



# Delhi Policy Group

Advancing India's Rise as a Leading Power

## ECONOMIC SECURITY AND RESILIENCE REVIEW

JULY 2024

*Author*

*V.S. Seshadri*



Volume II, Issue 7



Delhi Policy Group

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

[www.delhipolicygroup.org](http://www.delhipolicygroup.org)



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### Author

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

*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:

*Indian Prime Minister Narendra Modi in a bilateral meeting with the President of Russia, Vladimir Putin, in Moscow, Russia, on July 9, 2024. (Source: [President of Russia/Official Website](#))*

*Finance Minister of India, Nirmala Sitharaman, presents the Union Budget 2024-25 in Lok Sabha, New Delhi on July 23, 2024. (Source: [Nirmala Sitharaman/Official X Account](#))*

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# Economic Security and Resilience Review

by

V. S. Seshadri

## Introduction

This month's ESRR begins by flagging elements in the Union Budget proposals for the financial year 2024-25 which could help strengthen India's economic security and its trade and investment ecosystem. These include the announcement of a critical minerals mission, reviews announced on investment rules and customs rates, and introduction of enabling provisions in the Customs Act for incorporating flexibilities in the certification of rules of origin in India's FTAs.

The Economic Survey for 2023-24, presented a day before the budget, also highlighted some of the economic security challenges facing India over the medium term, including what it called the 'China conundrum'. It also carried some hints suggesting the easing of FDI from China. Commerce and Industry Minister Piyush Goyal, however, clarified that there was no rethinking in the government to support Chinese investments into the country.

PM Modi's visit to the Russian Federation from July 8-9, 2024 resulted *inter alia* in a joint statement with President Putin on the development of nine key strategic areas of India-Russia economic cooperation up to the year 2030. Apart from increasing annual bilateral trade from the present US\$ 65 bn to around US\$ 100 bn, the roadmap drawn included the development of a bilateral settlement system using local currencies, diversification of trade corridors, and expanding cooperation in energy, infrastructure and the supply of fertilisers.

The visit to India on July 24 by the British Foreign Secretary, David Lammy, of the new Labour Party-led government, gave the opportunity for both sides to reaffirm their desire to seek the early conclusion of the ongoing bilateral FTA negotiations, and to achieve a mutually beneficial outcome. The two sides also launched a Technology Security Initiative that will be jointly coordinated by the respective national security advisers.

This issue of ESRR covers the outcome of the Third Plenum of the 20th Party Congress of China's Communist Party. What emerged from the final decisions of the Plenum is a clear indication that China will continue to employ industrial policies to further enhance its manufacturing capacities and trade dominance, particularly in strategic industries.

Italian PM Giorgia Meloni's five day visit to China from July 27, that resulted in a three year Action Plan signed with PM Li Qiang, is seen by analysts as an attempt at a re-set of bilateral trade and economic relations, after Italy's exit from the BRI last December.

Other developments covered in this issue of ESRR include Germany's recent bans against China in the technology sector; China's launch of a retaliatory probe on recent trade defense actions by the EU on certain Chinese products; and Indonesia's proposed move to impose safeguards/anti dumping duties on a swathe of products.

## Union Budget initiatives

The regular budget for the financial year 2024-25 that was presented by Finance Minister Ms. Nirmala Sitharaman on July 23, 2024 carried several new measures that could help advance India's economic security and resilience. These are briefly outlined below<sup>1</sup>.

### Easing FDI and Overseas investment rules and simplifying customs rates

The rules and regulations for foreign and overseas investment are proposed to be simplified to i) Facilitate FDI; ii) Nudge prioritisation; and iii) Promote opportunities for using the Indian Rupee as a currency for overseas investments. Furthermore, the government will also undertake a comprehensive review of the customs duty rate structure over the next six months to rationalise and simplify it for ease of trade, removal of duty inversion and reduction of disputes.

### Critical Minerals Mission

A critical minerals mission was announced for domestic production, recycling of critical minerals, and overseas acquisition of critical mineral assets. While India's Ministry of Mines has already in the last year taken some steps, including in identifying 30 critical minerals, and has also started a process for auctioning of exploratory and mining leases for critical minerals, the launch of a national mission in this area gives it added importance. Its mandate is proposed to include technology development, a skilled workforce, an extended producer responsibility framework, and a suitable financing mechanism.

In parallel, the budget also went ahead to fully exempt customs duties on 25 critical minerals including lithium, cobalt, copper and rare earth elements. It

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<sup>1</sup> See Speech of Finance Minister Smt. Nirmala Sitharaman available at [www.indiabudget.gov.in](http://www.indiabudget.gov.in)

also reduced the basic customs duty on graphite, silicon quartz and silicon dioxide to 2.5%.

## Solar energy

Deeming that energy transition was critical in the fight against climate change, the budget proposed to expand the list of exempted capital goods in the manufacture of solar cells and panels in the country. At the same time, in view of sufficient manufacturing capacity of solar glass and tinted copper interconnect, it has been proposed not to extend the exemption of customs duties provided to these two items.

## Roadmap for 'hard to abate' industries

A roadmap for moving the 'hard to abate' industries from 'energy efficiency' targets to 'emission targets' is to be formulated. Appropriate regulations for transition of these industries from the current 'Perform, Achieve and Trade' mode to 'Indian carbon market' mode will be put in place.

## Mobile phones and parts

The Finance Minister proposed to reduce the basic customs duty on mobile phones, mobile PCBA and mobile chargers to 15% from the current 20%. This step has been taken considering that the industry has matured, with a three fold increase in production and almost a hundredfold increase in exports in the last six years.

## Budget provides for more flexible ways of proving origin in FTAs

The Budget proposals also seek to amend Section 28 DA of the Customs Act, 1962 substituting 'proof' of origin against the earlier 'certificate' or 'declaration' of origin, in accordance with the trade agreement for substantiating a claim about rule of origin in the agreement. This is expected to allow for different types of proof of origin that could be introduced in future trade agreements. Indeed, India's FTA with EFTA countries signed earlier this year already has a provision for self-certification that can be activated if the parties to the agreement decide to do so. Several recent FTAs worldwide, including the CPTPP, provide for such enhanced modality.

## Economic Survey for 2023-24

Ahead of the budget presentation, the government released the Economic Survey<sup>2</sup> for the financial year 2023-24 which reported that India's real GDP grew by 8.2% during the year. Considering various domestic and global factors,

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<sup>2</sup> <https://www.indiabudget.gov.in/economicsurvey/>

the Survey conservatively projected a real GDP growth of 6.5 - 7% for FY 2024-25, even as it was noted that the expectations of the market were on the higher side. Interestingly, the Survey also had a chapter on the medium term outlook. Some of the challenges facing India from an economic security and resilience perspective mentioned there as briefly outlined below.

## Challenges over the medium term

The medium term growth outlook for the Indian economy was premised on certain key factors including the following:

- Increasing geoeconomic fragmentation and the consequent resource nationalism;
- A global trust deficit that is driving countries to pursue policies focussed on enabling them to become self-reliant and protect them from external shocks especially in sectors of strategic importance; balance between inward looking policies and outward looking policies is becoming more nuanced;
- Integration of climate change strategies into national development policy and planning is not merely an environmental imperative - it necessitates not only a trade-off between energy security and development on the one hand, but also energy transition on the other;
- Technology is becoming the biggest strategic differentiator.

## 'The China Conundrum'

In a separate section in the same chapter, the survey addressed the China factor, noting that the Chinese domination over the global supply chain across product categories has emerged a key global concern. This was also evident in China's near monopoly over the production and processing of critical and rare earth minerals. All these have significant repercussions for India's renewable energy programme, which is vulnerable because of its massive dependence on imported raw materials. Against this backdrop, the Survey argued that it may not be the most prudent approach to think that India can take up the slack from China vacating certain space in manufacturing. Recent data cast doubts on whether China was even vacating light manufacturing.

The Survey, therefore, considered the questions that India faced as:

- Is it possible for India to plug into the global supply chain without plugging itself into the Chinese supply chain?
- What is the right balance between importing goods and importing capital from China?

The survey noted that as countries attempted to reshore and friendshore, India's policy choices concerning China were exacting. While emerging market developing economies (EMDEs) were resorting to restrictions as a policy option in dealing with the Chinese challenge, it was pertinent to note the following:

- Chinese goods were so cheap, no amount of tariff can reduce their price competitiveness;
- Some Chinese goods can move past these restrictions since they are repackaged in third countries;
- China has also started retaliating against these restrictions. For example, on India's anti-dumping probe against Chinese entities, China is quietly blocking India's access to solar equipment.

The survey, therefore, postulated that to boost India's manufacturing and for India to plug into global chains, it was inevitable that India plugged into the China supply chain. Whether it was done solely relying on imports, or partially through Chinese investments, was a choice that India had to make.

When FM Nirmala Sitharaman was asked in a post budget interview about FDI from China, she said there may be discussions in some part of the government about it (and visa issues), but not before her. To a question if she thought a rethink was required on allowing FDI from China, she replied she had not applied her mind to it yet<sup>3</sup>. On the other hand, the Vice-Chairman of NITI Aayog Suman Beri said<sup>4</sup> that while India presently scrutinises FDI proposals from China on a case-by-case basis, what was needed, on the basis of experience, was a clearer set of guidelines since case-by-case review is slow. India does have an interest in getting investment from China, because China is surplus in savings and has got good technology.

This issue, however, appears to have been set at rest with a clarification by Commerce and Industry Minister Piyush Goyal on July 30 that there was no rethinking in the government to support Chinese investments into the country<sup>5</sup>. The Economic Survey speaks about some new ideas, but these were not binding on the government.

<sup>3</sup> [https://www.business-standard.com/economy/interviews/vision-setting-budget-for-viksit-bharat-124072500008\\_1.html](https://www.business-standard.com/economy/interviews/vision-setting-budget-for-viksit-bharat-124072500008_1.html)

<sup>4</sup> <https://navbharatlive.com/india/niti-aayog-said-india-needs-to-be-clear-about-approval-of-fdi-proposals-from-china-949192.html>

<sup>5</sup> [https://www.business-standard.com/economy/news/no-rethinking-to-support-chinese-investments-in-india-says-piyush-goyal-124073000600\\_1.html](https://www.business-standard.com/economy/news/no-rethinking-to-support-chinese-investments-in-india-says-piyush-goyal-124073000600_1.html)



## Progress in the implementation of PLI schemes

The economic survey also presented some details about the progress being made in the production linked incentive schemes (PLI) in the 14 sectors under implementation. So far, over Rs.1.28 lakh crores of investment was reported till May 2024 (as against an outlay of Rs. 1.97 lakh crores), which had led to production sales of Rs. 10.8 lakh crores and employment generation of over 8.5 lakhs. Exports as a result were boosted by over Rs.4 lakh crores, with significant contributions from sectors such as large scale electronic manufacturing, pharmaceuticals, food processing and telecom and networking products. The distribution amongst the different sectors of actual investments were as below.

### Actual sector-wise investment under the PLI schemes (in Rs. crores)

IT Hardware 2.0	417
Drones and Drone Components	595
Medical Devices	959
White Goods: ACs & LEDs	3181
Telecom & Networking	3402
Advance Chemistry Cell Battery	3406
Bulk Drugs	4033
Textile Products	4063
Food Products	7697
Electronics	8290
Specialty Steel	15520
Automobiles & Auto Components	17896
High Efficiency Solar PV	29233
Pharmaceuticals Drugs	29482

## PM Modi undertakes a visit to Russia

Prime Minister Narendra Modi paid an official visit to the Russian Federation on July 8-9 2024 at the invitation of President Vladimir Putin. Apart from an overall joint statement released at the conclusion of the visit, the two leaders also issued a joint statement<sup>6</sup> on the development of strategic areas of India-Russia economic cooperation up to the year 2030. Several bilateral agreements were signed between the corresponding agencies from the two sides. Among the outcomes, those that are of relevance to economic security and resilience are the following:

<sup>6</sup> [https://www.mea.gov.in/bilateral-documents.htm?dtl/37939/Leaders\\_Joint\\_Statement\\_on\\_the\\_development\\_of\\_strategic\\_areas\\_of\\_RussiaIndia\\_economic\\_cooperation\\_for\\_the\\_period\\_up\\_to\\_2030](https://www.mea.gov.in/bilateral-documents.htm?dtl/37939/Leaders_Joint_Statement_on_the_development_of_strategic_areas_of_RussiaIndia_economic_cooperation_for_the_period_up_to_2030)

- Bilateral trade target set at US\$ 100 bn for the year 2030 as against the trade level of US\$ 65 bn in 2023. Both sides to continue dialogue on removal of non tariff trade barriers in bilateral trade, increased exports from India to achieve greater trade balance, and establishing an FTA between India and the Eurasian Economic Union (EAEU);
- Development of a bilateral settlement system using national currencies. Continued dialogue for interoperability of their financial messaging systems and finding solutions for issues relating to insurance and reinsurance;
- Expanding logistics links through the launch of new routes on the North-South International Transport Corridor using the Chabahar port, the Chennai-Vladivostok Sealine and the Northern Sea route;
- Continued cooperation on sustainable supply of fertilisers to India from Russia on the basis of company to company long term contracts;
- Building on the robust and wide ranging cooperation in the energy sector and exploring new long term contracts. Development of further cooperation in nuclear energy, coal, oil refining, petrochemicals and energy infrastructure.
- Strengthening cooperation in infrastructure development, transport engineering, automobile production and ship building, space and other industrial sectors.

## UK Foreign Secretary visits India

The Secretary of State for Foreign, Commonwealth and Development Affairs of the UK, David Lammy, paid an official visit to India on July 24, 2024.

Two key outcomes<sup>7</sup> are relevant from a economic security standpoint. The first was a reiteration by the two sides of the importance they attached to the ongoing bilateral FTA negotiations and their resolve for an early conclusion to achieve a mutually beneficial FTA.

The second was the launch of the India-UK Technology Security Initiative (TSI) to elevate the strategic partnership between the two countries to the next level. TSI structurally is a mirror image of the iCET between India and the US in critical and emerging technologies, and is to be coordinated jointly by the NSAs of India and the UK. A fact sheet on the initiative has listed seven areas - telecoms, critical minerals, semiconductors, AI, quantum, biotechnology and healthcare, and advanced materials - and identified the various set of collaborative activities and the institutions which will be involved in each one of them. The progress made on TSI will be reviewed on a half yearly basis at the

<sup>7</sup> [https://www.mea.gov.in/press-releases.htm?dtl/37996/Visit\\_of\\_Foreign\\_Secretary\\_of\\_the\\_UK\\_to\\_India\\_July\\_24\\_2024](https://www.mea.gov.in/press-releases.htm?dtl/37996/Visit_of_Foreign_Secretary_of_the_UK_to_India_July_24_2024)

Deputy NSA level. A mechanism led by India's Ministry of External Affairs and the UK government, for promotion of trade in CETs, will also be set up to address resolution of relevant licensing and regulatory issues. The TSI will involve relevant stakeholders within the government, technology and research centres, industry and the academia in the two countries in each domain.

## Outcome of Third Plenum of China's 20th Party Congress

The 20th Party Congress of the Chinese Communist Party held its Third Plenum, which historically has focussed on economic policy and reform for the next five years, from July 15-18, 2024. The Plenum was also held in the backdrop of a slowing Chinese economy, weak domestic consumption, advancing global technological innovation amidst increasing export controls by the West, rising Chinese trade surpluses that were causing concerns worldwide, and declining foreign investment inflows into China. While the decision document of the Plenum was released on July 21 running into 18,000 words under 60 broad heads<sup>8</sup>, what are reproduced below are some key extracts of direct relevance from an economic security and resilience perspective.

- **Overall Objectives:** We will uphold and improve China's basic socialist economic systems, achieve greater self-reliance and strength in science and technology, and promote high-standard opening up. We will build a modernized economy, move faster to create a new pattern of development, and promote high-quality development.
- **Building a High-Standard Socialist Market Economy:** We will deepen reform of state capital and state-owned enterprises (SOEs).... All this will help state capital and SOEs get stronger, do better, and grow bigger, with their core functions and core competitiveness enhanced.
- **Promoting High-Quality Economic Development:** High-quality development is our primary task in building China into a modern socialist country in all respects.....We must deepen supply-side structural reform, improve incentive and constraint mechanisms for promoting high-quality development, and strive to create new growth drivers and strengths.
- **Improving the institutions and mechanisms for fostering new quality productive forces:** We will work to facilitate revolutionary breakthroughs in technology, innovative allocation of production factors, in-depth industrial transformation and upgrading..... We will establish a mechanism for ensuring funding increases for industries of the future, improve the policy and governance systems for promoting the development of strategic industries such as next-generation information technology, artificial

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<sup>8</sup> Accessed from <https://english.news.cn/20240721/342df6c6e05c4e1a9ce4f6e3b933007b/c.html>

intelligence, aviation and aerospace, new energy, new materials, high-end equipment, biomedicine, and quantum technology, and steer emerging industries toward sound and orderly development.

- **Improving the systems for enhancing the resilience and security of industrial and supply chains:** We will move faster to build industrial and supply chains that are self-supporting and risk-controllable, improve the institutions and mechanisms for bolstering key industrial chains such as integrated circuits, industrial machine tools, medical equipment, instruments, basic software, industrial software, and advanced materials, and strive to secure more technological breakthroughs that can be applied across entire industrial and supply chains. A mechanism will be put in place to assess and respond to industrial and supply chain risks.
- **Deepening the foreign trade structural reform:** We will better coordinate trade policies with fiscal, tax, financial, and industrial policies, create a set of systems and policies to support efforts to build China into a strong trading nation, step up reforms to integrate domestic and foreign trade, and actively respond to the trends of digital and green trade. (It further says 'Leveraging the strengths of China's enormous market, we will enhance our capacity for opening up')
- **Further reforming the management systems for inward and outward investment:** We will foster a first-rate business environment that is market-oriented, law-based, and internationalized and protect the rights and interests of foreign investors in accordance with the law. We will expand the catalog of encouraged industries for foreign investment, appropriately shorten the negative list for foreign investment, remove all market access restrictions in the manufacturing sector, and promote wider opening with regard to telecommunications, the internet, education, culture, medical services, and other sectors in a well-conceived way.
- **Improving the mechanisms for high-quality cooperation under the Belt and Road Initiative:** We will continue to implement the Belt and Road Science, Technology, and Innovation Cooperation Action Plan and redouble efforts to develop multilateral platforms for cooperation in green development, the digital economy, artificial intelligence, energy, taxation, finance, disaster mitigation, and other areas.
- **Improving the mechanisms for green and low-carbon development:** We will implement fiscal, tax, financial, investment, and pricing policies as well as standards to support green and low-carbon development, develop green and low-carbon industries, improve incentive mechanisms for eco-friendly consumer spending, and work toward an economy that facilitates green, low-carbon, and circular development.

- **Modernizing China's National Security System and Capacity:** We must fully apply a holistic approach to national security, improve the institutions and mechanisms for safeguarding national security, and ensure that high-quality development and greater security reinforce each other, so as to safeguard the country's long-term stability and security.
- **Improving the Party's Leadership:** Leadership by the Party provides a fundamental guarantee for further deepening reform comprehensively to advance Chinese modernization.....We must uphold Comrade Xi Jinping's core position on the Party Central Committee and in the Party as a whole and uphold the Central Committee's authority and its centralized, unified leadership.

Reform, modernisation, high quality development, and using new quality productive forces form running themes throughout the Plenum's Decision document, even as there is not much specificity about how they will be achieved. But it is clear that China will employ industrial policies to further enhance its manufacturing capacities and trade dominance, particularly in strategic industries. Leveraging the strengths of its large market finds particular mention. China's further opening up is underlined at several points, even as economic security measures and effective regulatory steps also figure prominently, all under the CCP's oversight and supervision. State owned enterprises will continue to thrive with their core competence and core functions enhanced. Supporting all-round innovation and technology development and nurturing the ecosystem for them and promoting talent development in this regard have been addressed expansively. Interestingly however, there is only a passing mention<sup>9</sup> about enhancing domestic consumption, a key concern of western countries, with the communique referring in part of a sentence to 'strive to expand domestic demand'.

All in all, if countries were expecting a more accommodating China that will address the concerns of several of its trading partners, they will be disappointed. Rather, the Plenum has pronounced a doubling down on China's existing priorities and direction, which will now require closer monitoring and smarter application of risk management, including by countries like India, which has a large trade deficit with the country.

## Italian PM visits China

It was the turn of Italian PM Giorgia Meloni to visit China, in what has been a series of recent high level visits exchanged between China and the EU member states. There appeared to be an attempt by the two sides to reset relations after Italy dropped out of China's Belt and Road Initiative in December last year. Following Meloni's meeting with the Chinese PM Li Qiang on July 28, 2024 the

<sup>9</sup> [http://en.cppcc.gov.cn/2024-07/19/c\\_1006186.htm](http://en.cppcc.gov.cn/2024-07/19/c_1006186.htm)

two sides signed a three year Action Plan to strengthen their global partnership. Six bilateral agreements were also signed regarding industrial collaboration, protection of geographical indications, food security, the environment and education<sup>10</sup>. Analysts noted that these efforts seemed aimed at averting a trade war between China and the EU (notwithstanding several trade actions in recent months and retaliations), and underlined Italy's continued interest in attracting Chinese investments in auto manufacturing and other sectors.

PM Meloni also met with President Xi Jinping on July 29. Italian government sources described the discussions as covering the bilateral agenda, from economy and trade to collaboration in science and culture. PM Meloni reportedly stressed the importance of balanced and mutually beneficial cooperation<sup>11</sup>.

Chinese government sources indicated that Xi told Meloni that both sides faced important opportunities for mutual development - "If countries are connected they will advance together. If they are closed they will retreat". Xi further stated that China and Italy should uphold the spirit of the Silk Road so that the bridge of communication between the East and the West through it can rebound to a new era<sup>12</sup>.

## China launches retaliatory probe into EU practices in foreign subsidy investigations

China's Ministry of Commerce launched a trade and investment barrier probe on July 10, 2024 into EU's practices in its foreign subsidy investigations<sup>13</sup>. The investigations will cover the practices followed by the EU under its foreign subsidies legislation in sectors such as locomotives, photovoltaic cells, wind turbines and security check equipment (Interestingly, the EU's investigations on electric vehicles has not been mentioned, presumably because China probably is still hoping for a favourable decision although provisional duties have been imposed by the EU). The Chinese investigation is to conclude by January 10, 2025 and it could be extended up to April 10, 2025 under special circumstances.

## Germany introduces some tech related bans vis-a-vis China

German authorities have blocked the sale of MAN Energy Solutions' gas turbine business to a Chinese company Long Jiang GH Gasturbines, which is a subsidiary of China State Shipbuilding Corporation that also manufactures

<sup>10</sup> <https://www.governo.it/en/articolo/president-meloni-meets-premier-li-qi-ang-during-official-visit-china/26320>

<sup>11</sup> <https://www.governo.it/en/articolo/president-meloni-meets-president-xi-jinping/26332>

<sup>12</sup> [https://english.www.gov.cn/news/202407/29/content\\_WS66a7916cc6d0868f4e8e98f2.html](https://english.www.gov.cn/news/202407/29/content_WS66a7916cc6d0868f4e8e98f2.html)

<sup>13</sup> <https://english.news.cn/20240710/6f5cfc9916dc459ab302bf019a8962db/c.html>

engines for Chinese warships. The decision was reportedly<sup>14</sup> made based on the importance of protecting 'technologies relevant to public security'.

Germany has also finally ordered its mobile carriers to fully remove Chinese components within their domestic 5G networks by 2029<sup>15</sup>. This two stage ban will have an earlier phase-out by 2026 of Chinese equipment supplied to core networks including data centers. The second phase will require the German mobile carriers to remove all Chinese equipment from the broader network and transmission sites, such as radio antennas by 2029.

### **Indonesia plans protective import duties on a range of items**

Indonesian trade minister Zulkifli Hasan has announced that Indonesia will impose safeguard duties of 100 to 200% on imports of seven sets of products that include textiles, textile products, ready made garments, footwear, cosmetics, ceramics and electronics. He stated that if there is a flood of imports of these items, the micro, small and medium enterprises in Indonesia could collapse. While the proposal has apparently received high level approval, he was also reported as saying that the seven imported commodities will be reviewed by the safeguards and anti-dumping committees of Indonesia<sup>16</sup>.

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<sup>14</sup> See 'Germany vetoes sale of sensitive turbine unit to Chinese Group' by Sam Jones, Financial Times, July 3, 2024

<sup>15</sup> See 'Germany orders ban on Chinese companies from its 5G network' by Sam Jones, Financial Times, July 11, 2024

<sup>16</sup> <https://en.tempo.co/read/1888755/indonesia-to-impose-import-duties-on-7-commodities-from-various-countries>



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

[www.delhipolicygroup.org](http://www.delhipolicygroup.org)