



Delhi Policy Group

Advancing India's Rise as a Leading Power

ECONOMIC SECURITY AND RESILIENCE REVIEW FEBRUARY 2023

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Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

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Cover Image:

Visiting delegates from the partner countries of the Indo-Pacific Economic Framework (IPEF) attend the Welcome Reception of the IPEF Special Negotiation Round in New Delhi on February 8, 2023. (Source: Official Twitter account of Embassy of India in Vietnam)

Sunil Barthwal, Commerce Secretary of India, welcoming delegates from partner countries of the Indo-Pacific Economic Framework (IPEF) in New Delhi on February 8, 2023. (Source: Department of Commerce, Govt. of India Twitter)

Piyush Goyal, Union Minister of Commerce and Industry with visiting delegates of the IPEF partner countries in New Delhi on February 11, 2023 (Source: Piyush Goyal Twitter)

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

This second issue of the Review will focus on two important developments that can shape the contours of India's future cooperative frameworks on supply chain resilience and technology cooperation. The first is the setting up of three working groups under the bilateral Trade and Technology Council (TTC) between India and the European Union on February 6, 2023. The second is the hosting by India of IPEF negotiations in New Delhi from February 8-11, 2023. On the domestic scene as well, there were developments with particular relevance to India's economic security, or towards taking India's self-reliance forward. These included the blocking of 232 China-linked apps and the announcement by the Geological Survey of India about a preliminary discovery of major lithium reserves in Jammu and Kashmir. Finally, this issue will also cover the findings of two recent industry surveys – one of 100 Japanese companies on economic security, and another by the CII of Indian companies on digitising supply chains that is key to making them more resilient.

India-EU to establish three working groups under the India-EU TTC

India and the European Union announced on February 6, 2023 the establishment of three Working Groups under the India-EU Trade and Technology Council (TTC), and their Terms of Reference. The Working groups are on a) Strategic Technologies, Digital Governance and Digital Connectivity; b) Green and Clean Energy Technologies; and c) Trade, Investment and Resilient Value Chains¹. TTC is a strategic coordination mechanism that is intended to tackle the challenges on the nexus between trade, trusted technology and security. This announcement about the working groups marked a step forward to the joint initiative announced during the EU-India summit held in April 2022, which will now be co-chaired by the Minister of External Affairs Dr. S. Jaishankar, Commerce and Industry Minister Piyush Goyal, and the Minister for Electronics and Information Technology Ashwini Vaishnaw on the Indian side, and Executive Vice Presidents Margrethe

¹ See https://www.mea.gov.in/press-releases.htm?dtl/36196/IndiaEU_Trade_and_Technology_Council

Vestager and Valdis Dombrovskis on the EU side. As per the schedule announced, the three working groups are to start meeting in about two weeks' time, and the first ministerial meeting is to be held in spring 2023.

The work of the first and third working groups would be of particular relevance to economic security aspects. The first is focused on critical and emerging technologies such as 5G/6G, AI, high performance and quantum computing research and development, semiconductors, digital platforms and startups. The third will look at promoting access to critical components, energy and raw materials. Across these elements, the approach of the EU side may be relatively less driven by an anti-China impulse. This has been pointed out by Patrizia Norales and Raquel Ricart in their blog,² who make it clear that for the EU the TTC was not about China. At the same time, their article also goes on to argue that in view of various recent developments including the structural competition between the US and China, the EU too is looking at the weaponising of interdependence that is taking place and expanding its toolbox to tackle economic distortions and security disruptions to supply chains and strategic technologies from China, but not only China. The blog admits that in general Europe still had a low awareness of the threat posed by China for India, and hopes that EU understanding could increase with greater channels for bilateral cooperation.

For India and the EU, these Working Groups will constitute the second high level bilateral trade and technology cooperation forums. It is useful to recall that the EU-US TTC was established in June 2021 with ten working groups and has already held three ministerial meetings. India and the US have also launched a bilateral initiative on Critical and Emerging Technologies (iCET) in May 2022, when PM Modi and President Biden met in Tokyo. This was meant to forge closer linkages between the government, academia and industry of the two countries in areas such as AI, quantum computing, 5G/6G, biotech, space and semiconductors. The first follow-up iCET dialogue, held at the level of National Security Advisers Ajit Doval and Jake Sullivan in Washington, D.C. on January 31, 2023, discussed greater cooperation in critical and emerging technologies, co-development and co-production, and ways to deepen connectivity across the two innovation ecosystems.

India hosts the IPEF special negotiation round

India hosted the special negotiation round of the IPEF in New Delhi from February 8-11, 2023 covering the supply chain, clean economy and fair

² <https://www.realinstitutoelcano.org/en/commentaries/the-eu-india-trade-and-technology-council-opportunities-and-challenges-ahead/>

economy pillars, but not the trade pillar which India is yet to join. Approximately 300 officials from the 14 participating countries attended the negotiations that also reportedly included an interaction with Indian stakeholders on the sidelines. While details were not made available about the closed-door discussions, what was announced³ was that the partner countries engaged in in-depth, text based discussions which they will continue to progress. The press release also reaffirmed the commitment of IPEF Partners to expeditiously conclude agreements that include high-standard outcomes and deliver concrete benefits. In remarks to delegates, Commerce and Industry Minister Piyush Goyal called for focus on an early harvest of mutually beneficial deliverables. He also laid emphasis on common tangible benefits like capacity building, technical assistance including sharing of expertise and best practices, investments and innovative projects. These assume relevance, particularly as a key element in enhancing supply chain resilience will be in their digitisation.

Government blocks 232 China-linked apps

The Ministry of Electronics and Information Technology (MeiTY) has blocked 232 applications with links to China for alleged involvement in betting, gambling, money laundering and unauthorised lending. The ban has been imposed on account of national security concerns. The banned apps include 138 betting apps and 94 loan/lending apps with hefty interest rates⁴.

Lithium reserves found in Jammu and Kashmir

The Geological Survey of India (GSI) has established the presence of 'inferred sources' of 5.9 mn tonnes of lithium in the Salal Haimana area of Reasi district of Jammu and Kashmir⁵. This was announced at the 62nd Central Geological Planning Board meeting of GSI held on February 9, 2023. The term 'inferred' refers to the preliminary exploration stage, which is the second of a four-stage process, and needs further confirmation with more assessments and some exploratory mining. Lithium-ion batteries are used in electric vehicles, solar panels and wind turbines, all of which are key in terms of moving towards a green economy. If the reserves are finally confirmed, they could significantly boost domestic battery manufacturing. At present, India imports its Li-ion requirements mainly from China and Hong Kong.

³ See <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1898768>

⁴ See <https://www.financialexpress.com/india-news/govt-blocks-232-china-linked-apps/2972143/>

⁵ See <https://pib.gov.in/PressReleasePage.aspx?PRID=1897799>

Japanese survey of 100 companies on Economic Security

The Institute of Geoeconomics of Japan conducted a survey of 100 Japanese companies considered to play a critical role in the country's economic security with questionnaires being sent out between November 2022 and January 2023. A similar survey had also been undertaken in 2021. The focus in the survey was on issues and risks related to economic security, practical efforts being made, the impact of ongoing US-China tensions on their business, and what they hoped the government would provide in terms of support or intervention. The key findings released in February 2023 were as follows⁶:

- On new measures taken after the enactment of the Economic Security Promotion Bill by Japan, many companies selected 'establishment of specialised departments' and 'strengthening effort towards advanced technologies' as among the main steps taken;
- More than 50% of the companies surveyed (this marked a 15% increase compared to the 2021 survey) had a compliance system in place for the extra territorial application of US and Chinese regulations;
- Nearly 80% of respondents named 'strengthening cyber security' as part of new measures towards the conventional management of technology, export management and the prevention of technology leaks;
- On human resources interacting with advanced technological information, approximately half of surveyed companies ticked 'understand and manage human resources' for each department;
- The largest increase in economic security measures from the previous year's survey was the transfer of production bases (up from 13.8% in 2021 to 22.9% in 2022);
- The second largest was the strengthening of information management, that climbed from 64.4% to 72.9% in 2022; and
- Change of investment plans and change or diversification of sales destination also figured prominently in the changes seen in the 2022 survey in relation to the 2021 survey.

CII survey on digitising supply chains

Considering that digitising supply chains will be critical for making companies more resilient, CII has reported the results of a recent survey undertaken on this aspect of Indian manufacturing companies⁷. While 92% of such companies

⁶ See <https://apinitiative.org/en/2023/02/16/43943/>

⁷ See the CII blog 'Supply Chain resilience in the digital era' accessible at <https://www.ciiblog.in/supply-chain-resilience-in-the-digital-era/>

have already formulated a digital roadmap or are in the process of formulating one, the pace of change has however been slow. Companies are still focused on fundamentals such as 'managing or reducing costs' and 'increasing efficiency', and the strengthening of resilience is not getting adequate attention.

While technologies are changing the face of supply chain management, factors such as poor information availability and complex interfaces have made integration with existing legacy systems difficult. Many companies need to invest in a complete overhaul of existing systems, which is a costly deterrent. Beyond that an acute shortage of talent, lack of digital infrastructure and cybersecurity are seen as other areas that need attention.

As for remedial measures to be taken, the CII survey determines that companies should start upskilling or reskilling of employees. The right kind of digital infrastructure is also a pre-requisite for building supply chain resilience and improving digital planning and operation. Employing digital solutions will also involve dealing with the challenges of privacy and cyber security, that will require top priority to be given to securing supply chains. Based on the survey, three broad areas have been identified as needing particular attention in the next 12-18 months: automation, advanced analytics and the internet of things.



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