



Delhi Policy Group

Advancing India's Rise as a Leading Power



ECONOMIC SECURITY AND RESILIENCE REVIEW SEPTEMBER 2024

Author

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Volume II, Issue 9



Delhi Policy Group

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www.delhipolicygroup.org



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Cover Images:

Prime Minister Narendra Modi meeting with the President of the USA, Mr. Joseph R Biden at Greenville, Delaware, in USA on September 21, 2024. (Source: [PM India/Official Website](#))

Prime Minister Narendra Modi in group photograph ahead of the Quad Leaders' Summit at Wilmington, in USA on September 22, 2024. (Source: [PM India/Official Website](#))

Prime Minister Narendra Modi meets Prime Minister of Singapore, Lawrence Wong, in Singapore on September 5, 2024. (Source: [PM India/Official Website](#))

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

This month's ESRR looks at how advancing cooperation in high technology, manufacturing, semiconductors and clean energy, was a key theme in each of the three summit level meetings in which PM Narendra Modi participated during the month.

At Singapore, PM Modi and PM Lawrence Wong took forward the preparatory work done last month by the unique India-Singapore Ministerial Roundtable under each of the six pillars of sustainability, digitalisation, skills development, healthcare and medicines, advanced manufacturing, and connectivity.

In Wilmington, the summit meeting between President Biden and PM Modi delivered a string of outcomes that included the decision to establish a semiconductor fabrication plant that will focus on advanced sensing, communications and powertronics for national security, next generation telecom and green energy applications.

The Quad summit meeting of Australia, India, Japan and the US held in Wilmington on September 21 demonstrated how the initiative is acquiring depth and scope in seeking to become a global force for good in the Indo-Pacific region. The Wilmington Declaration dealt with a range of areas, from supply chain resilience to disaster preparedness, and from maritime domain awareness to deployment of digital public infrastructure.

Yet another development of note is the manner in which the Minerals Security Partnership Forum (MSPF) is evolving in terms of expanded membership, increase in the number of its projects to 32, and the formation of a new Minerals Security Financing Network that has participation by development finance and export credit agencies of member countries. The MSPF partners, including, India met in New York on September 27, 2024.

The month also witnessed several new export control measures on quantum computing and certain chip related equipment put in place by the US, which is also proposing to introduce restrictions on sale of connected vehicles manufactured by China or Russia. Meanwhile, the additional duties imposed by the US under its Section 301 on Chinese imports have come into force from

September 27, 2024. No details were available about the final outcome from the fifth meeting of the Economic Working Group between the US and China that met in Beijing.

An analysis from the European Central Bank has detailed how it has become tougher for the EU to face economic competition from China. This issue also highlights elements of the report submitted by Mario Draghi, the former PM of Italy, to the President of the EU Commission on how to strengthen the EU's competitiveness.

As for India related developments, this ESRR covers the ninth round of the India-EU FTA negotiations that were held in New Delhi from September 23-27, 2024. The Union Steel Ministry is also reported to have recommended to the Ministry of Finance to double the import duties on steel from China, in view of a strong surge in their imports.

PM Modi visits Singapore

Prime Minister Narendra Modi paid an official visit to Singapore from September 04-05, 2024 at the invitation of Singapore PM Lawrence Wong. They reviewed¹ the outcome of the India-Singapore Ministerial Roundtable held in August 2024 (see ESRR- August 2024) and commended the progress made under the six pillars of focus - Sustainability, Digitalisation, Skills Development, Healthcare and Medicines, Advanced Manufacturing, and Connectivity. Particularly noteworthy from an economic security perspective was the signing of the MOU on India-Singapore Semiconductor Ecosystem Partnership. The two Prime Ministers also visited the premises of AEM, a leading Singaporean company in semiconductors and electronics. The leaders also underscored the potential of increasing cooperation in the areas of green hydrogen and green ammonia.

PM Modi's bilateral meeting with President Biden in Wilmington

With much preparatory work undertaken beforehand, the summit meeting between PM Narendra Modi and President Joe Biden had several outcomes of relevance to bilateral cooperation in the areas of high technology and research,

¹ https://www.mea.gov.in/bilateral-documents.htm?dtl/38263/IndiaSingapore_Joint_Statement_during_the_visit_of_Prime_Minister_Shri_Narendra_Modi_to_Singapore_September_0405_2024

critical minerals, semiconductors and clean energy². Their joint statement outlined/commended several initiatives that included the following:

- The establishment of a semiconductor fabrication plant that will focus on advanced sensing, communications and powertronics for national security, next generation telecom and green energy applications. The objective will be to manufacture infrared, gallium nitride and silicon carbide semiconductors. It will involve support from India Semiconductor Mission, as well as strategic technology partnership between Bharat Semi, 3rd iTech and the US Space Force.
- Global Foundries (GF) creation of the GF Kolkata Power Center in Kolkata that will enhance mutually beneficial linkages in research and development in chip manufacturing, and enable game changing advances for zero and low emission as well as connected vehicles, internet of things devices, AI and data centres.
- The bilateral plan to mobilise up to US\$ 90+ mn in US and Indian government funding over the next 5 years for the US-India Global Challenges Institute to support high impact partnerships between the US and Indian universities and research institutes.
- The launch of a new US-India Advanced Materials R&D Forum to expand collaboration between American and Indian universities, national laboratories and private sector researchers.
- US and India to work together to unlock US\$ 1 bn of multilateral financing to support projects across the clean energy value chain for the renewable energy sectors.
- Bilateral collaboration on a new National Centre for Hydrogen Safety in India.

Quad leaders' summit and their Wilmington Declaration

President Joseph R. Biden, Jr. hosted Prime Minister Anthony Albanese of Australia, Prime Minister Kishida Fumio of Japan, and Prime Minister Narendra Modi of India in Wilmington, Delaware, for the fourth Quad Leaders' Summit on September 21, 2024. Established as a global force for good in the Indo-Pacific region, this fourth in-person summit in four years (sixth if the two virtual summits are also counted) showed further consolidation of institutional collaboration between the four members, as well as the outreach cooperation that the Quad is evolving in several key areas, ranging from healthcare to

² https://www.mea.gov.in/bilateral-documents.htm?dtl/38323/Joint_Fact_Sheet_The_United_States_and_India_Continue_to_Expand_Comprehensive_and_Global_Strategic_Partnership

disaster preparedness, maritime domain awareness to deployment of digital public infrastructure. Of particular direct relevance to economic security and resilience were progress on the following³ elements as reflected in their joint Wilmington Declaration:

- Finalisation of a memoranda of cooperation among export credit agencies of the Quad countries to support supply chain resilience, critical and emerging technologies, renewable energy, and other high-quality projects in the Indo-Pacific;
- Finalization of a Memorandum of Cooperation for the Semiconductor Supply Chains Contingency Network to facilitate collaboration in addressing semiconductor supply chain risks;
- Australia will open applications for the Quad Clean Energy Supply Chains Diversification Program in November, providing AUD 50 million to support projects that develop and diversify solar panel, hydrogen electrolyzer and battery supply chains.
- India will invest \$2 million in new solar projects in Fiji, Comoros, Madagascar, and Seychelles.
- Japan has committed to \$122 million grants and loans, both public and private, in renewable energy projects in the Indo-Pacific
- The United States, through the DFC, has extended a \$250 million loan to Tata Power Solar to construct a solar cell manufacturing facility and a \$500 million loan to First Solar to construct and operate a solar module manufacturing facility in India;
- On Artificial Intelligence (AI), the Quad announced an inaugural \$7.5+ million in funding opportunities for joint research, and highlighted the recent signing of a Memorandum of Cooperation among the four countries' science agencies to connect research communities and advance shared research principles.
- Quad Investor Network (QIN) supported 10 major investments and partnerships across the Quad in critical minerals, renewable energy, cybersecurity and aerospace sectors.
- Under Sea cable connectivity, Quad infrastructure fellows and expansion of Open RAN collaboration to deliver trusted technology solutions.
- Quad Development Finance Institutions and Agencies deciding to meet to explore future investments by the four countries in the Indo-Pacific,

³ https://www.mea.gov.in/bilateral-documents.htm?dtl/38320/The_Wilmington_Declaration_Joint_Statement_from_the_Leaders_of_Australia_India_Japan_and_the_United_States

including in health security, food security, clean energy, and quality infrastructure.

The next Quad summit meeting will be held in India in 2025.

Minerals Security Partnership advances further

India has become a part of a newly created initiative called the Minerals Security Finance Network (MSFN) on September 23 in New York, which is an offshoot of the Minerals Security Partnership Forum (MSPF), a framework established in 2022. India was inducted to the MSPF in June 2023. Under this new MSFN initiative, signatory nations acknowledged that the scope and scale of meeting the rapidly increasing global demand for critical minerals to achieve the proposed clean energy transition was “beyond the purview of any single institution” and that the public sector and private sector in member countries “would need to work together to deploy capital into new and existing markets in this sector”. MSFN brings together DFIs (development finance institutions) and ECAs (export credit agencies) from the participating nations to “create synergies, and increase impact”. “The participating DFIs and ECAs discussed, including with representatives from the private sector, how they can work together to meet this challenge,” the Joint Statement on Establishment of the MSFN said.

The MSPF’s Principals themselves met in New York from September 26-27, on the sidelines of the UN General Assembly. Seven new members were also inducted - Democratic Republic of the Congo, the Dominican Republic, Ecuador, the Philippines, Serbia, Türkiye, and Zambia. MSPF members discussed opportunities, priorities, and challenges in responsible mining, processing, and recycling of critical minerals, with participation from ministers and high-level officials from MSPF members.

Their joint statement of September 27 noted⁴ that the number of MSPF projects had risen to 32 and included 19 projects focussed on upstream mining and mineral extraction, 15 on midstream processing, and 3 on recycling and recovery. Of these, 10 projects included rare earth elements, 6 graphite, 6 cobalt, 3 nickel, 2 copper, 2 lithium, 1 high-purity aluminum, 2 gallium, 2 germanium, and 1 manganese. The statement noted that some projects produced more than one mineral type. Also 13 project sites were located in Africa, 8 project sites in

⁴ <https://www.state.gov/joint-statement-of-the-minerals-security-partnership-principals-meeting-2024/>

the Americas, 6 project sites in the Asia-Pacific region, and 5 project sites in Europe.

US imposes quantum computing and other export curbs

The US Department of Commerce issued a Press Release on September 5, 2024 about the publication⁵ of an interim final rule (IFR) for implementing export controls on critical and emerging technologies, on which it said it had reached a broad agreement with its international partners. The rule will be finalised after receiving stakeholder feedback. The worldwide export controls proposed include following specific items:

- Quantum Computing Items: quantum computers, related equipment, components, materials, software, and technology that can be used in the development and maintenance of quantum computers.
- Advanced Semiconductor Manufacturing Equipment: tools and machines that are essential for the production of advanced semiconductor devices.
- Gate All-Around Field-Effect Transistor (GAAFET) Technology: technology that produces or develops high-performance computing chips that can be used in supercomputers.
- Additive Manufacturing Items: Equipment, components and related technology and software designed to produce metal or metal alloy components.

It was added that these global export controls, aimed at countries of concern, will also be built in with a new license exception for trusted partners.

US Section 301 tariffs on several Chinese products become effective

On September 13, 2024, the United States Trade Representative (USTR) announced⁶ the final Section 301 tariff increases on imports from China, following its original proposal in May 2024. Covered items are electric vehicles, EV batteries, battery parts, respirators and facemasks, syringes and needles, ship-to-shore gantry cranes, solar panel cells and modules, steel and aluminum products, and certain critical minerals imported from China. They will face higher tariff rates ranging between 25% and 100% beginning on September 27, 2024. USTR Katherine Tai stated "Today's finalized tariff

⁵ <https://www.bis.gov/press-release/department-commerce-implements-controls-quantum-computing-and-other-advanced>

⁶ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2024/september/ustr-finalizes-action-china-tariffs-following-statutory-four-year-review>

increases will target the harmful policies and practices of the People's Republic of China that continue to impact American workers and businesses".

Tariffs on semiconductors, respirators and facemasks, syringes and needles, medical gloves, lithium-ion non-electrical vehicle batteries, permanent magnets, and natural graphite will increase further in 2025 and 2026. It was reported that the Office of USTR is also considering issuing additional tariff increases for tungsten, polysilicon, and wafers.

US proposes prohibition on sale of connected vehicles from China and Russia

The US Department of Commerce published a Notice⁷ of Proposed Rulemaking (NPRM) on September 23, 2024 that would prohibit the sale or import of connected vehicles integrating specific pieces of hardware and software, or those components sold separately, with a sufficient nexus to the People's Republic of China (PRC) or Russia. The proposed rule focuses on hardware and software integrated into the Vehicle Connectivity System (VCS) and software integrated into the Automated Driving System (ADS).

US National Security Adviser Jake Sullivan was reported to have stated "Today, the US government is taking strong action to protect the American people, our critical infrastructure, and automotive supply chains from the national security risks associated with connected vehicles produced by countries of concern. While connected vehicles yield many benefits, the data security and cybersecurity risks posed by software and hardware components sourced from the PRC and other countries of concern are equally clear, and we will continue to take necessary steps to mitigate these risks and get out ahead of the problem".

Fifth meeting of the Economic Working Group between the US and China

The fifth meeting of the US-China Economic Working Group, led respectively by Jay Shambaugh, Under Secretary for International Affairs at the U.S. Treasury, and Liao Min, Vice Minister of Finance at China's Ministry of Finance, was held in Beijing from September 19-20, 2024. The official read out of the meeting from the US Treasury's side⁸ was very brief, conveying that the discussions began by the two sides exchanging views on policies that support balanced growth in the domestic and global economies. U.S. officials also

⁷ <https://www.bis.gov/press-release/commerce-announces-proposed-rule-secure-connected-vehicle-supply-chains-foreign>

⁸ <https://home.treasury.gov/news/press-releases/jy2595>

reportedly continued discussions related to issues of concerns raised during Secretary Janet L. Yellen's visit to China in April, including signs of increasing overcapacity in certain sectors of the Chinese economy, China's non-market policies and practices and their impact on U.S. workers and firms, as well as Chinese firms' support for Russia's war in Ukraine. The meeting sessions concluded with the two sides sharing views on domestic macroeconomic outlooks and discussions on areas of cooperation, including debt issues and financing challenges in emerging and developing economies.

A few days after the meeting, and after the announcement by China of some stimulus measures, Jay Shambaugh responded saying that "it is an important step that they are acknowledging that domestic demand needs to go faster and that they need to support their growth with consumption and with domestic demand".

ECB findings on competition with China

Six economists of the European Central Bank (ECB) have analysed why competition with China was getting tougher for the EU countries. Some of their key findings include:

- Global non-energy goods export market share of the EU has come down from 26.5% in the year 2000 to about 17% in 2023, as against China's which has gone up from 7% to 21% during this period;
- The number of sectors in which both the Euro area and China have Revealed Comparative Advantage - meaning they export more in these sectors than the world average - has steadily increased in recent years from around 23% in 2003 to close to 40% in 2022.
- The Real Effective Exchange Rate (REER) of the Euro area vis-à-vis the Chinese yuan, which is the effective exchange rate divided by a price deflator or index of costs, has gone up from an indexed 100 in January 2021 to 121 this year, meaning the Euro area's competitive loss vis-a-vis China is around 20%. This is primarily due to an unfavourable price evolution, considering that the nominal Chinese Yuan-Euro exchange rate remained broadly stable since 2021. On the other hand, the REER of the EU area excluding China measured 99⁹.
- China is also investing substantially in additional export shipping capacity. Scheduled delivery of additional shipping vessels is projected to increase

⁹ <https://www.ecb.europa.eu/press/blog/date/2024/html/ecb.blog240903~57f1b63192.en.html>

China's annual export capacity of cars multiple times between 2023 and 2026.

Much awaited Draghi report presented

Former Italian Prime Minister Mario Draghi presented to the EU Commission President Ursula Von der Layen on September 9, 2024, a report on 'The future of European competitiveness' that he had been commissioned to undertake. Calling the situation facing Europe an "existential challenge", the report outlined how EU companies were now facing greater competition from abroad and were securing lower access to markets, and the abrupt loss of its most important energy supplier, Russia. The report recommends three main areas of action which are:

- The European Union must profoundly refocus its collective efforts on closing the innovation gap with the US and China, especially in advanced technologies. Europe is stuck in a static industrial structure with few new companies rising up to disrupt existing industries or develop new growth engines.
- Second area of action is a joint plan for decarbonisation and competitiveness. If Europe's ambitious climate targets are matched by a coherent plan to achieve them, decarbonisation will be an opportunity for Europe. But if it fails to coordinate its policies, there is a risk that decarbonisation could run contrary to competitiveness and growth.
- The third area for action is increasing security and reducing dependencies. Europe is particularly exposed. It relies on a handful of suppliers for critical raw materials, especially China, even as global demand for those materials is exploding owing to the clean energy transition. Europe is also hugely reliant on imports of digital technology. For chips production, 75-90% of global wafer fabrication capacity is in Asia.

The report calls on the EU to raise investment by an additional €800bn (5% of EU GDP in 2023) per year to boost Europe's competitiveness and resilience.. The report further contains valuable data and policy prescriptions¹⁰ which are of relevance to India as well, even as the two economies are at very different stages of development. It is also of interest that the report argues for drawing up preferential trade agreements, directing investment with resource-rich

¹⁰See also https://www.delhipolicygroup.org/uploads_dpg/publication_file/the-china-factor-in-indias-economic-security-5195.pdf

nations, building up stockpiles in selected critical areas, and creating industrial partnerships to secure the supply chain of key technologies.

Ninth Round of India-EU FTA negotiations held

The ninth round of India-EU FTA negotiations was held in New Delhi from September 23-27, 2024. A media release from the Indian Department of Commerce noted that the discussions focussed on principles of fairness and reciprocity. While no further details were made available, prior to the meeting, it was reported¹¹ that the discussions will have a 12-point agenda including deforestation, electric vehicles, sustainability, carbon tax or Carbon Border Adjustment Mechanism (CBAM), sanitary and phytosanitary (SPS) measures, technical trade barriers, textiles, in-service benefits for IT professionals, trade of more goods and services, and taxes on liquor.

Surge in steel imports from China leads to call for doubling duties

The Ministry of Steel in India is seeking a 100 per cent increase in basic customs duty on the import of the metal, raising it to 15 per cent from the existing 7.5 per cent¹². Acknowledging that there is a surge in imports from China, amounting to almost one-third (33 per cent approx) of total steel imports, the Ministry has also cited its own internal assessment, while recommending to the Finance Ministry that safeguards, similar to those implemented by some other economies like the European Union, the USA and others, should be considered,

¹¹ <https://www.livemint.com/economy/ninth-round-of-india-eu-fta-talks-duty-relief-on-textile-products-carbon-tax-sustainability-evs-11726997904221.html>

¹² <https://www.thehindubusinessline.com/economy/steel-ministry-calls-for-urgent-measures-doubling-customs-duty-to-counter-chinese-steel-surge/article68709792.ece>



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