometimes necessitates a certain level of censorship. Recent concerts by the Rolling Stones in Shanghai and Gwen Stefani in Malaysia show that the world is hungry for American-style entertainment - even if they're not ready for the frank language or revealing costumes on display. But if America could support film's increasing foothold in these areas, and perhaps simultaneously become an important component of their burgeoning entertainment scenes, then even more minds could become open to cross-cultural ideals and values. Historically, the American film industry has not been a presence in Southwest Asia, the Middle East or most of Africa due to the enormous cost of subtitled or dubbing feature films into the regions' diverse languages coupled with the high cost of making 35mm copies of the film for screening. When measured against the low return on investment due to the small number of cinemas and the strong dollar relative to the respective currencies, it is simply not cost-effective to bring American movies into many parts of Asia, the Middle East and Africa. Since the developing world doesn't yet have the resources available to view American films and the American way of life *en masse*, as a consequence much of the developing world remains staunchly un-American. We fear what we do not understand. As the citizenry of developing nations begin to have increased amounts of time and disposable income, it will be important that they be exposed to Western sensibilities. The most expedient means for this exposure is through television and film. A section from MiG Pilot, the true story of Lt. Viktor Belenko a Russian MiG Pilot who escaped from Russia in 1976, illustrates how helpful video and film footage of America can be to those impoverished and confined in other parts of the world:

To dramatize the poverty, hunger and unemployment of contemporary American, the political officers showed (Soviet Communist Party members) films taken in the 1930's of Depression breadlines, current Soviet television films of New York slums and of workers eating sandwiches or hot dogs and drinking Coca-Cola for lunch. The narrative, explaining that a sandwich or a hot dog was all the American could afford for 'dinner,' struck Belenko because in the Soviet Union the noon meal is the main one of the day. *If they are starving and can't find jobs and prefer communism, why don't they come over here? We need workers, millions of them, especially in Siberia, and we could guarantee them all the bread they need and milk, too. But wait a minute. Who owns all those cars I see?*¹⁷

When people from other parts of the world begin to see the true wealth of America, rich in culture, material resources and in its humanitarian spirit, they begin to believe in Western ideals of freedom and democracy, regardless of what their government tells them is true. If they see their fellow man in a country they perceive as hostile struggle on screen with the same issues of life, death, and love that they themselves experience, they become ever so slightly more tolerant of him. The entertainment industry can serve as an enormously powerful emissary of hope and possibility to other parts of the world. Artists and filmmakers understand their medium's potential to change minds. In Bollywood, the informal name for the popular Mumbai-based Hindi-language film industry in India, filmmakers appear eager to project the image of a world without caste or communal divisions. Though the relationship between Hindi and Muslims in India is fraught with strife, Bollywood filmmakers gladly accept Muslims as producers, directors, stars, music directors, lyricists, storywriters and playback singers. They have worked in peace and harmony with the Hindus who had been affected by the ravages of 1947's Partition, the creation of India and Pakistan upon the granting of independence from the British Empire. "I was a refugee from Pakistan," recalled actor Sunil Dutt, "but even then, when the wounds were fresh, there were hardly any ill feelings between the two communities. And we tried to make films that would bridge

the gulf between the two communities.”¹⁸ Film and television have the power to open eyes and open doors.

So what can the American film and television industries do – and what could they be asked to do – to help fight the global war on terror? Perhaps a partnership between government and the private sector provides the answer. The United States Agency for International Development, USAID, already administers several programs which might logically be extended to include the entertainment industry. For instance, a USAID-directed program for Public Diplomacy with the stated mission of “encourage freedom and reform” throughout the Middle East and Northern Africa could easily be expanded to include this sort of public outreach. The Public Diplomacy program “strives to bring together private sector businesses, non-governmental organizations, civil society groups and government officials to develop and promote innovative reform policies” in the region.¹⁹ USAID also administers a similar program for Increased Development of a Politically Active Civil Society. “In countries with fragile democratic traditions, the freedoms so necessary to building and sustaining an active and independent civil society often are little understood, temporarily curtailed, or simply denied. USAID is working to strengthen commitment to an independent and politically active civil society in developing countries.”²⁰ Including blossoming entertainment industries in impoverished regions under this umbrella of aid would be a progressive and effective approach to encouraging civic discussion and more open expression among the populace. As regions develop beyond the mere essentials – sufficient food, clean water, furnished schools and economic prospects – then the opportunity arises to build mechanisms for public dialogue and civil discourse. Funds could be set aside to build and equip cinemas or to provide subtitled and edited versions of American movies to libraries and schools. This is a venture tailor-made for public and private sector cooperation. The American entertainment industry, with its deep pockets and global cachet, could establish a foundation to assist USAID in this endeavor. As a non-governmental organization, this group would be less encumbered by the anti-American sentiment sometimes found in other parts of the world. Studios and production companies could be encouraged to participate by providing tax incentives for making their product available cheaply to developing nations. This foundation could even endow film scholarships for foreign filmmakers to study their craft in American universities or could support film programs at overseas universities. Ideally, this support of budding artists would ultimately manifest itself in the kind of films and television shows that would help bridge the ethnic and political chasms that divide our world today. Entertainment has the power to sow the seeds of tolerance throughout the world. It’s time that this power was harnessed and utilized.

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RUSSIA AND THE ASIA-PACIFIC: TRENDS, THREATS, AND COMMON THREADS

• CHAPTER 9 •

Dr. Rouben Azizian

Introduction

Russia's foreign policy in the Asia-Pacific has been an object of criticism both inside and outside of Russia for more than a century. With the exception of brief periods in history, the region has been secondary to European and American affairs in Russia's foreign policy activity. Mikhail Gorbachev's enthusiastic interest in the region was short-lived and was followed by the Yeltsin–Kozyrev policy of almost complete neglect. This history of neglect led some Russia commentators, such as Stephen Blank, to believe that Russia was incapable of gaining considerable power and prestige in the region.

Despite its many failures, Russia has however recently achieved notable success in its bilateral and multilateral cooperation in the Asia-Pacific. Relations with China have dramatically improved, and cooperation with India, despite earlier gloomy predictions, remains close and promising. Moscow has reanimated its diplomatic presence on the Korean Peninsula and resumed economic cooperation with former communist allies -- Mongolia, Vietnam, Cambodia, and Laos. Russia joined APEC even earlier than predicted and has enhanced its role and profile in the ASEAN Regional Forum and in the ASEAN dialogue process. Together with China, Moscow has institutionalized a new multilateral forum, the Shanghai Cooperation Organization (SCO), which aspires to promote security and economic cooperation that transcends subregional groupings. Finally, Russia, and particularly its Siberian and Far Eastern regions, are attracting increasing interest from their energy-reliant Asian neighbors.

Russia's renewed presence in the Asia-Pacific can be interpreted in several ways. The first, and perhaps still the most popular, notion is that Russia's enhanced activity in the region is tactical rather than strategic; it was prompted by anti-Westernism and immediate economic needs rather than genuine long-term appreciation of the region. The second view is that the general unpredictability of the political and military situation in the region, widespread fears of China, and growing anti-Americanism have helped Russia's entry and integration in the Asia-Pacific. The third interpretation is that a qualitative shift in the socioeconomic conditions and policies in Russia itself is pushing the country toward the region. Unquestionably, it is this last factor that is the most potent of dramatically altering Russia's long history of failure in the region. This chapter analyzes these interpretations bearing in mind Russia's bilateral and multilateral ties in the region.

Regional Perceptions of Russia

In the Asia-Pacific region, Russia—together with China, South Korea, Japan, and the US—is seen as a potentially major player. However, Russia's role is not defined, either by countries in the region or by Russia itself. Many uncertainties surround the role that Russia could and should play in the Asia-Pacific in general and in Northeast Asia in particular. Japanese diplomat and scholar Koji Watanabe highlights three points regarding this issue: 1) The situation in Russia is unstable; 2) Russia is in the midst of a prolonged process of transformation, the outcome of which is uncertain; and 3) Russia itself has not defined its role in the Asia-Pacific, other than securing bilateral relations with neighboring countries, (most significantly China).¹ This perception was echoed by Konstantin Pulikovsky, Presidential Envoy in the Russian Far East, who admitted that regional partners did not know well enough what the Far-Eastern Federal District really represents. Even Russia's immediate Asian neighbors, such as Japan, China, and the Republic of Korea, continue to view it as still living to an extent within the Soviet ideological parameters. Only gradually they come to the understanding that the reforms that were initiated about ten years ago are now yielding feasible results, and that Russia is entering the stage of civilized market relations. "It is very important for us," concluded Pulikovsky, "to show to our foreign

partners what our economic opportunities and intentions really are—so that they would come to trust Russia and, more specifically, Russia's Far East."²

Southeast and Northeast Asia's perceptions of Russia's role in the region differ because the views of countries in these regions are predicated on history, geography, and the degree and nature of Russia's involvement with them. ASEAN countries tend to see post-Cold War Russia as a somewhat remote but big power with which they want to have "equidistant" relations. ASEAN countries have successfully pushed for Russia's membership in various regional forums and have encouraged Russia's participation. In contrast, the outlook is different in Northeast Asia where Russia has more serious strategic interests and challenges. However a general consensus exists that involving Russia in the Asia-Pacific is far more beneficial than excluding it; having a stake in the region will compel Russia to play a constructive role in regional affairs.³

Like some other Asia-Pacific countries, the US remains unclear about Russia's motives, sincerity, and consistency in Asian affairs. Gilbert Rozman, perhaps America's most subtle and objective scholar of the Russian Far East, identifies at least four US goals in the Russian Far East: 1) the Russian Far East must not resume its past role of a militarized security threat; 2) the US does not want any other country to gain substantial control over this part of Russia, and the prospect of China doing so looms far larger than that of Japan; 3) the US regards Russian energy, especially oil, to be a strategic resource and seeks maximum access to it and input into its allocation; and 4) Washington is concerned that regionalism under any other state's leadership, particularly China's, could run afoul of US interests.⁴

Europe or Asia?

Despite repeated official statements that Russia views European and Asian foreign policy as equally important, real actions do not always support the rhetoric. Even worse, sometimes the rhetoric itself is contradictory and confusing. For example, in October 2003, President Putin stated that Rudyard Kipling's well-known maxim about East-West antagonism was outdated and that "those vectors were equal for Russia."⁵ In the same month, however, he sounded much more European and had to be reminded about Russia's Asian locale when discussing Russia's foreign policy with the *New York Times*. Here is the excerpt from the interview:

P u t i n : With regard to our relations with the European Union, EU is the major trade partner of Russia, with a trade volume accounting for over 50percent of total trade. Geographically, we are located in Europe.

Q u e s t i o n : And in Asia?

P u t i n : Yes, of course, but the main resources, the human resources, technological and infrastructure, are all concentrated in the European part. Most importantly, by its mentality and culture, the people of Russia are Europeans. We have many common interests with Europe."⁶

Alexander Lukin, a consistent critic of Russia's neglect of Asia, observes that although at least half of all Russians live in Asia, Russians have forged a myth that Russia is a European country and they have fallen victim to their own myth. He also argues that Russia is objectively becoming more Asian, both in its interests and in its problems. "However, no one seems willing to acknowledge this vital fact. Schoolchildren study European history and culture and learn European languages. Disregarding English, which has become an important international language, there are more schools teaching European languages like French and German in Moscow—and in the Far East as well—than those offering Chinese, even though China is one of Russia's most important neighbors." Lukin concludes that the development of Russia's Asian regions, or two-thirds of its total territory, will not be possible unless there is a revolution in Russia's attitude toward Asia and unless "we understand that economic and political partners in the East are of the same importance as those in the West. This revolution will be impossible without a sweeping program to study the languages, history, and culture of Asian countries at all levels, starting with primary and secondary schools. We will have to reform the entire Russian

educational system to include Asian languages, history, and culture. They should be studied just as widely in Russia as European languages, history, and culture are.”⁷

Bridge or Axis?

Russia’s search for its regional identity also is revealed in the recurring reference to Russia serving as a bridge between Europe and Asia. Past Foreign Minister Igor Ivanov asserted, for example, that “definitively and irrevocably the times are gone when Russia, to use the great Russian poet Alexander Blok’s phrase, ‘held the shield between two hostile races—Europe and Asia.’ In our days Russia plays an entirely different role, that of a connecting link between East and West. That role is determined by the multivector character of Russian foreign policy, in which the European and Asian tilts mutually complement each other in the interest of strengthening the country’s positions in the international arena as a whole.”⁸ The bridge concept, however, is not shared by the Asia-Pacific countries that have been developing ties with the EU on their own and have perhaps progressed in this endeavor more successfully than has European Russia.

The renewed Russian proposal for a Moscow-New Delhi-Beijing strategic triangle, or axis, is also of interest. Cooperation among Russia, India, and China “would make a great contribution to global security,” Russian President Vladimir Putin announced during his trip to India, where he also indirectly accused the US of pursuing a dictatorial foreign policy and setting double standards on terrorism. A unipolar world could result in dangerous trends globally, Putin said, adding that unilateralism increased risks that weapons of mass destruction might fall into the hands of terrorists.

A strategic triangle linking Russia, India, and China was first suggested by former Russian premier Yevgeny Primakov in 1998. The idea failed to serve its immediate purpose of preventing the US-led North Atlantic Treaty Organization air strikes against former Yugoslavia. To date, the strategic triangle concept has not come to pass, but Russia, China, and India all have a number of converging interests that could add substance to talks about a trilateral axis. For example, all three opposed the war on Iraq and protested against what they viewed as a rejection of the rules of the international game. They continue to back the primacy of the UN Security Council in solving crises and support the principle of non-intervention in the internal affairs of sovereign states. All three are weary of militant Islamic groups on their soil and want stability in Central Eurasia. There is also a growing arms sale relationship between Russia and the two Asian countries. The trade provides Moscow with billions of much-needed dollars and important arms-export markets, while Beijing and New Delhi receive sophisticated armaments ranging from combat aircraft to submarines. Interest in Russia’s energy resources is another common denominator in trilateral cooperation. The trilateral meeting in Vladivostok in June 2005 was designed to discuss economic cooperation, and energy issues assumed high importance.⁹ The Shanghai Cooperation Organization (SCO) could provide a convenient forum for the trilateral axis. It currently includes China, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan, but India has been touted as a potential candidate to join

Some experts argue that the trilateral axis is not feasible because the Indian nuclear and missile programs are not so much aimed at Pakistan but are in fact used as a deterrence against Chinese nuclear warheads. India and China also have competing economies, which makes the triangle seem implausible. Other commentators have warned that a well-armed and strong China may one day pose a threat to Russia’s resource-rich Far East. Russia and China have already solved their border disputes, but China and India are still divided by a chunk of barren terrain, the Dalai Lama, and a few thousand of his followers. Finally, the would-be strategic triangle does not have an implementation system, which is a prerequisite to ensure the future success of any stratagem. In the meantime, none of the troika wants to give the impression that they are banding together against the United States.¹⁰

Although most Russian foreign policy analysts, especially the Asian experts, seem to be supportive of a closer Russia-China-India strategic partnership, some believe that Moscow’s interests in the Asia-Pacific would be better served by supporting the US’s balancing role in the

region. Dmitri Trenin from Moscow's Carnegie Endowment for Peace, for example, believes that in 10–15 years it will become clear that the future of Siberia and the Far East is Russia's main geopolitical problem of the 21st century. He argues that at the heart of this area's instability is the failure of the traditional mobilization model of development and the delay in achieving new development based on private, mainly foreign, capital, which leaves the area vulnerable to China. Trenin believes that Washington is interested in Russia preserving its Far East, which creates a strong foundation for US-Russia partnership in the region.¹¹

Threat Perception

The diversity of Russian approaches to security in the Asia-Pacific can be explained by difference in threat perceptions. Differences in opinion at the level of individual experts are normal and common in most countries, including Russia. More disturbing, however, is the gap between Moscow and the Russian Far East, or within the Russian Government itself (particularly within the same agency), in how threats are perceived.

In his media interview in Phnom Penh following the Plenary Meeting of the Tenth Session of the ASEAN Regional Forum in October 2003, then Foreign Minister Igor Ivanov emphasized two major problems facing Russia in the Asia-Pacific. The first is the struggle against terrorism "given that from the Asia-Pacific region comes considerable support for the terrorist structures and organizations which operate in the North Caucasus." This makes coordination with the countries of the Asia-Pacific region an important element of international efforts to combat terrorism as a whole. The second problem is the struggle against narcotics emanating from the territory of Afghanistan. Because some of the channels of drug trafficking run through Russia, a significant amount remain in its territory. Ivanov also mentioned the Korean peninsula as another destabilizing factor.¹²

Alexander Ivanov, Head of the Department of ASEAN countries and general Asian issues of the Russian Foreign Ministry, prioritizes security threats in the region in a different way. He views the following factors as undermining regional security: nuclear developments on the Korean Peninsula, American plans for an exclusive Missile Defense System in Asia, the Taiwan problem, challenges of globalization, separatist trends in a number of Asian countries, terrorism, and natural disasters.¹³ In his view, terrorism moves from the first to almost the last security challenge in the region.

The presidential envoy to the Far Eastern Federal District, Konstantin Pulikovskii, has his own security priorities. According to him, in the Far East, like nowhere else, practically every possible threat to national security exists. "We live in a unique region—a sparsely populated region with open expanses that is surrounded by the strongest powers in the world." Among the threats to the region, Pulikovskii highlighted the "information threat" posed by the lack of information in the Russian Far East and the Asia-Pacific region about each other. He also stressed the region's continuing energy woes and problems in the transportation sector.¹⁴

In 2003, addressing officials and administration heads from the 16 federations that comprise the Siberian Federal District in Novosibirsk, then Security Council Secretary Vladimir Rushailo said he was concerned about security in Siberia and Far East particularly because efforts to combat crime against individuals and their property were inadequate. Even more worrisome, Rushailo said, is the economic security of the region, which is becoming increasingly dependent on exports of natural resources as other industries continue to decline. At the same session, Krasnoyarsk Krai Governor Aleksandr Khloponin said that the main obstacle to improving the socioeconomic situation in Siberia and Far East was federal bureaucracy. He called for the transfer of real decision-making authority from the central to the regional level.¹⁵

Vladimir Putin summarized Russia's security threats in his address at a special meeting of the Security Council following his working trip to the Far East. Putin unequivocally stated that the region requires special attention because of its geographic remoteness from central Russia and because of the length of its maritime and land boundaries. In addition, serious demographic,

infrastructural, migration, and ecological problems persist, and the unbalanced economy continues to lead to social tension. All of these factors adversely affect the quality of life and economic and social development in the Far East. They limit Russia's potential for successful integration into the Asia-Pacific region, which has become a hub in the system of global economic ties. The military-political situation in the Asia-Pacific region as a whole remains stable, but the danger of exacerbation of many so-called latent conflicts persists. The activity of transnational criminal and international terrorist organizations also poses a grave threat to the stability and sustainable development of the Russian Far East. In this regard, Russia must be ready to respond promptly to any threats to its national security, relying on an effective force potential and the efficient organization of the activities of its law enforcement agencies and special services. To this end, the President gave orders to increase and strengthen the combat readiness of the Pacific Fleet and the Far Eastern Military District formations and units, as well as the overall quality of work of the law enforcement system and border and customs control services. Putin's priorities are to ensure the personal safety of Russian citizens; to protect the economy from criminal penetration; and to fight contraband, drug trafficking, and illegal immigration.¹⁶

Economic Insecurity

The high level of criminal activity in the fishing sector, lack of transportation infrastructure, and inadequate foreign investment are the most troubling factors affecting the Russian Far East's economic security. The fishing sector in Primorskii Krai is one of the country's most criminalized elements, with an estimated US\$2 billion worth of fish sold illegally to Japan each year. According to *Kommersant-Daily*, Japanese companies have paid \$10 million in bribes to the State Fisheries Committee for rights to fish in Russian waters.¹⁷ Speaking in Vladivostok after visiting a fishing trawler and an ocean-resources research center, President Putin said he is upset by the current situation in which Russian fishermen sell some 80 percent of their catch directly to foreign companies without paying customs, and only the remainder is being used domestically. "In the USSR the proportion was reversed. It looks like we are selling cheap raw materials and buying expensive finished products," Putin said. He called on the fishing industry to enlarge fishing companies through mergers and to impose severe punishment for poachers.¹⁸

Among Russian regions, the Russian Far East has one of the lowest levels of investment. The situation varies between the oil-rich Sakhalin region, where investment is booming, and the rest of the Far East. The Primorye region's economy is in dire need of rejuvenation—to the tune of US\$6 billion, according to the regional administration. Although the region's problems are huge, so is its economic potential. In its annual study of regional investment climates, *Expert* magazine ranked Primorye twentieth out of the nation's 89 regions, sandwiched between Novosibirsk and Saratov. Despite Primorye's natural riches—fishing, timber, minerals—and the potential to develop as a major transit route for oil and gas, foreign investors are not pouring in; foreign direct investment is around US\$60 million. In the same *Expert* survey, Primorye was characterized as one of the regions with "constantly increasing risks," ranking in the bottom third, or seventieth, in terms of investment climate.¹⁹

Demographic Worries

The Russian Far East's demographic problem is often superficially blamed on Chinese immigration into the region, but this oversimplification omits the broader demographic trends in the region and in Russia itself. According to the State Statistics Committee (Goskomstat), the population of Russia fell by 504,000 to 143.7 million in the first eight months of 2004. The difference between the birthrate (1.013 million) and the mortality rate (1.533 million) was the main reason for the decrease. Russia's population continues to decrease at a rate comparable with civilian casualties in the bloodiest months of World War II. If the trend continues, Russia's very existence will be put into question in a few decades. Commenting on Goskomstat's figures, Health and Social Development Minister Mikhail Zurabov said that Russia's current population is already "insufficient for a country with such territory and long borders."²⁰

Khabarovsk Krai Governor Viktor Ishaev believes that the most acute threat of depopulation is in Eastern Siberia and the Far East, where the Russian population does not exceed 7 million while

50 times that number of Chinese live on the other side of the Amur River. “One should understand that nature does not tolerate a vacuum. If one side doesn’t fill it, the other will,” TV-Tsentr quoted him as saying.²¹ In a different statement, Ishaev referred to the 1.2 million residents of the Russian Far East who moved out of the region since 1991. At the November 2002 meeting of Russia’s Security Council, President Putin warned that immigration trends in the Russian Far East would lead to the squeezing out of Russian citizens from the job market. He insisted that Russians should be given priority in employment. However, according to Krasnoyarsk Krai official Viktor Novikov, the number of Chinese citizens arriving in the region to search for work has not declined: Chinese workers comprise 55 percent of the foreign workers in the Krai—the largest group from any country.²²

According to data from Russia’s 2002 census, the population of the Far Eastern Federal District has declined by 1 million, or 15.9 percent, since 1989. The largest exodus has occurred in the Chukotka (70%), Magadan (50%), Koryak (37%), Amur (28%), Kamchatka (25%), Sakhalin (20%), and Primorye (10%) regions. The total population of the Far Eastern Federal District, according to the census, was 6.7 million.²³

The Head of the Migration Service of the Primorye region, Sergei Pushkarev, is concerned that the Federal Government has not decided yet what it really wants to do with the region: promote settlement of the area and preservation of its population or just make use of the natural resources.²⁴ The growing frustration with federal indecision is prompting local authorities to come up with their own solutions. One such solution is a relocation of people from northern areas of the Far East to southern areas. In fact, this approach reflects real processes that are occurring as people from Magadan move to Khabarovsk, northern Sakhalin residents move to Yuzhno-Sakhalinsk, and so on. According to Chukotka Autonomous Okrug Deputy Governor Vasiliy Maksimov, one of the Okrug administration’s priorities is to relocate all of the residents of Chukotka to other parts of Russia. According to Maksimov, Chukotka was a forward outpost of the government and was developed for defense reasons during the Soviet era. People were sent there to work on military projects. To this day, Chukotka is not a comfortable place to live. The indigenous population and a minimal number of service personnel might want to remain, but Maksimov believes that as many people as possible should be resettled.²⁵

Avenues of Regional Cooperation

At least three areas of promising cooperation between Russia and the Asia-Pacific region exist. The first and most advanced at this stage is the arms trade with Asian countries. In addition to traditional and significant arms deals with China and India, which make up about 70 percent of Russia’s total arms export, Moscow is actively cultivating the ASEAN market. Southeast Asia has emerged as a third pole in the consumption of Russian arms, after China and India. In 2003, Malaysia, Indonesia, and Vietnam contracted with Rosoboronexport for military equipment deliveries totaling US\$1.5 billion. Thailand is negotiating with Russia for Su-30MKI fighters, and South Korea is currently conducting a tender for the delivery of attack helicopters. The Russian-Israeli KA-50-2 is competing in the tender, which has been repeatedly postponed.²⁶

The geographic expansion of the arms trade is timely. Arms trade with China and India is experiencing certain challenges, which are primarily driven by Beijing’s and New Delhi’s efforts to diversify their arms imports. Analysts are warning that the possible lifting of the EU’s arms embargo against China and the US’s preparedness to supply weapons to India will have negative consequences for Russia. The Russian government seems to be preparing for such eventuality: Vladimir Putin has already suggested a possible trilateral Russia-EU-China arms trade cooperation. Meanwhile Russian Defense Minister Sergei Ivanov believes that Russia is so much more experienced in dealing with both Chinese and Indian markets that it can cope with outside competition.²⁷

The second area of promise involves Russia’s gradual and successful positioning of itself as a major energy supplier to Asia-Pacific countries, particularly China and Japan, which are in fierce competition for access to Russia’s oil and gas resources as the dilemma of pipeline construction

in the Russian Far East remains unresolved. Russia, the world's biggest oil supplier after Saudi Arabia, expects to raise crude exports to the Asia-Pacific region tenfold by 2020 as it taps oil and gas fields in eastern Siberia and the Far East. Oil exports to the Asia-Pacific will comprise a third of oil shipments abroad in 2020, when the country expects to supply as much as 310 million tons per year (6.2 million barrels per day) to world markets, according to a Natural Resources Ministry report. By 2020, Russia plans to explore new fields and produce 80 million tons of oil per year in Eastern Siberia, according to the report. Output from the Sakhalin Island shelf off the Pacific coast is expected to increase to as much as 26 million tons per year by 2010 and change little over the ensuing decade. Asian refiners, especially in energy-starved China, are boosting purchases of Russian crude oil.²⁸

Russia is not content with being purely a supplier to the Asia-Pacific, and it hopes to shape energy security and cooperation in the region. Vladimir Putin called it "a new energy configuration in the Asia-Pacific region" when he addressed the APEC Business Summit in Bangkok on 19 October 2003. Russia's leadership in energy security will be tested by the final outcome of the dilemma about the final route of the oil pipeline from Eastern Siberia. Having China and Japan compete for the route may be commercially beneficial for Russia, but it does not help the construction of a "new energy configuration" in the region, particularly when China and Japan seem to be passing through a volatile period in their bilateral relationship.

Finally, in a third area of promise for cooperation, Russia is emerging as a consistent supporter of multilateral cooperation in the Asia-Pacific, primarily in security and economic matters. Thanks to fruitful partnership with China and Central Asian member states, Moscow has not only maintained and developed a mechanism of cooperation within the Shanghai Cooperation Organization (SCO), but it has also successfully "marketed" SCO in the Asia-Pacific region. On 21 April 2005, a Memorandum of Understanding between the secretariat of the SCO and the secretariat of ASEAN was signed in Jakarta. ASEAN became the second regional grouping after the Commonwealth of Independent States (CIS) to establish official relations with the SCO. The bilateral document defines the main areas of practical engagement and cooperation between the permanent bodies of the two organizations. Priority is to be given to the struggle against transnational crime and international terrorism and to cooperation in economy, finances, environment protection, and tourism. The Russian Foreign Ministry welcomed the establishment of official contacts between the SCO and ASEAN and regards this as an important step in implementing the Tashkent Declaration, signed by the heads of the SCO member states in 2004, which urged the creation of a partner network of multilateral associations in Asia.²⁹ However, Russia's involvement in the multilateral processes in the Asia-Pacific remains limited. Moscow was left out of the ASEAN+3 process, was not invited to the East Asian summit, and continues to find itself outside the framework of the Asia-Europe Meetings (ASEM).

Conclusion

The unsettled economic and demographic situation in the Russian Far East continues to be Russia's main obstacle in reaching out to the Asia-Pacific region. Without major, if not magical, change in the social and economic conditions of the Russian Far East, Moscow will not be a complete and efficient power in the Asia-Pacific. Not surprisingly, President Vladimir Putin referred to the Far East as Russia's second most vulnerable and strategically important region after the North Caucasus. In his 2005 annual address to Russia's parliament, Putin referred to the border regions of Russia as linchpins of cooperation with neighboring countries.³⁰ Russia's other challenges in the region, such as the continuing row with Japan over disputed territories or alarm about Chinese expansion, will be easier to handle if and when the Russian Far East is a stable, prosperous, and self-confident region.

Endnotes

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SOUTHEAST ASIAN RECEPTIVENESS TO JAPANESE MARITIME SECURITY COOPERATION

• CHAPTER 10 •

Dr. Yoichiro Sato

Introduction

Japan's role in ensuring maritime security in Southeast Asia has received some attention in recent years. Japan's primary focus on the Malacca Strait has resulted in close cooperation with the three littoral states (Singapore, Malaysia, and Indonesia), but Japan's newer initiatives for multilateral cooperation encompass a broader set of countries in East Asia. Japan particularly sees Thailand as a potential partner for maritime security cooperation. At the same time, divergence of interests and differences in institutional settings between Japan and Southeast Asian countries pose some obstacles to closer cooperation. This article will assess Japan's maritime security cooperation with Southeast Asia and explore implications for U.S. policy.

Japan's Concerns and Initiatives

Japan's economy heavily depends on safe passage of ships through the Malacca Strait, and therefore Japan has long cooperated with Singapore, Malaysia, and Indonesia in the area of navigation safety and seabed mapping through joint research, sharing of equipment, and training. The increase in piracy incidents in the Strait since the 1997-1998 Asian economic crisis resulted in increased Japanese assistance in anti-piracy efforts. Japan has also aided civilian law enforcement capabilities of the littoral states through its Coast Guard. Japanese Coast Guard vessels have patrolled Southeast Asian seas and carried out joint exercises with civilian maritime counterparts in Southeast Asia. Japan's approach emphasizes the sovereignty of the littoral states and focuses on their cooperative capacity building. The Japan International Cooperation Agency (JICA) funds the Coast Guard's seminars to train maritime authorities in Southeast Asia, and Japan's aid is critical in helping to create maritime patrol authority where local capacity is lacking (especially in the Philippines and Indonesia).

Japan's anti-piracy efforts have also promoted multilateral institution building in the region. Japan has financed efforts of the International Maritime Organization (IMO) to track and study piracy incidents. In concert with the APEC Counter-Terrorism Task Force, Japan held the "Heads of Asian Coast Guard Agencies Meeting" in Tokyo in June 2004. Japan's Ship and Ocean Foundation has also provided seed money for the IMO-sanctioned Anti-Piracy Center in Kuala Lumpur. In March 2005 Japan held the second "ASEAN-Japan Seminar on Maritime Security and Combating Piracy" in Tokyo to review progress of the ASEAN countries on implementation of the International Ship and Port Facility Security (ISPS) Code. Japan has also conducted training courses for maritime law enforcement officials from ASEAN countries, China, and South Korea. Japan's status as the predominant user of the Strait has gradually declined as other industrializing states of East Asia have increased their dependence on this key waterway. As security of the Strait became a common good, Japan sought to ensure equitable cost sharing through a multilateral framework. At a meeting of the IMO in Kuala Lumpur in September 2006, Japan proposed voluntary cost sharing for safety, security, and environmental protection of the Malacca and Singapore Straits among the three littoral states, user states, the shipping industry, and other stakeholders. Multilateral institution building has turned out to be an onerous task for Japan. Japan proposed the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), which emphasized sharing information about ships victimized by and suspected of committing piracy and armed robbery. This agreement did not cover other maritime crimes such as illegal migration, smuggling, and terrorism. The scope of the information sharing initiative covered both piracy incidents in international waters (for which jurisdiction under the Law of the Sea belongs to the flag nation) and "armed robbery" in territorial waters (for which jurisdiction traditionally belonged to the littoral state). Inclusion of the latter has been one, and likely the most important, factor deterring Malaysia and Indonesia from signing the ReCAAP. Sixteen countries (Japan, China, South Korea, India, Bangladesh, Sri Lanka, and ten

ASEAN nations) participated in the negotiation and adopted the initial agreement in November 2004. A minimum of ten signatories was required for the agreement to enter into force, and the agreement took effect in September 2006, but without China, Malaysia and Indonesia. China signed and ratified later.

Launching of the ReCAAP is quickly changing Japan's aid distribution pattern. MOFA is channeling Japan's aid for capacity building through the multilateral ReCAAP, leaving assistance through equipment to the bilateral channels. While capacity building aid through JICA raised the issue of foreign military participation, ReCAAP is represented by the "focal point" agency each country chooses—civilian or military. Under the new distribution pattern, Japan's financial contributions through the multilateral channel can be used for training of both civilian and military officials.

Despite the strategic significance of the Malacca and other straits in Southeast Asia, Japan has so far focused on civilian cooperation and refrained from directly utilizing its maritime self-defense force for specific tasks in the region other than disaster relief. Given that Japan occupied this region during World War II, activity by Japanese military forces in this area is a sensitive issue. Furthermore, thinking within the MSDF has tended to focus on more traditional, direct military threats such as North Korean missiles, which works against the use of military assets to deal with low-threshold threats such as piracy.

Japan's efforts to improve maritime capabilities of the Southeast Asian countries and induce other countries that use the Strait (such as South Korea and China) to share the burden have potential drawbacks. First, Japan's assistance to improve the Southeast Asian capabilities may elevate the ongoing political conflicts over disputed maritime spaces and resources among the Southeast Asian countries into physical ones. Second, increased maritime capabilities of the predominantly Muslim states (such as Indonesia and Malaysia) may pose unpredictable risks to the passage of Japanese ships through the Malacca Strait in the event of a Middle East crisis. Furthermore, involvement of China and Korea in Malacca Strait security may contribute to eroding the naval predominance the United States and Japan currently enjoy. Some observers view Japan's gift of three patrol ships to Indonesia in 2006 as a means of checking Chinese naval expansion. From ASEAN countries' perspectives, Japan's aid in advanced hardware to one country may tilt the competitive balance among them.

Singaporean Reaction

Singapore's location in the heart of the Malacca Strait and its economy's critical dependence on entrepot trade focus its attention on maritime terrorism and piracy in the Malacca Strait, and this focus closely overlaps with Japan's interests. Combined with long-standing mistrust of predominantly Muslim Malaysia and Indonesia, Singapore's high priority on strait security has led to seeking closer cooperation with external partners, especially the United States and Japan, sometimes beyond the comfort level of Singapore's neighbors. On the other hand, Singapore already possesses the most capable naval and maritime security forces in Southeast Asia and does not require as much external assistance in terms of equipment and training except for joint operations. Singapore's cooperation with Japan instead has focused on diplomatic, international-legal, and information fronts. Most notably, the two countries' cooperation played a crucial role in setting up the ReCAAP framework. However, the combined leadership of Japan and Singapore could also be viewed negatively by other ASEAN countries (especially Malaysia and Indonesia), hindering multilateral cooperation in the region.

Singaporeans perceive that the high number of Western businesses in Singapore and the country's own adoption of some aspects of Westernization make Singapore a likely target of maritime terrorism. In the Malacca Strait, Japan's more important East-bound traffic (of loaded oil tankers from the Middle East) sails through waters under Indonesian jurisdiction. Hence Singapore encourages multilateralized Japanese assistance to less capable littoral states (most notably Indonesia) to build their capacity for security enforcement. Regional observers say

Japan's offers of assistance are better received by ASEAN states than similar offers from the United States.

There are several reasons for Singapore's preference for multilateral approaches. First, Singapore does not see an imminent threat from increased assistance to the region from any external state (notably the United States, Japan, China, and India). Having the most potent navy and air force in the region, Singapore is confident that external assistance to its neighbors would not greatly alter the regional power balance in its disfavor. Rather, Singapore welcomes the benefit of increased collective regional capacity. Singapore even encourages the physical presence of external naval/maritime forces in the strait. Singapore's publicly expressed welcome for the United States and Japan does not preclude acceptance of other powers such as India and China. Second, Singapore sees multilateral venues as more efficient than bilateral ones. Multilateralism promotes donor coordination, avoiding redundancy and deterring the recipient states from playing one donor against another and steering the aid away from the common good of strait security toward the recipients' own priorities.

Indonesian Reaction

Indonesian waters host three straits that are important to Japan's economy: Malacca, Sunda, and Lombok. As an archipelagic country made up of over 13,000 islands scattered across a range of over 5,000 kilometers from east to west, Indonesia's maritime security concerns are far broader than piracy in the Malacca Strait. Combined with the fact that major victims of piracy in the Malacca Strait are merely passing through the strait with little economic benefit to Indonesia, the country's interest in anti-piracy efforts in the Malacca Strait is limited to managing an ongoing diplomatic embarrassment. Indonesia is keen to receive external assistance in the form of equipment and training, but wants this assistance for dealing with its own priorities, including terrorism, illegal fishing, and illegal migration. Domestic political sensitivity surrounds external security cooperation with Western countries (most notably the United States and Australia), necessitating that such cooperation be carried out quietly. Japan is largely free of this restriction in Indonesia. Because of its strong sovereignty claim over the Malacca Strait, Indonesia has resisted multilateralizing management of the strait's security. Bilaterally-supplied foreign equipment also raises the issue of controlling the equipment after it is deployed, as well as the problem of maintenance given the lack of basic vocational skills in the Indonesian maritime security forces.

The main arena of piracy in Indonesian waters is around the island of Bangka—far south of the Malacca Strait. Indonesia's concerns about terrorism have maritime dimensions, but are not confined to the Malacca Strait. Movement of the Jamayah Islamia (JI) leadership from Malaysia via the Makassar Strait and illegal movement of people between the conflict-prone southern Philippines and the islands of Kalimantan or Sulawesi through the Celebes Sea have invited quiet cooperation among Indonesia, the United States and Australia. Japan's focus on the Malacca Strait is generally accepted as an outcome of trilateral U.S.-Australia-Japan coordination to avoid duplicating of efforts.

Indonesia views Japan as a source of diversified assistance. Japan's aid has not been strongly tied to human rights issues, and Indonesia's experience of aid suspensions from Western countries during the East Timor crisis from the late 1990s to the mid-2000s makes Japan a source of diversified assistance. Japan's heavy focus on the Malacca Strait contradicted Indonesia's desire to deploy the donated ships as it wished, but assistance in training of personnel and improving general maritime surveillance capabilities are viewed as more broadly applicable and are welcomed by Indonesia. Even aid to improve local fishermen's capacity is viewed in the context of reducing piracy, since many pirates are also fishermen. Indonesians view aid in basic science, engineering, and IT education as a booster of efficacy in maritime security training and exercises. In the eyes of more experienced non-Japanese providers of security assistance, however, Japan's ongoing assistance to Indonesia in equipment, training seminars, and joint exercises lacks long-term working relations and mentoring aspects. One observer

recommended long-term stationing of Japanese staff at the sites where transferred equipment is deployed to train the local operators in usage and maintenance.

Indonesia's fear of the Chinese and skepticism about the Indians, combined with political Islam's opposition to U.S. naval expansion into the region, also make Japan a preferred partner. Unlike Singapore, Indonesia is generally opposed to the physical presence of external forces for maritime security on political grounds, but Japan seems to be the candidate least feared by the Indonesian security elite. The Indonesian Navy seeks closer cooperation with Japan's Maritime Self Defense Force to balance its relations with the Indian and Chinese navies, and some Indonesian experts even suggest expanding bilateral cooperation in straits other than Malacca (i.e. the Sunda and Makassar).

Indonesia's reluctance to sign the ReCAAP is multifold. Its aforementioned sovereignty claim has confined the country's multilateral cooperation concerning its territorial waters to navigation safety and environmental protection issues. Indonesian defense policy also insists that Jakarta's multilateral participation remain voluntary, limiting itself to agreements on search and rescue and disaster relief. Officials and experts cite procedural issues in the establishment of the ReCAAP, such as dissatisfaction with location of the headquarters in Singapore, the process of voting rather than seeking a consensus on that decision (pushed by Japan and Singapore), lack of perceived benefits to Indonesia, ReCAAP's unclear relations with the existing international framework of information sharing under the IMO, inability to designate the "focal point" due to jurisdictional fights among numerous concerned agencies, and fear of domestic and international repercussions from revealing the true extent of illegal activities and corruption. Indonesia, which hosts Central (South China Sea-Sunda Strait) and Eastern (Celebes Sea-Makassar Strait-Lombok Strait) sealanes, fears a possible application of the ReCAAP model to other straits under the IMO framework.

Thai Reaction

Thailand sees Japan as an important player in its security relations. Thai desire to have and balance diverse security partners is encouraged by Japan's recent moves to become an active regional security actor, including the ongoing discussions of constitutional revision to allow collective defense and the upgrading of the Defense Agency to the Defense Ministry in January 2007. China's growing security cooperation with Thailand's neighbors and coastal states of the Indian Ocean, such as Burma, Cambodia, Maldives, Pakistan, and Iran, urges Thailand to seek closer cooperation with Japan. Thai officials see a significant overlap between the maritime security interests of Thailand and Japan and argue that local Thai capacity building is in Japan's interests. However, differences in broad strategic interests and issue priorities between the two countries set limits to their cooperation. Furthermore, the current level of cooperation has not even tested these limits due to the complexity of Thai maritime jurisdictions, lack of domestic coordination in the Thai government, and incomplete Japanese awareness of these problems.

Thailand's maritime security concerns are diverse. In the Gulf of Thailand, illegal fishing by Vietnamese and Cambodian fishermen is a major problem. In Southern Thailand, the possibility of maritime support for the Muslim insurgency from the Malaysian side is a concern. On the West Coast, arms, drug, and human smuggling as well as refugee flows by sea from Burma are major security problems. Thailand's Port Authority also manages several international river ports, and drug and human trafficking through rivers from neighboring countries are a substantial worry for the Thais.

Anti-piracy in the Malacca Straits, on which Japan has spent considerable diplomatic efforts, is not the highest priority in Thailand. The main shipping lanes of the Malacca Strait are beyond Thai sovereign waters. Thai concerns center on the maritime smuggling of arms, illicit goods, and illegal migrants from neighboring countries, mainly but not limited to Burma. Thailand's participation in the "Eye in the Sky" aerial patrol and proposed participation in the coordinated naval patrol with Singapore, Malaysia, and Indonesia have some support in the military, but elsewhere the desire to "free ride" is strong.

Regarding Thailand's participation in anti-piracy efforts in the international waters of the Malacca Strait, the Thai Navy holds both legal authority and actual capability to implement it. The Navy is increasingly interested in this due to Thailand's dependence on imported oil and the development of a major port at Ranong on the west coast. The Thai Navy is preparing to join the ongoing coordinated naval patrols by Malaysia, Singapore, and Indonesia. However, the cost is a major inhibitor. Thailand has signed the ReCAAP, but the Ministry of Foreign Affairs has not assigned any representative to the ReCAAP Information Sharing Center in Singapore. Both budget shortfall and Thailand's preference to distance itself from the diplomatic spat between Singapore on one hand and Indonesia and Malaysia on the other seem to account for the Thai reluctance.

Perhaps the most significant barrier to maritime security cooperation with Thailand is its extremely complex jurisdictional boundaries among many governmental authorities over various maritime security issues. This complexity has several implications. First, would-be external providers of security assistance (such as Japan) have difficulty identifying the correct counterpart agencies in Thailand. The Ministry of Foreign Affairs is expected to be the gateway for such assistance, but its involvement in maritime security issues is new and the ministry's ties with relevant domestic agencies are underdeveloped. Based on a Navy proposal, relevant agencies formed a coordination group under the National Security Council. This has improved interagency communication among the Thai domestic agencies, but streamlining of overlapping boundaries and centralization of the enforcement authorities are far from adequate. Creation of a comprehensive Coast Guard is unlikely to happen soon in Thailand, given the intensive turf battles among the domestic agencies. Second, overlapping jurisdictions over maritime security issues increase the vulnerability of maritime security enforcement to corruption. The scattering of the authority of arrest, seizure, investigation, and prosecution across multiple agencies is further complicated by geographical (territorial water, EEZ, high seas) and functional boundaries (i.e. immigration, customs, fishery, etc.). Criminals often find it easy to pay off one in the chain of relevant agencies in order to get free. Third, involvement of many domestic agencies in maritime security means that there is not a large need for externally assisted training of personnel. Within each relevant agency, most training can be conducted relatively inexpensively. The advanced training by external actors needs to precisely identify the right staff of these relevant agencies to train. However, without detailed knowledge of the complex Thai jurisdictions, invitations to the training seminars are usually sent to a level too high for focused recruitment. This tendency invites political, rather than merit-based, recruitment of participants. A Thai observer identified Japanese aid as such a case in point.

Conclusion

Building upon its civilian cooperation with the three littoral states of the Malacca Strait for maritime safety and diplomatic cooperation, Japan has practiced cautious, nuanced, and indirect leadership to improve maritime security in the Malacca Strait. Japan's intellectual contributions to the development of maritime security cooperation concepts in particular form the backbone of its leadership.

Maritime security has also opened a door for Japan to use its diplomatic power in security matters in Southeast Asia. The ASEAN way of respecting national sovereignty and collectively resisting interference by external powers initially limited Japan's role to cooperating on navigation safety, but the urgency of controlling piracy and collaboration with Singapore enabled Japan to launch a regional multilateral initiative.

The sovereignty claims of Malaysia and Indonesia continue to pose a major limit to multilateral cooperation, as do lack of capacity and corruption in some Southeast Asian countries. The ReCAAP Information Sharing Center may be handicapped by lack of cooperation from Indonesia, Malaysia, and perhaps Thailand as well.

Singapore's special relations with external powers including Japan are a double-edged sword for the purpose of promoting regional cooperation. While it is the most interested party in the region, Singapore's unique concerns are not closely shared by other Southeast Asian countries. External

countries need to pay close attention to both the diverse needs and preferences of each country and diplomatic protocols governing intra-ASEAN relations. Japan may be doing better than the United States on this score, but still has considerable room for improvement.

Japan's civilian focus in assistance to the region has been well received. While some maritime strategists in the region support Japan's increased military presence in the regional seas, there is no indication at present that such voices are dominant in Southeast Asia, with a possible exception of Singapore. In terms of practicality, the Japanese Coast Guard is capable of providing all the assistance the region needs, and the Coast Guard's "civilian" status makes Japan's diplomacy much easier.

Japan's cooperation with local authorities varies. Clarity in local jurisdictional structure is much desired in many Southeast Asian countries in order for Japan to most effectively provide assistance. Japan may assist Southeast Asian countries in the process of streamlining their maritime authorities, but Indonesia and Thailand seem to have locked in their overlapping jurisdictional structures to the point of resisting centralization and streamlining reforms. This problem is likely to continue limiting the effectiveness of the external assistance.

Although a gap exists between Japan's focus on Malacca Strait and more diverse concerns of Southeast Asian countries as well as other external providers of security assistance, this gap per se is not an insurmountable obstacle to regional cooperation. Southeast Asian countries simply want Japan to do more to address their broader concerns and diversify sources of security assistance. Coordination among the recipient, Japan, and other donors is already good in regard to Indonesia. Similar models of coordination are well advised for other countries, but the quality of coordination seems to largely depend on individuals at the embassies who are charged with this task.

MOFA's role in maritime security cooperation initially depended on leased liaison officers from the Coast Guard who frequently traveled to the region. Military attaches at Japanese embassies in the region have played little or no role. MOFA's increasing activism may lead to better coordination of maritime security and broader foreign policies in the region if MOFA continues to closely consult the cumulative experiences of the Coast Guard.

Streamlining of capacity building assistance in the multilateral framework of ReCAAP comes with a danger of too much standardization. Local needs vary, and bilateral channels allow closer coordination with the recipient countries. Indonesia and Malaysia are not likely to be persuaded to join the ReCAAP by mere shifting of the capacity building assistances into this multilateral venue.

Overall, Japan's maritime security assistance to Southeast Asia is favorably received by the recipient states. Despite some shortcomings in its assistance programs and heavy focus on the Malacca Strait, Japan's capacity building assistance in the region meshes well with broader maritime security priorities of the Southeast Asian governments and Japan's principal allies in the region, the United States and Australia. Japan's leadership in formal multilateral institution building would have the best chance of success with the tacit endorsement, rather than open support, of its Western allies.

THE INFLUENCE OF ECONOMICS ON U.S. MARITIME SECURITY EFFORTS IN ASIA

• CHAPTER 11 •

Lieutenant Commander Herschel W. Weinstock

If asked to define the maritime role of the United States military, most laymen likely envision grey-hulled destroyers patrolling sea lanes, fighter jets launched from aircraft carriers prowling the skies, and submarines silently deterring rogue nations from reckless acts. All of this is true, of course. The primary duty of the U.S. military is to be ready to fight and win wars, maintaining its dominance across the full range of military operations.¹ In the last decade, however, America's military mission set has expanded significantly to include many non-traditional challenges: terrorism, transnational crime, disaster relief, pandemic influenza, and others. The global nature of these challenges implies that they cannot be resolved unilaterally by any single government agency, or even any single government. This is especially true in the tangled island chains and archipelagos of Southeast Asia, where the territorial waters of sovereign nations abut one another.

Non-traditional challenges require non-traditional solutions, and the U.S. military possesses numerous resources to employ against these threats, including security assistance, multilateral training and exercises, combined operations, and other cooperative endeavors. Through these instruments the U.S. can help other nations build their capacity to combat terrorism, fight transnational crime, respond to disasters, and contain disease vectors. A major element of that capacity building assistance centers on strengthening maritime security in the Asian theater. The U.S. has funded the construction of numerous Maritime Domain Awareness (MDA) sensor stations throughout Southeast Asia and improved Command and Control (C2) networks. Military and law enforcement personnel from the U.S., Australia and other nations have trained local maritime forces in advanced surveillance and interdiction tactics and hosted frequent conferences and forums to discuss multilateral information sharing and combined operations, all with the objective of improving the overall maritime security of Southeast Asia.

Given the public perception that the U.S. military primarily focuses on kinetic operations, a supporting role involving funding, training, and other "soft" power might seem unconventional. Conventional or not, these forms of influence are the best, and only, means currently available to effectively address these non-traditional threats. The U.S. government is committed to promoting international stability and prosperity, and the U.S. military's role in achieving these goals requires not only material assets and expertise, but also a strategy to use those resources to best effect. The U.S. National Strategy for Maritime Security strives to preserve freedom of the seas and promote legitimate commerce.² It instructs the collective agencies of the U.S. government to strengthen security arrangements on the open sea, across the littorals, and throughout every link in the international supply chain through domestic and international outreach. Many variables affect this strategy and shape its implementation: What resources are available to the nations involved? Can the region's current political-military balance be maintained? In what ways can technology and innovation be best applied to address centuries-old issues? How can cross-border challenges be pursued without infringing on national sovereignty and pride? These variables are complex and interdependent, requiring decision makers to be keen observers of the region's strategic environment. One of the most pivotal drivers in any strategic environment is economics, and a strategy that aims to strengthen maritime security in Asia must be informed by a comprehensive, forward-looking evaluation of the second and third-order effects of Asia's explosive economic growth.

It is no secret that Asia is an emerging economic world power. In terms of purchasing power parity (PPP) China, Japan, and India's gross domestic product (GDP) each rank in the top five economies in the world.³ The International Monetary Fund (IMF) estimates that while the global economy will expand at approximately 4.9% (in terms of GDP at constant prices) in 2008, developing Asia will expand at 8.4%. In particular the IMF predicts China's growth rate to remain

around 9.5% and India's approximately 7.8%.⁴ The World Bank is even more optimistic, projecting China's GDP to remain above 11% throughout 2007, dipping to 10.5% in 2008.⁵ In its examination of the global container trade, a direct indicator of worldwide trade levels, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) states unequivocally that East Asia is the world's most important trade region, generating 24% of the total global trade in 2006.⁶ North Asia and Southeast Asia each accounted for an additional 10% of global volume. By 2015, UNESCAP estimates that East Asia's portion of global volume will have grown to 32%, with North Asia and Southeast Asia accounting for another 8.4% and 10.3% respectively. In sum, Asia will account for over half of all world trade. Sustaining this extraordinary level of growth will have broad implications across the global marketplace, especially in the attendant increased competition for energy and raw materials.

Oil, natural gas, steel, and similar raw materials are the fuel of modern economic engines. As economies expand, they require more and more of these resources. Chinese consumption of steel increased by more than 10% in 2005, as compared to 2% growth worldwide that year.⁷ The Department of Energy estimates that non-Organization for Economic Cooperation and Development Asia (which include China and India's 2.5 billion citizens) accounted for 43% of the overall increase in global liquid fuel consumption this year.⁸ Steel consumption in India has increased at more than 7% per year since 2002,⁹ and China's has remained above 10% since 2003.^{10,11} In addition to driving up global commodity costs, this increased demand for energy and raw materials has the potential to inflame tensions as nations vie for scarce resources and compete for access to cheaper, more reliable sources.

The rapid economic growth of Asia's economy suggests that a worldwide competition for resources is underway and growing. Two current trends in China exacerbate the situation even further: increasing urbanization and the rapid proliferation of motor vehicles. In recent decades China has been experiencing one of the largest human migrations in recorded history. Rural residents are moving to larger towns and cities in ever increasing numbers, searching for better jobs and greater opportunity. At present rates the 30% of 1.3 billion Chinese citizens now living in urban centers will grow to 60% of the 1.5 billion people projected to populate China by 2020.¹² This translates to an expansion of the urban population from 390 million to 900 million residents. Per capita energy consumption of urban residents in China is 3.5 times that of rural residents, so its energy demands in 2020 could easily exceed eight times current demand. Growth of this magnitude will strain the capacity of world's energy sources to provide and the global supply chain to deliver.

Compounding this increased demand is the ever expanding number of motor vehicles in China. Using current industry statistics, the 30 million cars, trucks, and vans currently traveling China's roads will expand to 140 million by 2020.¹³ These vehicles will require steel to build and fuel to operate. Given the growth potential in developing Asia, the continued expansion of motor vehicles fleets across the region can only sharpen the competition for energy supplies and other resources. Approximately half of China and India's oil supply travels by sea¹⁴ and these proportions are expected to grow to 75% and 85% respectively by 2025. Japan is already entirely dependent on maritime imports for its oil. As these nations become ever more dependent on maritime shipping to meet their energy needs, disruptions in the supply chain will likely trigger graver consequences than ever before.

Over ninety percent of the world's cargo travels by sea, including much of its oil supplies.¹⁵ Southeast Asia's unique geography channels maritime traffic into a few heavily-traveled corridors creating a particular vulnerability for maritime commerce. With few exceptions, all maritime commerce in the region flows through the Malacca, Lombok, or Sunda Straits. In fact, 70,000 vessels a year, representing over 25% of the world's cargo and 50% of the world's oil (including 80% of Northeast Asia's oil)¹⁶, passes through the Strait of Malacca alone.¹⁷ Any disruption of that flow would immediately and gravely impact the global economy.

Southeast Asia's chokepoints are vulnerable to state and non-state actors alike. Sea robbers and pirates prey on commercial vessels where the sea lanes pass closest to land, and in Asia that description applies to many locations. Terrorists have struck freighters elsewhere in the world,

and rumors abound of plans calling for similar acts against Asian freighters and port facilities. When Lloyds of London listed the Strait of Malacca as an area at risk of “war, strike, terrorism and related perils” in 2005 due to escalating rates of piracy and sea robbery incidents, the resulting insurance premium hikes imposed on carriers raised oil prices around the world.¹⁸ A reduction of piracy incidents allowed the “war risk” rating to be rescinded the following year, but the episode served as a clear demonstration of both the global economy’s interlinked nature and the critical need for effective maritime security.¹⁹ If a rash of piracy and sea robbery incidents were enough to significantly disrupt the global supply system, consider the consequences of a catastrophic event. A radiological dispersal device detonated in Singapore’s harbor, pandemic influenza breaking out and shutting down Hong Kong, or a political crisis sparking a wholesale diversion of maritime traffic from Chinese and Taiwanese ports... any of these would cause tens of billions of dollars in direct economic damage as well as massive, cascading disruptions of economies the world over, and have the potential to quickly spill over into the political and military arenas.

As Asian economies continue to grow it will become increasingly critical to prevent disruptions of the supply of raw materials and energy flowing to and from the region. Guaranteeing this flow is already a decisive element of many nations’ international policies, especially in terms of energy and maritime security. For instance, China’s two largest shipyard groups are undergoing massive expansions and expect to double their capacity by 2010.²⁰ China is simultaneously expanding its merchant marine, improving the infrastructure in its major ports, working diplomatically to secure maritime oil transport routes and advantageous berthing rights in regional foreign ports, and building a larger and far more capable navy to protect that shipping. Most analysts believe that by increasing its fleet of supertankers by 65 to more than 90 the Chinese government hopes to secure its energy supply, attempting to ensure that nation or nations could restrict the flow of oil by refusing to allow their ships to carry for Chinese customers during times of increased tension.²¹ The increased reach and potency of the military and newly-secured port rights in Pakistan, Bangladesh, and Burma likely serve the same purpose, guaranteeing that no foreign powers could restrict China’s access to the sea lanes, restricting the flow of oil and cargo that feeds its national economy.²²

Asia’s continuing economic growth will likely have two major effects on U.S. policy in the region. First, the international competition for resources, both energy and raw materials, will continue to increase. Economic theory dictates that increased demand of a scarce resource will always drive the price of that resource upwards. Thus Asia’s increasing consumption will force global prices higher, which is almost certain to increase international tensions as a result. U.S. consumers, legislators, and strategists must recognize these facts and anticipate their effects. There is no military remedy for this phenomenon; it falls on the diplomatic and business communities to devise international mechanisms that ensure fair market access to all parties, to establish cooperative agreements that develop new energy sources and more efficient systems, and to incentivize global cooperation in energy security matters. International stability is in all nations’ long-term interests, and continued economic growth is dependent upon it.

The second effect of Asia’s continued economic expansion on U.S. policy is the growing importance of the global supply chain as a critical component of international stability. The U.S. military can play a strong role in defending this stability, building interlinked maritime domain awareness systems; training agile military and law enforcement units able to protect ships, ports, and borders; promoting measures that prepare nations to prevent pandemics, and to respond quickly and effectively when prevention fails; strengthening critical regional infrastructure; and advancing bilateral and multilateral relationships throughout the Pacific theater. By building the region’s organic capacity to weather political, health, environmental, or economic storms and encouraging unity of effort, the U.S. and its partner nations can be strong advocates for global stability and security.

Alfred Thayer Mahan posited in The Influence of Sea Power Upon History that control of the seas, the ability to dominate the sea lanes and effectively deny access to one’s opponents, was critical to a nation’s ability to prevail in war. This premise remains true today, but the threat has shifted since the 19th century. Instead of battleship flotillas blockading coastlines, today natural disasters, terrorists, pandemics, transnational crime, and political conflict are far more likely to cut

off access to markets and cripple economies. Control of the sea lanes, in the sense of maintaining unimpeded access for all legitimate users, remains strategically critical. For over fifty years the U.S. has shouldered the lion's share of the burden, preserving freedom of the seas around the world. It is very much in the interest of the global community of nations, and ourselves, that the U.S. continue to ensure the maritime commons remains available to all. The burden must be shared, however. While the U.S. must maintain the ability to militarily overmatch any and all opponents, we must also build the capacity of the region's nations to protect the seas themselves, and their willingness to do so. No single nation can defeat the current, globalized threats to stability and peaceful development. The U.S., working with Asian partners, will continue to safeguard freedom of the seas, employing a strategy reflective of the region's strategic environment and informed by military, political, and economic analyses. The efforts of the U.S. and its partners to strengthen Asian maritime security will surely result in greater international stability; and presuming the old dictum that "a rising tide floats all boats" is true, all nations will share in the prosperity that greater stability provides.

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