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India and Pakistan move tentatively towards rapprochement

Both sides have different China-shaped reasons to mend fences

At the beginning of March, **India** and **Pakistan** surprisingly announced a renewed commitment to ceasefire along the line of control – the de facto international border in disputed Kashmir. Countries including the **UK** and **UAE** were relied upon to facilitate back-channel talks. The 2003 ceasefire was violated thousands of times last year and both sides came perilously close to war in 2019, after Pakistan-backed terrorists killed more than 40 Indian soldiers in the Kashmir town of Pulwama.

Since the ceasefire announcement, both sides have followed up with quick wins including water-sharing talks and the restoration of Pakistani imports of Indian sugar and cotton. However, in a testament to how toxic the relationship has become, domestic uproar forced Prime Minister **Imran Khan** to backtrack on the sugar and cotton.

Although the rapprochement might be on shaky grounds politically, it is not without sound geopolitical basis. Pakistan has come to the realisation that its influence in **Afghanistan** – its primary trump card in Washington – has a use-by date given the **US**' clear desire to extricate itself from that conflict. Although **Chinese** investment is a crucial economic lifeline for Pakistan, Islamabad has become increasingly wary of being perceived as a Chinese vassal state. Lowering tensions with India was perceived as an important way of rebuilding Pakistan's image in the West and making it less reliant on China. With the Indian defence establishment increasingly orientating itself towards facing the threat posed by China, peace with Pakistan also takes pressure off India's western and north-western flanks. However, Kashmir in particular has long been South Asia's most vexed security issue. A tense modus vivendi, rather than a full restoration of ties, might be the best that can be hoped for.

China approves massive chemical merger

Some monopolies are more equal than others

Last week, **China's** Assets Supervision and Administration Commission approved the merger of state-owned Sinochem Group and ChemChina. Combined, the new entity will be the world's largest chemicals player by far, with sales exceeding US$152 billion**. Germany**'s BASF, the next-largest company, typically books revenue of around US$71 billion. Chemical makers in **South Korea** and **Thailand** which are particularly dependent on inputs from China, are likely to be most affected.

A clear motivation for the merger seems to be to fulfill paramount **leader Xi Jinping**'s edict to increase the leadership role of state-owned enterprises (SOEs) in the Chinese economy. Since coming into power in 2013, Xi has overseen several gargantuan SOE mergers, leading to the emergence of companies including train car manufacturer CRRC and China Baowu Steel Group. Concurrently, Chinese authorities have launched anti-trust regulations targeting private sector tech giants – most notably Tencent and Alibaba. Part of this is in response to genuine anti-competitive behaviour but there are also political motives at play. Xi wants to give a leg-up to state-owned competitors and reign in companies which he believes could one day threaten Communist Party power. However, whether Xi's China can have both maximum political control and economic dynamism, remains far from clear.

Mozambique insurgency heats up

Significant threat to regional security and multinational LNG project

On 24 March, militants in Mozambique's northernmost Cabo Delgado province launched their biggest attack since the start of the insurgency in 2017. The Islamic State-affiliated militants – known locally as *al-Shabab* – seized and held the coastal town of Palma for more than a week. The insurgency itself lacks a clear manifesto or leadership but is said to have leveraged local grievances in the resource-rich yet economically deprived province.

As well as having the greatest impact on the civilian population, the attack was in close proximity to the US$20 billion Mozambique LNG investment. At least fifty expats and quite possibly many more locals are believed to have been killed. The project – Africa's largest private investment – is, at least for the time being, effectively mothballed. ExxonMobil also has a proposed US$30 billion project further south in the province. Despite calls from multinationals, Mozambique's President **Filipe Nyusi** has been unable to improve the local security situation. Local security forces appeared to have been totally unprepared to deal with the Palma attack. Nyusi is believed to be reluctant to accept African Union intervention, which could hypothetically lead to the deployment of a regional security force as in **Mali** and **Somalia**. It remains to be seen whether **US**, **South African** and **Portuguese** intelligence and training support will be able to improve local security to allow resumption of investment activity.

President Biden targets Chinese semiconductor chips with military end-use

Blacklisted firms still able to use Taiwan to manufacture chips

The integration of US semiconductor chips into China's strategic military capabilities is firming as a central feature of **US**-**China** tech tensions. The **Biden** administration has added seven Chinese supercomputing developers to its export blacklist to prevent US technology being used by these entities. The move is designed to prevent those companies from utilizing US chip infrastructure and other hardware in their supercomputers and design processes for hypersonic and nuclear weapons.

However, **Taiwan** Semiconductor Manufacturing Company (TSMC) – the world's most advanced semiconductor manufacturer – is not covered by the legislation. That means that blacklisted Chinese firm Phytium Technology will be able to continue sourcing US chips from the company, raising the risk that TSMC chips will – somewhat ironically given China's desire to achieve "reunification" with Taiwan – be used to strengthen China's military capabilities. Eventually, the US might broaden the legislation's reach by requiring TSMC to apply for licenses to use US technology when supplying the seven blacklisted companies. TSMC has complied with similar requirements regarding the sale of chips to Huawei.

Over the longer term, both the US and China are looking to reduce their reliance on Taiwanese chips. The US is pressuring TSMC to shift its facilities away from Taiwan and the company has agreed to build a US$12 billion advanced manufacturing facility in Arizona. In China, Paramount leader Xi **Jinping** has pledged US$1.4 trillion in funding by 2025 to improve domestic semiconductor capabilities. Xi will likely ramp up these efforts in response to any expansion in US policy.