



Delhi Policy Group

Advancing India's Rise as a Leading Power



ECONOMIC SECURITY AND RESILIENCE REVIEW DECEMBER 2024

Author

V.S. Seshadri

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Cover Images:

US President-elect Donald Trump laid out his administration's priorities at the AmericaFest, a political event in Phoenix hosted by Turning Point USA, on December 22, 2024. Source: [X/@realDonaldTrump](#)

Chinese President Xi Jinping meeting leaders of the major international economic organisations, in Beijing, on December 10, 2024. Source: [X/@SpokespersonCHN](#)

The leaders of the signatory state parties of MERCOSUR – the Republic of Argentina, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay and the European Commission - concluded negotiations of the Partnership Agreement between the two regions, on December 6, 2024. Source: [X/@tamaraty_EN](#)

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Economic Security and Resilience Review

by

V. S. Seshadri

Introduction

This issue of ESRR flags the uncertainty marking the new year as the Trump-2 administration prepares to assume office on January 20, 2025. In so far as India is concerned, the US President-elect calling out India's high tariffs at a news conference on December 16, and his reference to reciprocity in this regard, are reminders that the tariff issue is going to be a tough one to navigate. Similarly, the evolving narrative, unleashed by Trump's MAGA (Make America Great Again) activists, about the H1B visa programme used by skilled professionals, and the OPT programme used by foreign students in the US for gaining practical experience, are a cause for concern, both for the numerous Indian users of these programmes and the Indian and US businesses depending on them.

Messages coming from China are also mixed. At an year end symposium focussing on the international situation and China's foreign relations, Chinese Foreign Minister Wang Yi talked about¹ how India and China have at the highest level agreed to to step up strategic communication, safeguard peace and tranquility in the border areas, and strive to bring the bilateral relationship back to the track of stable development at an early date. At the same time, the announcement regarding the building of the world's largest dam across the Brahmaputra, in an ecologically sensitive area close to the Indian border in eastern Tibet, raises economic security concerns in downstream areas in India that depend on these water resources, as well as in Bangladesh.

On the FTA front, this month's ESRR looks at India and Australia taking stock after ten rounds of CECA negotiations and charting a way forward. This is even as elections in Australia in the month of May this year may lead to some delay in the CECA's finalisation.

Industry and Commerce Minister Piyush Goyal meeting the EU Ambassadors and conveying that the India-EU FTA negotiations need political direction indicates some expectation of flexibilities on sustainability issues from the EU. A non-paper outlining transition period possibilities has also been handed over. But with the EU finalising the EU-MERCOSUR FTA agreement during the

¹ https://www.mfa.gov.cn/eng/wjbzhd/202412/t20241218_11497818.html



month, a development reviewed in some detail in this report, with strong commitments on the sustainability front, may make this more challenging.

This report also covers Chinese President Xi Jinping's meeting with the heads of ten major international economic organisations, where he gave his perspective on ongoing international economic developments and China's approach to them, as well as on US-China relations. China's announcement of some policy stimulus initiatives, including implementing a 'moderately loose' monetary policy, was another highlight.

The month also saw the Biden Administration in its final days stepping up curbs targetted on China, not only in respect of advanced semiconductor making but also commencing investigations on anti-competitive practices in relation to the legacy semiconductor chips used in a multitude of sectors, from automotives to medical devices. China has also taken some retailory actions and launched an anti-monopoly investigation against the US company Nvidia.

The report further covers other developments, including the Indian Supreme Court's ruling against the Swiss company Nestle, US imposition of tariffs on solar panels from South East Asian countries for their Chinese content, and the announcement by China's largest battery maker CATL and the European carmaker Stellantis to set up a Euro 4.1 bn lithium battery plant in northern Spain.

President - elect Donald Trump talks of tariff reciprocity in relation to India

In reply to a question at a news conference on December 16, President-elect Donald Trump² named India and Brazil being among the countries that impose high tariffs on certain products and indicated that his administration would reciprocate. Explaining, he said "The word reciprocal is important because if somebody charges us — India, we don't have to talk about our own — if India charges us 100 per cent, do we charge them nothing for the same? You know, they send in a bicycle and we send them a bicycle. They charge us 100 and 200. India charges a lot. Brazil charges a lot. If they want to charge us, that's fine, but we're going to charge them the same thing".

Trump's Commerce Secretary nominee Howard Lutnick further reaffirmed this approach, saying that 'reciprocity' is something that is going to be a key issue

² <https://economictimes.indiatimes.com/news/economy/foreign-trade/trump-says-india-charges-a-lot-of-tariff-threatens-to-impose-reciprocal-tax/articleshow/116417441.cms?from=mdr>



for the Trump administration, adding “How you treat us is how you should expect us to be treated”.

Trump-2 administration’s agenda on H1B foreign workers

A controversy has arisen about the future of the H1B-visa programme of the US, which allows US companies to employ highly skilled foreign workers in specialised fields such as technology and engineering. The controversy began after the far-right political activist in the US, Laura Loomer, took to social media and attacked the continued use and expansion of the H1B visa programme. Recognised as a MAGA Republican, she also criticised Trump’s appointment of Indian-American entrepreneur Sriram Krishnan as an adviser on AI policy. This provoked a robust defence of the H1B programme both by Elon Musk and Vivek Ramaswamy, both of them entrepreneurs picked by Trump to lead the newly created Department of Government Efficiency. To at least temporarily end the debate, President-elect Trump had to intervene by declaring that he was in favour of the H1B program: “I’ve always liked the visas, I have always been in favor of the visas. That’s why we have them.” Subsequently, Elon Musk has also softened his favourable stance, after pledging days before of going to war in defence of the H-1B programme, by stating that the H1B system is ‘broken’ and in need of ‘major reform’. Musk has argued that the system could be easily fixed by raising the minimum salary significantly and adding a yearly cost for maintaining the H1B. Clearly, the last word on this issue has not been spoken.

Meanwhile, the MAGA activists have now also turned their attention to the OPT (Optional Practical Training) programme of the US that helps foreign students and graduates who come to the US to remain in the country for upto three years to gain work experience. They are arguing that OPT has evolved into a tool to secure US jobs and a pathway for securing long-term work visas like the H1B.

These evolving narratives should be a significant source of concern for H1B holders, a large number of whom are Indian nationals, and the vast number of Indian students in the US under the OPT programme availing the benefit of practical work experience in the US. This would also be a worry for several US and Indian businesses, including in the IT sector, who rely on the availability of H1B professionals for their skill needs.

FM Nirmala Sitharaman cautions Indian industry against risk concentration

In her address³ to the Confederation of Indian Industry, the Finance Minister Nirmala Sitharaman drew attention to economic security and resilience issues. She particularly advised the industry to realign its supply chains factoring in political and strategic considerations to ensure that there was no concentration of risks. Noting that economic concentration risks were playing out in so many different ways and that just economics will not prevail, she cautioned the industry that economic and commercial considerations today will have to blend economy and its priorities with politics and strategic sense.

China to build the world's largest hydropower dam over the Brahmaputra river

In what could become a huge economic security risk for downstream countries India and Bangladesh, China has approved⁴ the construction of the world's largest hydropower dam on the Brahmaputra river on the eastern rim of the Tibetan plateau. As per the estimate of the Power Construction Corporation of China, the project could produce 300 billion kilowatt-hours of electricity annually. That would more than triple the 88.2 billion kWh designed capacity of the Three Gorges Dam, currently the world's largest, in central China. As per the news agency Xinhua, the project will also play a major role in meeting China's carbon peaking and carbon neutrality goals, stimulate related industries such as engineering, and create jobs in Tibet. The project's total investment might surpass one trillion yuan or US\$ 137 bn, exceeding any other infrastructure project globally.

Defending the project, China's foreign ministry spokesperson Ma Ning stated that "China has always been responsible for the development of cross border rivers and the hydropower development in Tibet has been studied in an in-depth way for decades and safeguard measures have been taken for the security of the project, and ecological and environmental protection". She added that the project will not affect lower reaches, and further stated that "China will continue to maintain communication with countries in the lower reaches through existing channels and step up international cooperation on disaster prevention and relief".

³ <https://timesofindia.indiatimes.com/business/india-business/realign-supply-chains-avoid-risk-concentration-fm-sitharaman-to-cos/articleshow/116228755.cms>

⁴ <https://www.indiatoday.in/amp/world/story/china-plans-to-build-worlds-largest-dam-on-brahmaputra-near-india-border-2655808-2024-12-26>

India and Australia take stock of FTA progress

India and Australia held a 3-day stock taking meeting⁵ from December 4-6, 2024, now that the two countries had completed ten rounds of negotiations on a comprehensive economic cooperation agreement (CECA), the tenth round having been held in August 2024. Both sides emphasised their shared commitment to ensuring that CECA delivers meaningful benefits and balanced outcomes for both countries and outlined a path forward. The discussions also centred on market modalities that align with India's food security objectives. Optimism was expressed about the future of CECA and the broader India-Australia economic partnership. It was reported that the discussions have paved the way for further collaboration, particularly in areas such as agricultural innovation, market access and supply chain resilience. At the same time, finalisation of the CECA may get delayed because of Australian elections scheduled for the month of May this year⁶.

India proposes 'transition period' for EU green norms

The Union Minister of Commerce and Industry Piyush Goyal interacted with Ambassadors of the EU countries on December 12, 2024 when he also reviewed⁷ issues relating to the ongoing India-EU FTA negotiations. Drawing attention to the growing proximity and rising trade between India and the EU, he said that both sides were aiming for a balanced, ambitious, comprehensive and mutually beneficial Free Trade Agreement (FTA). In this context, he pointed out that the FTA negotiations, after 9 rounds of intense engagement, may now need political directions to arrive at a commercially meaningful deal while understanding the sensitivities of each other. The Minister further underlined that any sustainability discussions must appreciate the principle of 'Common But Differentiated Responsibility (CBDR)' and implementation of such measures should take into account differing paths of development. He added that the Indian economy was expected to grow at 7-8% annually to become the third largest economy in the world over the next few years.

Separately, was reported that India has⁸ also shared a non-paper (discussion paper) with the EU to convey its point of view regarding the disruption the EU regulations relating to CBAM and deforestation would cause, including the due diligence required for their implementation. India has apparently emphasised

⁵ <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2082297>

⁶ https://www.business-standard.com/economy/news/free-trade-deal-may-get-delayed-as-australia-approaches-2025-elections-124122900299_1.html

⁷ <https://pib.gov.in/PressReleasePage.aspx?PRID=2083565>

⁸ https://www.business-standard.com/economy/news/india-lays-stress-on-transition-period-for-european-union-green-norms-124121200948_1.html



the need for a transition period for Indian companies to transition to production of items such as green steel, and may also need collaboration with the EU in that journey. India also believed it was crucial to keep in mind the principle of common but differentiated responsibility and respective capability (CBDR-RC). It is expected that the EU side will respond, and then both sides can negotiate.

Nestle ruling gets reversed in the Supreme Court

In a significant ruling⁹, the Supreme Court of India reversed an earlier Delhi High Court judgement which favoured the Swiss company Nestle, where the Swiss company sought the refund of the withholding tax on the plea of application of the MFN (Most Favoured Nation) clause provided for in the protocol signed between the the two countries on August 30, 2010 under the bilateral Double taxation avoidance agreement (DTAA). As per this provision, if India, under any agreement with a third country that is a member of the OECD, limits its taxation at source on dividends, royalties or fees for technical services at a lower rate than that provided for in the India-Switzerland DTAA, then the same rate will apply from the date on which it comes into force.

India signed double taxation conventions (DTCs) with Lithuania and Colombia in 2011 under which it provided for a withholding tax of 5% for both the countries. Subsequently, Lithuania and Colombia joined the OECD in July 2018 and April 2020 respectively. In August 2021, the Swiss authorities confirmed that Indian tax residents receiving dividends from Swiss sources could, for dividends falling due on or after July 2018 and April 2020, subject to the conditions set out in the two DTAAs, claim the benefit of the above mentioned treaty and claim a refund of the withholding tax.

In its ruling, the Supreme Court observed that the application of the MFN clause provided for in the DTAAs was not directly applicable in India in the absence of 'notification' in accordance with Section 90 of the Income Tax Act.

Following the Supreme Court judgement, the Swiss authorities have now withdrawn the unilateral reduction of withholding tax, citing absence of reciprocity.

⁹ https://www.business-standard.com/world-news/switzerland-revokes-mfn-status-to-india-cites-lack-of-reciprocity-124121301247_1.html

President Xi Jinping meets leaders of international economic organisations

China's President Xi Jinping shared his perspective on international economic developments and China's approach to them when he met¹⁰ leaders of ten major international economic organisations in Beijing on December 10, 2024 which included the President of New Development Bank Dilma Roussef, the Managing Director of IMF Kristalina Georgieva, the President of the World Bank Ajay Banga, and the Director General of the WTO Ngonzo Okonjo-Iweala. He also briefed them about the outcomes of the Third Plenum of the 20th CPC Central Committee as also on China-US relations. In what appeared as a veiled warning, he said that China will resolutely defend its interests. Among the key points he made were the following:

- With the acceleration of unprecedented global transformation, the world has entered into a period of turbulence and changes and once again at critical crossroads.
- Countries should see each other's development as opportunities than challenges and treat each others as partners than rivals.
- Building 'small yard with high fences', decoupling and disrupting supply chains, bring harm to others without benefitting oneself. China always believes that the world does well when China does well. And when the world does well, China will do even better.
- China has entered a stage of high quality development and its contribution to global growth remains above 30%.
- China has full confidence in meeting this year's growth target and in continuing to serve as the biggest engine of world economic growth.
- While referring to the progress made on BRI since its inception ten years ago, he called on the international economic organisations to continue their active participation.
- China was willing to maintain dialogue, expand cooperation and manage differences with the US government and work for steady, sound and sustainable development of China-US relations. He hoped that the US will work with China in the same direction.
- Tariff wars, trade war and technology war are against the trend of history and laws of economics and they produce no winners.
- China will resolutely stay focussed on managing its own affairs well and resolutely safeguard its sovereignty, security and development interests.

¹⁰ https://www.fmprc.gov.cn/eng/xw/zyxw/202412/t20241210_11541743.html

- China's determination to advance high level opening up will not change.

China ramps up policy stimulus to spur growth in 2025

Following directions from the Chinese Politburo which met earlier in December on adopting an 'appropriately loose' monetary policy in 2025, the Director of the Office of the Central Finance Commission said that a 'moderately loose' monetary policy should be well implemented to provide stronger support to domestic demand, developing new quality productive forces and providing economic transformation and upgrading¹¹. While China had adopted a 'prudent monetary policy' for the last fourteen years consecutively, the major shift in the tone of macro regulations reflected the concern that the adverse effects of changes in the external environment may deepen, while the domestic economy continues to face challenges. It was crucial to confront these challenges head-on and take proactive actions to ensure good economic performance in the coming year. This was stated¹² during a briefing by one of the officials from the Central Committee for Financial and Economic Affairs.

US introduces more export controls and China retaliates

The US government introduced¹³ the third and most expansive set of export controls towards China relating to advanced node semiconductors on December 2, 2024 that adds key semiconductor fabrication facilities, equipment manufacturers, and investment companies to the Entity List. The rules include new controls on 24 types of semiconductor manufacturing equipment and 3 types of software tools for developing or producing semiconductors; new controls on high-bandwidth memory (HBM); new red flag guidance to address compliance and diversion concerns; 140 Entity List additions and 14 modifications spanning PRC tool manufacturers, semiconductor fabs, and investment companies involved in advancing the Chinese government's military modernisation; and several critical regulatory changes to enhance the effectiveness of US's previous controls. The US Department of Commerce termed it as a proactive measure aimed at impeding

¹¹ [https://www.reuters.com/world/china/china-announces-first-monetary-policy-shift-since-2010-spur-growth-2024-12-09/#:~:text=BEIJING%2C%20Dec%209%20\(Reuters\),quoted%20as%20saying%20on%20Monday.](https://www.reuters.com/world/china/china-announces-first-monetary-policy-shift-since-2010-spur-growth-2024-12-09/#:~:text=BEIJING%2C%20Dec%209%20(Reuters),quoted%20as%20saying%20on%20Monday.)

¹² <https://english.news.cn/20241216/bdbf8d668aac4a4eaa8f42455f193404/c.html>

¹³ <https://www.bis.gov/press-release/commerce-strengthens-export-controls-restrict-chinas-capability-produce-advanced>

China's ability to produce and procure the technologies for its military modernisation.

US Commerce Secretary Gina Raimondo stated that this action was “the culmination of the Biden-Harris Administration’s targeted approach, in concert with our allies and partners, to impair the PRC’s ability to indigenise the production of advanced technologies that pose a risk to our national security”.

China’s retaliation was swift. On December 3, 2024, China announced stringent export restrictions on ‘dual use’ technologies for both civilian and military use, specifically targeting the US. According to the Department of Commerce of China¹⁴ the export of dual-use items related to gallium, germanium, antimony and super hard materials to the United States is not to be permitted, while stricter examinations on end-users and end-use purposes are to be conducted regarding exports of the dual-use item of graphite to the United States.

China also opened a probe on December 9 against the US tech giant Nvidia on suspicions of violation of the country's anti-monopoly law. China's State Administration for Market Regulation announced that the investigation against Nvidia was regarding its acquisition of Mellanox Technologies Ltd, an Israeli technology firm, four years ago. The acquisition had earlier been approved by Beijing subject to a number of conditions. The Administration said Nvidia is suspected of violating these commitments made as part of the approval process.

USTR initiates Section 301 investigation on China’s anti-competitive practices in the semiconductor sector

In yet another trade action on China’s semiconductor sector, but this time against legacy chips, the USTR initiated¹⁵ a Section 301 investigation on December 23, 2024 against China’s acts, policies and practices relating to targeting of semiconductor industry for dominance. The legacy chips use less advanced manufacturing techniques and are incorporated as components into downstream products for critical industries like defence, automotives, medical devices, aerospace, telecom and power generation and electrical grid. The new investigation marks an escalation of US pressure on China’s semiconductor industry making it more comprehensive. Earlier actions taken by the US sought

¹⁴ <https://english.news.cn/20241203/ffe0f7adcb4c4e2ea54e7516cc63604b/c.html>

¹⁵ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2024/december/ustr-initiates-section-301-investigation-chinas-acts-policies-and-practices-related-targeting>

to only target the most cutting edge chips, including those used in AI applications.

As per the USTR website, there is evidence suggesting that China seeks to dominate domestic and global markets in the semiconductor industry and undertakes extensive anti-competitive and non-market means, including setting and pursuing market share targets, to achieve indigenisation and self sufficiency. It was further stated that China's acts, policies and practices appear to have and to threaten detrimental impacts on the US and other economies, undermine the competitiveness of the American industry and workers, critical US supply chains and US economic security.

The USTR will be seeking public comments and hold a public hearing in connection with the investigation.

US imposes tariffs for solar panels from South East Asian countries for Chinese content

The International Trade Administration of the US Department of Commerce announced¹⁶ on November 29, 2024 a new round of preliminary anti-dumping tariffs against South East Asian companies mostly of Chinese origin that were alleged to be flooding the market with unfairly cheap solar goods. The dumping duties on solar cells ranged between 21.31% and 271.2%, depending on the company, for exports from Cambodia, Malaysia, Thailand and Vietnam. This followed a complaint lodged by the American Alliance for Solar Manufacturing Trade Committee against big Chinese solar panel makers with factories in Malaysia, Cambodia, Vietnam and Thailand for causing global prices to collapse by dumping products into the market. The department's final determinations are set for April 18, 2025, with the International Trade Administration set to finalise its determinations the following June 2 and final orders expected June 9.

EU and MERCOSUR conclude their FTA negotiations

The European Union and the South American regional economic grouping MERCOSUR politically finalised their trade partnership agreement on December 6, 2024 in Montevideo in the presence of EU President Ursula von der Layen and the leaders from the four MERCOSUR countries - President Lula of Brazil, President Milei of Argentina, President Pena of Paraguay and President Lacalle Pou of Uruguay. It will be recalled that the EU and MERCOSUR

¹⁶ <https://www.trade.gov/preliminary-determinations-antidumping-duty-duty-investigations-crystalline-photovoltaic-cells>

had initially reached agreement on the FTA in June 2019, almost twenty years after negotiations started in 2000, but since several countries from both the parties expressed hesitations, its ratification was delayed and subsequently the FTA had to be taken up for further discussions. The newly finalised deal, if ratified, would be the most significant FTA concluded by the EU, both in terms of total population covered (780 mn people) and the volume of trade (between Euro 50 and 55 billion each of imports and exports).

Some of the key elements of the deal may be relevant to mention here¹⁷ considering that India is also in the process of negotiating an FTA with the EU. These include:

- Elimination of tariffs on over 90% of bilateral trade related items;
- EU companies will gain better access to MERCOSUR public procurement market and high value services sectors;
- No export taxes can be levied on Brazil's export of items like nickel, copper, aluminium, steel raw materials, germanium and gallium. If Brazil decides to impose taxes, the exports to the EU should benefit from a minimum 50% duty preference and it should not exceed 25%. Argentina has committed to apply no export taxes on its raw materials but could levy export taxes on agricultural goods;
- In return, the EU will reduce tariffs on agricultural products and other goods. MERCOSUR countries have strong comparative advantage on agricultural products;
- The agreement ensures the protection of 357 European geographical indicators, boosting exports of specialty agricultural products like wines and cheeses.
- The deal includes commitment to high labour standards and reinforces adherence to Paris Climate agreement. Measures to prevent deforestation also form part of the agreement.

The EU Commission website notes that the new 2024 deal is different from the 2019 agreement in five different ways:

- One of the most ambitious agreements in terms of sustainability. Deal will reflect the latest EU standards on trade and sustainable development and even go beyond some of the most recent FTAs such as the EU-Chile FTA and the EU-Canada FTA;

¹⁷ https://ec.europa.eu/commission/presscorner/detail/en/qanda_24_6245

- The new deal will make the Paris climate agreement an essential element ensuring that the FTA can be suspended in case one of the parties is in serious breach of the Paris agreement and decides to walk out of it;
- It will also ensure concrete commitments to halt deforestation after 2030 in line with the Nationally Determined Contributions under the Paris agreement;
- A fund of Euro 1.8 bn of EU support for mutually beneficial action for the fair and green and digital transition in MERCOSUR countries will be part of EU-LAC Global Gateway Investment Agenda; and
- The new deal contains provisions on public procurement, export duties and vehicles.

It is also interesting to note that at MERCOSUR's request, the new deal allows for the dispute settlement mechanism¹⁸ in the agreement to be activated to seek compensation when one party's unilateral measures affect the use of trade concessions agreed between the two blocs. This means that the other party can initiate mediation, escalate to a dispute settlement panel, and take corrective measures. Called as a 'rebalancing mechanism', it is not clear whether this would also enable the MERCOSUR countries to challenge the EU's planned deforestation rules or any other such measure. Critics from the EU side have pointed to how this provision could serve as a powerful regulatory freeze on either side (such as for example, if either side decides to phase out internal combustion engines).

China's CATL and European firm Stellantis to build a major battery plant in Spain

It was reported that China's battery conglomerate CATL, which is also the world's largest battery maker, and the European car making major Stellantis (owner of Peugeot, Fiat and Jeep brands) are building a Euro 4.1 billion all new lithium iron phosphate battery factory in Spain¹⁹. The factory in Zaragoza in northern Spain is scheduled to start production by late 2026 under a 50-50 partnership between the two companies. The Spanish factory will be CATL's third unit in Europe after its plants in Germany and Hungary.

A Financial Times report²⁰ noted that the deal comes despite plans from the EU Commission to persuade Chinese companies to transfer intellectual property to European businesses in return for EU subsidies as part of a tougher trade

¹⁸ <https://www.politico.eu/article/what-you-need-know-eu-mercosur-trade-deal/>

¹⁹ <https://www.stellantis.com/en/news/press-releases/2024/december/stellantis-and-catl-to-invest-up-to-4-1-billion-in-joint-venture-for-large-scale-lfp-battery-plant-in-spain>

²⁰ <https://www.ft.com/content/b2c41a7d-02fa-4846-ab50-dd27e534dcf5>



regime for clean technologies. The FT report also noted that the Chinese group, which is a key Tesla supplier, has been working to expand in Europe as tensions between Beijing and Washington threaten its growth plans in North America. Moreover, CATL is working with Elon Musk's company as well as Ford to license its battery manufacturing technology for factories in Nevada and Michigan respectively.



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