



# Delhi Policy Group

Advancing India's Rise as a Leading Power



## ECONOMIC SECURITY AND RESILIENCE REVIEW OCTOBER 2023

*Author*

V.S. Seshadri

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### Cover Image:

*China's Foreign Minister Wang Yi with U.S. Secretary of State, Anthony Blinken, in Washington D.C. on October 27, 2023. (Source: [Sec. Blinken/Official Twitter Account](#))*

*U.S. President Joseph Biden with Prime Minister Anthony Albanese of Australia at the White House, Washington D.C. on October 26, 2023. (Source: [POTUS/Official Twitter](#))*

*President of the European Council, Charles Michel, the President of the European Commission, Ursula von der Leyen with US President, Joe Biden in Washington D.C. on October 20, 2023. (Source: [Charles Michel/Official Twitter](#))*

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# Economic Security and Resilience Review

by

V. S. Seshadri

## Introduction

This month's ESRR begins with an interesting survey released by the Bank for International Settlements (BIS) which reveals that while direct supply chain linkages between the US and other western countries with China may have seen some decline in the last few years, real network diversification has not happened. Instead, end users were sourcing basic and intermediate goods from China via intermediaries through countries in the region, like Vietnam.

The Union Cabinet in India has made an important move towards reducing the royalty rates in relation to mining of three critical minerals - Lithium, Niobium and Rare earth minerals. Coming soon after the legislative changes enacted by the MMDR Act (2023) in August, that delisted these minerals from the atomic minerals list, this would make it more attractive for private sector participation in exploration and mining of these minerals.

Economic Security measures were taken by all the leading countries during the month. The US moved to tighten export controls on certain advanced AI chips going to several countries. China in turn moved to restrict exports of both artificial and natural graphite above a certain threshold of purity. From the EU side, the adoption of an anti-coercion instrument by its Parliament was significant. The EU Commission is also reported to be considering block wide export controls on sensitive technology, an area that falls within the mandate of the member states and not the Commission.

This month's ESRR also tracks three important high level visits to Washington D.C., in quick succession, which had significance, among other issues, in relation to the evolving situation on economic resilience. These were the EU-US joint summit held on October 20, the Australian PM's official visit to the US on October 25 and the visit by the Chinese Foreign Minister Wang Yi to the US from October 26-17, 2023.

Finally, this issue also tracks the progress made at the sixth round of the IPEF negotiations that were held in Kuala Lumpur from October 15-24, 2023.

## BIS Survey of realignment of supply chains

The Bank for International Settlements (BIS) has done a detailed comparison of two snapshots of global value chains (GVCs) as shown by the network structure of firms in December 2021 and in September 2023. This survey has focussed on the extent of cross country linkages, network distances between firms and density metrics and the average number of supplier and customer linkages at the firm level<sup>1</sup>.

The survey comes out with three key takeaways:

- The latest firm level data reveal that GVCs have lengthened although without the accompanying network densification that might indicate that supplier relationships are diversifying;
- Lengthening of supply chains is especially significant for supplier-customer linkages from China to the US, where firms from other jurisdictions, notably in Asia, have interposed themselves in the supply chain;
- Nevertheless these recent developments have so far not reversed the long running trend towards greater regional integration of trade in recent decades, especially in Asia.

Interpreting the results of the Survey, a 'Financial Times' article has noted that western companies have reduced one-step sourcing from China<sup>2</sup>, but that did not mean the creation of western-only regional trade networks. Instead end users are sourcing basic and intermediate goods from places such as China through intermediaries in countries like Vietnam. The result is a stark 'increase in the indirect cross-country links, as new firm nodes interpose themselves into existing supply chains'. This had three implications. First it means the Western companies remain exposed to the vagaries of geopolitics - if China stopped selling basic materials to intermediaries, the end users would suffer. Second, it poses challenges for Western corporate boards and investors since it is harder for companies to track what suppliers are doing. Third, it is inflationary - slowbalisation will replace globalisation.

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<sup>1</sup> <https://www.bis.org/publ/bisbull78.pdf>

<sup>2</sup> See Financial Times article by Gillian Tett on 'How rise in conflict is reshuffling global value chains', October 12, 2023

## Union Cabinet approves royalty rates for mining of three critical minerals

As an enabling measure for the government to shortly launch the first tranche of the auction for exploration and mining of critical and strategic minerals, the Union Cabinet approved a reduced rate of royalty for three of them as below<sup>3</sup>:

Lithium : 3% of the London Metal Exchange (LME) price;

Niobium : 3% of average sale price of (both for primary & secondary sources);

REE : 1% of the average sale price of the rare earth oxide.

It may be recalled here that during the earlier session of the Parliament, the Minerals and Metals (Development and Regulation) Amendment Act 2023 was passed on August 17, 2023 which allowed for delisting of six minerals from the list of atomic minerals<sup>4</sup>. These were lithium bearing minerals, titanium bearing minerals and ores, beryl and beryllium bearing minerals, niobium and tantalum bearing minerals and zirconium bearing minerals.

## US tightens export controls on AI chips

The US Commerce Department unveiled new rules on AI related chips that further tightened the wide ranging export controls on high end semiconductor related items that it had announced in October 2022. These measures will apply to mainland China and Macao apart from 21 other countries with which the US maintained an arms embargo, including Iran and the Russian Federation<sup>5</sup>. US Commerce Secretary Gina Raimondo said that the updated rules will 'increase effectiveness of our controls and further shut off pathways to evade our restrictions'. She added 'we will keep working to protect our national security by restricting access to critical technologies, vigilantly enforcing our rules while minimising any unintended impact on trade flows'.

As per a regulatory filing by Nvidia, a company that is expected to be affected by the measure, this will affect advanced chips such as the company's H 800 and A 800 products. Further, the expanded measures, which were initially to take effect in 30 days, have also been subsequently amended to take immediate effect.

<sup>3</sup> <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1966595>

<sup>4</sup> <https://mines.gov.in/admin/storage/app/uploads/64d0d561570791691407713.pdf>

<sup>5</sup> <https://www.cnn.com/2023/10/18/tech/us-china-chip-export-curbs-intl-hnk/index.html>

## China announces export controls on certain graphite materials and products

China announced on October 20 that export of both artificial graphite with high purity and natural flake graphite and its products including spheroidised graphite and extended graphite will be banned unless there was permission to export. The control measures take effect from December 1, 2023. In a separate statement, the Ministry of Commerce of China explained that the highly sensitive products and materials had previously been subjected to temporary export control measures, and the announcement sought to officially classify them as dual use items on China's export control list. It noted that imposing export controls on specific graphite items was a common international practice and that it reflected the Chinese government's coordination of development and security. It further stated that the measure was not aimed at any specific country or region, and that exports that complied with relevant regulations will be permitted<sup>6</sup>.

Regarded as an official mouthpiece, China's 'Global Times' published a news item which appeared to give the backdrop for the new measure<sup>7</sup>. It recalled that on October 17, 2023 the United States further tightened restrictions on AI related chips and semiconductor manufacturing equipment to China and added a number of Chinese entities to the 'entity list' for export controls. The article further recalled that the European Union was also weighing levying tariffs on China made electric vehicles which, the EU said, were benefitting from state subsidies. It then quoted a certain economist in Beijing as pointing out that as the West continued to intensify its containment efforts against China, critical materials for high end manufacturing had become a major point of competition, and China had every right to take the necessary measures to protect its own security and interests.

It may be mentioned that China was the leading producer of graphite, accounting for about 65% of supplies in 2022, according to US Geological Survey 2023 annual report on the mineral. But in terms of reserves, China ranked third globally, behind Turkey and Brazil.

In so far as India is concerned, graphite already finds inclusion in the list of 30 critical minerals announced by the government earlier this year. Also, as per the Indian Minerals Yearbook 2020-21, natural graphite was mainly imported

<sup>6</sup> [http://english.scio.gov.cn/m/pressroom/2023-10/20/content\\_116763338.htm](http://english.scio.gov.cn/m/pressroom/2023-10/20/content_116763338.htm)

<sup>7</sup> <https://www.globaltimes.cn/page/202310/1300240.shtml>

from China (54%), Madagascar (23%), Mozambique (10%) and Vietnam (8%). Imports of artificial graphite were mainly from China (47%), Germany (9%), Poland (9%), Norway (8%) and the remaining 27% were contributed by other countries.

## **EU Parliament adopts anti-coercion instrument**

With an overwhelming majority, the EU Parliament approved on October 3, 2023 an anti-coercion instrument intended to protect the EU and member state sovereignty in a geopolitical context where trade and investment were being seen to be weaponised by foreign powers<sup>8</sup>. As per the newly adopted regulation, coercion was considered to occur when a non-EU country attempted to pressure the EU or a member state into making a specific choice by applying, or threatening to apply, trade or investment measures. The dispute settlement mechanism of the WTO was regarded unavailable for cases of economic coercion unless they also involved aspects that violated WTO rules.

Under the new rules, the EU Commission will have four months to investigate potential coercion. Based on its findings, the EU Council will have eight to ten weeks to decide by a qualified majority if coercion existed. If dialogue with the non-EU country to cease its coercion failed, the EU will have a wide range of counter measures at its disposal. If coercion was found, and member states agreed, the Commission will have six months to outline the appropriate response, keeping the Parliament and the Council informed at all stages.

The adopted instrument also included a list of potential responses to the EU, including restrictions on trade in goods and services, intellectual property rights and foreign direct investment. Imposing constraints on access to the EU public procurement market, capital market, and authorisation of products under chemical and sanitary rules will also be possible. The EU could also seek 'reparations' from the coercive non-EU country. The Commission may also apply measures to enforce these reparations.

## **EU Commission to examine bloc-wide export controls in sensitive technology areas**

It was reported that the EU Commission had identified four areas - semiconductors, AI, quantum computing and biotechnology - in which to assess whether the EU as a block should restrict the transfer of some goods and

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<sup>8</sup> <https://www.europarl.europa.eu/news/en/press-room/20230929IPR06122/meps-adopt-new-trade-tool-to-defend-eu-from-economic-blackmail>



services to other countries<sup>9</sup>. This was because the power to restrict exports on security grounds remained with the member states and the Commission was trying to forge a consensus after President Ursula Von der Layen called for de-risking from China in March this year. The EU Commission Vice President and the EU's digital Commissioner Vera Jourova stressed that the Commission would work with the 27 member states before recommending any action and would not 'prejudge any measures'.

## Chinese FM Wang Yi visits Washington DC

In what has been a series of high level visits exchanged between the US and China this year, more originating from the former than the latter, it was the turn of the Director of the Chinese Communist Party Central Foreign Affairs Commission and Foreign minister Wang Yi to visit the US from 25-27 October, 2023, at the invitation of the US Secretary of State Anthony Blinken. During his visit, apart from holding extensive discussions with Blinken, Wang Yi also called on President Biden and met with the US National Security Adviser Jake Sullivan. A range of bilateral and other issues appeared to have been discussed in these meetings, including the possible visit of President Xi Jin Ping to San Francisco for the APEC Summit to be held from 14-16 November this year. The visit now appears more or less certain.

The official readouts about these meetings were however scarce on details. On economic issues, the US State Department spokesman mentioned<sup>10</sup> that Blinken sought healthy and robust economic competition with the PRC based on reciprocity and a level playing field for US workers and US businesses. He also addressed the PRC's unfair treatment of US companies in China and non-market policies. The Secretary further discussed the US approach to de-risking and diversifying and underscored that US policies were narrowly targeted at technologies that had clear impact on national security or human rights and were not about constraining China's growth.

China's foreign ministry quoted Wang Yi as conveying that China and the US faced both development tasks and common problems and challenges<sup>11</sup>. China, Wang said, always believed that the common interests of China and the US far outweighed their differences and disputes, their respective success was an

<sup>9</sup> See 'EU to assess export controls on sensitive tech to China, by Andy Bounds, Financial Times, 12 October 2023

<sup>10</sup> <https://www.state.gov/secretary-blinkens-meeting-with-peoples-republic-of-china-director-of-the-chinese-communist-party-ccp-central-foreign-affairs-commission-and-foreign-minister-wang-yi-2/>

<sup>11</sup> [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/202310/t20231028\\_11170113.html](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202310/t20231028_11170113.html)

opportunity rather than a challenge to each other, and the way for major countries to get along should be based on dialogue and cooperation rather than a zero sum game. Wang Yi repeatedly stressed that to stabilise and improve China - US relations the two sides should also have objective understandings of each other's strategic intentions, correctly view the competitive factors in the exchanges between China and the US, and define the concept of national security.

## EU-US Summit

The EU leaders, including the President of the European Council, Charles Michel, the President of the European Commission, Ursula von der Leyen, and the High Representative of the European Union for Foreign Affairs and Security Policy, Josep Borrell, met with US President, Joe Biden, and the US Secretary of State, Antony Blinken, in Washington D.C. on October 20, 2023. A joint statement of this annual EU-US summit<sup>12</sup> was also issued by the leaders. Of particular interest from an economic resilience viewpoint was Para 13 of the statement, which stated that to enable sustainable economic relations with China they will push for a level playing field for their firms and workers. While they will not decouple or turn inwards, they recognised that economic resilience required derisking and diversifying. In this context, they said they will invest in their own vibrancy and reduce critical dependencies and vulnerabilities, including in their own supply chains. They also recognised the necessity of protecting certain advanced technologies that could be used to threaten global peace and security, without unduly limiting trade and investment. They further affirmed that they will foster resilience to economic coercion and will address challenges posed by non-market policies and practices.

## Australian PM Albanese visits the US

A few key highlights from the joint statement issued on October 25<sup>13</sup>, 2023 following the official visit of Australian PM Anthony Albanese to the US at the invitation of President Biden are worthy of note in terms of economic security and resilience in the Indo- Pacific region.

<sup>12</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/20/u-s-eu-summit-joint-statement/>

<sup>13</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2023/10/25/united-states-australia-joint-leaders-statementbuilding-an-innovation-alliance/>

- Successful launch of the US-Australia Critical Minerals Task-force led by the US National Security Council, in partnership with the US Department of Commerce and Australia's Department of Industry, Science and Resources. A new MOU between CSIRO of Australia and the US Geological Survey around critical minerals aims to deepen relationships between US and Australian researchers, including on minerals processing;
- Announcement of a US\$ 3 bn investment in Australia by Microsoft, which will expand the company's data centre and AI infrastructure in Australia over the next two years to train 300,000 Australians with the skill required for a cloud and AI enabled economy and create the Microsoft - Australia Signals Directorate Cyber Shield to harden Australia from cyber threats to individuals, businesses and governments;
- Both countries will also be increasing cooperation to build their shared economic security and resilience, inter alia, by delivering strong outcomes on the IPEF. They also resolved to align implementation of IPEF and "Invested : Australia's South East Asia Economic Strategy to 2040" to boost investment in energy transition and other strategic sectors, and build supply chain resilience.

## Sixth Round of IPEF negotiations held in Kuala Lumpur

The sixth round of IPEF negotiations was hosted by Malaysia from October 15-24, and the Press Release issued after the meeting<sup>14</sup> merely stated that the IPEF partners continued to make progress on negotiations toward high standard outcomes under Pillars I (Trade), III (Clean Economy) and IV (Fair Economy). It further stated that officials continued discussions on the next steps for the proposed IPEF Supply Chain Agreement (Pillar II), following the substantial conclusion of its negotiations in May and the public release of the text on September 7, 2023.

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<sup>14</sup> <https://www.commerce.gov/news/press-releases/2023/10/joint-us-department-commerce-and-ustr-readout-sixth-indo-pacific>



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