Delhi Policy Group

Advancing India's Rise as a Leading Power

ECONOMIC SECURITY AND RESILIENCE REVIEW

MARCH 2024

Author

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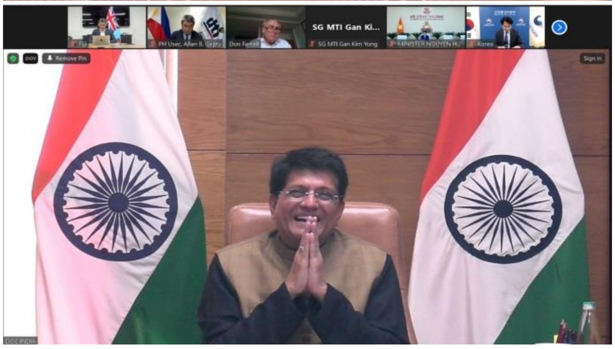

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ABOUT US

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.

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The views expressed in this publication are those of the author and should not be attributed to the Delhi Policy Group as an Institution.

Cover Images:

Representatives of member states of the European Free Trade Association – Iceland, Liechtenstein, Norway, and Switzerland – and the Republic of India signed a comprehensive Trade and Economic Partnership Agreement (TEPA) in New Delhi on March 10, 2024. (Source: EFTA Secretariat – Photos)

India's Minister of Commerce & Industry, Piyush Goyal, virtually attending the Indo-Pacific Economic Framework (IPEF) Virtual Ministerial Meeting at the Ministry of Foreign Affairs, Bangkok on March 14, 2024. (Source: Department of Commerce, GOI/Official X Account)

Governor of the Reserve Bank of India, Shri Shaktikanta Das, and the Governor of Bank Indonesia, Mr. Perry Warjiyo signed a Memorandum of Understanding (MoU) for establishing a framework to promote the use the Indian Rupee (INR) and the Indonesian Rupiah (IDR) for cross-border transactions in Mumbai on March 7, 2024. (Source: Consulate General of Republic of Indonesia in Mumbai)

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Introduction

The Indo Pacific Economic Framework (IPEF) marked further progress at its virtual ministerial meeting held on March 14, 2024. The Clean Economy pillar and the Fair Economy pillar agreements were finalised, as also the overall agreement that will govern the working of IPEF. While the future of the Trade pillar, that still remains to be finalised, is not clear, the participant countries have apparently decided to move ahead with the signing and ratification process relating to the rest of the pillars (the Supply Chain pillar is already operational after ratifications). Of particular importance is also the work programme to be taken up in greater detail at the next IPEF in-person ministerial meeting scheduled for June 6, 2024 which is described in some detail in this edition of the review.

As for developments relating to India, two potentially transformative policy frameworks, including incentives, relating to emerging and strategic areas, were announced during the month. These were the Rs.10,300 crore India - AI Mission seeking to bolster India's AI ecosystem, and the government's launch of an e-vehicle policy that could attract world EV majors like TESLA to set up manufacturing in India.

This issue also dwells on a framework MOU signed between the governors of central banks of India and Indonesia for increasing the use of the Indian Rupee and the Indonesian Rupiah in their bilateral trade and other transactions.

On the FTA front, despite significant efforts made by both sides during the fourteenth round of negotiations, the India-UK FTA could not be concluded. However, India's FTA with the EFTA group of countries reached closure and was signed on March 10, 2024. This review outlines the market access and other provisions in some detail.

The month also witnessed some further economic moves by the US against China. The US House of Representatives passed a bill on March 13, 2024 with broad bipartisan support that would force Byte Dance, the Chinese owner of the popular video app Tik Tok, to sell the app within six months or face a ban in the United States. The bill has, however, still to be passed by the US Senate.

The US is also pushing its allies to further restrict access of chip making equipment and allied materials by China. Furthermore, US Treasury Secretary Yellen warned China about its subsidies and other measures that were leading to overcapacities in solar panels, electric vehicles and lithium batteries and hurting manufacturing in the rest of the world.

The US Presidential election campaign is also witnessing some competing protectionist articulations. After presumptive Republican candidate Donald Trump conveyed his opposition to Nippon Steel's purchase of US Steel, President Biden has also indicated his opposition.

Finally, the review reports on the provisional deal reached between the EU Council and the European Parliament on March 5, 2024 on the regulation prohibiting products made with forced labour in the EU market.

IPEF virtual ministerial meeting chalks out way ahead

The Indo-Pacific Economic Framework (IPEF) for prosperity forum held a virtual ministerial level meeting on March 14, 2024 which saw the texts, after legal review, finalised and released of Pillar III on clean economy, Pillar IV on fair economy, and the overall agreement on IPEF. These texts will now need to get the necessary internal approvals in the participant members before they can be formally signed. As for the Supply Chain Pillar (II), the meeting welcomed that it had entered into force on February 24, 2024 after the completion of the necessary ratifications by its members.

The main purpose of the virtual meeting was to discuss the work ahead. Addressing the meeting, India's minister for Commerce and Industry, Piyush Goyal, called[1] for the expeditious implementation of all action oriented elements under the various IPEF pillars. He also highlighted, in connection with the coming into force of the supply chain pillar, India's global capacities in many critical sectors, which provide supply diversification opportunities for IPEF partners.

As for Pillars III and IV, whose texts were released, the clean economy pillar seeks to enhance cooperation and collaborative efforts among IPEF partners on clean energy transition, energy security and climate resilience and adaptation, and support sustainable livelihoods in IPEF members. As per India's Commerce Ministry, this could help increase investments in the clean energy

[1] https://pib.gov.in/PressReleasePage.aspx?PRID=2014732

sector in India, promote development of low cost technologies, and facilitate technical assistance and capacity building.

The proposed fair economy pillar seeks to create a more transparent and predictable trade and investment environment across the Indo-Pacific. The IPEF partners are to enhance their efforts to prevent and combat corruption, including bribery, and support efforts to improve tax transparency and the exchange of information, resource mobilisation and tax administration.

The overall IPEF agreement basically establishes two ministerial-level bodies, each to meet annually to oversee the implementation. An IPEF Council will look at matters affecting the collective operation of the IPEF agreement and the framework. The IPEF Joint Commission will monitor the work under the supply chain agreement, the clean economy agreement and the fair economy agreement with a view to enhancing cross cutting synergies and avoiding duplication of work.

The IPEF partners also discussed next steps. They took stock of the Common Work Programme (CWP) on hydrogen announced in May 2023, as well as potential new ones. Interested IPEF partners have taken steps to advance the hydrogen initiative, including establishing work-streams related to the exchange of information and sharing of best practices on methodologies, standards, and certifications developed by international bodies on the carbon intensity of hydrogen and its carriers, as well as cross-border pilots and demonstration projects.

Four new CWPs were also announced based on submitted proposals:

- On carbon markets, to understand existing regional carbon market priorities and identify strategies for improving the enabling conditions for cooperation;

- On clean electricity enhancement, to facilitate increased decarbonization and access to clean energy in the region, including through public-private cooperation;

- On promotion of employment creation and labor rights and strengthen efforts to address employment shifts in the move to clean energy, to pursue workforce development efforts and to ensure a just transition towards achieving a clean economy; and

- On sustainable aviation fuels (SAF), to enhance the availability and affordability of SAF and its feedstocks, so as to catalyse and develop regional SAF value chains in the region.

The meeting also announced that the inaugural IPEF Clean Economy Investor Forum will be held in Singapore from June 5-6, 2024. The Investor Forum will bring together some of the region's largest investors and philanthropies with government agencies and innovative companies and entrepreneurs to mobilise increased investment for climate-related infrastructure, technologies, and projects in the region.

The IPEF partners moreover announced plans to provide $33 million in initial grant funding for the IPEF Catalytic Capital Fund under the Pillar III Clean Economy Agreement. These funds will be instrumental in catalysing up to $3.3 billion in private investment for climate infrastructure projects in IPEF economies. The Fund's founding supporters include Australia, Japan, the Republic of Korea, and the United States. The Private Infrastructure Development Group will administer and leverage the Fund to deploy concessional financing, technical assistance, and capacity building support to expand the pipeline of high quality, resilient, and inclusive climate infrastructure projects.

The IPEF Ministers are slated to hold their next in-person meeting in Singapore on June 6, 2024.

Union Cabinet approves Rs.10,300 crores for India-AI mission

On March 7, 2024 the Union Cabinet approved[2] an allocation of Rupees 10,300 crores for the India-AI mission to be spent over the next five years to bolster India's AI ecosystem. The following programmes figure among the intended beneficiaries of this outlay as per the Press Release issued:

- India-AI compute capacity envisioned to erect a cutting edge scalable AI computing infrastructure by deploying over 10,000 graphics processing units (GPUs) through public-private partnerships;
- It will fortify India-AI start-up financing mechanism. Proposal also includes funding provisions for industry-led AI projects;
- It will fund India-AI Innovation Centre, which will be a leading academic institution, to spearhead the development of foundational models;
- It will help India-AI Datasets Platform to enhance accessibility, quality and utility of public sector databases in order to ensure data driven governance and catalysing AI based innovation and research; and

[2] https://pib.gov.in/PressReleseDetailm.aspx?PRID=2012355

- It will assist India-AI Future Skills program on expanding the reach of AI education by increasing the accessibility of graduate and post graduate AI programmes, while also establishing Data and AI labs.

Rajeev Chandrasekhar, Union Minister of State for Electronics, IT, skill development and entrepreneurship, has stated that the program will catalyse India's AI ecosystem and position it as a force shaping the future of AI for India and the world.

India and Indonesia sign MOU to boost trade in local currency

The Reserve Bank of India (RBI) and Bank Indonesia (BI) signed[3] a MOU on March 7, 2024 in Mumbai for establishing a framework to promote the use of local currencies, namely, the Indian Rupee and the Indonesian Rupiah, for cross border transactions. The MOU was signed by the Governor RBI, Shaktikanta Das, and the Governor of BI, Perry Warjiyo. It aims to promote the use of the rupee and rupiah bilaterally, and covers all current account transactions, permissible capital account transactions, and any other financial and economic transactions as agreed upon by both countries. The framework would enable exporters and importers to invoice and pay in their respective domestic currencies, which in turn would enable the development of a Rupee-Rupiah foreign exchange market as well as deepen financial integration.

Indian government approves an E-vehicle policy

The Union Government approved[4] on March 15, 2024 a scheme that will allow companies that set up manufacturing facilities for e-vehicles to be allowed limited import of cars at a lower rate of customs duty. It is expected to attract EV majors like TESLA to a market that is already the third largest automotive market in the world. The conditions for the investor include:

- A minimum investment of Rs.4150 crores (USD 500 m) with no maximum limit;
- A three years timeline for setting up manufacturing in India and start commercial production of e-vehicles and reach 50% of domestic value addition in five years at the maximum, with a localisation level of 25% by the third year;
- Meanwhile, customs duty for import of EVs will be reduced to 15% for EVs valued at USD 35,000 or above for a period of 5 years;

[3] https://rbi.org.in/scripts/FS_PressRelease.aspx?prid=57467&fn=2
[4] https://pib.gov.in/PressReleasePage.aspx?PRID=2014858

- Total number of EVs allowed for import would be determined by the total duty foregone or investment made, whichever is lower, subject to a maximum of Rs. 6484 crores (equal to incentive under the PLI Scheme);
- A maximum of 8000 EVs will be permissible under the scheme. The carry over of unutilised annual import permits will be allowed; and
- The investment commitment made by the company will have to be backed by a bank guarantee in lieu of the duty foregone. The guarantee will be invoked in case of non-achievement of domestic value addition and minimum investment criteria under the scheme.

Fourteenth Round of India-UK FTA negotiations close

The fourteenth round of India-UK FTA negotiations closed[5] on March 15, 2024 with formal negotiations now expected to be revived only after a new government is formed after the General Elections in India. Reports indicate that the two sides came close to clinching the deal, but certain differences could still not be bridged. PM Modi had spoken with PM Rishi Sunak a few days earlier and tweeted that he and PM Sunak 'reaffirmed our commitment to further strengthen the bilateral comprehensive strategic partnership and work for early conclusion of a mutually beneficial free trade agreement'.

India and EFTA countries sign their FTA deal

India and the EFTA countries signed[6] their free trade agreement called the Trade and Economic Partnership Agreement (TEPA) on March 10, 2024. EFTA comprises four countries - Iceland, Liechtenstein, Norway and Switzerland - and the agreement has been under negotiation since January 2008. It progressed through thirteen rounds until November 2013, after which negotiations were paused. However, they resumed in October 2023 and the agreement has since been swiftly concluded in a fast-track mode. The agreement contains 14 chapters covering market access in goods and services, investment promotion, intellectual property rights, trade and sustainable development and government procurement. The highlight of the agreement includes providing a legal commitment by EFTA countries to increase their stock of FDI (not covering portfolio investment) by US$ 100 bn in India in the next fifteen years and to facilitate the generation of 1 million direct employment in India. Other salient features of the agreement include the following:

[5] https://www.business-standard.com/economy/news/round-14-of-india-uk-fta-talks-put-on-hold-ahead-of-election-schedule-124031600293_1.html
[6] https://pib.gov.in/PressReleasePage.aspx?PRID=2013169

- As for market access in goods, EFTA is offering 92.2% of its tariff lines for tariff reduction covering 99.6% of India's exports. Coverage of non-agricultural products is 100%. India in turn is offering 82.7% of its tariff lines covering 95.3% of imports from EFTA.
- India's Commerce Ministry has noted that the effective duty on gold, the principal import from Switzerland, remains untouched. Sensitivity related to PLI in sectors such as pharma, medical devices and processed food have been taken into account and sectors such as dairy, soya, coal, and sensitive agricultural products have been kept in the exclusion list.
- In respect of trade in services, India has offered access in 105 subsectors to EFTA in return for receiving concessions from 110 subsectors from Iceland, 107 from Liechtenstein, 114 from Norway and 128 from Switzerland.
- As per the Ministry of Commerce, TEPA would stimulate India's services exports in sectors of India's key strengths such as IT and business services, personal, cultural, sporting and recreational services, among others. TEPA also offers better access through digital delivery of services (Mode 1), commercial presence (Mode 2), and movement of key personnel (Mode 4). Further, it has provisions for mutual recognition agreements in professional services like nursing, chartered accountants, architects;
- Commitments on IPRs are largely as per the WTO TRIPS agreement. A record of understanding, which forms part of the FTA, however talks of consultations to take place one year after the entry into force of TEPA to discuss issues relating to protection of undisclosed information from unfair commercial use;
- The chapter on government procurement basically provides for a review, within three years of entry into force of TEPA, to examine the possibility of revoking and deepening their cooperation under this agreement; and
- There is a fairly detailed chapter on Trade and Sustainable Development, a first for India, dwelling on environmental protection, labour standards etc., but these provisions are not subject to dispute settlement.

In its assessment, India's Ministry of Commerce notes that TEPA presents an opportunity to integrate with the EU market since 40% of global services exports are to the EU. TEPA is also expected to give impetus to 'Make in India' and Atmanirbhar Bharat by encouraging domestic manufacturing in sectors such as infrastructure and connectivity, manufacturing, machinery, pharmaceuticals, chemicals, food processing, transport and logistics, banking, financial services and insurance.

US House of Representatives passes bill on Tik Tok

The US House of Representatives passed a bill on March 13, 2024 with broad bipartisan support[7] that would force Byte Dance, the Chinese owner of the popular video app Tik Tok, to sell the app within six months or face a ban in the United States. The bill passed with a vote of 352 in favour and 65 against, reflecting wide support for the move. The bill still needs to be passed by the US Senate, whose approval is uncertain as of now since former President Trump has recently, in a reversal of his earlier position in 2020, indicated his opposition to the move. President Biden has, however, said that he would sign the bill as and when it comes to his desk.

The Biden Administration has been trying to persuade US lawmakers that the platform poses grave national security risks to the US, even as it has become the most popular app domestically with an estimated 170 million users, with a large majority comprising the younger population. There is concern that the authorities in Beijing could use Tik Tok to spread communist party messages or gain access to sensitive data about Tik Tok's American users, considering that Chinese developed algorithms are running the app.

Analysts have, however, suggested that even if the bill passed, finding a buyer for the app, with an estimated value of over US$ 80 bn, will not be easy. A legal constitutional challenge may also be raised by the company in US courts against the bill. There are also doubts if China will allow such a sale, even if a deal becomes possible, to go ahead. It could place restrictions on export of Tik Tok's algorithms to a foreign buyer based on its own export control laws, which could in turn diminish the value of the app.

China has criticised the bill passed by the House. Wang Wenbin, spokesman for China's Foreign Ministry, said that though the US has never found any evidence of Tik Tok posing a threat to national security, it has never stopped going after Tik Tok. He accused the US of resorting to hegemonic moves when one could not succeed in fair competition.

US concern about Tik Tok is not new. President Trump had ordered an investigation in 2020 against Tik Tok by the Committee for Foreign Investment in the US (CFIUS), and Tik Tok had offered a plan to transfer all its data on US citizens to a US subsidiary that would be overseen by Oracle. But these and other similar earlier moves were not fully pursued.

[7] https://apnews.com/article/tiktok-ban-house-vote-china-national-security-8fa7258fae1a4902d344c9d978d58a37

US urges Allies to tighten further chip technology access by China

News reports have indicated[8] than after an export control meeting held in Tokyo in February this year between the US Department of Commerce and Japan's industry ministry officials, US officials are urging Netherlands, Germany, South Korea and Japan to further tighten China's access to semi-conductor technology. The US, for example, has been reported to have asked Japan to limit exports to China of specialised chemicals required for chip making, including photoresist. Similarly, Netherlands is being pressed to stop semiconductor maker ASML from servicing and repairing chip making equipment for Chinese clients bought before limits on sales of those devices were put in place earlier.

President Biden opposes purchase of US Steel by Nippon Steel

On March 13, President Joe Biden indicated[9] his opposition to the proposed purchase of US Steel by the Nippon Steel of Japan, that is still under the consideration of the Committee on Foreign Investment in the US (CFIUS). Biden said 'US Steel has been an iconic American steel company for more than a century and it is vital to remain an American steel company that is domestically owned and operated'. The US$ 14.1 bn deal was announced in December, and there are concerns what it may mean for US unionised workers, supply chains, national security, and cost competitivity. This is notwithstanding Nippon Steel's assurances that it will advance American priorities by driving greater quality and competitiveness for customers in the critical industries that rely on American steel, while strengthening American supply chains and economic defences against China.

Whether Biden's statement is largely one of election posturing, or it could be the final word on this deal, is unclear. Presidential candidate Trump had weighed on this issue earlier, stating 'I would block it. I think it is a horrible thing, when Japan buys US steel. I would block it instantaneously'.

Treasury Secretary Yellen to take up China's overcapacity during her China visit

US Treasury Secretary Janet Yellen, during a visit to a solar plant in the US state of Georgia, said[10] that she intended to warn China about the negative effects of

[8] https://www.reuters.com/technology/us-urges-allies-tighten-chinas-access-chip-technology-bloomberg-reports-2024-03-06/
[9] https://apnews.com/article/biden-steel-nippon-kishida-merger-purchase-201b3d5719bcf77067cb81d181442afb
[10] https://www.reuters.com/business/energy/yellen-intends-warn-china-clean-energy-subsidies-excess-production-capacity-2024-03-27/

Chinese subsidies for its clean energy industries. She stated "I intend to talk to the Chinese when I visit (expected from April 5, 2024) about overcapacity in some of these industries and make sure they understand the undesirable impact that this is having - flooding the market with cheap goods- on the United States but also in many of our closest allies". Yellen was visiting a solar cell plant of SUNIVA that closed in 2017 due to competition from cheaper, subsidised solar panels from China, and is now reopening because of anticipated demand fuelled by tax credits for US made clean energy technology under the Inflation Reduction Act. Yellen further said that China was now overproducing solar panels, electric vehicles and lithium-ion batteries in the same way it built too much capacity to make steel and aluminium, distorting global markets and hurting jobs in other industrial and developing economies.

EU Council and EU Parliament strike a deal to ban products made with forced labour

The EU Council and the European Parliament reached a provisional deal[11] on March 5, 2024 on a regulation prohibiting products made with forced labour in the EU market. It prohibits placing and making available in the EU market, or the export from the EU market, of any product made using forced labour. To facilitate implementation, the EU Commission will establish a database containing verifiable and regularly updated information about forced labour risks, including reports from international organisations such as the ILO. The Commission will also issue guidelines for economic operators and competent authorities to comply with the requirements of this regulation.

The provisional agreement reached between the European Parliament and the EU Council now needs to be endorsed and formally adopted by both the European Parliament and the member states before it can become operational.

News reports have quoted EU officials as saying that they could not target China alone, since that could breach WTO rules. These reports have also stated that while the US has blocked all imports from Xinjiang in 2022 alleging that China compels Uyghur Muslims to work, the EU still imports large amounts of solar panels from there, while the German company Volkswagen also operates a car assembly plant there.

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[11] https://www.consilium.europa.eu/en/press/press-releases/2024/03/05/council-and-parliament-strike-a-deal-to-ban-products-made-with-forced-labour/

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