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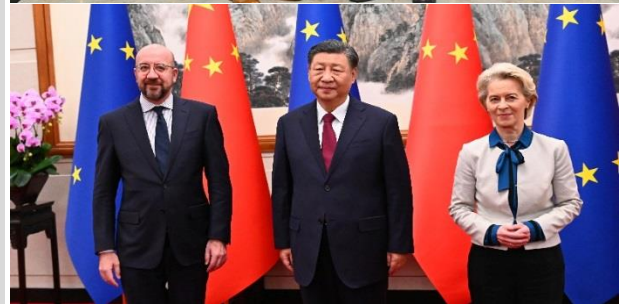
Advancing India's Rise as a Leading Power

ECONOMIC SECURITY AND RESILIENCE REVIEW DECEMBER 2023

Author

V.S. Seshadri

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Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

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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.

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Author

Dr. V.S. Seshadri, I.F.S (Retd.), Senior Fellow for Economic Security, Delhi Policy Group

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Cover Image:

Vikram Misri, Deputy National Security Adviser (Strategic Affairs), and Jonathan Finer, the Principal Deputy National Security Adviser of the United States, at the first comprehensive mid-term review of the India-US Initiative on Critical and Emerging Technologies (iCET) in Delhi on December 4, 2023. (Source: [Vikram Misri/Official X account](#))

President Xi Jinping meeting President of the European Council Charles Michel and President of the European Commission Ursula von der Leyen on the occasion of 24th China-EU Summit held in Beijing on December 7, 2023. (Source: [Ursula von der Leyen/ Official X account](#))

President Xi Jinping and General Secretary of the Central Committee of the Communist Party of Viet Nam (CPV) Nguyen Phu Trong meeting in Hanoi on December 12, 2023. (Source: [Ministry of Foreign Affairs of the People's Republic of China](#))

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

Since its opening issue a year ago, this economic security and resilience review (ESSR) has brought focused attention to an emerging economic security based order, the resilience options that are taking shape globally, and how these relate with India's national interest and options. Looking back, 2023 could well be termed as the year when derisking assumed wider prominence, both in India and globally. While the US and the EU engaged actively with China on economic issues, areas of competition and rivalry - advanced semiconductors, critical minerals, clean energy technologies, AI, quantum computing and more - were clearly drawn out. Each side was seen bolstering its indigenous efforts, and building alliances and partners, while also stiffening defense mechanisms through tighter export controls, enhanced trade defense measures and elevated investment screening.

India itself built upon a broadly fourfold approach of a) keeping out risk-ridden trade and investment; b) strengthening domestic manufacturing capacity and competitiveness including in semiconductors, computers and laptops, and critical minerals; c) enhancing supply chain collaborations with friendly partners, both bilaterally and through the mechanisms of Quad, the Minerals Security Partnership, and the IPEF; and d) actively engaging in negotiations to conclude FTAs with the UK, EU, EFTA, Oman and certain others, and in the review of the India-ASEAN FTA.

These trends continued during December, 2023 as well and are covered in this issue. The EU-China summit held on December 7, after a series of bilateral visits exchanged during the year, did not appear to yield any major outcome other than an exchange of views and positions at the highest level. President Xi Jinping's visit to Vietnam, on the other hand, was clearly an effort by China to integrate its southern partner closer into its economic and infrastructure ecosystem, only three months after a successful visit by President Biden to that country. But Vietnam may well seek a balance between its ties with China and those with the West, and build itself up as a buffer by securing investments from all directions and boosting its trade profile.

This issue also briefly covers the threat to economic security arising from attacks on international shipping through the Red Sea route.

Among new economic security related measures that have been introduced during the month, those covered in this ESRR are the ban imposed by China on rare earth processing technologies; the release of guidance by the US on permissible usage of battery components and critical minerals in electric vehicles from foreign entities of concern for availing benefits under its Inflation Reduction Act (IRA); and the announcement by the UK of its own carbon border adjustment mechanism that will kick in from 2027.

Concerning India, the Deputy National Security Advisers of the US and India undertook on December 4, 2023 in New Delhi a mid-term review of progress in the implementation of the bilateral initiative on Critical and Emerging Technologies (iCET) launched by the two NSAs last January, and added a few more areas of cooperation to its coverage. The thirteenth round of the India-UK FTA negotiations were held from September 13 to December 18, 2023 and the fourteenth round will commence this month. Reports have also appeared that India is likely to acquire five lithium exploration blocks in Argentina, for which discussions are underway. Finally, this ESRR also refers to the threat to economic security finding inclusion in the definition of terrorism under the revised Bharathiya Nyay Samhita that has been adopted by the Indian Parliament at its December session.

EU-China Summit yields no major outcome

The European Union and China held their summit meetings in Beijing on December 7, 2023 with the President of the European Council, Charles Michel, and President of the EU Commission, Ursula von der Layen, meeting President Xi Jinping and holding talks with the Chinese Prime Minister Li Qiang. No major outcomes were, however, announced following the meeting, nor was any joint statement issued.

The EU leaders reportedly raised concerns about the imbalances in the bilateral trade with China (EU's trade deficit with China in 2022 was almost Euro 400 bn) and stressed the importance of achieving a more balanced economic relationship with a level playing field and reciprocity¹. They pointed to the underlying distortions and the negative effects of manufacturing overcapacity in China's economy. They also underlined the need for progress in addressing the core EU interests and longstanding demands relating to transparency in

¹ <https://www.consilium.europa.eu/en/press/press-releases/2023/12/07/24th-eu-china-summit-engaging-to-promote-our-values-and-defend-our-interests/>

business environment, predictable supply chains, and industrial subsidies. As for the EU's own policy of derisking as opposed to decoupling, it was explained that it was aimed at strengthening resilience by addressing critical dependencies in specific sectors, in full compliance with WTO rules.

President Xi Jinping on his part said that the China-EU relationship had shown a good momentum of consolidation and growth and that the China-EU high level dialogues on strategic, economic and trade issues, green and digital trade, had produced rich outcomes. He, also stated "We should not view each other as rivals because our systems are different, reduce cooperation because competition exists, or engage in confrontation because there are disagreements".

During the summit, the Chinese side also expressed concern over the EU's "de-risking" and restrictive economic and trade policies, including the anti-subsidy investigation into Chinese electric vehicles launched by the EU, 5G and other issues, and urged the EU to keep its trade and investment markets open, provide a fair and non-discriminatory business environment for Chinese companies, and use trade remedy measures prudently².

President Xi visits Vietnam

In what was seen as China's attempt to draw Vietnam closer into its economic ecosystem, after President Biden's successful visit to Vietnam in September this year, President Xi Jinping undertook a state visit to Vietnam from December 12-13, 2023 at the invitation of the General Secretary of the Communist Party of Vietnam (CPV) Central Committee. The visit resulted in a clutch of 36 agreements covering areas such as infrastructure including railways, defense and security, agriculture, telecom, trade and investment, even as details about each one of them were not made public. Of particular relevance was the attempt to integrate China's southern industrial hubs with Vietnam's northern provinces through railways and bridges infrastructure.

On economic security related issues, the China-Vietnam joint statement sought the possibility of strengthening bilateral and multilateral cooperation in the field of key minerals based on market principles, and securing of energy production and supply chains. The two sides more generally also agreed to apply effective measures to ensure smooth commodity supply chains serving production and consumption between the two countries and the region, and

² https://www.mfa.gov.cn/eng/wjbxw/202312/t20231211_11199167.html

implement the MOU signed on the subject between the Vietnamese Ministry of Industry and Trade and the Chinese Ministry of Commerce.

The joint statement also noted that the Vietnamese side supports China's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on the basis of conforming with the standards and order of the agreement.

One analyst noted³ that Vietnam offers a buffer zone amidst the West's derisking policies. This explained the sharp increase in China's investment in Vietnam over the past two years - by November 2023, China had become the biggest investor in Vietnam in terms of newly registered projects. The analyst further added that China has positioned itself as a direct competitor to western partnerships by offering cooperation in new drivers of growth in Vietnam such as rare earth exploitation, innovation and green energy transition, areas which were also extensively discussed during the recent Biden visit. Other commentators similarly noted Vietnam's balancing role through its 'bamboo diplomacy'.

Shipping passing through Arabian Sea and Red Sea impacted by missile and drone attacks

A major risk to trade has emanated from missile and drone attacks passing through the Arabian Sea waters, the Gulf of Aden and the Red Sea. These have reportedly emanated from Houthi controlled areas of Yemen. Initially, from mid-November onwards, ships with some direct links to Israel were mainly targeted, against the backdrop of the conflict in Gaza. But other ships also started getting hit in December, which included a chemicals tanker Chem Pluto which was headed to India from Saudi Arabia. This ship was reportedly hit in the Arabian Sea area by a drone fired from Iran, which was denied by Iran. While this matter is being investigated by the Indian Navy, there were also reports that another ship MV Sai Baba (Gabon owned and flagged) with about 25 Indian crew members came under attack in the southern Red Sea. The Indian Navy has, therefore, stepped up its monitoring and surveillance activities in the region, in coordination also with other national maritime agencies. It has, however, been clarified by the Ministry of External Affairs that India was not a part of any multilateral initiative or operation presently in and around the Red Sea⁴. It needs mentioning here that the US has put together

³ <https://www.thinkchina.sg/xi-jinping-hanoi-courting-vietnam-common-destiny>

⁴ https://www.mea.gov.in/media-briefings.htm?dtl/37488/Transcript_of_Weekly_Media_Briefing_by_the_Official_Spokespers_on_December_29_2023

Operation Prosperity Guardian, which is a security initiative involving a few other countries, for conducting joint patrols and providing intelligence support in the southern Red Sea and the Gulf of Aden.

China bans export of certain rare earth processing technologies

China introduced on December 21, 2023 a ban on export of technology for making rare earth magnets and the technology for rare earth mining, ore selection and refining⁵. Technologies related to extracting and separating rare earths and producing alloys were already banned for export. As per media reports, China's global dominance in processing rare earths exceeds 70%.

UK announces its own Carbon Border Adjustment Mechanism

The UK government, after holding consultations with industry and other stakeholders earlier in the year, has announced on December 18, 2023 that it will implement a Carbon Border Adjustment Mechanism (UK CBAM) by 2027⁶. While additional consultations will take place in 2024 about the design and mechanism of its CBAM, the following details were made available:

- The scope of its coverage will be emission intensive products and these were listed as iron and steel, aluminium, cement, ceramics, glass, hydrogen and fertilisers.
- The liability applied by the UK CBAM will depend on green house gas emissions intensity of the imported good and the gap between the carbon price applied (if any) in the country of origin and the carbon price that would have been applied had the good been produced in the UK.
- Payment of CBAM liability will lie directly with the importer of the imported products and this system will not involve the purchase or trading of emissions certificates as in the case of the EU.

Differences with the EU system also include the date of implementation, which in the EU's case will be January 1, 2026 and the sectoral coverage which in the EU's case includes electricity but excludes ceramics and glass. Of course, some of these details could also change following the consultations to be held in the UK in 2024.

⁵ <https://www.ft.com/content/5b031db7-23dd-43d3-afe1-cef14817296f>

⁶ <https://www.gov.uk/government/news/new-uk-levy-to-level-carbon-pricing>

US Treasury releases further guidance on components in electric vehicles from foreign entities of concern

The US Treasury and the US Department of Energy have on December 1, 2023, announced⁷ their proposed guidance on eligibility of electric vehicles manufactured in North America for credits under the US Inflation Reduction Act. As per the Act, beginning in 2024, an eligible electric vehicle may not contain any battery components that are assembled or manufactured by a Foreign Entity of Concern (FEOC), and beginning in 2025 such vehicles may not contain any critical minerals that were extracted, processed or recycled by a FEOC. The statute also states that a FEOC includes an entity "owned by, controlled by, or subject to the jurisdiction or direction of a government of a foreign country that is a covered nation." The four countries covered are China, Iran, North Korea and Russia.

What the proposed guidance does is to provide further clarity on FEOC. In general, an entity incorporated in, headquartered in or performing the relevant activities in a covered nation would be classified as a foreign entity of concern. For purposes of these rules, an entity would be "owned by, controlled by, or subject to the direction" of another entity if 25 percent or more of the entity's board seats, voting rights or equity interest are cumulatively held by such other entity. In addition, licensing agreements or other contractual agreements may also create control. Finally, "government of a foreign country" would be defined to include subnational governments and certain current or former senior foreign political figures.

To allow compliant vehicles already on dealer lots and currently being manufactured to qualify for the credit while the rulemaking process proceeds, the proposed rules would provide a transition rule to expedite certification for new clean vehicles that do not contain battery components manufactured or assembled by a FEOC and are placed in service in 2024 between January 1 and 30 days after the rules are finalised.

US-India iCET mid-term Review

The US Principal Deputy NSA, Jonathan Finer, visited India and held consultations on December 4, 2023 with India's Deputy NSA (Strategic Affairs), Vikram Misri, during which they undertook the first comprehensive mid-term review of the India-US Initiative on Critical and Emerging Technologies (iCET) since the first meeting held in January 2023 in Washington D.C. co-led by the

⁷ <https://www.federalregister.gov/documents/2023/12/04/2023-26479/interpretation-of-foreign-entity-of-concern>

two respective NSAs. Reviewing the progress during the consultations, the two sides expressed satisfaction with ongoing collaborations in diverse domains including semiconductors, quantum, Artificial Intelligence (AI) and High-Performance Computing (HPC), defence innovation, space, and advanced telecommunications through interactions between the respective governments, industry, academia and other stakeholders. The two Deputy NSAs also agreed to broaden the scope of iCET to biotechnology, critical minerals and rare earths processing technologies, digital connectivity and digital public infrastructure, and advanced materials. They further affirmed the importance of easing regulations to facilitate high-tech collaborations, and transfer of technology⁸.

India-UK FTA negotiations continue

The thirteenth round of the India-UK FTA negotiations spanned over almost three months from September 18 to December 15, 2023 but still without closure⁹. A joint press release said that the negotiations, held in-person and online, in both London and Delhi, focused on complex issues including goods, services and investment. The fourteenth round is expected to be held in January, 2024.

India's likely acquisition of 5 lithium blocks in Argentina

As per reports,¹⁰ India could be close to striking a deal to acquire five lithium blocks in Argentina for exploration and development. If successful, the deal will be signed between Khanij Bidesh India Limited (KABIL) and the Catamarca Minera Y Energetica Sociedad El Estado (CAMYEN), a state owned mining and energy company in the Argentine province of Catamarca.

Economic Security included in the revised Bharatiya Nyaya Samhita Bill

In the revised Bharatiya Nyaya Samhita Bill, replacing the British-era Indian Penal Code, that was adopted by the Indian Parliament in its December 2023 session, the threat to economic security of India has been included as a 'terrorist act'. As per the relevant provision¹¹, terrorism offenses would include

⁸ https://www.mea.gov.in/press-releases.htm?dtl/37333/Visit_of_US_Principal_Deputy_National_Security_Adviser_to_India_December_04_2023

⁹ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1987718>

¹⁰ https://www.business-standard.com/economy/news/india-set-to-acquire-five-lithium-blocks-in-argentina-spotted-by-kabil-123122400535_1.html

¹¹ <https://www.indiatoday.in/law/story/redrafted-bills-to-replace-existing-criminal-laws-widens-scope-of-terrorist-act-2475218-2023-12-12>



'any act with the intent to threaten the unity, integrity, security or economic security of India with intent to strike terror or likely to strike terror in the people or any section of the people in India or in any foreign country'. It also adds that any act causing damage to the 'monetary stability' of India by way of production or smuggling or circulation of counterfeit of India paper currency, coin or any other material, shall also be deemed a terrorist act.



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