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31/05/2023 WEDNESDAY www.vedhikiasacademy.org DAILY NEWS ANALYSIS

● POLITY ● ECONOMICS ● TECHNOLOGY ● ECOLOGY

AMIT SHAH APPEALS FOR 15-DAY PEACE IN MANIPUR

VIJAITA SINGH
RAHUL KARMAKAR
NEW DELHI/GUWAHATI

Union Home Minister Amit Shah on Tuesday appealed for a 15-day peace in Manipur during a meeting with Kuki civil society groups in Churachandpur district, a member of the Kuki group said.

The Centre is likely to announce a judicial inquiry commission headed by a retired Supreme Court judge to probe the violence in Manipur, Muan Tombing, general secretary of the Indigenous Tribal Leaders Forum (ITLF) told The Hindu.

"The Home Minister said peace be given a chance for the next 15 days for a solution to be achieved. He said the Centre will appoint a judicial commission and separate teams will visit Imphal and Churachandpur during the period. We assured the Minister that we will not attack any group but if attacked, we will defend ourselves," Mr. Tombing said.

He said Mr. Shah promised a Central Bureau of Investigation (CBI) probe. He said the Kuki groups pressed for President's Rule and reiterated demand for a separate administration from Manipur.

"The Minister asked us to surrender arms, but we told him that these are licensed weapons to defend ourselves. We told him that till Meitei groups — the Aarambai Tenggol and Meitei Leepun — surrendered the weapons looted from police armoury, we will not lay down arms," Mr. Tombing said.

After the May 3 violence, as many as 1,420 weapons were looted from police camps, out of which more than 500 have been recovered so far.

A statement by the Home Ministry said the Minister, at a review meeting with senior officials of the Manipur police, the Central Armed Police Forces and the Army, said "peace and prosperity of Manipur is top priority" and instructed them to strictly deal with any activities disturbing peace.

Mr. Shah met members of the civil society organisations and a group of women leaders of the Meitei community in Imphal and Kuki-Zo groups in Churachandpur district on the second day of his visit to Manipur on Tuesday.

While the Chief Minister was present in meetings in Imphal, he did not accompany Mr. Shah to the hill region of Churachandpur.

Mr. Shah will travel to Moreh and Kangkokpi to meet the tribal groups on Wednesday.

Meanwhile the Ministry of Home Affairs has deputed Rajiv Singh, who is currently posted as Inspector General, Central Reserve Police Force (CRPF), to Manipur. Manipur DGP P. Doungel is set to superannuate next month. It is likely that Mr. Singh will replace him for the top job.

'Can't accept bifurcation'

Peace strategy: Union Home Minister Amit Shah at a meeting in Imphal on Tuesday. ANI/ PIB

Home Minister meets Kuki civil society groups in Churachandpur district; Centre likely to appoint a judicial commission headed by a retired Supreme Court judge to probe violence in the State

In a memorandum to Mr. Shah, the influential Coordinating Committee on Manipur Integrity (COCOMI) said the bifurcation of Manipur could never be accepted. Slamming the 10 Kuki MLAs for demanding a separate administration, the organisation blamed "narco-terrorists" hit by the Manipur government's drive against drugs for the unrest. "There can be no solution before the narco-terrorist aggressors are uprooted from the soil of Manipur," the COCOMI said.

The organisation also demanded immediate rehabilitation of all the Meitei and Kuki families to their respective homes by providing them with adequate security and arranging mutual protection of each other's groups by civil society volunteers and members of NGOs.

The Kuki Inpi Manipur (KIM), the apex body of the Kuki community, has asked the Centre to help rein in the "State government-backed" militias such as Arambai Tenggol and Meitei Leepun. The KIM accused the State police commandos of using the "terrorist" militias to burn down more than 200 villages and kill more than 100 people.

'CLASHES IN MANIPUR NOTHING TO DO WITH COUNTER-INSURGENCY'

Situation primarily due to conflict between two ethnicities, says CDS Gen. Anil Chauhan; challenges in State will settle with time, he adds

SHOUMOJIT BANERJEE
PUNE

The current turmoil in Manipur is primarily an ethnic clash and has nothing to do with insurgency, the Chief of Defence Staff (CDS) General Anil Chauhan said on Tuesday.

"The situation in Manipur has nothing to do with counter-insurgency and is primarily a clash between two ethnicities. It is a law-and-order kind of situation and we are helping the State government with the problem. We [the Army] have done an excellent job and saved a large number of lives," Gen. Chauhan told reporters here after reviewing the Passing Out Parade (POP) of the National Defence Academy (NDA) at Pune's Khadakwasla.

While stating that the challenges in Manipur had "not disappeared", the CDS expressed hope that the problems would settle down in some time and that the State government would be able to deal with the situation with the help of the Central Armed Police Force (CAPF).

"Before 2020, the Army, the Assam Rifles were all deployed in Manipur for counterinsurgency operations. As the challenges in our Northern borders was greater, we were able to withdraw the Army [from Manipur]. We were able to do it as the insurgency situation [in Manipur] had normalised," Gen. Chauhan said.

Solatium to victims

Meanwhile, the Centre and the Manipur government have decided to give a compensation of ₹10 lakh to those who died during the ethnic conflict in Manipur, officials said Tuesday.

A member of the family of those who died in the rioting will also be provided a job.

Earlier, addressing cadets at the PoP, the CDS said that the war in Europe [alluding to the Russo-Ukrainian conflict], the deployment of China's

People's Liberation Army (PLA) along the northern borders and the political and economic turmoil in the immediate neighbourhood presented "a different kind of challenge for the Indian military".

"...But the armed forces are committed to maintain the legitimacy of our claims on the Line of Control...," Gen. Chauhan said.

(With PTI inputs)

INDIA'S GROWTH MOMENTUM LIKELY TO SUSTAIN IN FY24: RBI

The central bank however reiterated the need for structural reforms amid slowing global growth and geopolitical tensions; India is expected to have recorded 7% growth in real GDP in 2022-23

THE HINDU BUREAU
MUMBAI

India's growth momentum is likely to sustain in 2023-24 in an atmosphere of easing inflationary pressures, the Reserve Bank of India (RBI) said in its Annual Report 2022-23.

The central bank noted that the economy will be supported by sound macroeconomic policies, softer commodity prices, a robust financial sector, and new growth opportunities stemming from global realignment of supply chains.

However, it said that slowing global growth, protracted geopolitical tensions and a possible upsurge in financial market volatility following new stress events in the global financial system could pose downside risks to growth.

" It is important, therefore, to sustain structural reforms to improve India's medium-term growth potential," the central bank said in the report.

Amid strong global headwinds, the Indian economy is expected to have grown by 7% in real GDP in 2022-23, the RBI said. Agriculture and allied activities were resilient in FY23, with sectoral gross value added (GVA) seen posting growth of 3.3%, it said.

Optimistic outlook

The RBI expects the pace of India's growth to sustain in FY24 as inflationary pressures ease and a host of macroeconomic tailwinds support the economy

- **Sound macroeconomic policies, softer commodity prices and realignment of supply chains are expected to favour growth this year**

- **Slowing global growth, protracted geopolitical tensions and an upsurge in financial market volatility could, however, play spoilsport**
- **The RBI emphasised the need for structural reforms to sustain the economy's growth momentum in the medium-term**

HARDENING INTEREST RATES, GEOPOLITICAL RISKS IMPACTING FDI INFLOWS: DPIIT SECRETARY

It is not as if our FDI policies have become protectionist. On the contrary, we have kept it very, very, liberal

PRESS TRUST OF INDIA
NEW DELHI

Hardening interest rates globally and worsening geopolitical situation had impacted foreign direct investment (FDI) inflows into India in 2022-23, a top government official said.

Secretary of the Department for Promotion of Industry and Internal Trade (DPIIT) Rajesh Kumar Singh said that the department would analyse the reasons for the contraction in FDI in five important sectors like computer hardware and software; construction, education, automobiles and metallurgical industries.

'Appetite may be less'

"I cannot think of any other reason. It is not as if our FDI policies have become protectionist. On the contrary, we have kept it very, very, liberal... The decline is combination of hardening of interest rates along with geopolitical risks going up around the world. In general the appetite may be less," Mr. Singh told PTI in an interview.

These five sectors had a share of $30 billion in total FDI in 2021-22 and in the last fiscal year, overseas inflows had almost halved.

"Why exactly in those sectors (FDI) has come down... we will have to analyse," he added.

FDI equity inflows declined by 22% to $46 billion in 2022-23. Investments during the January-March quarter plunged by 40.5% to $9.28 billion.

UNIVERSAL COVER

IRDAI's plans to expand risk protection levels need government backing

Last week, the chief of India's insurance sector regulator unveiled a fresh blueprint to cover a larger portion of the population against risks of adverse shocks, with an eye on insuring everyone by 2047. The lynchpin of this "UPI-like moment", being pursued by the Insurance Regulatory and Development Authority of India (IRDAI) to bridge the country's "huge protection gaps", is envisaged to be a simple, all-in-one insurance policy. This bundled 'Bima Vistaar' scheme, being worked out with life and general insurers, would provide households with expeditious monetary support in case of medical emergencies, accidents, thefts or a death in the family. With awareness about the benefits of insurance still quite low, the regulator has proposed a women-led Gram Sabha-level initiative to educate every household's female head about how such a scheme could come in handy at times of distress. A new 'Bima Sugam' platform would integrate insurance players and distributors to give customers a one-stop shop experience to begin with, and facilitate claims servicing going forward. Linking States' digital death registries to the platform, the regulator believes, could enable life insurance claims to be settled within hours or a day at the most.

A legislative reboot is also on the anvil to ease capital requirement norms and allow a slew of new players to enter the market and serve the untapped needs of niche and specialised segments. Over two decades after the entry of private players into the once moribund public sector-led industry, India's insurance penetration (the ratio of premium payments to GDP) has risen — from 2.7% in 2001-02 to 4.2% in 2021-22. In fact, there has been a slide in the metric over the past decade from 5.2% in 2009-10, with non-life policies yet to surpass the 1% mark. Given the sheer size of India's population and poor financial literacy levels, the imperative to break from the status quo is unquestionable. The IRDAI's move to rope in State governments and set up bodies similar to State-level banking committees would help formulate granular district-wise strategies for raising awareness and coverage levels. Industry players also need to look beyond the top cities and the 'Bima Vistaar' scheme could catalyse the volumes they need to get out of comfort zones. Most of all, the Centre needs to rethink the 18% GST levy on health and life insurance premia. The notion that those who can afford to buy health cover can afford to pay so much tax is untenable in a country where one health calamity can push a household below the poverty line. Ensuring continuity of leadership at IRDAI is equally critical — situations such as the nine-month vacuum at its helm before the current chairperson's tenure are simply unacceptable.

WE AIM TO INSPIRE YOU

THE SHORT HISTORY OF A LARGE NOTE

R. Ramakumar is Professor at the Tata Institute of Social Sciences, Mumbai and the author of 'Note-Bandi: Demonetisation and India's Elusive Chase for Black Money'

The withdrawal of the ₹2,000 note from circulation by the Reserve Bank of India (RBI), which it announced on May 19, 2023, marks the end of a sordid chapter in the tragi-comic demonetisation saga. The presence of the ₹2,000 note in circulation was a constant reminder of the horrors of a "nation in the queue". The note was also an object of ridicule, particularly due to bizarre claims at the time of its introduction, of a nano chip implanted in it. For the beleaguered government, the chapter on the ₹2,000 note had to be closed. With fresh printing of the note stopped after 2018-19, its eventual withdrawal was expected.

Many errors

In 2016, the ₹2,000 note had emerged as the centrepiece of demonetisation, a policy that was illogical in conception and mismanaged in execution. The note had to be printed in larger numbers because the government had not checked whether it had enough notes to replace what was withdrawn. On November 8, 2016, the total stock of notes of ₹2,000 — with the Reserve Bank of India (RBI) and currency chests — was 473.3 million pieces worth ₹94,660 crore. This amount constituted just 6% of the value of Specified Bank Notes (SBN) withdrawn. People were dying in the queues, and the realisation dawned that more ₹2,000 notes were required for faster remonetisation.

However, the RBI printed the new ₹2,000 notes in a new size. Normally, an automated teller machine (ATM) contained four cassettes; two cassettes held ₹500 notes and the other two cassettes held ₹1,000 and ₹100 notes. The new ₹2,000 note would not fit into any of these cassettes. Consequently, every one of the 2.2 lakh ATMs in India had to be "re-calibrated". Re-calibration was a massive and complex exercise that required coordination across banks, ATM manufacturers, the National Payments Corporation of India, and switch operators. Engineers had to personally visit each ATM and spend between two to four hours with an ATM to complete the re-calibration.

The re-calibration crisis led to another ad hoc measure. Banks packed all the cassettes with available notes of ₹100. If all four cassettes of an ATM were filled with ₹100 notes, one ATM could store currency worth ₹2.1 lakh. The maximum withdrawal allowed per person per day was ₹2,000. In other words, one ATM could, at the maximum, meet the needs of only 105 people per day. But there were thousands queueing up in front of every ATM.

When the stock of ₹100 notes was quickly exhausted, banks demanded more from the RBI. The RBI had no option but to supply old and soiled notes that banks had returned to the RBI earlier. Soiled notes often jammed the ATMs, which only added to the chaos.

The quality of the new ₹2,000 note was also a problem. Many notes were poorly printed: some notes had a shadow of Mahatma Gandhi's face in addition to the photograph of his face; some others had uneven borders; while others were of varying colour shades and sizes. In the villages, farmers were cheated by criminals as they were paid in fake ₹2,000 notes — they were just high resolution photocopies of the original note.

Finally, even when people managed to get a ₹2,000 note, most of them were unable to spend it; no one would offer change or a balance payment over transactions. In effect, the problem of a short supply of notes was exacerbated by the release of the ₹2,000 note.

The need for a larger note

All this while, the public was stuck with one basic question: if, as the government claimed, most illegal transactions and stocks of cash were in notes of ₹500 and ₹1,000, why did the government release new notes of ₹2,000? No credible explanation was ever provided. In fact, the RBI had suggested to the government, on October 7, 2014, that new notes of the denomination ₹5,000 and ₹10,000 be introduced in view of rising inflation and problems of managing currency logistics. However, the government declined this request on May 18, 2016 and advised the RBI to introduce new notes of ₹2,000.

As on March 31, 2023, the ₹2,000 note accounted for only 10.8% of all notes in circulation — down from 37.3% as on March 31, 2018. Its impact, then, is likely to be relatively small as compared to the withdrawal of more than 86% of notes in circulation in 2016.

Yet, what is undeniable is that India's monetary system has taken a serious credibility hit due to frequent changes and U-turns in currency management. The RBI Governor's statement that he cannot unambiguously predict the status of the ₹2,000 note after September 2023, has made a bad situation worse. Those looking for stability will see holding assets in the Indian rupee as a liability.

What next?

The highest denomination note in an economy serves as a store of value and is scarcely used in day-to-day transactions. But as per capita incomes and inflation rise, the highest denomination note sheds value and becomes a note for day-to-day transactions. Typically, the economy would then need a new higher denomination note to act as a store of value. This was why the RBI had requested the government to let it issue ₹5,000 and ₹10,000 notes in 2014.

Now, with the ₹2,000 note being withdrawn, can a growing economy have the ₹500 note — the next highest denomination — serve as a store of value? The cash-to-GDP ratio in India was 12% in 2015-16, but rose to 14.5% in 2020-21 and 13.3% in 2021-22. So, more cash is circulating, the value of notes is eroding with inflation, and real interest rates are falling. In such a context, can the RBI manage currency logistics efficiently without introducing a new ₹1,000 note, or even a ₹5,000 or ₹10,000 note? It may be difficult to escape such an eventuality.

Alternatively, would a digital currency, an e-rupee, be a perfect substitute for a larger denomination note? To be a stable and acceptable store of value, a digital currency must meet the properties, among others, of anonymity, general purpose use, and exchangeability. But the RBI has stated that anonymity can be assured only "to a certain degree" in e-rupee transactions. Other properties too are still evolving and in a stage of infancy. Thus, it is very unlikely that a digital currency will emerge as a new store of value anytime soon.

Let us just say, "picture abhi baki hai [It's still not over yet"].

UNBOXING THE 'EXPORT TURNAROUND' IN INDIA'S TOY STORY

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India has recently turned a net exporter of toys, during 2020-21 and 2021-22, ending decades of import dominance. Between 2018-19 and 2021-22, toy exports increased from $109 million (₹812 crore) to $177 million (₹1,237 crore); imports declined from $371 million (₹2,593 crore) to $110 million (₹819 crore), official data show. These facts are indisputable. They can be cross-verified by mirror images of trade figures from corresponding importing or exporting countries.

The achievement is widely credited to the 'Make in India' initiative launched in 2014, and related policies, official press releases claim. Moreover, in 2020, the Prime Minister Narendra Modi reportedly spoke of promoting toy manufacturing, in his talk show, 'Mann ki Baat'. What can explain such a sharp turnaround in the toy trade? Does it represent a sustained rise in investment, output and efficiency gains nurtured by policy reforms? Or is it a short-term outcome of protectionism and COVID-19 pandemic-related global disruptions?

More imports than exports

India's toy industry is minuscule. In 2015-16 (the latest available figures combined for the organised and unorganised sectors), the industry had about 15,000 enterprises or establishments, producing toys valued at ₹1,688 crore using fixed capital of ₹626 crore at current prices and employing 35,000 workers. Registered factories — those employing 10 or more workers on a regular basis — accounted for 1% of the number of factories and enterprises, employed 20% of workers, used 63% of fixed capital, and produced 77% of the value of output. However, during the one and half decades between 2000 and 2016, industry output was halved in real terms (net of inflation) with job losses. Imports accounted for up to 80% of domestic sales until recently. Between 2000 and 2018-19, imports rose by nearly three times as much as exports.

India hardly figures in the global toy trade, with its exports at a mere half-a-percentage point. Between 2014-19, the Indian toy industry witnessed negative productivity growth. So, what explains the sharp turnaround in toy trade in just three years? Imports contracted as the basic custom duty on toys (HS Code-9503) tripled from 20% to 60% in February, 2020. Numerous non-tariff barriers were imposed as well such as production registration orders and safety regulation codes, which contributed to import contraction (Press

Information Bureau release July 5, 2022).

The question, therefore, to ask is: do net exports represent sustainable improvements in industrial capability and performance contributing to import contraction, or are these the mere short-term effects of protectionist measures? The question merits attention as toy making, a labour-intensive industry, has all along played a vital (and perhaps outsized) role in policy discourse.

The Asian scene versus India

Historically, Asia's successful industrialising nations promoted toy exports for job creation, starting with Japan about a century ago, China since the 1980s, and currently Vietnam following in their footsteps. However, India, followed an inward-oriented industrial policy in the Planning-era, which sheltered domestic production by providing a "double protection" — by imports tariffs and reservation of the product for exclusive production in the small-scale sector — known as the "reservation policy". The outcome? Toy manufacturing remained stagnant, archaic and fragmented, even as imports of modern, safe, and branded toys boomed. The industry is emblematic of all that was wrong with misguided industrial policy, as many critics of India's industrial policy have contended.

In 1997, in the wake of liberal reforms, the reservation policy was abolished. Expectedly, new firms entered the organised sector, but only for a while, and productivity growth improved. But the unorganised sector languished with job losses, even as a majority of workers remained there.

In a recent study ('India's Toy Industry: Production and Trade since 2000', Economic and Political Weekly, May 6, 2023) we re-examined the industry output and export performance, since about 2000, with a new firm-level dataset from the formal and informal sectors synchronised with a four-digit product-level trade data. In particular, we looked into how more recent policy initiatives, such as 'Make in India', have a bearing on the toy industry.

We found that the annual value of output and fixed investment at constant prices (net of inflation) after peaking in 2007-08, have trended downwards with considerable fluctuations (except for 2019-20). Apparently, there is no evidence of 'Make in India' positively affecting these indicators on a sustained basis. The output of the informal or unorganised sector shrank, though it continues to account for the majority of establishments and employment.

Despite early positive trends, industry de-reservation (though it helped formalise the industry), failed to sustain output, investment, and productivity growth after 2007-08. Contrary to popular perception and official claims, 'Make in India' had a negligible effect in strengthening toy production and exports on a sustained basis.

Too premature to claim success

As the reported turnaround in toy exports is based on data from just two recent years, and during the COVID-19 pandemic, it is perhaps too premature to claim policy success. The potential for sustaining net exports appears slim as the industry has hardly made sustained investment to boost output and exports.

To sum up, India's export surplus in toys during 2020-21 and 2021-22, is a welcome change. However, it seems to be driven by a rise in protectionism, and the exceptional circumstances of the COVID-19 pandemic. The turnaround does not seem to be the outcome of strengthening domestic investment and production on a sustained basis. Since around 2000, the industry has shrunk with rising imports, until two years ago. Though minuscule, as the industry has an outsized role in policy discourse, the study seems to offer valuable lessons. Neither the reservation policy as during the Planning era, nor its abolition after the liberal reforms boosted the industry's performance. One should perhaps look beyond simplistic binaries — planning versus reforms — and examine the ground reality of industrial locations and clusters to tailor policies and institutions to nurture such industries.

THE SHIFT IN THE U.S.'S APPROACH TO CHINA

ANAND. V
EXPLAINER

Changing gears: U.S. President Joe Biden with European Commission President Ursula von der Leyen at the G-7 Summit, Japan on May 20.ANI

What has been the takeaway from the recent G-7 summit in Hiroshima? Why is the U.S. shifting from the Trump-era policy of decoupling to de-risking in its attitude towards China? How has China reacted to the change in policy? Did the Russia-Ukraine conflict play a role?

The story so far:

The Trump-era focus of the U.S. to decouple from China is being phased out by a new concept. The U.S. has expressed that it is shifting its policy on China from decoupling to de-risking. The EU has already declared that its approach to China will be based on de-risking. The recently concluded G-7 summit at Hiroshima, through its Leader's Communique, has also expressed the grouping's consensus on de-risking.

What is 'de-risking'?

After the establishment of diplomatic ties between the U.S. and China in 1979, both the countries embarked on a path of increasing economic interdependence. China gained immensely from this relationship, as it helped the country drastically widen and deepen its diplomatic and economic engagement with the rest of the world. As China's economic and military power grew, its ambition to challenge the primacy of the U.S. in the international system became increasingly apparent. China's rise not only came at the expense of America's global clout, but also the latter's domestic industry, which got "hollowed out" in its four-decade old economic embrace with China.

By the time Donald Trump took over the reins of power in the U.S., dealing with the techno-economic challenge from China became a matter of urgency. The Trump administration made it a point to attack the gargantuan bilateral trade imbalance in favour of China. It also wished to keep the U.S's high technology sector out of China's reach. In a series of moves, Trump raised tariffs on Chinese imports which invited retaliatory tariffs from China. The U.S.-China 'trade war' started, and bilateral relations were set on course for a "decoupling" from the American standpoint. This approach was marked by a rare sense of bipartisanship in an otherwise polarised domestic political climate in the U.S.

Therefore, the Biden administration which took over from the Trump administration continued with the latter's China policy. However, over time, the Biden administration added its own features into the China policy inherited from Trump. Most recently the label of "decoupling" has been changed to "de-risking". According to the U.S. National Security Advisor Jack Sullivan, "de-risking fundamentally means having resilient, effective supply chains and ensuring we cannot be subjected to the coercion of any other country". While decoupling stands for an eventual reversal of the four-decade old project to enmesh the two economies, de-risking aims to limit such an effect only in areas where it undercuts the national security and industrial competence of the U.S.

This shift has been articulated by the Biden administration in two recent landmark speeches — by the Treasury Secretary Janet Yellen on the "U.S.-China Economic Relationship" at the Johns Hopkins School of Advanced International Studies on April 20, followed by that of Jake Sullivan on "Renewing American Economic Leadership" at the Brookings Institution on April 27. Recent legislations in the U.S. such as the Bipartisan Infrastructure Law, CHIPS and Science Act as well as the Inflation Reduction Act have been subsumed under this new approach. The U.S.'s geo-economic initiatives like the Partnership for Global Infrastructure and Investment as well as the Indo-Pacific Economic

Framework for Prosperity are also supposed to reflect the spirit of de-risking.

Why de-risking?

In order to understand the rationale behind the U.S.'s shift from decoupling to de-risking, it is important to comprehend the timing of the move. The policy change has been announced in the wake of several events of high geopolitical significance. The world has just emerged out of the tentacles of the pandemic after three disruptive years and the global economy is hoping for a resulting rebound. The U.S.-China rivalry had peaked in the past few months — from the ratcheting of tensions across the Taiwan Strait to the acrimonious spy balloon episode between the two countries. China also witnessed Xi Jinping beginning his second decade of rule over China in an unprecedented third term as the General Secretary of the Communist Party of China, Chairman of the Central Military Commission and President of the People's Republic of China, ever since the dawn of the reform era. In parallel, a year has passed since Russia began its special military operation in Ukraine, with the conflict going on without any end in sight. Mr. Xi, after starting his third consecutive leadership term, made his first foreign visit to Russia where he proposed a peace plan. He has also, in his third leadership tenure, extended his "peacemaking diplomacy" to West Asia, striking gold in normalising the frayed Saudi-Iran ties. All of these developments have necessitated the U.S. to recalibrate its posture towards China. In such a situation, casting the U.S.-China relations as a new Cold War and a zero-sum game appears to be risky for the U.S. Bringing more nuance into its earlier decoupling approach could bring down China's guard and give the U.S. more room to re-consolidate its strength.

Perhaps, the Russia-Ukraine conflict could have played a pivotal role in enabling the U.S's policy shift towards China. The Biden administration, unlike its predecessor, has made it a point to reassure its European allies. At a time when China has been backing Russia in its shadow battle in Ukraine against the West, the idea of decoupling hardly appeals to the European Union (EU). The EU has in fact been looking to woo China in order to convince it to stop supporting Russia from skirting Western sanctions.

In this context, a watered down version in the form of de-risking could better achieve the objective of getting Europe on board the U.S's efforts to counter China. It is therefore no surprise that the U.S's recent articulation of its de-risking approach repeatedly draws references to the European Commission President Ursula von der Leyen's milestone speech on "EU-China relations" to the Mercator Institute for China Studies and the European Policy Centre on March 30. In her speech, Ms. von der Leyen stressed that the EU's strategy to China will be based on de-risking. This was a precursor to her visit to China in April, along with the French President Emmanuel Macron, with the Russia-Ukraine war as the main agenda. In fact, China policies of the U.S. and the EU have been witnessing a significant convergence of late — recent developments may have only triggered the Trans-Atlantic consensus on de-risking vis-à-vis China.

What could be the geopolitical ramifications of de-risking?

The U.S. efforts to keep its allies closer in its geopolitical rivalry against China by adopting the path of de-risking has already won a significant victory in Japan at the G-7 summit. The leaders at the summit declared that they will coordinate their "approach to economic resilience and economic security that is based on diversifying and deepening partnerships and de-risking, not de-coupling". China has expressed its scepticism to the West's de-risking approach, portraying it as a façade to the decoupling agenda. Moreover, China has expressed its disapproval in painting China as the actor responsible for heightening geopolitical risks. According to China, the real source of risks is the U.S., which it alleges to have created instability across the world by pursuing political and military interventions and perpetuating a Cold War mindset.

The continuing emphasis in de-risking to diversify supply chains away from China demonstrates that the Trump-era spirit of decoupling is being carried forward, albeit with some changes. This could also make the West's moves to counter China's rise much more sustainable by facilitating a united front among allies. However, its effectiveness could be questionable, as it has dialled down U.S's rhetoric against China which could be read by the latter as a sign of its adversary's weakness. Though countries like India will stand to benefit from de-risking by leveraging its benefits like attracting supply chains and confronting China's aggressive moves, it could also come at a cost. With the Russia-Ukraine conflict and the consolidation of the European alliance being the major triggers behind this shift, de-risking could lead to U.S. focus on the Indo-Pacific being diluted, at least for the short term.

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