



# Delhi Policy Group

Advancing India's Rise as a Leading Power



## ECONOMIC SECURITY AND RESILIENCE REVIEW JANUARY 2023

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### Cover Image:

*High-Level Roundtable on the U.S.-India Initiative on Critical and Emerging Technologies, Washington D.C., January 30, 2023. Source: PTI*

*NSAs Ajit Doval and Jake Sullivan, and US Secretary of Commerce Gina Raimondo, meeting representatives from industry, academia and thought leaders at a Round Table on Critical and Emerging Technologies hosted by USIBC, January 30, 2023. Source: Twitter (@USIBC)*

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# Economic Security and Resilience Review

by

V.S. Seshadri

## Introduction

Security of a nation is a composite concept, and it is difficult to break it down into political, strategic, defence or economic silos, each of which is interdependent with the others. But if such interdependency is taken as a given, economic security can be defined as the ability of a nation to secure, through production or fair trade, such goods and services it needs in order to preserve its national security<sup>1</sup>. It can also be somewhat broadened and made less defensive and more proactive to mean that it is the ability of a nation to protect or advance its domestic economic interests in the face of events, developments or actions that may threaten or block these interests<sup>2</sup>.

Threats to economic security arise due to pressures or coercive moves by unfriendly countries, international developments like the recent Ukraine conflict that has unleashed many adverse economic side-effects, unregulated mass immigration, unforeseen circumstances such as the Covid-19 pandemic, natural or other disasters, or even certain domestic upheavals, economic mismanagement or other vulnerabilities. Trust, reliability and safety are key in sustaining trade and investment flows. Building resilience is, therefore, gaining importance globally.

## Economic Security Risks Faced by India

India has faced situations in the past when its essential economic interests have faced adverse circumstances. A precarious food security situation in the fifties and sixties, oil price shock in the seventies, a foreign exchange crisis in 1991 or the urgent need to repatriate Indian citizens from the Gulf countries when wars erupted there are some instances that come to mind. India has overcome these challenges and has since built reserves and capacities to withstand shocks in each of these areas.

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<sup>1</sup> See the Chapter on Security Studies by Brenda L. Horrigan et al in the Encyclopedia of Violence, Peace and Conflict, 2008.

<sup>2</sup> See pages 11-12 of the monograph on 'The Economic Dimensions of National Security' by C.R. Neu, Charles Wolf Jr., a RAND report accessible at [https://www.rand.org/content/dam/rand/pubs/monograph\\_reports/2006/MR466.pdf](https://www.rand.org/content/dam/rand/pubs/monograph_reports/2006/MR466.pdf)

In more recent times, data and cyber security, as well as the security of critical infrastructure, have become important. The high level of dependence on China for certain manufactured items including bulk drugs, electronic and machinery items, has exposed India's vulnerabilities in competitive manufacturing. Lack of adequate production or availability of certain minerals, metals and semi-conductors, particularly in the context of employing newer technologies, is a looming threat. Substantial import dependence also continues in respect of energy fuels, edible oils and fertilisers.

There are several ways to advance economic security. One is through indigenous efforts. Second is through collaborative efforts with friendly countries/trusted partners, through diplomatic or other means. The third is through effective use of international mechanisms and institutions. India has attempted to take measures on all the three fronts. Over the last couple of years or more, with globalisation showing some retreat and industrial policies gaining ascendance, countries around the world are also seen devoting more attention towards protecting and promoting their economic security.

## Recent Impetus towards Economic Security

The Covid-19 pandemic that resulted in lockdowns in different parts of the world at different times brought out a whole range of global dependencies including on pharma products, semi-conductors, rare earth metals, supply chains and even ready availability of shipping containers. Technologies catering to transitioning needs, including in the form of electric vehicles and greener manufacturing, have also created demand for batteries and other inputs including of critical metals. Among all these factors, the readiness displayed by China, as witnessed in several instances in recent years, to use economic coercion for political ends, has brought added urgency to the economic security issue. But China still remains a world behemoth in manufacturing and a substantial producer of critical minerals, particularly rare earths. The severe disruption of supply chains and shipping activity, both as a result of the COVID-19 impact and in the aftermath of the Ukraine conflict, has further underlined the need for resilience of supply chains.

## Approach of the Trump Administration

The US-China strategic competition itself is also getting sharper. While the Trump Administration took some steps towards strengthening US economic security, its measures looked more like protectionist moves against all imports aimed at bolstering domestic manufacturing and getting American companies to return and make investments in their home country. The US withdrawal from TPP, imposing additional tariffs on aluminium and steel imports to

protect these industries on security grounds, renegotiating NAFTA and the KORUS FTA, applying penal tariffs on imports from China and then arriving at a conditional deal, and keeping away from Huawei's 5G technology were all examples of this approach. While imports and investments from China and technology exports to that country received targeted attention, measures under economic security grounds were taken even against allies like the EU and Japan.

## Biden Administration Brings in Change

This scenario has changed under the Biden administration, with international developments also compelling the shift. Unilateral measures no doubt continue in the form of export controls, or propping up domestic manufacturing through legislation like the Chips Act or the Inflation Reduction Act. But the US is also now showing leadership in rallying its allies and other partners towards building supply chain resilience, preventing exports of critical technologies to China and Russia, protection of intellectual property, developing capacities in areas like critical minerals and semi-conductors, enhancing protection of critical infrastructure from cyber and other threats, and seeking to differentiate non-market economies in the application of trade rules. Moves towards transition to a greener and less emission-ridden economy are also getting embedded in all the aforementioned efforts.

The US and the EU are also now working more closely together and the high level Trade and Technology Council (TTC) set up by the two sides in June 2021 to tackle some of these issues has already held three meetings. The US also took the lead in the May 2022 launch of the Indo-Pacific Economic Forum (IPEF) comprising 14 countries from the region including India, but not China, in which again supply chain resilience is to be addressed as one of the four pillars on which negotiations are now underway. There are also other initiatives like the CHIP-4 alliance involving Japan, South Korea, Taiwan and the US, supposedly to restructure the global supply chain in semi-conductors to be less reliant on China. The US has also been able to persuade Japan and the Netherlands to restrict exports of chip manufacturing tools to China, further to its own unilateral export controls announced in October 2022. The eleven-member Minerals Security Initiative (MSI) aimed at bolstering critical mineral supply chains essential for the clean energy transition is yet another initiative. MSI has several major producers as members, but not China. Bilaterally too, the US is making efforts in all its interactions with allies and partners in this direction. This is evident from the joint statements issued following summit meetings between President Biden and the leaders of Korea, Japan and France in recent months.

## Japan's Efforts on Economic Security

Japan is giving greater attention to economic security, with a new law passed by its Diet in May 2022 requiring comprehensive efforts to protect the economy from hostile actors and bringing Japan's basic infrastructure, technology development and innovation, and supply chains of critical materials under greater scrutiny. Japan now has a Cabinet Minister for economic security, thus strengthening government oversight. The new National Security Strategy (NSS) of Japan issued<sup>3</sup> in December 2022 further addresses some of the economic security issues which were not deemed as security targets in the past. Curbing excessive dependence on specific countries, carrying forward next-generation semi-conductor development and manufacturing bases, securing stable supply for critical goods including rare earths, and promoting capital reinforcement of private enterprises with critical goods and technologies, find prominent mention under this NSS. Also referenced are efforts to be taken against economic coercion by foreign countries, and bolstering data and information protection.

## India's Measures towards Enhancing Resilience

India itself has also been taking certain measures, under its Atmanirbharta programme and production linked incentive (PLI) schemes, towards boosting its manufacturing capacity and reducing dependence, including in respect of bulk drugs, solar panels and other critical areas. The government has also unveiled a special incentive scheme to promote semiconductor manufacturing. Investment screening has been tightened and imports are under closer watch. Internationally, India is participating in the trilateral supply chain resilience initiative with Australia and Japan. Furthermore, it is a member of the IPEF and will be hosting the next round of negotiations to be held in Delhi from February 8-11, 2023.

While India values its membership of the IPEF, it will need to guard against attempts by the US to shape IPEF in line with its own laws and regulatory standards. For this reason, India is presently staying out of the trade pillar of IPEF to see how it evolves before joining. India will also have to selectively deal with trade and investments with China, allowing flows which are in its interests but at the same time ensuring options and resilience for others.

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 on the sidelines of the IPEF launch. This was meant to forge

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<sup>3</sup> Accessible at <https://www.cas.go.jp/jp/siryoku/221216anzenhoshou/nss-e.pdf>

closer linkages between the government, the academia and the industry of the two countries in areas such as AI, quantum computing, 5G/6G, biotech, space and semi-conductors. 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. Concrete outcomes of the meeting included a new partnership between the National Science Foundation of the US and Indian counterparts in areas such as AI, Quantum and wireless; new bilateral defense technology cooperation with initial focus on jet engines and some other areas; and a new task force between the US Semiconductor Industry Association and the India Electronics & Semiconductor Association. This iCET dialogue is showing great promise, though the extent to which it will promote India's economic security and resilience will bear watching.

## Issues Remain

While the broad direction in which all these initiatives could move is becoming clear, there are nevertheless differences in emphasis and doubts about what policy tools are to be used. There are also lingering concerns among allies and partners of the US on whether economic security will be promoted by the US catering largely to its own self-sufficiency and interests. Furthermore, considering the geographical proximity and existing strong economic linkages with China, several East and South East Asian countries are assessing whether it is viable for them to overly side with one side against the other. As China-US competition securitises more and more economic transactions, balancing acts will become difficult to sustain.

For India too, care has to be taken that the evolving contours of economic security globally, and the options that may arise, are in line with its interests and do not require alignments with standards or regulatory features or other commitments that may be problematical down the road.

## Rising Think Tank Activity on Economic Security

Keeping up with the times, think tanks across the globe are also getting active in discussing economic security-related issues, with several analytical papers having recently appeared on the subject. A Track-2 dialogue of experts from four countries – Australia, Japan, Taiwan and the US – was hosted<sup>4</sup> by Stimson Centre to discuss economic security issues of mutual concern in December

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<sup>4</sup> A report on the dialogue is accessible at <https://www.stimson.org/2022/u-s-japan-australia-taiwan-quadrilateral-economic-security-dialogue/>



2022. A new Institute of Geoeconomics has been set up in Japan, one of whose key focus areas will be economic security.

## Conclusion

Against the foregoing scenario, this monthly review will give focused attention to the evolving contours of an economic security-based order, the resilience options that are taking shape globally, and how these match with India's national efforts and interests. It will also seek to capture some of the analytical thinking evolving nationally and internationally on this important component of comprehensive national security.

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