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Issue Brief

Economic Warfare and National Security Strategy

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Summary

Major powers are increasingly employing sanctions and financial controls to advance strategic objectives. India must incorporate economic statecraft into its national security strategy and boost domestic capabilities to protect sovereignty in an increasingly contested global order.

Globalisation has made modern economies rely on complex, dispersed manufacturing, transportation and logistics networks. Consequently, global supply chains have become a key battleground for economic warfare in the 21st century. Semiconductor chips, shipping lanes and payment systems are the key battlegrounds of the new economic warfare. Tools employed in economic warfare have, of course, deep historical roots. The British Navy used naval blockades during the Napoleonic Wars to stop French trade and commerce. The Allied forces' blockades against Germany caused shortages and unrest during World War I. Aerial bombings were undertaken during World War II towards targeting industry and transport hubs to disrupt the adversaries' wartime capacity. The Incheon Landing in the Korean War of 1950 cut off North Korea's supply lines, forcing them to retreat quickly and shifting the course of the War.

During the Cold War, both powers used economic warfare to weaken the other's industrial capacity and access to technology. The Coordinating Committee for Multilateral Export Controls (COCOM) was established in 1949 as part of the US-led Western containment strategy.[1] It imposed strict control on the transfer of advanced technologies to the Eastern Bloc, thereby inhibiting Soviet industrial and technological modernisation. In addition, the US also used sanctions and trade controls to isolate enemies and support allies. The Soviets were also targeted by the US-led grain embargo for their invasion of Afghanistan in 1980.[2] In contrast, Moscow weaponised energy exports, using oil and gas as leverage over Eastern Europe and NATO states.

The relevance of economic warfare did not diminish after the Cold War. In fact, it became even more relevant as globalisation grew and economic warfare tools became politically driven instruments of influence. The US put sanctions on India after it tested nuclear weapons in 1998 (as it did after 1974). India was denied access to nuclear fuel and technology due to these sanctions. Iraq faced oil embargoes and limits on trade for its invasion of Kuwait in 1990. However, the most significant sanctions were those imposed on Iran in 2006 for its nuclear programme. The harsh sanctions cut Tehran from global banking, foreign investment and energy exports. These long-lasting economic sanctions were a significant factor in Iran's decision to engage in talks leading to the 2015 Joint Comprehensive Plan of Action (JCPOA). It showed the effectiveness of export controls and sanctions as measures of economic warfare.

[1] Michael Mastanduno, *Economic Containment: CoCom and the Politics of East-West Trade,* Cornell University Press, Ithaca, NY, 1992.

[2] A. P. Mustard and S. C. Schmidt, **"Short-Term Impact of the 1980-81 Partial U.S. Grain Embargo on Grain Trade"**, *North Central Journal of Agricultural Economics*, Vol. 5, No. 2, 1983, pp. 111–21.

Weaponisation of Supply Chains

The economic coercion resulting from the weaponisation of supply chains can have a significant financial impact. China stopped exporting rare earth elements to Japan in 2010 following a territorial dispute.[3] China accounts for 80–90 per cent of the world's supply of rare earth elements.[4] The Houthis' operations in the Red Sea also showed how controlling trade routes can hurt economies by breaking supply chains.[5] The recent US–China technology rivalry centres on semiconductors, which are essential for both military and digital capabilities. Washington seeks to prevent Beijing from acquiring advanced chips and tools through export bans and political pressure. For example, it has stopped ASML from supplying EUV lithography machines and Nvidia from selling advanced chips to China.[6] It has limited China's chip output to less than 7nm. The CHIPS Act incentivises US industry to produce locally and reduces dependence on East Asia.[7]

China's retaliation includes investments in chip design, domestic output, and the control of rare-earth mineral exports. This 'chip war' is an example of a new kind of economic statecraft, in which controlling technology is used to slow competitors and alter the global balance of power.[8] From fighter jets to EVs and green technology, this war could reshape global supply chains.

Sanctions: Coercion without Conflict

Sanctions make it difficult for countries to access markets, technologies and financial systems. The fact that the US dollar and Western banks are powerful has made these sanctions even more effective. After 9/11, such economic warfare methods were also used to fight terrorism and its perpetrators. The ability to refuse access to SWIFT (Society for Worldwide Interbank Financial Telecommunication) has made sanctions a formidable weapon. It allows freezing economic reserves or imposing secondary penalties.[9] Such coercive economic punishments shape the strategic environment before a confrontation. Secondary sanctions are economic punishments imposed on

[3] **"China and the Rare Earth Supply Chain"**, Institute for Energy Research (IER), 23 February 2021.

[4] Anglea, **"Rare Earth Minerals: Geopolitics & Supply Chains"**, *The World Financial Review*, 23 September 2025.

[5] **"Houthi Ship Attacks Are Affecting Red Sea Trade Routes"**, The Washington Institute, 7 December 2023.

[6] Kumar Priyadarshi, **"China's $41B Gamble: Why It Couldn't Topple ASML's Advanced Lithography ?"**, *Techovedas*, 2 April 2025.

[7] Kristan, **"US CHIPS and Science Act (2022) & Semiconductor Supply Chain Security"**, *The International Trade Council*, 23 January 2025.

[8] Chris Miller, *Chip War: The Fight for the World's Most Critical Technology*, Scribner, New York, 2022.

[9] **"Treasury Sanctions Russia with Sweeping Financial and Defense Sanctions"**, U.S. Department of the Treasury, March 2022.

allies/partners of the primary targets. The US dollar is the world's main reserve currency, and systems like SWIFT act as the central nervous system of global finance.

China and Russia are building parallel financial architectures, such as the Cross-Border Interbank Payment System (CIPS), the System for Transfer of Financial Messages (SPFS), and other alternative currency systems.[10] They are meant to serve as countermeasures to Western sanctions and to reduce dollar-denominated channels. Bilateral trade agreements, such as the rupee-rouble settlement between India and Russia, allow them to continue doing business with one another even when Western powers limit trade. Control over currencies and financial systems will become essential for the sustenance of political power as the effectiveness of these sanctions declines.

Russia was imposed with severe sanctions post its invasion of Ukraine in 2022.[11] It affected practically every sector of the Russian economy. Central Russian banks were cut off from SWIFT, and Russian assets amounting to approximately US$ 250–350 billion were frozen.[12] Vital technologies were banned from being exported. Western countries also restricted maritime insurance and imposed price caps on oil. The rouble fell sharply, investments dried up, and capital left. In response, Russia increased commerce with China, India and Turkey. Sanctions catalysed de-dollarisation and the growth of new trade networks in the Global South. They hurt Russia's economy and technology, but they didn't modify its strategic position. This shows that sanctions are good at hurting but not so good at forcing political change in stronger states.

Energy Security

Crude oil, natural gas and other renewable energy sources are vital for national security. Energy resources are being used as weapons by regulating their flow to reward friends or punish adversaries.[13] The Arab oil embargo of 1973 was one of the first times when energy was used as a weapon. The recent Russia–Ukraine war has seen the weaponisation of natural gas through pipelines like Nord Stream 1. The

[10] **"Russia-China Financial Decoupling and the Rise of Alternative Payment Systems: Strategic and Investment Implications for Emerging Markets"**, AInvest, 6 September 2025.

[11] **"Factbox-What International Sanctions Have Been Placed on Russia?"**, *U.S. News*, 23 October 2025.

[12] **"Are the Russian Banks Threatened with Removal from SWIFT? A Multiple Case Study on Interbank Financial Messaging Systems"**, ResearchGate, March 2022.

[13] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, Simon & Schuster, New York, 1991.

Strait of Hormuz accounts for one-fifth of global oil flows as of 2024–25.[14] Iran has been threatening to block it in response to Western sanctions. The Malacca Straits are vital for East Asian countries and are a strategic vulnerability for China. Today, energy is not merely a commodity but a strategic economic tool that shapes state actions, alliances and regional power balances. Countries that preserve their energy security can prevent others from gaining an unfair advantage or engaging in hostile acts.

The global energy ecosystem is transitioning towards clean energy due to environmental concerns. Lithium, cobalt, nickel and rare earths are essential for solar panels, wind turbines, electric vehicle batteries and hydrogen electrolysers. China controls over 90 per cent of rare-earth refining and 80 per cent of solar module supply.[15] It affects market costs and access and could even disrupt supply chains. About 70 per cent of the world's cobalt comes from the Democratic Republic of the Congo.[16]

Chile has around 40 per cent of the world's known lithium reserves, which makes the situation even worse from a political perspective.[17] Western countries have diversified their vital mineral supply chains, formed strategic partnerships, and set up safe processing centres to mitigate these vulnerabilities. The US-led Minerals Security Partnership (MSP) and the European Union's Critical Raw Materials Act are two examples of this strategy.[18] The growing competition over energy supply chains is a sign of a bigger change for the world in the days to come. In the future, states that command raw materials, processing infrastructure and advanced manufacturing will wield decisive influence over global economic and political power.

Economic Warfare Challenges and India's Response

India's GDP of almost US$ 4 trillion makes it the fastest-growing and fourth-largest economy in the world.[19] Its economy is growing at 6 per cent and it will soon become the third-largest economy in the world after the US and China. Hence, its rise won't be unopposed, and she will face hurdles posed by global powers. The challenges for India in the context of economic warfare include its heavy reliance on crude oil

[14] **"Amid Regional Conflict, the Strait of Hormuz Remains Critical Oil Chokepoint"**, U.S. Energy Information Administration (EIA), 16 June 2025.

[15] **"China's Strategic Dominance in Rare Earths, Solar Panels, Batteries, and Critical Minerals: A Global Power Play"**, *StoryVibe.in*, 29 June 2025.

[16] **"Most of the World's Cobalt Is Mined in the Democratic Republic of Congo, but Refined in China"**, *Our World in Data*, 2 October 2024. s

[17] **"Chile's New Lithium Strategy: A Market Boost or Miss?"**, Baker Institute, 17 July 2024.

[18] Jinjun Xue, Yves Renouf, Youyi Deng, Xunpeng Shi, Kejuan Sun and Qian Sun, **"Toward a Secure and Resilient Energy Supply Chain"**, UTS, 31 December 2023.

[19] **"World Bank Open Data"**, World Bank Group.

imports. There is an essential dependence on China for rare earth elements, critical minerals, fertilisers, chemicals and pharmaceutical intermediates.

India is vulnerable to maritime chokepoints and to disruptions in shipping lanes. Despite the high volume of sea-borne trade, rising freight and container costs, and the absence of Indian-owned container ships, these are concerns. There is heavy reliance on defence imports, such as marine engines, aero engines and sensors. Aircraft and Helicopters such as the P-8I, MH-60R, Apache, Chinook, and others are dependent on the US for maintenance and spare parts. Exposure to the US dollar and the SWIFT payment system is a vulnerability in a sanctions scenario. There is growing vulnerability to cyberattacks on critical infrastructure such as ports, power plants and stock exchanges.

The Atmanirbhar Bharat programme was launched to boost local manufacturing through policies, incentives and infrastructure. The Production Linked Incentive (PLI) scheme has been introduced in several vital sectors, such as electronics, renewables and semiconductors, to encourage and boost local production. India has become more involved in plurilateral frameworks, including the Supply Chain Resilience Initiative (SCRI) with Japan and Australia, the Indo-Pacific Economic Framework (IPEF) and the US–India Initiative on Critical and Emerging Technology (iCET). The Semiconductor Mission has provided incentives to attract domestic fabrication, OSAT (Outsourced Semiconductor Assembly and Testing) and design houses to counter the chip import vulnerability.[20]

India has signed upstream exploration and processing pacts with Japan and Australia to counter the rare-earth and battery-metal choke points. It is also pushing the domestic magnet/REE manufacturing and recycling. India has pushed investments in ports, waterways and shipbuilding through the Sagarmala 2.0.[21] It will strengthen the supply chain control and reduce dependence on foreign shipping.

India's experience with sanctions and technology denial shows that they can be disruptive initially but can lead to long-term strategic independence. India was hit with sanctions after the nuclear weapons tests in 1974 and 1998. It resulted in difficulty getting access to atomic fuel, manufacturing tools, satellite parts and high-performance technology. But India demonstrated strength by building its own capabilities, expanding institutions like DRDO and ISRO, and forming new collaborations with Russia, France and Israel.[22] The sanctions proved less effective as India established itself as a reliable nuclear and technological power.

[20] **"India Semiconductor Mission"**, Ministry of Electronics and Information Technology, Government of India. .

[21] **"Sagarmala Programme"**, Press Information Bureau, Ministry of Ports, Shipping and Waterways, Government of India, 27 March 2025.

[22] Baidya Bikash Basu, **"US Sanctions and India"**, *Strategic Analysis*, Vol. 22, No. 10, 1999, pp. 1629–32.

India demonstrated that sanctions can slow progress but also encourage creativity, resilience and strategic independence by turning pressure into long-term strength. Furthermore, the Reserve Bank of India has authorised international trade settlement in Indian rupees for bilateral rupee-trade corridors, e.g., with Russia and the UAE. In addition, India has renewed its Bilateral Swap Arrangement with Japan (US$ 75 billion ceiling) and maintains substantial foreign-exchange reserves, thereby creating buffers against sanctions.

India has also taken steps to ensure energy security. India is the third-largest consumer of crude oil and the fourth-largest importer of LNG worldwide.[23] Hence, safe and secure flow of energy is its top priority and essential for protecting its national interests. It has diversified its crude oil sources to avoid price fluctuations, geopolitical risks and supply chain disruptions. It has sourced energy from the US, Russia, the Middle East and Africa. It has built strategic energy reserves and signed long-term LNG contracts with Qatar and the UAE. India aims to have 500 GW of renewable energy capacity by the year 2030.[24]

Digital payment systems like UPI and RuPay provide more economic freedom. India is in the process of establishing free trade agreements (FTAs) with friendly countries. In addition, it should be able to do business with its FTA partners in Rupees and reduce dependency on the dollar. Thus, India can use its financial might to gain geopolitical influence by tying its economic and trade policies to its strategic goals.

Recommendations

Even as India has taken multiple steps to address vulnerabilities, it must continue to strengthen its multi-dimensional framework to safeguard its strategic autonomy. It could, for instance, establish a National Economic Security Council (NESC) under the National Security Council Secretariat to more effectively integrate economic aspects into national security analysis. India must adopt a technology acquisition and protection policy for technology scouting, transfer and protection. It should focus on dual-use technologies, critical minerals processing and IP protection in strategic sectors. Periodic audits of all vital suppliers must be undertaken to support traceability and redundancy, similar to US/EU supply-chain traceability mandates. The Ministry of Defence has published five positive indigenisation lists to promote import substitution. The same should continue with additions and a timeframe for

[23] **"India's Oil Consumption to Surpass All by 2050! 5.4 Million to 9.1 Million Bpd Rise Predicted; Overall World Energy Share to Hit 12%"**, *The Times of India*, 7 October 2025.

[24] **"India's Renewable Energy Capacity Hits New Milestone"**, Press Information Bureau, Ministry of New and Renewable Energy, Government of India, 14 October 2024.

critical technologies, such as defence aviation, and with the drawing up of strict timelines/roadmaps.

Cyber vulnerability assessments and audits must be conducted regularly for ports, power grids, stock exchanges and bank payment systems. India must accelerate the international roll-outs of UPI/RuPay and have a roadmap for global expansion. India must build/co-develop an alternative to SWIFT, akin to what Russia and China have done. It will enhance the resilience of critical economic and defence supply chains. Also, it could reduce foreign-currency exposure and provide cost efficiencies for specific corridors and partners.

India must diversify critical supply chains by securing partnerships and incentivising domestic production. Strategic reserves need to be created to insulate the economy from global shocks. India must draw up a national roadmap for the exploration, refining and recycling of critical minerals and also incentivise these activities.

Scenarios of economic warfare should also be incorporated into wargaming and into think tanks' long-term planning processes. Wargames should also be conducted for private-sector entities, including simulated supply chain stress tests and tabletop exercises to test alternate supply activation. A strategic monitoring unit must be established within the NESC framework. It must monitor shipping incidents, export controls, sanctions trends, and financial-sector anomalies in real-time to support apex-level decision-making.

Public–private partnerships must be established in critical sectors such as semiconductor chips, defence technology, battery recycling and shipping. The government must necessarily fund innovation and R&D in vital sectors. India must allocate at least 2 per cent of its GDP to Research and Development. A defence industry assurance fund in line with NABARD (National Bank for Agriculture and Rural Development) must be established to fund capacity expansion in the defence industry.

Conclusion

Economic warfare has redrawn the global battlespace by shifting competition from the military field to supply chains, payment systems, energy flows and critical technologies. India's path to resilience will lie in reducing external dependencies, investing in research, and asserting leadership in emerging domains such as semiconductors, AI and clean energy. India must merge economic security into its national security strategy. Strategic autonomy will stem from technological self-reliance and industrial capability. The struggle ahead will take place in boardrooms as well as on battlefields, and India needs to be ready to confront the same.

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