



Delhi Policy Group

Advancing India's Rise as a Leading Power



POLICY BRIEF

India's Unfolding Moves on Economic Derisking and Resilience

Author

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Cover Photographs:

Union Minister of Commerce and Industry, Piyush Goyal, and US Secretary of Commerce, Gina Raimondo, signing a Memorandum of Understanding on semiconductor supply chain and innovation partnership in New Delhi on March 10, 2023. (Source: [Sec. Gina Raimondo/Official Twitter](#))

Chief Minister of Gujarat, Bhupendra Patel, Union Minister Ashwini Vaishnaw and Union MoS Rajeev Chandrasekhar at the ground-breaking ceremony for Micron's Semiconductor Plant in Sanand, Gujarat on September 23, 2023. (Source: [Bhupendra Patel/Official Twitter](#))

Prime Minister of India, Narendra Modi, with global leaders at the Partnership for Global Infrastructure and Investment (PGII) and the India- Middle East- Europe Economic Corridor launch event at the G20 summit in New Delhi, September 9, 2023. (Source: [Narendra Modi/Official Twitter](#))

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India's Unfolding Moves on Economic Derisking and Resilience*

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Introduction

It is by now fairly well recognised that trade and manufacturing concentration in a component or a product carries disruption risks. Some attribute such concentration to the unfettered liberalisation of trade and investment regimes worldwide in the nineties and beyond, in pursuit of cost and efficiency gains that also resulted in the building of supply chains. Scholars have also ascribed these developments to the transformation in trade brought about by the two game changing elements during the same period: rapid containerisation of trade and vastly improved communication and internet connectivity.

Whatever may have been the driving factors, it is welcome that this risk-ridden concentration, a flip side of globalisation, is now getting attention. Disruptions can happen due to unforeseen events like natural calamities, pandemics, war or logistical bottlenecks, as we have seen in recent years. Additionally, risks also arise when economies seek to create huge capacities and market shares and then leverage the dependencies coercively, either for commercial gains or for non-commercial objectives.

While each economy has its own positioning in terms of its underlying concentration risks, India has clearly recognised that it needs to secure itself from such disruptive risks to its economy. Derisking and integrating resilience into economic development are therefore receiving priority attention, for which India is following a broadly fourfold approach.

Keeping out risk-ridden trade and investment

First, is a closer scrutiny of inward FDI and restricting import of intrusive technology with surveillance or harmful potential from countries with which we have some geopolitical or security concern. Thus certain digital applications have been prohibited, certain technologies excluded from 5G trials, and some investments have been barred.

* This is a slightly expanded version of the remarks made by the author as an invited panelist at the CSIS/JETRO Conference on "Supply Chain Resilience and Outlook for Economic Growth in the Indo Pacific region" in Washington DC on 1 November 2023. The proceedings of the conference itself can be viewed at <https://www.csis.org/events/supply-chain-resiliency-and-outlook-economic-growth-indo-pacific>

Strengthening indigenous capacity and competitiveness

The second line of action is to enhance indigenous capacity and competitiveness. During COVID-19 and the initial days of the Ukraine war, India's import vulnerabilities were exposed. These were particularly severe in the areas of bulk drugs, semiconductors and electronic items. There is also the urgency of climate transition. For India, the compulsion further arises from a significant trade deficit in goods. India's merchandise imports in 2022-23, for example, accounted for 159% of its exports.

So, the Make in India programme of the government, also termed as Aatmanirbharta, has acquired vigour. Production-linked incentive (PLI) schemes for manufacturing have been launched in 14 sectors (See Box 1) that account for close to 40% of India's imports. These range from bulk drugs and medical devices to battery making for electric vehicles, and from solar modules to mobile phones and laptops. The PLI schemes have an outlay of US\$ 26 bn. The aim is to attract investments in these key sectors and bring economies of size and scale in the manufacturing sector.

Box 1: Efforts to Boost Manufacturing

Efforts to Boost Manufacturing

Production Linked Incentive (PLI) Scheme

Sectors of Focus (14)

- Mobile and Electronic Components
- Autos and Auto components (advanced technology)
- Medical devices
- Key starting materials/(APIs)
- Pharmaceutical drugs
- Speciality steel
- Telecom and Networking products
- IT hardware
- White Goods (A/Cs and LEDs)
- Food Products
- Textiles-MMF and Tech textiles
- High efficiency Solar modules
- Advanced chemistry cell batteries
- Drones and Drone components

Semiconductor Development Programme

- Semiconductor wafer fabrication
- Display fabrication facilities
- Compound semiconductors /Silicon Photonics /Sensors fab
- Semiconductor ATMP/OSAT facilities
- Design linked Incentive scheme

A large semiconductor programme has also been launched. This has an outlay of US\$ 10 bn. India has also entered into MOUs on semiconductor development both with the US and with Japan.

The present derisking environment globally makes this a conducive time for these initiatives. India's particular strengths are its large domestic demand; the

demographic edge with a rising percentage of working-age population; the local availability of skills and managerial personnel with core competence; and the domestic presence of a robust services sector offering advanced design and engineering solutions. Many projects are also in the works towards strengthening core economic infrastructure – the highways network, the rail freight corridors, port infrastructure and logistics facilitation.

The responses so far from investors, both in respect of the PLI schemes and the semiconductor development programme are quite encouraging. There is, however, also the awareness that these initiatives may create new import dependencies, including on critical minerals. This is already happening in the imports of lithium and a few other items. As an illustration, the single largest item at 8-digit level (HS 28439012) of import by India from Japan in 2022-23 was platinum group elements used in catalytic converters, at US\$ 1.7 bn. So, import profiles are also likely to change, catering to the new policy and technology realities, which in turn can give rise to newer import dependencies, particularly for minerals.

As a first step, the government of India has identified 30 critical minerals in June this year based on their economic importance and supply risk (Box 2). The 17 rare earths have been clubbed together as one, since the value chain for them is to be fully developed and better understood. Likewise, the six platinum group elements figure as single item in this list.

Box 2: Critical Minerals Identified

Critical Minerals Identified

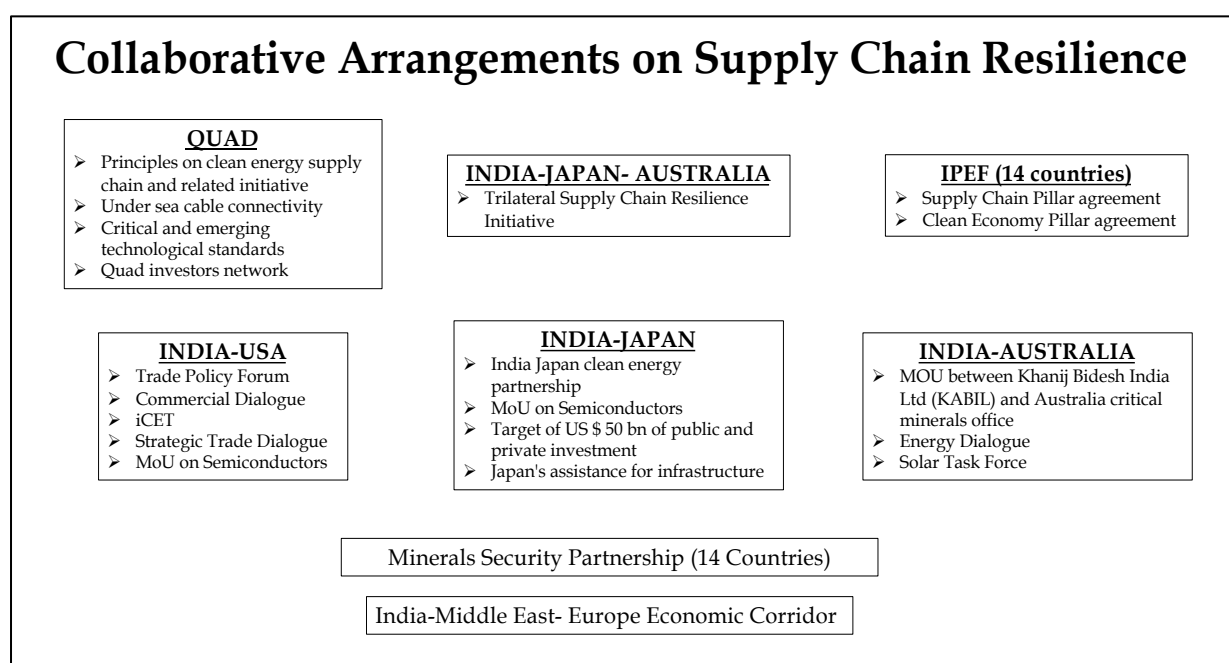
- | | | |
|-------------|---------------|-------------|
| ➤ Antimony | ➤ Hafnium | ➤ REE |
| ➤ Beryllium | ➤ Indium | ➤ Rhenium |
| ➤ Bismuth | ➤ Lithium | ➤ Silicon |
| ➤ Cadmium | ➤ Molybdenum | ➤ Selenium |
| ➤ Cobalt | ➤ Niobium | ➤ Strontium |
| ➤ Copper | ➤ Nickel | ➤ Tantalum |
| ➤ Gallium | ➤ PGE | ➤ Tellurium |
| ➤ Germanium | ➤ Phosphorous | ➤ Tin |
| ➤ Graphite | ➤ Potash | ➤ Titanium |
| ➤ Tungsten | ➤ Vanadium | ➤ Zirconium |

India is 100% import dependent on 10 of the identified critical minerals including cobalt, nickel, lithium and vanadium. Exploration projects at some identified sites are underway. The government is also taking steps to enable private sector participation, including by foreign companies. The required changes have been incorporated in the amendments to the Minerals and Metals Development and Regulation Act adopted by the Indian Parliament in August 2023. Following this, a Cabinet level decision has also been taken recently to reduce royalty rates to make it attractive for private sector participation, including by foreign companies, in the soon to be held auctions for exploration sites.

Emerging supply chain collaborations

The third line of action being followed by India is to forge supply chain collaborations with friendly partners (Box 3). The Quad and its initiatives have provided thrust to these efforts. The supply chain pillar agreement of IPEF marks a generational change in the genre of trade agreements. India is also involved in bilateral and trilateral arrangements with Japan and Australia, as well as with the US. Further, India has become a member of the Minerals Security Partnership. The India-Middle East-Europe Economic Corridor (IMEEC) is an ambitious initiative that saw a high-profile announcement jointly by several global leaders at the G20 Summit in September this year.

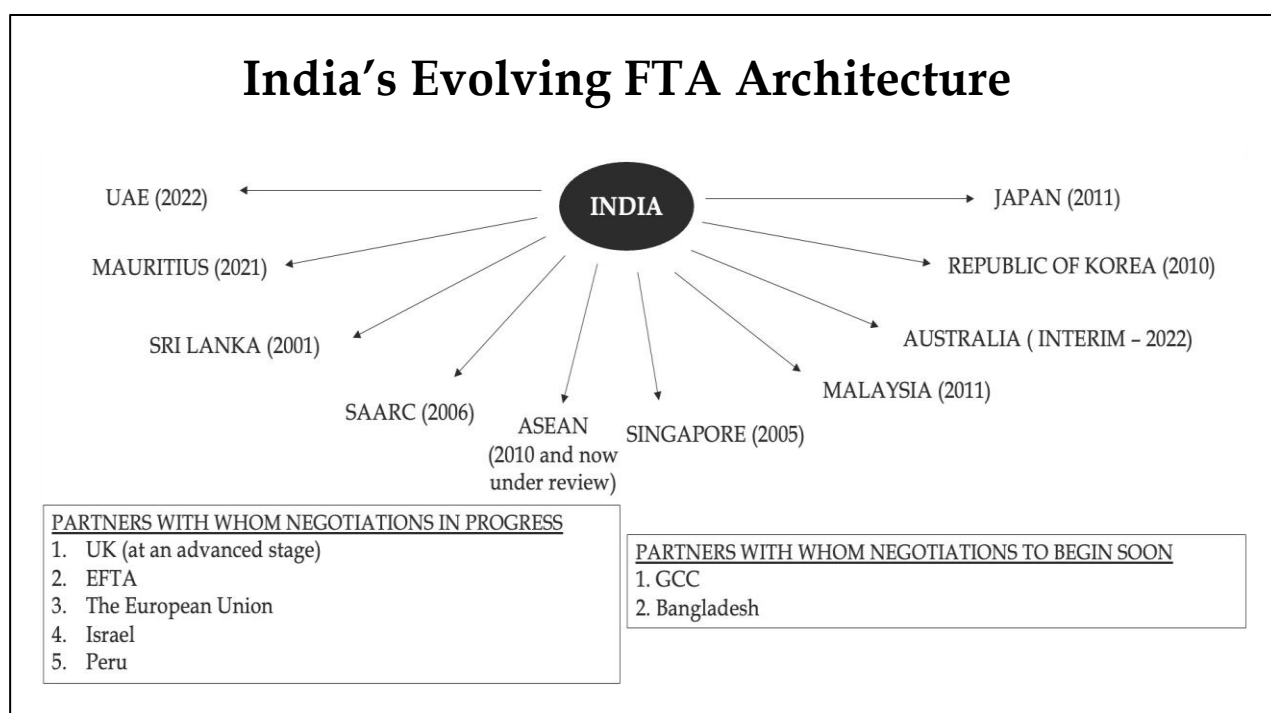
Box 3: Collaborative Arrangements on Supply Chain Resilience



Catching up on trade policy

Fourth, a major change is that India is now signing new FTAs after a pause of over 10 years (Box 4). A comprehensive FTA with the UAE, and an interim one with Australia, were concluded last year. An FTA with the UK is also at an advanced stage. Negotiations are moreover active with the EU, EFTA, Peru, and the GCC, to mention a few. A review of India-ASEAN FTA is also underway. Some of India's FTA partners are also resource-rich, and thus provide commodities essential for economic growth.

Box 4: India's Evolving FTA Architecture



The US and India are cooperating on trade differently: resolving pending WTO disputes, which has been done, and accommodating concerns on tariffs or other regulatory aspects on products of mutual interest. Cooperation on critical and emerging technologies and export controls form another important area. With an FTA not currently feasible, this may be the best way forward.

Will IPEF work?

Finally, as for IPEF, and the IPEF supply chain agreement in particular, there are mixed opinions among industry and trade policy circles. It has been projected as an alternative model for ushering greater resilience in trade. IPEF needs to prove itself. Much work is also technical and requiring a granular approach - assessing risks for each product and component - and putting in place levers

to deal with them and evaluating investment diversification needs. Whether companies will share data is an underlying concern.

There are also questions about IPEF's labour provisions, and whether they may be used for undermining wage competitiveness. Building trust and reliability among the members and promoting positive peer pressure in adopting best practices will help. An APEC model of implementation, including holding an annual leaders' summit, could make it work. Coming up with some quick action plans in a few critical supply chain areas will be important. If a process of mixing and matching from examining vulnerabilities results in new investments and diversification, it could attract greater interest from participating nations.

Conclusion

What has been described in the foregoing broadly forms the approach taken by India to the challenges of derisking, capacity building, and economic resilience. Initiatives are also being taken by other countries in the Indo-Pacific region. To the extent mixing, matching and augmentation can be done with diversification, this can help in reducing the vulnerabilities that have arisen following three decades of globalisation trends.



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