Dragoman Digest

China reappraises semiconductor industrial policy

Past policy efforts have proven ineffective and controversial

China is re-evaluating its approach to support its domestic chip industry. Beijing is now reportedly narrowing its approach by expanding subsidies for a select group of national champions – whose receipt of subsidies will not be bound to specific targets. The newly established chip designer Huawei, as well as semiconductor manufacturers SMIC and Huahong, both of which produce sophisticated logic chips, and semiconductor equipment supplier Naura, will benefit. Beijing has recently consolidated control of technology policy and made clear its intent to prioritise. Past and ongoing efforts to develop industry-standard domestic lithography equipment have shown little progress.

China's failed strategy up to now has consisted of showering the domestic chip industry with cash. China's national chip fund, or 'Big Fund', established in 2014, raised US$45 billion in capital but has most recently been the target of extensive anti-corruption probes concerning the awarding of funds to dubious companies. Last December, Beijing appeared to be doubling down on the funding strategy. However, a US$145.34 billion fund mooted at that time appears to have been paused.

Elements of China's reformulated strategy are potentially problematic. The absence of performance targets or conditions for government support means national champions may lack firm incentives to use funds effectively. Expanding subsidies to China's well-established chip companies may create an uneven playing field for new companies offering genuinely innovative technology.

Wagner Group's presence in Libya increasingly viewed as a European security risk

The EU's energy security is front of mind

The **US** and its allies have intensified efforts to dislodge the **Russian** mercenary Wagner Group from **Libya**. The Kremlin deployed the Wagner Group in 2015 to fight beside the Libyan National Army (LNA) in the civil war. It has become entrenched in Libya's politics, economy, and military, aided by funding from **Saudi Arabia** and the **UAE**. CIA Head William Burns took the unusual step of visiting Libya in January and is understood to have warned the commander of the LNA, Khalifa Hifter, against deepening ties with the Wagner Group. Hifter was receptive to these proposals and offered to help push the Wagner Group from Libya in return for US-made air defence systems, military support and help to remove **Turkey** from the country**.**

Hifter's request is one the US is unlikely to be willing or able to fulfil. Consequently, there remains a risk of Wagner targeting **EU** energy assets in central and southern Libya – where the country's oil deposits are located. In 2021, these facilities contributed 8.2 percent of the EU's oil imports. Eni, Total and Repsol have had a presence in Libya for decades, though their assets have taken on new importance in the aftermath of Russia's invasion of **Ukraine**.

Apple's campaign to reform labour laws sees early success in state of Karnataka

Labour laws are just one of the challenges facing Apple in India

The **Indian** state government of Karnataka last month passed a package of labour liberalisation laws after months of complaints from Apple and Foxconn. As part of its changes, Karnataka increased the maximum length of shifts from nine to 12 hours, allowed factories to allocate two 12 hours shifts, gave greater flexibility for women to work at night and doubled the permitted overtime from 75 to 145 hours over a three-month period. The concessions are seen as crucial for Apple to be cost-competitive in locations other than **China**. Apple aims to make 25 percent of its iPhones in India by 2025. The Indian states of Tamil Nadu, Andhra Pradesh, Gujarat and Uttar Pradesh, which host factories owned by Foxconn, are set to follow suit – presaging a liberalisation of India's notoriously complex labour laws.

Labour laws are just one issue standing in the way of Apple's Indian expansion. Last year, some factories in Delhi faced power cuts of up to 14 hours after an extreme heatwave and country-wide coal shortage caused blackouts. Last November, the World Bank reported that India must invest US$840 billion into infrastructure over the next decade and a half to meet its urban growth rate. In response, the Modi government has prioritised infrastructure, allocating US$122 billion to such investments in its latest budget.

Washington experiments with VC funding to increase defence industry innovation and competition

The future of VC in the defence industry is uncertain

The **US** has been attempting to drum up venture capital (VC) investment in its defence industry in an effort to reduce reliance on the five large primes (Lockheed Martin, Northrop Grumman, Boeing, General Dynamics and Raytheon) to promote innovation and address the risk of leaving the Pentagon's supply chains exposed. Washington has sought to leverage VC funds to invest in smaller defence contractors with innovative technologies. VC investment in the US defence industry has risen from around US$1 billion in 2017 to US$6 billion today. The Pentagon has established its own fund – the US$115 million Office of Strategic Capital.

Software company Palantir, which benefitted from VC funding, has won numerous contracts in the last few years, including a US$800 million contract in 2019. However, the Pentagon has not displayed any real inclination to loosen the lock of the major primes. Doing so would likely require a radical overhaul of the Pentagon's procurement system. Last year, Pentagon acquisition chief Bill LaPlante appeared to question the relevance of "tech bros" to current warfighting needs, especially given the artillery heavy nature of the conflict in **Ukraine**.

Change of NSW Government portends shifts in energy policy

The Labor party has flagged greater government involvement in ensuring energy security

The **Australian** Labor Party's win over the Liberal-National Coalition in the New South Wales (NSW) State election over the weekend has raised questions over energy policy continuity. Specific concerns have arisen over the continuation of the previous Government's plan to secure enough generation and storage to replace the massive 10GW of coal-fired generation expected to exit the grid within the next decade. That policy, the *Electricity Infrastructure Roadmap*, envisaged $32 billion of private investment to fund the State's transition through the creation of five renewable energy zones (REZs). The administrative architecture was well underway before the election. The first of a series of bi-annual auctions for generation and long-duration storage was held in October 2022, where over 4GW of capacity was contracted.

NSW Labor has signalled plans to invest AUD$1 billion in an Energy Security Corporation (ESC) to build energy storage infrastructure. The ESC has drawn comparisons to Victoria's revamped State Electricity Commission but is distinguished by its explicit focus on pumped hydro and batteries. Another sign of increasing State involvement is new Premier Chris Minn's musings over buying back and operating the state's biggest coal-fired plant, Origin's 2.9 GW Eraring Power Station, beyond its 2025 closure date. Although Labor has pledged to maintain bipartisanship on REZs and the state Roadmap, tweaks may be inevitable. A fundamental question in Australia is the number of incidental policy intrusions on energy that have the effect of clouding investment cases for new capacity, whether in State intervention on assets like storage or Federal action in pricing.