



Delhi Policy Group

Advancing India's Rise as a Leading Power

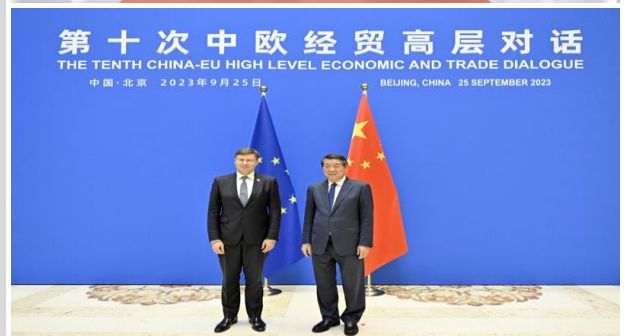


ECONOMIC SECURITY AND RESILIENCE REVIEW SEPTEMBER 2023

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Volume I, Issue 9



Delhi Policy Group

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www.delhipolicygroup.org



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September 2023

ABOUT US

Founded in 1994, the Delhi Policy Group (DPG) is among India's oldest think tanks with its primary focus on strategic and international issues of critical national interest. DPG is a non-partisan institution and is independently funded by a non-profit Trust. Over past decades, DPG has established itself in both domestic and international circles and is widely recognised today among the top security think tanks of India and of Asia's major powers.

Since 2016, in keeping with India's increasing global profile, DPG has expanded its focus areas to include India's regional and global role and its policies in the Indo-Pacific. In a realist environment, DPG remains mindful of the need to align India's ambitions with matching strategies and capabilities, from diplomatic initiatives to security policy and military modernisation.

At a time of disruptive change in the global order, DPG aims to deliver research based, relevant, reliable and realist policy perspectives to an actively engaged public, both at home and abroad. DPG is deeply committed to the growth of India's national power and purpose, the security and prosperity of the people of India and India's contributions to the global public good. We remain firmly anchored within these foundational principles which have defined DPG since its inception.

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Cover Image:

Prime Minister of India, Narendra Modi, chairs the G20 Summit in New Delhi on September 10, 2023.

(Source: [G20 Official Website](#))

Prime Minister of India, Narendra Modi with US President Biden in New Delhi on September 8, 2023.

(Source: [PM Modi Official Twitter](#))

Chinese Vice Premier, He Lifeng, with Valdis Dombrovskis, Executive Vice President of the European Commission at the 10th China-EU High Level Economic and Trade Dialogue in Beijing, China on Sept. 25, 2023.

(Source: [The State Council of People's Republic of China](#))

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

September was a month of summits, both bilateral and multilateral. Economic security related issues and the need for strengthening supply chains figured in most of their declarations or joint statements. This report tries to capture some highlights, including at the G-20 summit, the bilateral summit between PM Modi and President Biden, and the latter's subsequent visit to Vietnam.

The fourteen partners, including India, of the Indo-Pacific Economic Framework (IPEF) met again this month for their fifth round of negotiations in Bangkok. Earlier to that, the text of the agreement on the IPEF supply chain pillar was also released.

The India-Middle East-Europe corridor initiative (IMEC) witnessed a high profile launch on the sidelines of the G-20 summit, at an event co-chaired by PM Modi and President Biden. This issue tracks some of the details. The corridor also found prominent mention in the State of the Union address by EU Commission President Ursula von der Layen to the European Parliament on September 13, in which she termed the initiative as a 'most ambitious project of our generation'.

The month also witnessed some calibratory moves by the European Union in dealing with China. Visits by two EU Vice Presidents, Valdis Dombrovskis responsible for trade and Vera Jourova who is in charge of values and transparency, appear to have resulted in some positive developments. This came even as the move by the EU to launch a subsidy probe against EV vehicles from China has evoked serious concern in Beijing.

Some China related developments are also covered in this issue. These include reports that China had imposed a ban on use of Apple iPhones and other devices in its government offices and the offices of state owned enterprises. Likewise, reports indicate that China is launching another US\$ 40 bn fund for promoting its semiconductor industry, including for investments in Chip making machinery.

Finally, this issue takes note of the finalised guardrails announced by the US Department of Commerce for availing incentives under the CHIPS Act.

G-20 Leaders' Summit

The summit meeting of the G-20 leaders was held in New Delhi from September 9-10, 2023 and the New Delhi Leaders' Declaration¹ covered a whole host of issues. Of particular relevance to this report was its resolution to work with the private sector to inter alia create inclusive, sustainable and resilient global value chains and to support developing countries to move up the value chain. The Declaration also endorsed several of the decisions contained in the outcome document of the G-20 Trade ministers' meeting (covered in ESRR for August 2023), including the G-20 Generic Framework for mapping GVCs to help members identify risks and build resilience.

On energy transition, the leaders supported reliable, diversified, sustainable and responsible supply chains, including for critical minerals and materials beneficiated at source, semiconductors and technologies. It further took note of the G-20 Presidency's voluntary 'High level principles for collaboration on critical minerals for energy transition'.

A significant outcome of the summit was a clear indication that work was in progress on delivering better, bigger and more effective multilateral development banks (MDBs) by enhancing operating models, improving responsiveness and accessibility, and substantially increasing financing capacity to maximise development impact. Several steps were also outlined in this regard. The G-20 leaders also underscored the need for enhancing the voice and representation of developing countries in decision making in global international economic and financial institutions.

President Biden's bilateral visit before the G-20 summit

President Biden's bilateral summit meeting with PM Modi on September 8 served to review implementation of several decisions taken at PM Modi's historic visit to the US in June 2023. Views were also exchanged on subsequent developments. In relation to economic resilience, the two leaders, in the joint statement² issued on the occasion, reiterated their support for building resilient global semiconductor supply chains. They noted in this respect a multi-year initiative of Microchip Technology, Inc., to invest approximately US\$300 million in expanding its research and development presence in India, and Advanced Micro Device's announcement to invest US\$400 million over the next five years to expand research, development, and engineering operations

¹ <https://www.mea.gov.in/Images/CPV/G20-New-Delhi-Leaders-Declaration.pdf>

² https://www.mea.gov.in/bilateral-documents.htm?dtl/37078/Joint_Statement_from_India_and_the_United_States

in India. The two leaders further expressed satisfaction at the ongoing implementation of announcements made in June 2023 by U.S. companies Micron, LAM Research, and Applied Materials. Micron carried out the ground breaking ceremony of its US\$ 2.75 bn assembly, testing and packaging plant in Sanand in Gujarat on September 23, 2023.

President Biden's visit to Vietnam

President Biden undertook an important bilateral visit to Vietnam after attending the G-20 summit. Following his discussions with the General Secretary of the Communist Party of Vietnam, Nguyen Phu Trong, the two leaders elevated³ their bilateral relationship to a comprehensive strategic partnership. Of particular relevance to this report was the pledge by the two leaders to support the rapid development of Vietnam's semiconductor ecosystem and to work together energetically to improve Vietnam's position in the global semiconductor supply chain. Towards this end, the two countries announced the launch of semiconductor workforce development initiatives supported by an initial seed funding of US\$ 2 m from the US government, in conjunction with Vietnamese government and private sector support. The US also supported Vietnam's efforts to expand its domestic pharmaceutical sector as part of global health security cooperation. In this regard, it expressed willingness to strengthen cooperation to increase compatibility of regulatory frameworks so that Vietnam can play an active role in regional and global medical supply chains. It is evident from the foregoing that a key objective of the visit was to encourage investment diversification in critical sectors in the region.

IPEF Supply Chain Agreement text released

The final text of the agreement on the supply chain pillar among the fourteen members of the Indo-Pacific Economic Framework for Prosperity (IPEF) was released on September 7, 2023. It aims at a range of collaborative measures among the IPEF members towards strengthening their supply chains in critical sectors and key goods, which in turn are to be drawn up by each member based on its respective security, safety, or other needs and certain parameters prescribed in the agreement⁴.

³ <https://www.whitehouse.gov/briefing-room/statements-releases/2023/09/11/joint-leaders-statement-elevating-united-states-vietnam-relations-to-a-comprehensive-strategic-partnership/>

⁴ See also <https://www.thehindubusinessline.com/opinion/ipefs-supply-chain-initiative-holds-promise/article67331431.ece>

The main organ of the IPEF will be a Supply Chain Council composed of senior IPEF officials of all members, which will inter alia establish teams to develop action plans for critical sectors or key goods of priority to its members to increase resilience and competitiveness. Another related mechanism is the establishment of a crisis response network that will serve as an emergency communications channel and a support system among the IPEF countries in the event of a supply chain disruption, or its likely imminence. Yet another mechanism, reflective of the labour centric trade policy of the Biden administration which has piloted the IPEF initiative, is the setting up of a labour rights advisory board under the agreement.

Most provisions of the supply chain agreement, however, are not set in legally binding language. Nor does it have mechanisms to adjudicate disputes, beyond providing for consultations. For India, the agreement could provide opportunities of engaging with the region both on easing its supply chain constraints and on attracting business matching and investment possibilities. However, it may also be the first trade related agreement in which India will be committing to labour standards, even if this is without dispute settlement provisions.

Fifth Round of IPEF negotiations held in Thailand

An official readout⁵ on the 5th round of IPEF negotiations that were held in Bangkok from September 10-16, 2023 stated that the IPEF partners continued to make progress on negotiating high standard outcomes under Pillars I (Trade), III (Clean Economy) and IV (Fair Economy). It further stated that discussions continued also on the next steps for the proposed Supply Chain Agreement which had already been concluded and the text released. The dates for holding the next round of IPEF talks are to be announced at a later date.

India-UK FTA negotiations get reviewed at Modi-Sunak summit

PM Modi and PM Sunak of the UK met on the sidelines of the G-20 summit in New Delhi, when they inter alia reviewed the FTA negotiations and expressed the hope that the remaining issues could be addressed at the earliest so that a balanced, mutually beneficial, and forward looking FTA can be concluded soon.

⁵ <https://www.commerce.gov/news/press-releases/2023/09/joint-us-department-commerce-and-ustr-readout-fifth-indo-pacific>

India-Middle East-Europe Economic Corridor (IMEC)

A major initiative on the development of a new IMEC corridor was launched on the sidelines of the G-20 summit, with an MOU on its principles⁶ being signed by India, USA, Saudi Arabia, UAE, the EU, Italy, France and Germany on September 9 in New Delhi. The corridor, which is intended to further secure supply chains and increase trade accessibility, will comprise an Eastern corridor connecting India to the Gulf region and a Northern corridor connecting the Gulf region to Europe. The event was co-chaired by PM Modi and President Biden and leaders of the EU, France, Germany, Italy, Mauritius, UAE and Saudi Arabia participated. In his remarks, PM Modi highlighted the importance of physical, digital and financial connectivity and said that IMEC will help promote economic integration between India and Europe.

The corridor will include a railway and ship-rail transit network, and road transport routes. The railway, upon completion, will provide a reliable and cost effective cross border ship-to-rail transit network enabling goods to transit to, from, and between India, the UAE, Saudi Arabia, Jordan, Israel, and Europe. The MOU also talks about the participants laying cables for electricity and digital connectivity as well as pipelines for clean hydrogen export. Participants are now to establish coordinating entities to address the full range of technical, design, financing, legal and relevant regulatory standards.

IMEC also found a reference in the EU President Von der Layen's State of the Union address⁷ to the European Parliament on September 13, 2023. She called it a 'most ambitious project of our generation' providing the 'most direct connection to date between India, the Arabian Gulf and Europe'. She said that the rail link will make trade with Europe 40% faster and could create business opportunities all along the way.

EU launches subsidy investigations against EVs from China

The EU Commission President Ursula Von der Layen announced on September 13, 2023 that the Commission was launching an anti-subsidy probe against electric vehicles coming from China. She said global markets were now flooded with cheaper Chinese electric cars and their price was kept artificially low by huge state subsidies which were distorting EU market. Europe, she said, was open for competition but not for a race to the bottom.

⁶ The text of the MOU can be seen at

<https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/sep/doc202399250101.pdf>

⁷ https://ec.europa.eu/commission/presscorner/detail/en/speech_23_4426

In her state of the union address to the European Parliament, she also said that while Europe needed to defend against unfair practices, it was important to keep open lines of communication and dialogue with China. De-risk, not decouple, will be her approach with the Chinese leadership at the EU-China summit later this year.

EU Commission Vice President Dombrovskis visits China

The tenth EU-China high level economic and trade dialogue was held on September 25, 2023 in Beijing co-chaired by EU Commission Vice President Dombrovskis and China Vice-Premier He Lifeng. Reportedly, Dombrovskis conveyed to the Chinese side that the tough security laws and a more politicised business environment had left European companies struggling to understand their obligations and questioning their future in China. The Chinese VP He, on his part reiterated China's strong dissatisfaction over the subsidies probe initiated by the EU on Chinese EV carmakers. Chinese Commerce Minister Wang Wentao, in his meeting with Dombrovskis, further conveyed that the EU's probe was an act of trade protectionism, which will affect the green cooperation between the two sides and the stability of the global automotive industrial and supply chains. He called on the EU to engage in dialogue and consultations with China.

That said, Dombrovskis appeared to indicate in his Press Conference⁸ a somewhat more positive picture of how the two sides have agreed to resume regular exchanges and dialogues over economic issues. Saying that China's economic performance is also critical for a broader global economy, he noted that reigniting the economic and financial dialogue will be important, adding that he would look forward to these dialogues in the coming months. The two sides have apparently also decided to start a EU-China working group on alcoholic beverages as well as conduct dialogue and exchanges on regulation of cosmetics. The two sides are further expected to continue discussions on a possible EU-China transparency mechanism on supply chains for critical raw materials, among several other specific issues identified.

EU Commission VP Jourova visits China

Preceding the visit of Dombrovskis, there was also the visit of EU Vice President for values and transparency, Vera Jourova, to Beijing where she co-chaired on September 18, 2023 the EU-China high level digital dialogue along with Chinese Vice Premier Zhang Guoging. Both sides appear to have discussed⁹

⁸ https://ec.europa.eu/commission/presscorner/detail/en/statement_23_4613

⁹ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4488

cross-border data flows and platforms, data regulation and AI, apart from others. The EU Commission reportedly conveyed concerns about the difficulties faced by EU companies in China to make use of industrial data as a result of the application of recent legislation. What was interesting was that Dombrovskis, in his remarks to the Press during his visit the following week, revealed that the two sides had agreed to set up a mechanism of facilitation of compliance with Chinese data laws for EU companies facing issues in the Chinese market.

Reports of Chinese government bans on the use of Apple products in government agencies, SOEs

After reports appeared¹⁰ that the Chinese government had imposed restrictions on use of Apple iPhones and other devices in its government departments and state owned enterprises earlier this month, there was a share sell off which almost cut off US\$ 200 bn of Apple's market capitalisation. The Chinese Foreign Ministry denied any formal prohibition, but alluded to iPhone related 'security incidents' and told smart phone makers to comply with the law. It added that the Chinese government placed a high priority on information and network security and treated both domestic and foreign companies equally.

Coincidentally, there was the launch of a new Huawei smartphone Mate 60 Pro in China at the end of August that sold out almost immediately after it was disclosed that it used advanced chips. US sanctions against Huawei had previously hurt the capabilities of its products and enabled Apple to dominate sales of high end smartphones in China. (As per one report, Apple's share of such phones rose to 20% while Huawei climbed down from around 23% in 2019/20 to 10% in 2023).

Reports of China launching a new semiconductor fund

News reports during the month indicated that China is launching a new state backed investment fund that aims to raise about US\$ 40 bn for its semiconductor industry¹¹. Its target of 300 bn yuan (US\$ 41 bn) significantly exceeded similar funds raised in 2014 and 2019, which had raised about yuan 139 bn and 200 bn respectively. A main area of investment this time will be equipment for chip manufacturing.

¹⁰ <https://www.ft.com/content/558a1196-15ba-4869-9d69-6f5405e0a758>

¹¹ <https://theprint.in/tech/exclusive-china-to-launch-new-40-billion-state-fund-to-boost-chip-industry-sources-say/1746982/>

US Department of Commerce announces final guardrails for the CHIPS Act Incentive programme

The US Department of Commerce released on September 23 the final rules¹² implementing the national security guardrails that will govern the grant of incentives under the CHIPS act, following a process of extensive consultations on the draft rules published in March this year. The rules now elaborate on two core provisions of the statute: the first, prohibiting CHIPS funds recipients from any 'significant transaction' involving the material expansion of semiconductor manufacturing facilities in foreign countries of concern for ten years; and the second, restricting recipients from certain joint research or technology licensing efforts with foreign entities of concern. Among the several points clarified in the rules are:

- Material expansion of advanced semiconductor facilities is now defined as increasing a facility's production capacity by more than 5%;
- A "significant transaction" means transactions of \$100,000 or more;
- The rules provide an exemption for expanding existing facilities making legacy semiconductors, which are defined as nano chips of 28nm or older generation, and also DRAMS of certain older vintage. The exemption applies if the legacy semiconductor facility does not undergo any significant renovation, which again is defined as not increasing the plant's capacity by 10% or more;
- Foreign entities of concern include those owned or controlled by foreign countries of concern (China, North Korea, Russia and Iran), those on the Bureau of Industry and Security (BIS) Entity List, the Treasury Department's Chinese Military-Industrial Complex Companies (NS-CMIC) list, and others as outlined in the statute.

¹² <https://www.nist.gov/news-events/news/2023/09/biden-harris-administration-announces-final-national-security-guardrails#:~:text=CHIPS%20for%20America%20is%20fundamentally,and%20enhance%20our%20collective%20security.>



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