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CENTRE MOVES TO CHOKE FUNDS FOR CHINESE TECH

Relevant for: International Relations | Topic: India - China

India may tighten its economic squeeze on China with New Delhi planning to discourage states from using Chinese equipment and technology in the strategic power sector by withholding funding to such projects from government-owned lenders to such projects if they use Chinese imports, two people aware of the development said.

State-run Power Finance Corp. Ltd (PFC), Rural Electrification Corp. Ltd (REC) and Indian Renewable Energy Development Agency (IREDA) are the largest lenders to the Indian power sector and the move is expected to deter states from involving Chinese firms, which are usually the cheapest suppliers. This will be in addition to providing low-cost funds to local power equipment makers to make them competitive.

At stake are contracts worth billions of dollars under India’s proposed distribution reform programme—tentatively named Samarth—with an estimated capital outlay of 3.5 trillion. The scheme aims to slash electricity losses of power distributors to under 12% and install prepaid smart meters across the power distribution chain, including 250 million households. “The idea is to ensure they don’t use Chinese equipment or technology. These financing lines may be made conditional to that," said a government official cited above.

Apart from securing large orders in India’s clean energy space, large thermal power generation project contracts totalling around 48 gigawatt (GW) have been placed with Chinese manufacturers. Also, firms use supervisory control and data acquisition (Scada) systems from China in the electricity distribution space.

With mounting tensions along the India-China border, India is working on a wider decoupling exercise that involves imposing tariff and non-tariff barriers to check Chinese imports, including prior-permission requirements for power equipment imports from countries with which it has a conflict.

“Trade ties between India and China have seen a setback recently. The government had brought the FDI in Indian companies from ‘bordering nations’ under an approval route from the automatic route in April 2020. Modi also made ‘self-reliance’ a key point of his post-covid stimulus," Jefferies Equity Research wrote in a 24 June report.

A power ministry spokesperson did not respond to queries emailed by *Mint* on Saturday.

A 23 June government statement referring to power and renewable energy minister Raj Kumar Singh’s meeting with industry captains and lobby groups said, “Singh pointed out that power is a sensitive and strategically important sector, as all our communications, manufacturing, data management and all essential services depend on power supply and any malware may bring down the system. Therefore, ‘Aatmanirbhar Bharat’ has a much higher level of significance for the power sector."

Along with leveraging its growing power sector market to ready an economic retaliation against China, India also wants to play a larger role in global supply chains. “The plan may also include codifying sanctions across the power sector," said a second Indian government official who also didn’t want to be named.

Some steps already adopted by the government involves imposing a basic customs duty (BCD) on imported solar cells, modules and inverters from 1 August, to be followed by a plan to impose import duty on wafers and ingots that go into the manufacturing of solar cells and modules. The BCD follows the 29 July expiry of safeguard duties on solar cells and modules imported from China and Malaysia.

Recently, the government has cancelled projects and contracts given to Chinese firms.

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