

Dragoman Digest.

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US government and industry subjected to huge Russian hack

President Trump has yet to publicly comment

Hackers believed to be working on behalf of the **Russian** government have [reportedly](#) staged what may be the biggest cybersecurity breach of **US** federal government networks in more than two decades. A private cybersecurity firm FireEye – which has many US government clients – was first to raise the alarm last week that its networks had been hacked. This week, it emerged that SolarWinds, a publicly traded company that provides software to tens of thousands of government and corporate customers, had also been hacked. It appears that a corrupted version of the SolarWinds software – masquerading as an update – was downloaded by unsuspecting customers from March to June this year, providing hackers with an entry point.

Up to 18,000 organisations including the Pentagon, intelligence agencies, nuclear labs and a number of Fortune 500 companies use the SolarWinds software. According to FireEye's the number of victims who have had their data compromised may be only limited to "dozens". However, with it emerging yesterday that hackers may have used other entry points, this number is only expected to grow. So far, government officials have admitted that the State Department, Department of Homeland Security and parts of the Pentagon have been compromised.

That an attack of such scale could go undetected for so long will inevitably raise questions about the adequacy of the US' cyber capabilities. President **Trump** – who has just over a month left in the White House – does not appear to be in any particular hurry to clean up a mess which president-elect **Joe Biden** will inherit. For his part, Biden has vowed to adopt a more assertive approach to cyber-security, declaring "a good defense isn't enough". That President **Putin** likely authorised the attacks also suggests that he sees little possibility of a US-Russia rapprochement anytime soon. If it hasn't already, the US will have to quickly get used to confronting two authoritarian threats simultaneously – the bear and the dragon.

China's Belt and Road Initiative shifts gear

China has been compelled to pursue a more restrained and commercially savvy Belt and Road Initiative (BRI)

Analysis released by the [Financial Times](#) suggests that **China** has significantly curtailed BRI lending. Overseas lending by China's two main policy banks – the China Development Bank and the Export-Import Bank of China – collapsed from a peak of US\$75 billion in 2016 to just US\$4 billion last year. According to the FT, overall lending across 2008-2019 was US\$462 billion, slightly less than the US\$467 billion figure recorded by the World Bank. However, as [some](#) have pointed out, the data-set used by the FT was not necessarily all encompassing.

Nonetheless, there does seem to have been an overall decline in China's overseas lending. Several factors explain why. Amidst the **US-China** trade war – which will likely continue in some form under the Presidency of president-elect **Joe Biden** – Beijing has moved to tighten capital outflows in order to stabilise the RMB. On some counts, up to [half](#) of Chinese overseas investments – many of which are attached to the BRI – are loss-making. With this year seeing increased financial stress both in China and overseas, it appears that Beijing can no longer afford to pour vast amounts of money into projects with questionable commercial viability. As policymakers have learnt, the inevitable problems associated with such projects – namely increased debt loads, infrastructure with limited utility and

disappointed locals – have also done no favours to China’s international image. Nor have they always been popular domestically in a country that continues to grapple with huge development and social challenges. In a sign of what may be to come, Chinese companies in Africa are now [experimenting](#) with more profitable public-private partnerships. While the BRI is not going anywhere, it does appear to be evolving to reflect China’s own economic constraints and increasing sensitivity to its global image.

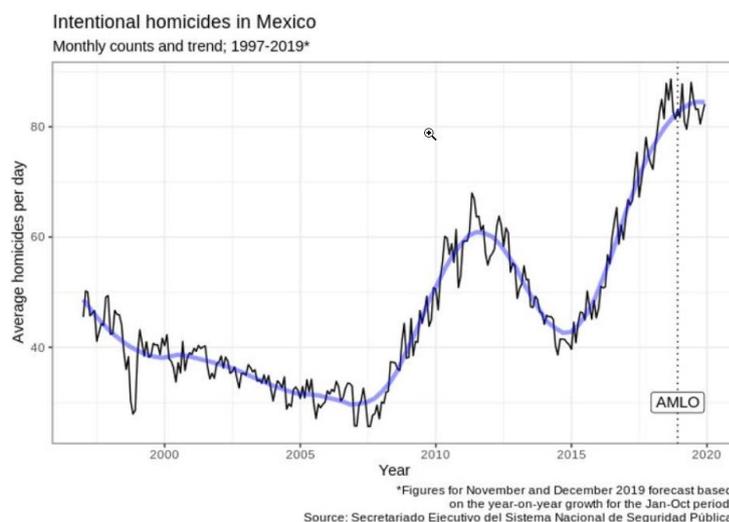
AMLO’s “hugs, not bullets” strategy – two years on

The expansion of military power does not appear to be enough to curb Mexico’s startlingly high homicide rate

Mexico’s President **Andrés Manuel López Obrador** (AMLO) had [promised](#) to demilitarise public security and “return the army to the barracks.” His pledge was meant to be a new approach following the failed [strategy](#) of militarising public security pursued by previous presidents.

However, two years since he took office, the military’s power has been expanded and formalised. The National Guard created by AMLO in 2019 was established as a civilian-controlled public security force. In reality, it is a heavily armed body that combines soldiers, marines and federal police. Nearly 90 percent of troops are ex-army officials. The [recently dropped](#) charges against the former Minister of Defense Gen. Salvador Cienfuegos demonstrates the persistence of high-level corruption in Mexico’s armed forces and its near total impunity.

The annual homicide rate under AMLO has trended slightly downwards (see graph below). Yet, there may be other factors behind the declining homicide rate other than AMLO’s much vaunted National Guard. [Collaboration](#) between government and cartels appears to be a significant factor in explaining the downwards trend. One state attorney general ordered his officers to kill gang rivals to protect a local cartel’s drug trafficking routes. In this area, the local homicide rate dropped by 75 percent in four years. Notably, homicides by criminal groups increased country-wide from 2014 to 2018. This suggests collaboration between government and criminal groups may be happening on a country-wide scale. There is a risk that homicide rates will remain stubbornly high until AMLO addresses the entrenched corruption, dismantles the structures which profit from organised crime and reforms the justice system. The National Guard alone appears unlikely to be enough to secure civilian safety in Mexico.



CCP member leak puts companies in a tight spot

The risk however, may not be as severe as first assumed

The [leak](#) of a database containing the personal details of 1.95 million **Chinese** Communist Party (CCP) members may have security implications for global corporations and diplomatic missions in China. Investigations following the leak reveal that the **Australian** Department of Foreign Affairs and Trade [allegedly](#) hires all of its local staff via a Chinese government agency, the Shanghai Foreign Agency Service Department. The investigation also revealed CCP members working at **British, US** and **South African** consulates in Shanghai. Members have been working, some for over a decade, in roles ranging from senior economic and policy advisors to executive assistants. CCP branches were also found to be embedded in major companies including AstraZenica, Pfizer, HSBC and ANZ. The

The presence of CCP members working inside consulates and foreign companies is not necessarily as startling and threatening as some commentary assumes. Party membership acts as a career booster in China and membership does not necessarily imply espionage or ideological zealotry. Consulates and companies also have measures in place to protect highly sensitive information. In this case, the greatest risk for companies may be reputational, as leaks of this nature could potentially induce pressure from both the Chinese and Western governments. In an increasingly charged geopolitical environment, this balancing act is more difficult than it once was.

Water politics becomes latest dimension in India-China tensions

The Sino-Indian relationship appears to be going from bad to worse

Reports of **China's** plans to build a sizeable dam on the Brahmaputra – or Yarlung Tsangpo – River has caused considerable anxiety in **India**. Chinese state media reported earlier last week that Beijing was considering building up to 60 GW of hydropower capacity on the river – which flows from Tibet into the Indian state of Arunachal Pradesh and onwards into **Bangladesh**. Indian officials are concerned that Chinese dams could, depending on how they are managed, cause either flash floods or water scarcity. India is [reportedly](#) considering building a 10 GW dam of its own to counter any potential flooding – a development which will likely exacerbate water scarcity in Bangladesh and complicate Dhaka's relationship with both regional heavyweights.

New Delhi's anxiety is compounded by China's typically unilateral approach to water politics. With an overall lack of consultation and transparency, Beijing has built a series of dams on the upper reaches of the Mekong River. The dams have worsened droughts in downstream countries including **Vietnam, Laos** and **Thailand**. China has also only very recently moved to share hydrological data. The other factor of course, is the generally poor state of the Sino-Indian relationship, with multiple sources of tension including the land border, Indian Ocean and several economic fronts. Significantly, Arunachal Pradesh is claimed by Beijing as southern Tibet and New Delhi likely fears that upstream dams could be used as a lever in territorial disputes. The collapse of the China-India relationship is one of the most significant geopolitical developments of 2020.

Historical disputes continue to plague South Korea-Japan relationship

The two neighbours have plenty of good reasons to cooperate but.....!

The departure of former Prime Minister Shinzo Abe – who was [at times](#) less popular in **South Korea** than **North Korean** dictator **Kim Jong-un** – has done little to improve **Japan-South Korea** relations. Although both nations to varying degrees share common threats emanating from **China** and North Korea, historical disputes tracing back to Japan's colonisation of South Korea continue to dominate the bilateral relationship. The most

prominent current dispute concerns the intention of President **Moon Jae-in** to uphold a 2018 court decision to expropriate and sell Nippon Steel's South Korean assets as compensation for Japan's use of forced Korean labour during WW2. In response, Japan has restricted high tech exports to South Korea, prompting Koreans to launch an unofficial boycott of Japanese goods – recently [embroiling](#) Uniqlo.

As it stands, there is considerable room for the dispute to escalate. Nippon Steel's appeal against the 2018 decision is currently making its way through the South Korean court system. Any moves to seize the assets would likely send relations to rock-bottom, providing an ideal opportunity for China to drive a wedge through the **US'** Asian security architecture. Bilateral talks have focused on an alternative [solution](#) whereby Japanese companies would pay “voluntary” and “future-orientated” compensation over an issue that the Japanese government – not wholly unreasonably – regards as settled through the 1965 treaty establishing bilateral relations. However, progress has stalled. Whether president-elect **Joe Biden** has the bandwidth and ability to help resolve the dispute will be yet another early test for his administration and its attempts to invigorate its alliances to counter China.