



Delhi Policy Group

Advancing India's Rise as a Leading Power



ECONOMIC SECURITY AND RESILIENCE REVIEW

MAY 2023

Author

V.S. Seshadri

Volume I, Issue 5



Delhi Policy Group

Core 5A, 1st Floor, India Habitat Centre, Lodhi Road, New Delhi- 110003

www.delhipolicygroup.org



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Author

Dr. V.S. Seshadri, I.F.S (Retd.), Senior Fellow for Economic Security, Delhi Policy Group

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Cover Image:

Prime Minister Narendra Modi attends Quad Leaders' Summit along with US President Joe Biden, Japan's Prime Minister Fumio Kishida and Australia's Prime Minister Anthony Albanese in Hiroshima on May 20, 2023.

(Source: [Narendra Modi/Official Twitter](#))

External Affairs minister of India Dr. S Jaishankar at the 1st India-EU Trade and Technology Council meeting in Brussels on May 16, 2023. (Source: [Dr. S. Jaishankar/ Official Twitter](#))

G7 Leaders at the G7 Hiroshima Summit 2023 in Hiroshima on May 20, 2023.

(Source: [Prime Minister's Office of Japan/Official Website](#))

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

The month of May 2023 witnessed several high level global meetings in which economic security issues received prominence. Key among them was the G-7 summit of developed countries, which also issued a separate joint statement on economic resilience and economic security. While perhaps not so pointed, the Quad summit held on May 20, 2023 also gave more attention to supply chain resilience and digital security matters in its steady expansion of the grouping's cooperative endeavours. But what seemed most focussed in this regard was the fourth ministerial meeting of the US-EU Trade and Technology Council held on May 31, which is assuming a central role in the broad transatlantic partnership.

During the month, there were also several bilateral ministerial level engagements between China and the US, raising speculation if there could be some reduction in their tension filled relations. There was also much internal discussion within the EU itself on the subject of economic security; how to deal with China as was much in evidence at the EU foreign minister's informal meeting held on May 12. This came as the French President Emmanuel Macron outlined his views on Europe's strategic autonomy approach in a newspaper article on the same day. These developments, which have a bearing on how derisking from excessive economic dependencies may eventually get calibrated and work in practice, are covered in this issue under the section on global developments, which also flags rapidly rising semiconductor chip making investments in Germany and Japan.

Among India related developments surveyed in this issue is the holding of the first India-EU Trade and Technology Council meeting (this is only the second such TTC that the EU has with any other country, the other being with the US) which is of strategic interest, with three preparatory working groups having set out an ambitious agenda that has now been adopted by the TTC.

An announcement regarding the conclusion of the contours of the supply chain pillar of the Indo Pacific Economic Framework (IPEF) marks another important development in this rapidly evolving framework among the fourteen

participating countries. Key elements that constitute this pillar have now been disclosed in what have been otherwise confidential negotiations.

Domestically, the Union Cabinet's approval for a Production Linked Investment Scheme 2.0 for computer hardware manufacturing in the country is another development of note, in view of its significance towards enhancing the country's Aatmanirbhar programme.

Global Developments

Economic Security acquires key focus at the G-7 Hiroshima Summit

Economic resilience and security formed a major theme at the Hiroshima Summit of G-7 leaders held on May 20, 2023. The joint communique issued by the leaders at the conclusion of the summit¹ said they were taking concrete steps to coordinate their approach based on diversifying and deepening partnership and derisking, while at the same time making it clear that this was not decoupling. Their focus was mainly related to China, even though the country was not specifically mentioned in this context. Noting that ensuring economic resilience and economic security globally remained the best protection against weaponisation of economic vulnerabilities, they inter alia undertook to do the following:

- Enhance ongoing collaboration to address non-market policies and practices that exacerbate strategic dependencies and systemic vulnerabilities;
- Launch a Coordination Platform on Economic Coercion to increase the collective assessment, preparedness, deterrence and response to economic coercion and further promote cooperation with partners beyond the G-7; and
- Deepen strategic dialogue against malicious practices to protect global supply chains from illegitimate influence, espionage, illicit knowledge leakage and sabotage in the digital sphere.

They further affirmed their (G-7) shared responsibility and determination to coordinate on preventing cutting edge technologies that have been developed from being used to further military capabilities (through toolkits that included controls on exports and inbound investments and addressing risks from outbound investments) that can threaten international peace and security.

¹ <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-hiroshima-leaders-communique/>

The G-7 Summit also adopted a separate statement on 'Economic Resilience and Economic Security' in which the foregoing lines of action were further elaborated. Also underlined in this statement was the importance of G-7 cooperating with other partners to enhance global economic resilience, including supporting a more significant role for low and middle income countries in supply chains in a way that also promoted their diversification and local value creation, and benefitted local communities and workers everywhere.

Third Quad Summit

The Quad summit of leaders from Australia, India, Japan and the US, which was to be held in Australia a few days later, was advanced to May 20, 2023 and held in Japan to accommodate President Biden's shortened trip for the G-7. The outcome of the summit indicated a steady consolidation of the Quad agenda with infrastructure, climate change, supply chains, digital connectivity and cyber security acquiring further salience. PM Modi in his remarks² also said that the positive cooperation among the Quad was growing in areas like climate action, disaster management, strategic technology, reliable supply chains, health security, maritime security and counter terrorism.

The summit adopted several Quad statements of principles including on Clean energy supply chains in the Indo Pacific, Critical and emerging technology standards, and Cyber security of critical infrastructure. The separate joint statement³ of the Quad leaders also launched new initiatives such as the Quad partnership for under sea cable connectivity and resilience, and a Quad infrastructure fellowships programme. The leaders further welcomed the launch of a private sector led Quad Investors Network aimed at facilitating investments in strategic technologies, including those relating to clean energy, semi-conductors, critical minerals and Quantum.

Fourth US-EU Trade and Technology Council Meeting

The fourth US-EU Trade and Technology Council (TTC) meeting was held in Lulea, Sweden on May 31, 2023. It was cochaired by Executive Vice Presidents Margrethe Vestager and Valdis Dombrovskis on the EU side, and by Secretary of State Anthony Blinken, Commerce Secretary Gina Raimondo and USTR Katherine Tai from the US side. The joint communique underlined the

² https://www.mea.gov.in/Speeches-Statements.htm?dtl/36582/English_translation_of_Prime_Ministers_opening_remarks_at_the_Quad_Leaders_Summit

³ https://www.mea.gov.in/bilateral-documents.htm?dtl/36571/Quad_Leaders_Joint_Statement

continuing bilateral coordination to diversify supply chains, to address non-market policies and practices designed to reinforce dependencies, and to increase their mutual collective preparedness, resilience and deterrence to economic coercion.

More specifically, the US-EU TTC has been active on six streams of cooperation focussing on emerging technologies, promoting sustainability and trade, trade and security, digital infrastructure, human rights, and talent and skill development. The joint statement after the fourth meeting⁴ reflects significant progress in the first stream on the development of cooperation on Artificial Intelligence (AI), including on the Joint Roadmap on evaluation and measurement tools for trustworthy AI and risk management, standardisation work on critical and emerging technologies, e-mobility standards and interoperability, semiconductors and quantum technologies. The second stream on sustainability and trade is taking forward the US-EU clean energy incentives dialogue, apart from addressing the shared concerns on critical minerals and a host of other areas with a view to improving modalities for promoting transatlantic trade. Progress recorded on the other streams also indicated that there is much cooperation and coordination taking place among their relevant agencies.

US-China high level interactions during the month: signalling a thaw on trade and economic ties?

The month of May also witnessed several ministerial interactions between the US and China, beginning with the marathon meetings held between the US National Security Adviser Jake Sullivan and China's Communist Party Politburo member and Director of the Office of the Foreign Affairs Commission Wang Yi from May 10 - 11 in Vienna, when they reportedly had 'candid, substantive and constructive' discussions on key bilateral, regional and global issues. Subsequent remarks by US President Joe Biden on May 20 following the G-7 summit, that "I think you are going to see that (US-China relations) thaw very shortly" have led to much speculation. This was followed by Chinese Commerce minister Wang Wentao's meetings with US Commerce Secretary Gina Raimondo on May 26 in Washington D.C. and with USTR Katherine Tai on May 27 in Detroit on the sidelines of the APEC Trade ministers meeting. While it is not clear if these meetings have resulted in reducing the prevailing tensions and in clearly delineating areas of cooperation and competition between them, what has been reported is that the meetings have provided

⁴ https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2992

opportunities for both sides to raise their respective issues of concern, including on economic security related issues.

Thus, in the Raimondo-Wentao meeting the former raised concerns about the spate of Chinese actions taken against US companies operating in China, and the latter took up issues regarding US economic and trade policies towards China on semi-conductors and export controls, as well as about outbound investment reviews. In the Tai-Wenbao meeting, the former again took up recent actions against the US companies operating in China, as well as the need to address critical imbalances caused by China's state led non-market approach to the economy and trade policy. On his part, Wenbao reportedly took up China's concerns on US economic and trade policies towards China, Taiwan related issues in the economic and trade field, the IPEF, and the Section 301 tariffs imposed by the US.

EU Foreign Ministers informal (Gymnich) meeting on how to deal with China

At their meeting on May 12, 2023 the EU Foreign Ministers, led by the EU High Representative Josep Borrell, held a discussion on relations with China and gave broad backing to a strategy paper proposing a recalibration of the EU's approach towards China. This envisaged, as per Borrell in his remarks to the Press⁵, that while the EU will continue with its triptych of seeing China as a rival, a partner and a competitor, there was a need to decrease dependencies when these became too major and too risky. Derisking will need to be pursued, but this will involve a lot of work and will take time to work out. It was, however, underlined this was not for decoupling from China, but to balance in a fair way. This strategy paper will now get finalised, before being put up for further consideration at the summit of EU leaders later in the year.

French President Macron outlines elements of his 'strategic autonomy' concept

Meanwhile, in an op-ed in the Financial Times, the French President Emmanuel Macron, who has been arguing for building a 'strategic autonomy' approach by Europe, stated that the twin shocks of COVID-19 and the war in Ukraine had taught Europe lessons about the value of European sovereignty. His article of May 12, 2023 titled 'Europe needs more factories and fewer

⁵ https://www.eeas.europa.eu/eeas/informal-meeting-foreign-affairs-ministers-gymnich-press-remarks-high-representative-josep-1_en

dependencies',⁶ outlined a doctrine based on five pillars, that made no explicit mention of the US or China, even as he did refer to technological decoupling :

- A commitment to competitiveness, greater integration and deepening of the EU Single Market will provide the conditions for creating European champions;
- Industrial policy revamped up to meet ecological and digital transition (European Chips Act and Net Zero Industry Act cited as examples);
- Protection of vital European interests and strategic assets to block foreign acquisitions of strategic European companies (he added here that "we have to be bold when it comes to the question of technological decoupling and the strengthening of export controls");
- Reciprocity - the Trade Agenda should be both ambitious and consistent with Europe's political objectives; and
- Framework for multilateral solidarity, for the EU can thrive only in the context of global development.

Chip making capacities set to rise in Germany and Japan

Chip making capacities have received a boost in recent times in Japan and Germany, indicative of the trend towards derisking in this crucial sector, thanks also to generous subsidies being received from host governments.

Germany's proposed new chip factories include Intel's Euro 17 bn fab in the eastern city of Magdeburg, Wolfspeed and ZF's Euro 2.5 bn plant for producing silicon carbide chips used in electric vehicles and other applications, and Infineon's Euro 5 bn 'smart power fab' plant in Dresden⁷.

Japan's Prime Minister Fumio Kishida held a meeting with seven of the world's largest semiconductor makers in Tokyo prior to the G-7 summit. Several of them have set out plans to increase their manufacturing in Japan⁸. The US company Micron is expecting to invest upto US\$ 3.7 bn, including Japanese state subsidies, to build a plant to produce cutting edge ultraviolet lithography technology in Hiroshima. The Korean company Samsung is also proposing to set up a Yen 30 bn R&D centre in Yokohama with pilot lines for semiconductor devices. Taiwan's TSMC has reportedly signalled the possibility of more investments in Japan after it agreed to build a new plant with an investment of US\$ 7.5 bn in the south western prefecture of Kumamoto.

⁶ <https://www.ft.com/content/7ff1123d-51b1-482c-ba86-b3a95a347df9>

⁷ <https://www.ft.com/content/512fda84-4317-4cca-951c-b80b58f4b530>

⁸ <https://www.ft.com/content/5b36a5ca-4175-428a-93ed-b5e4c3b9eae1>

India related developments in respect of economic security

First meeting of India-EU Trade and Technology Council

The first meeting of the India-EU Trade and Technology Council (TTC), several of whose focus areas related to economic resilience and security issues, was held in Brussels on May 16, 2023. It was co-chaired by the External Affairs Minister S. Jaishankar, the Commerce and Industry Minister Piyush Goyal and the Minister for Electronics and IT Rajeve Chandrasekhar from the Indian side, while from the EU side the co-chairs were EU Commission Executive Vice Presidents Margrethe Vestager and Valdis Dombrovskis. They were also joined by the EU High Representative Josep Borrell, as well as the Commissioner for Internal Market Thierry Breton.

Key outcomes that emerged from the three working groups of the TTC that have been set up as a coordination platform to address trade, trusted technology and security challenges, included the following⁹:

1. Strategic technologies, digital governance and digital connectivity

- The EU and India are to cooperate on quantum and high performance computing research projects to address challenges such as climate change and natural disasters, and improve health via personalised medicine;
- Cooperation on trustworthy artificial intelligence and coordination on policies with regard to the semiconductor sector through a dedicated MOU;
- Engagement on 5G, telecom and internet of things standardisation;
- Enhancing inter-operability of respective digital public infrastructure and promoting privacy preserving solutions, to the benefit of developing countries; and
- Cooperation on bridging the digital skills gap and promoting exchange of digital talent.

2. Green and Clean Energy Technologies

- The EU and India are to focus on waste water management, including plastic litter and waste to hydrogen; recycling of batteries for e-vehicles; and on standards through pre-normative research; and
- Cooperation on these issues should also strengthen the role of start-ups, and building skills and capacity.

⁹ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2728

3. Trade, Investment and Resilient Value Chains

- Deepen the common work on resilient value chains, work to resolve bilateral market access issues, and exchange information on each other's mechanisms on foreign investment screening;
- Address global and multilateral trade issues, with particular emphasis on the WTO; and
- Intensify engagement on carbon border measures.

It was further clarified that the foregoing work under the TTC will proceed in parallel with the ongoing negotiations on a free trade agreement, an investment protection agreement, and on geographical indications.

IPEF Marks Progress

The second ministerial meeting of the Indo-Pacific Economic Framework for Prosperity (IPEF) was held in Detroit on May 27, 2023. India's Minister for Commerce and Industry Piyush Goyal participated in the meeting virtually. Earlier during the month, the third round of IPEF negotiations was also held in Singapore from May 8-15, 2023.

Following the ministerial, it has been reported that negotiations under the supply chain pillar (Pillar II) have been substantially concluded, and what now remains may be the legal review of the text and formal concurrence from the participating countries¹⁰.

The agreement reached on Pillar II is intended to make supply chains more resilient, robust and well integrated through crisis response measures, facilitate cooperation for mitigation of disruptions to better ensure business continuity, improve logistics and connectivity, promote investment particularly in critical sectors and the production of key goods, enable worker role enhancement through upskilling and reskilling, and enhanced comparability of skills credentials frameworks across IPEF. Emphasis has also been laid on respecting market principles, minimising market distortions including unnecessary restrictions and impediments to trade, and protecting business confidential information. It is, however, not clear to what extent the proposed agreement may be legally binding.

¹⁰ <https://pib.gov.in/PressReleaseDetailm.aspx?PRID=1929184>

The agreement also envisages establishment of three new IPEF supply chain bodies:

- The IPEF Supply Chain Council, which is to build resilience and competitiveness in certain critical sectors and possibly oversee the development of action plans;
- The IPEF Supply Chain Crisis Response Network that may allow IPEF parties to streamline communication and coordinate a response when one or more IPEF parties faces a supply chain crisis; and
- The IPEF Labour Rights Advisory Board. The labour rights advisory board would comprise of government, worker and employer representatives and a subcommittee composed of government representatives to, inter alia, support IPEF partners in the promotion of labour rights in supply chains.

Progress has also been reportedly made in discussions under the other three pillars relating to trade, clean economy and fair economy. India remains only an observer under the trade pillar (Pillar I).

Union Cabinet approves PLI scheme 2.0 for IT hardware

The Union Cabinet approved¹¹ on May 17, 2023 the PLI scheme 2.0 for IT hardware covering laptops, tablets, all-in-one PCs, servers and ultra small form factor devices. With an outlay of Rs.17,000 crores, the scheme seeks to build on the success of the PLI scheme for mobile phones.

The Union Minister for Communications Ashwini Vaishnav was quoted as saying that during his visit to the US, he met top executives of leading hardware companies that showed keenness to come and invest in India. He added that the PLI scheme was so structured that additional incentives would be subject to localisation.

¹¹

<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1924766#:~:text=The%20Union%20Cabinet%2C%20chaired%20by,CAGR%20in%20last%208%20years.>



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New Delhi - 110003
India

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