



Delhi Policy Group

Advancing India's Rise as a Leading Power

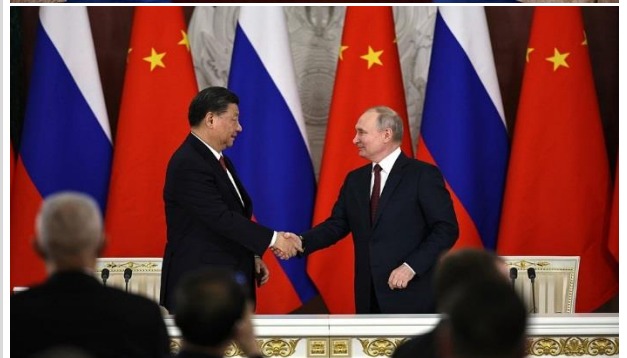
ECONOMIC SECURITY AND RESILIENCE REVIEW

MARCH 2023

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ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and is independently funded by a non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

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:

Australian Prime Minister Anthony Albanese met Indian Prime Minister Narendra Modi for the annual summit on March 10, 2023. Source: Twitter/@narendramodi

US President Joe Biden meeting President of the European Commission Ursula von der Leyen on March 10, 2023. Source: Twitter/ @vonderleyen.

Russian President Vladimir Putin and President of the People's Republic of China Xi Jinping made statements for the media following the Russian-Chinese talks on March 21, 2023. Source: Kremlin.

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

Economic security initiatives around the world received further impetus during the month, driven by growing geopolitical and geoeconomic tensions. Countries are increasingly taking measures to boost self reliance by expanding domestic manufacturing in strategic areas, and by seeking to advance indigenous research and technology.

China's National People's Congress session held during the month heard pronouncements by third time President Xi and other senior members of his team on how China will henceforth be monitoring science and technology progress and data administration. The European Commission's unveiling of the proposed Net Zero Industry Act and the Critical Raw Materials Act revealed how the EU is aiming to reduce dependence on China and other sources. Indeed, these appeared to be only a part of an overall derisking and economic security strategy that is apparently in the making by the EU, the broad elements of which were outlined in a major speech delivered by EU Commission President Ursula van der Leyen on EU-China relations.

Iran reported the discovery of a huge lithium reserve which, if confirmed, could rank it second in the world in this important source for electric vehicle batteries and other strategic uses.

Build up of supportive coalitions for national efforts and promoting resilience for supply chains were also much in evidence. The summit meeting between US President Joe Biden and the EU Commission President Ursula Van der Leyen on March 10 underlined the growing trans-Atlantic commonality of interests on these aspects. The Republic of Korea-Japan rapprochement marked another breakthrough, resulting in the drawdown of mutual trade restrictions and a possible rise in bilateral cooperative approaches. The Xi-Putin summit meeting during the month provided indications of their ongoing and future bilateral economic endeavours.

The visit of US Commerce Secretary Gina Raimondo to India saw the signing of an MOU on semiconductors and the launch of a India-US strategic trade dialogue. Discussions on critical minerals and resilience also took place during the visit of Australian Prime Minister Albanese to India for the first annual summit.

The following review will touch upon each of the foregoing and other significant developments on economic security related issues, both in respect of India and of other major powers.

Major International Developments

China's National People's Congress pushes self reliance

In what is being seen as a counter to moves by the US and the West to restrict export of high technology items to China, a major initiative towards self reliance adopted during the recent CPC Congress was to restructure China's Ministry of Science and Technology, which will now be relieved of its current management responsibilities relating to specific scientific projects, several of which will be transferred to other departments and agencies. The Ministry will henceforth focus more on policy aspects towards guiding, evaluation and supervision of the implementation of scientific research projects and results. Furthermore, a Central Science and Technology Commission is also to be established at the Communist Party level to strengthen its leadership in scientific and technological innovation, bring about better coordination and management, and achieve greater self reliance and competitiveness. In a speech, President Xi Jinping stated that "In the face of fierce international competition we must carve out new tracks for development, create new momentum and develop new strengths.....All these rely on technology fundamentally".

What was termed as another major initiative by this year's Congress that also impinges on economic security, is the establishment of a new National Data Administration (NDA) under the State Council that is to be in charge of advancing the development of data related institutions, coordinating the integration, sharing, development and application of data resources and pushing forward the planning and building of a Digital China, the digital economy and a digital society.

There were reports¹ that following the shake up of its technology strategy, China will be providing some of its most successful chip companies easier access to subsidies and more control over state-backed research. Chipmakers Semiconductor Manufacturing International, Hua Hong Semiconductor and Huawei, as well as equipment suppliers Naura and Advanced Micro-Fabrication Equipment Inc., are reportedly among those likely to benefit from the policy shift.

¹ 'China to nurture chosen few chipmakers' by Qianer Liu, 22 March 2023, Financial Times.

At the same time, reports have also appeared² that China, apparently in retaliation to semi-conductor related curbs imposed by the US, is launching a cybersecurity review of US's largest memory-chip maker, Micron Technology, to ensure the integrity of its information infrastructure supply chain, prevent network security risks and maintain national security. Micron is known to derive about 10% of its revenue from China and has offices in Shanghai and Shenzhen and a chip packaging facility in Xian.

EU's twin initiatives towards net zero and security of critical minerals.

The European Commission came out with a proposed 'Net Zero Industry Act' (NZIA) on March 16, that is intended to strengthen the EU's net zero technology products manufacturing ecosystem. A 'Critical Raw Materials Act' (CRMA) was also unveiled comprising a comprehensive set of actions to ensure the EU's access to a secure, diversified, affordable and sustainable supply of critical raw materials. Reducing the EU's reliance 'on imports from quasi-monopolistic third country suppliers' was seen as a key objective behind the measure. Both the proposals will need adoption by the European Parliament and the EU Council before coming into force.

The NZIA seeks to facilitate manufacture of net zero products in Europe and attract investments aimed at helping the EU reach at least 40% of its clean energy generation needs by 2030, as assessed in accordance with its carbon emission targets. The eight strategic areas identified by NZIA relate to solar, wind, heat pumps and geothermal, electrolysers and fuel cells, biogas, carbon capture and storage, batteries and grid technologies. The proposal has also described the diversity of supply as a key component in any assessment of its public procurement bids in this sector and stipulates that a bid will be deemed as insufficiently diversified where a single country supplied more than 65% of the demand for a specific net zero technology within the EU. (It may be mentioned here that as per a report, close to 80% or more of EU's solar energy supply needs starting from polysilicon to PV modules, came from China in 2022. On the other hand, the EU seeks to make solar energy its single biggest source of energy by 2030).

The objectives of CRMA are to strengthen different stages of the strategic raw materials value chain, so that by 2030 the EU is able to i) extract ores, minerals or concentrates at least to the extent of 10% of its needs; ii) have processing capacity to process, including intermediate steps, to produce at least 40% strategic raw material consumption needs; and iii) develop recycling capacity

² See the newsitem 'China escalates tech battle with review of us chip maker Micon' by Thomas Hale which appeared on 1 April 2023 in Financial Times.

to produce at least 15% of the Union's annual consumption of strategic materials. As for imports, CRMA requires that none of the EU's strategic raw material imports at any stage of processing should rely more than 65% on one source (Presently the EU is known to rely on China for 98% of its rare earth needs, 93% of its magnesium and 97% of its lithium). CRMA has also in an annex listed what are regarded as strategic raw materials, that range from copper and cobalt to lithium and rare earths.

EU Commission President's speech on EU-China relations and derisking strategy

In a candid policy speech on 'EU-China relations' that she gave³ to a jointly organised event by two thinktanks, the Mercator Institute for China Studies and the European Policy Institute, at Brussels on March 30, 2023, EC President Ursula Van der Leyen brought out how China was deliberately using dependencies and economic leverage to get what it wanted from smaller countries. She made three broad conclusions on how China had changed:

- China has turned the page on era of 'reform and opening' and is moving into an era of 'security and control';
- Imperative for security and control now trumps the logic of free markets and open trade; and
- Chinese Communist Party's clear goal is a systemic change of the international order with China at its centre.

She argued that as part of the EU's response, it would focus on derisk and not decouple from China and will not at this stage cut economic, social, political or scientific ties, but instead balance the ties based on transparency and predictability. Derisking through diplomacy will be one strand of this response. Economic derisking will be the second strand, which will be developed after stress testing the relationship to see where the greatest threats lay. While the EU Commission will bring out an Economic Security Strategy later this year, Van der Leyen laid out four ways in which this will be undertaken:

- Make the EU economy more competitive and resilient (NZIA and CRMA are part of this effort);
- Use the existing toolbox of trade instruments to address security concerns, whether on 5G, FDI or export controls;

³ The text of the speech can be accessed at https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

- Develop defensive tools for certain critical sectors in which dual use purposes cannot be excluded or human rights may be implicated; and
- Alignment with other partners, including focussing on FTAs (India found mention here).

Integrated Review Refresh 2023 of the UK

PM Rishi Sunak presented to the UK Parliament on March 13, 2023 an update of the earlier Integrated Review presented in 2021 (IR 2021) that had provided a comprehensive articulation of the UK's security, defence, development and foreign policy, following the UK's exit from the EU. The update (IR 2023) made no basic departures from IR 2021, apart from addressing intervening developments like the Ukraine conflict, but had some noteworthy points in relation to economic security and resilience matters. It saw China as an epoch defining challenge and talked of working with others to push back against any coercion, but at the same time also mentioned engagement with China on issues like climate change.

In terms of specifics, IR 23 also proposes setting up a National Protective Security Authority that will share expert intelligence-led advice between the government and business in sensitive sectors of the economy, such as critical infrastructure, emerging technologies and academia.

Following IR 2021, the UK government had also set out a resilience framework in 2022 that sought to strengthen this area with measures focussed on risk assessment, responsibilities and accountability, partnership, communities, investment and skills (Resilience is seen as a 'whole of society endeavour'). The IR 2023 document has noted that a new Sub-Committee on Resilience under the National Security Council will now implement the framework.

US proposes rules detailing its CHIPS and Science Act.

The US Department of Commerce released on March 21, 2023 a set of proposed rules that detail some of the provisions in the US Chips and Science Act adopted by the US Congress last year to ensure that the technology and innovation funded by the Act are not diverted for usage, investment or joint research in China, Iran, North Korea and Russia, which have been identified as countries of concern. The rules termed as 'National Security Guardrails' include the following:

- The Act prohibited beneficiary companies from undertaking significant transactions involving the material expansion of semi-conductor

manufacturing capacity for leading edge and advanced facilities in the aforementioned countries of concern for 10 years. The proposed rules now define 'significant transactions' at a monetary level of US\$ 100,000 and 'material expansion' as increasing the facility's production capacity by 5% in the countries of concern;

- The Act also placed limits on expansion and new construction of legacy facilities by beneficiary companies in the countries of concern. The proposed rules have set the expansion limit at 10% of capacity and further specify that the output of such legacy facilities has to serve at least 85% of the domestic market of the concerned country of concern.
- The proposed rules further detail restrictions on joint research and technology licensing efforts with foreign countries of concern.

The proposed rules have been circulated for comments and are expected to be finalised later this year. Some analysts believe that the proposed restrictions could be particularly onerous for east Asian semiconductor companies with significant operations in China, who would now have to face a choice between expanding in the US or preserving their ability to expand in China.

Lithium reserve discovery by Iran.

The Iranian Ministry of Industry, Mines and Trade has announced⁴ that a large deposit of lithium has been discovered in the country's western province of Hamedan. The Deputy head of the ministry was quoted as saying that the country will be able to extract lithium from two newly discovered lithium deposits in the next two years. Should the Iranian announcement about the estimated tonnage be confirmed, it could make Iran the second largest lithium reserve holder, next only to Chile which holds almost a tenth of the world's reserves.

Developments in international cooperation

US-EU Summit Meeting

The joint statement issued after the meeting between the US President Joe Biden and the EU Commission President Ursula Van der Leyen on March 10, 2023 had segments devoted to 'Strengthening economic security and national security' which, inter alia, stated that the respective existing controls on exports, inbound investment and research cooperation were essential tools and needed to be upgraded to a changing geostrategic environment. The

⁴ See for example <https://www.cnn.com/2023/03/06/iran-says-its-discovered-worlds-second-largest-lithium-deposit.html>

statement also declared a common interest in preventing their companies' capital, expertise and knowledge from fuelling technological advances that will enhance the military and intelligence capabilities of their strategic rivals, including through investment. The statement further resolved that the two sides will:

- Work through US-EU Trade and Technology Council (TTC) and the G-7 to strengthen bilateral coordination by tasking their sherpas to formulate key recommendations by the summer; and
- Will continue to work through US-EU TTC and the G-7 to strengthen coordination with each other and other like minded partners to diversify the supply chains and to increase collective preparedness, resilience and deterrence to non-market policies and practices and to economic coercion.

Japan-Republic of Korea bilateral thaw.

The summit meeting between Prime Minister Kishida Fumio and President Yoon Suk Yeol in Tokyo on March 16, 2023 signalled a commitment by the two leaders to restore normalcy and improve bilateral ties. Among the several outcomes was an agreement to launch consultations on economic security that will allow both countries to discuss ways to strengthen semiconductor supply chains to help meet the challenge of a global chip shortage. The Japanese government announced it will lift export controls on materials used in semiconductor and display panel manufacturing imposed on South Korea in 2019. In return, South Korea promised to retract its complaint to the WTO over Japan's export controls.

Putin-Xi summit meeting.

The summit meeting between President Xi Jinping and President Vladimir Putin held on March 21, 2023 in Moscow may have been watched and analysed globally more in the context of the ongoing Ukraine conflict, but the joint statements released after the summit also underlined their growing trade, energy and economic partnership and future plans for expansion.

The joint statement on deepening comprehensive partnership and strategic cooperation for a new era dwelt on their energy partnership, supply chains and cooperation on climate issues. The two sides are to support their enterprises in promoting energy cooperation projects in oil and gas, coal, electricity, and nuclear energy, and promote the implementation of initiatives that help reduce greenhouse gas emissions, including the use of low-emission energy and renewable energy. Furthermore, the two sides are to jointly maintain

international energy security, including key cross-border infrastructure, maintain the stability of the supply chain of the energy products industry, promote fair energy transition and low-carbon development based on the principle of technology neutrality, and jointly contribute to the long-term healthy and stable development of the global energy market.

The joint statement on the plan to promote key elements of Chinese-Russian economic cooperation until 2030 outlined a broad plan for further cooperation in all areas, such as a) a commitment to significantly increase bilateral trade by 2030; b) a commitment to improve financial cooperation and steadily increase the proportion of local currency settlement in bilateral transactions; c) consolidate all round energy partnership and strengthen long term cooperation in key areas of energy; and d) enhancing agriculture cooperation to ensure food security of both countries.

During a post summit meeting with the press⁵, President Putin was more expansive on economic aspects and inter alia stated the following:

- In 2022, bilateral trade with China increased by 30% to set a new record of US\$ 185 bn. In 2023 it may well exceed US\$ 200 bn;
- At the end of three quarters of 2022, the share of the rouble and yuan in mutual bilateral transactions reached 65%, and continues to grow;
- China is the leading importer of Russian oil and Russia is prepared to scale up uninterrupted supplies to the Chinese economy;
- In 2022, Russia increased gas supplies to China through the Power of Siberia main pipeline by 50%;
- Russia is also the fourth largest LNG supplier to China and LNG supplies will expand in the future;
- The Power of Siberia-2 gas pipeline proposed across Mongolia to China has been discussed by the two countries in detail; and
- Major projects are being implemented in civil aircraft and helicopter production, non-ferrous metallurgy, space, biotech and pharma as well as innovation in science intense areas.

President Xi himself was more general in his remarks on economic cooperation, while summarising what was included in the two joint statements. He also made no reference to the Power of Siberia-2 pipeline.

⁵ See <http://en.kremlin.ru/events/president/news/70750>

India-related developments on economic security

Discussions during Australian PM Albanese's visit to India

Economic security related issues figured in discussions held during the March 8-11, 2023 visit of the Australian Prime Minister Anthony Albanese to India, with his delegation including Australian trade minister Don Farrell and Resources minister Madeleine King. The joint statement issued at the conclusion of the visit recognised that future industrial security and decarbonisation required access to critical minerals and their reliable processing and availability, and reiterated commitment to building secure, resilient and sustainable critical minerals chain for clean energy, electric vehicles, semiconductors, aerospace and defense sectors. The statement also welcomed the appointment of co-chairs on both sides to the India-Australia Solar task force which will advise on opportunities to accelerate Solar PV deployment and enhance supply chains.

India is reported to be examining⁶ how the assured supply of critical minerals from Australia, which has large reserves of lithium, cobalt and some rare earths, could be dealt with in a bilateral agreement with that country. This could either feature in the wider Comprehensive Economic Partnership Agreement that is currently under negotiation between the two sides, or it could be done by strengthening the existing MOU between the Khanij Bidesh India Ltd. (KABIL), which is a joint venture between three public sector units under India's Ministry of Mines, and the Critical Minerals Facilitation Office of Australia.

Visit of US Commerce Secretary Gina Raimondo to India heralds greater cooperation and dialogue on economic security and resilience.

US Commerce Secretary Gina Raimondo visited India and along with Commerce and Industry Minister Piyush Goyal co-chaired the India-US Commercial Dialogue meeting held on March 10, 2023. Signing of an MOU between the two ministers establishing a semiconductor supply chain and innovation partnership was a major outcome of the visit. The effort here will be to identify opportunities for growth and challenges to ensure that US and Indian semiconductor industries develop stronger connections, complementary ecosystems, and a more diverse supply chain for semiconductors. The MOU establishes a semiconductor subcommittee under the Commercial Dialogue to take the discussions forward and is to have its first

⁶ <https://energy.economictimes.indiatimes.com/news/power/india-mulling-to-discuss-mechanism-with-australia-under-fta-for-smooth-supply-of-critical-minerals/98592418>

meeting soon. One US based analyst has noted⁷, even as the text of the MOU was not publicly available, that it could be an attempt to resolve the two countries' conflicting commercial and strategic goals in relation to semiconductors. Both the US and India also have substantial stimulus programs for the national manufacture of chips.

Commerce Secretary Raimondo also held a meeting with External Affairs minister Dr. S. Jaishankar, and the two sides agreed to launch an India-US Strategic Trade dialogue which will discuss export controls, enhancing high technology trade and facilitating technology transfers between the two countries. The dialogue is to be led by India's Foreign Secretary and the Under Secretary for Industry and Security of the US Department of Commerce, and is expected to assist in taking forward the outcomes of the recently launched US-India initiative on Critical and Emerging Technology (iCET).

The web of collaborative arrangements, with leads taken in turn by the USTR, the Department of Commerce and the NSA on the US side and the NSA, Ministry of Commerce and Industry and Ministry of External Affairs on the Indian side, marks a more robust phase of India-US bilateral economic engagement, including on supply chain resilience and economic security, which are being carried forward through the bilateral Trade Policy Forum, Commercial Dialogue and iCET.

Conclusion

A transformation is underway worldwide towards enhancing self-reliant manufacturing of strategic items, establishing supply chain resilience, tightening high technology and dual use export controls, and working out bilateral or other arrangements with trusted partners. As it pursues efforts to enhance domestic manufacturing, it is also important for India to keep abreast of these developments, draw lessons, devise its own strategies, and take advantage of opportunities created by derisking and decoupling moves by partner countries.

⁷ See 'US-India Strategic and Commercial Convergence' by Raymond E. Vickery Jr. appearing in Diplomat Brief newsletter, 28 March 2023



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