



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG POLICY BRIEF

Boosting Australia-India Economic Relations

Author

V.S. Seshadri

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

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Author

Dr. V.S. Seshadri, I.F.S (Retd.), Senior Fellow for Global Economy and Trade, Delhi Policy Group

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Cover Photograph:

Prime Ministers Narendra Modi and Scott Morrison at the India-Australia Virtual Summit, June 4, 2020.

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Boosting Australia-India Economic Relations*

by
V.S. Seshadri

The emerging strategic context in Asia and across the Indo-Pacific requires India and Australia, as two democracies which are also partners in the Quad, to work closer together. In his opening remarks at the Australia-India bilateral summit in June this year, Prime Minister Narendra Modi¹ referred to the shared values, shared interests, shared geography and shared objectives of the two countries and observed: "I believe that this is the perfect time, the perfect opportunity to further strengthen the relations between India and Australia".

While the political and security aspects of cooperation between the two countries have seen steady growth in recent years and have received an impetus from several high level visits, joint military exercises and dialogue mechanisms, the economic dimension remains under exploited. The question for the two countries, which are at different levels of development, is whether they can work out a framework for trade and economic cooperation that can accommodate each other's interests and aspirations? This brief is intended to address three aspects that require more immediate focus and could provide the momentum to move forward:

- Concluding the ongoing CECA negotiations;
- Creating synergies between global supply chain resilience cooperation and India's reform initiatives in manufacturing; and
- Identifying areas for cooperation on WTO reforms and trade rules.

The Prime Ministers of the two countries have already decided to move towards a Comprehensive Strategic Partnership. At their virtual summit on June 4, 2020 they have also decided to re-engage on concluding CECA, taking into account earlier bilateral discussions. If CECA can be concluded in good time, it can certainly energise and enlarge bilateral merchandise and services trade and provide a strong framework for widening economic cooperation.

The two sides already know each other's red lines and sensitivities considering that CECA negotiations have been held over several rounds between May 2011 and September 2015. These issues would have also figured in some manner

* This brief is largely based on the remarks made by the author at the 3rd DPG-AusCSCAP workshop held online on December 1, 2020

¹ See the link at https://www.mea.gov.in/Speeches-Statements.htm?dtl/32731/Prime_Ministers_Opening_Remarks_at_IndiaAustralia_Virtual_Summit

during the RCEP negotiations until India withdrew from the process in November 2019. So the key is for the two countries to craft a deal that can work around those sensitivities, or provide adequate flexibilities to effectively address them. This approach was hinted at when Australian trade minister Simon Birmingham visited New Delhi in March this year².

It must, however, be mentioned that in India a perception has gained ground that its existing FTAs have not brought commensurate benefits. In trying to conclude future FTAs, the government of India will, therefore, be under some pressure. In any new FTA, it may have to demonstrate that India's own access to the partner's market will not remain unrealised due to NTBs, or protective visa provisions and standards, or because mutual recognition negotiations on professional competence and qualifications cannot make progress.

Moving forward with the negotiations will also require taking a medium to long term perspective, and not merely for early harvest deals. The ambitious "India Strategy" recommended by Mr. Peter Varghese³, the former Australian High Commissioner to India, also looks at such a framework upto 2035, even as it is devoted mainly to how Australia should go about it and the recommendations have a wider scope than CECA. In any case, an approach to CECA that can work as a ladder for development for India has a better chance of success.

A look at trade and investment numbers suggests that bilateral trade in goods and cross border investment have been experiencing reasonable growth, considering the depressed global economic circumstances. But they could be far more dynamic, considering the potential. For Australia, India is the 4th largest export partner accounting for 5% of Australia's exports. But India's rank is far lower in Australia's imports, with a share of less than 2%. Similar disparities exist in services trade as well, which is also in Australia's favour. However, the growth rates in services are significantly better in both directions.

As reflected in Mr. Varghese's report, Australia is well aware of the sensitive areas for India in agriculture. Farming in India covers a large population and is mostly of the subsistence kind, rather than being run substantially on a commercial scale. The sector does need reform, even as these are politically sensitive. The Indian government has recently initiated liberalisation measures allowing more open access to private marketing for farmers and removing

² See the newsreport <https://www.thehindubusinessline.com/economy/india-exploring-nuts-and-bolts-of-possible-fta-with-australia/article31042472.ece> which appeared in 'The Hindu Businessline' on 11 March 2020

³ 'An India Economic strategy to 2035: Navigating from potential to delivery" A report to the Australian government by Mr. Peter N Varghese AO, 2018

inter-state barriers for movement of produce. If India's sensitivities in this sector are better understood and accommodated, and FTAs are framed to foster and be supportive of reform without carrying the potential for depriving livelihoods, some forward movement can be expected.

Product standards and phytosanitary measures form another key issue, both in terms of access to the Australian market for some of India's agricultural and other products and to Australia's products in India. Here again, if there can be greater cooperation, including technical cooperation, in being able to make progress on equivalence or mutual recognition arrangements, along with a degree of reciprocity in the enhancement of market access, perhaps it will incentivise progress on CECA.

On services, there is fair degree of complementarity⁴. India is already a significant consumer of Australia's education services which may only grow. If India's IT and IT enabled services exports can also build further on present growth trends, this could provide another basis for building favourable momentum. Australia is a net importer of skilled manpower. Here again, India could serve as a steady source. Greater professionalism could be imparted to manpower availability if investments can be made through bilateral cooperation on skilling, technical training and certification.

In non-agricultural products, considering that mutual sensitivities may be relatively lower, it should be possible to move forward more quickly. Australia is a substantial supplier of coal, iron ore, alumina, wool, cotton and gold, which go on to meet India's needs⁵. Even the imports of steel and aluminium are mainly of scrap used for recycling in India. Australia's interest will of course be to improve access for its other manufactured products through lower Indian tariffs. Some of its competitors from Korea, Japan and the ASEAN countries already enjoy such access through their prevailing FTAs with India.

India's exports to Australia have not seen steady growth partly because of the unsteady pattern of exports of India's refined petroleum products, the leading item, that have fluctuated considerably depending on oil prices and demand⁶. But certain products such as pharmaceuticals, machinery, leather goods, garments and textiles have seen a steadier rise. A few items like railway coaches, steel tubes and passenger vehicles have shown spurts in certain years, but have not maintained a steady trend.

⁴ India's trade with Australia in services is captured in Annex 3 based on Australian sources

⁵ See Annex 2 giving details about top items of goods import from Australia into India

⁶ See Annex 1 for details about top items of goods exports from India to Australia

It is relevant to note here that Australia has entered into several FTAs in the last few years⁷ with countries which are India's competitors for some of these products. The average preferential tariff in Australia in 2019⁸ for non-agricultural products was 0.2% for ASEAN countries and zero for China, Japan and Republic of Korea. On the other hand, the average tariff was 2.5% for Indian non-agricultural products. An FTA could make a vital difference, particularly for products like garments or textiles on which the applicable tariffs are even higher.

India's generics are well accepted worldwide and pharmaceuticals form a principal item of export to Australia, accounting for over US\$ 250 m in 2019-20. Greater linkages with Australia's pharma procurement process can help. To the extent the FTA is seen as bringing additionality to these and other promising sectors, it will make progress easier for India.

Recently, the trade ministers of Australia, Japan and India have talked about developing a supply chain resilience programme⁹. Separately, in India the government has launched a production linked incentive (PLI) scheme¹⁰ whose objective, among others, is to build competitive manufacturing locally and make India a part of global supply chains. These PLI schemes now cover several areas: electronics, automobiles and components; pharmaceutical drugs and APIs; medical devices; solar modules; advanced chemical cell batteries; white goods; textiles; food products; phones and other telecom products; and speciality steel. Foreign investments and technology is being welcomed and incentivised.

The trilateral supply chain resilience initiative with Japan and Australia can well plug into the PLI scheme in India through investments in a range of sectors. Here again, for the supply chain to work well, a bilateral FTA between India and Australia could make it more attractive for investors. Moving together

⁷ Since the commencement of negotiations of India-Australia FTA, Australia has signed nine more FTAs, eight of which have entered into force. These are with Malaysia (2013), Korea (2014), Japan (2015), China (2015), Hong Kong (2020), Peru (2020) and Indonesia (2020). Australia is also a party to CPTPP (2018) and RCEP. The former has entered into force already and the latter awaits ratification.

⁸ See the Table 3.4 which is an analysis of preferential tariffs in Australia in 2019 available at page 45 of the WTO Secretariat report in the context of Australia's trade policy review held in the WTO in March 2020. The report may be accessed at https://www.wto.org/english/tratop_e/tpr_e/s396_e.pdf

⁹ See the link at <https://timesofindia.indiatimes.com/business/international-business/australia-india-japan-trade-ministers-for-enhanced-cooperation-in-supply-chain-resilience/articleshow/77871221.cms>.

¹⁰ Details about the sectors and items in the expanded scheme announced on 11 November 2011 may be accessed at <https://pib.gov.in/PressReleasePage.aspx?PRID=1671912>

on both PLI scheme investments and FTA fronts can prove helpful. India's former High Commissioner to Australia, Navdeep Suri¹¹, has observed that while official Canberra sees the opportunity in India, private Australian business groups have been shy to grab it. Serious efforts towards concluding an FTA and the launch of these parallel investment initiatives could change the outlook.

One aspect that has been a handicap for India in forging greater economic cooperation with the region is its absence from APEC. While APEC has brought together its members on trade and investment issues through its various activities, its signature contribution stands out on trade facilitation. Through its trade facilitation action plan between 2001¹² and 2006, it significantly brought down transaction costs in its member countries by 5%. Spurred by its success, APEC also adopted a successor Trade Facilitation Action Plan 2 which took this process forward even further. This was a very technical exercise, with cost measurements at each stage and steps suggested on how the time and cost in each identified aspect could be reduced or minimised. All this was done not through coercive measures, but through peer pressure and making available the best practices for emulation.

India was not part of this exercise and could certainly gain from the APEC experience on trade facilitation, possibly even through the trilateral supply chain resilience initiative.

In a sense, not being a member of APEC was also a handicap for India in the RCEP negotiations in which all the other countries (barring Cambodia, Laos and Myanmar which in any case received flexible treatment in RCEP) were very familiar with each other's trade practices because of frequent APEC meetings. If India has to integrate closely with Asia, then greater trade facilitation cooperation will be an important component.

Finally, a point regarding possible cooperation between India and Australia on WTO matters. While the interests of the two countries in that forum somewhat differ, reflected also in the different interest groups that India and Australia are part of at the WTO, a proposal by the United States last year to define 'developing countries' has been of particular concern to India. To take a country out of the developing country category because its international trade

¹¹ See the article by Navdeep Suri which can be accessed at <https://www.orfonline.org/research/belligerent-china-can-be-just-catalyst-india-australia-ties-need-67313/>

¹² This has been dealt with in some detail also in a report by the author titled 'India and APEC: An appraisal', Research and Information System for Developing Countries, 2015, which may be accessed at <http://www.ris.org.in/india-and-apec-appraisal>

share is more than 0.5%, or it is a member of G-20, lacks any objective basis. While it may be argued that this should not be left to self-selection, this US-suggested criteria is certainly not appropriate. It is possible that the new US Administration may see the demerits of this proposal and review it. But the larger point in respect of WTO is this: in trying to discipline the role of state owned enterprises or subsidies or tightening up on transparency and ensuring timely filing of notifications etc., it is to be hoped that all developing countries will not get collaterally burdened. There is no doubt that one or two economies, while proclaiming to be open or market driven, are in reality not so. But in an effort to discipline erring economies which have flouted or skirted around WTO rules and gamed the system, there is no reason why other developing countries should be adversely affected. Proposed WTO reforms will need careful targeting, and it would certainly be worthwhile for India and Australia to engage in a bilateral dialogue to build consensus on this and other issues.

Annex 1
India's exports to Australia of lead items (at HS code 2-digit level) in US\$ mn

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
HS 27: Mineral fuels	5.90	319.33	54.70	134.12	573.13	1155.92	706.17	1359.97	631.21	353.75
HS 30 : Pharma products	84.96	128.31	144.85	173.61	179.94	205.67	213.82	227.02	248.11	252.64
HS 42 : Leather goods	42.98	58.75	56.19	58.18	67.02	66.27	66.23	76.06	82.06	66.82
HS 61: Knitted garments	31.89	35.74	39.95	42.48	51.46	52.85	60.35	73.31	81.84	87.38
HS 62: Woven garments	45.34	69.83	64.99	73.29	92.41	101.05	99.44	109.05	109.76	127.91
HS 63: Made up textiles	72.90	99.62	114.99	108.07	117.71	118.75	128.48	130.0	130.44	120.89
HS 71: Precious metals & jewellery	212.49	259.47	289.73	304.09	278.81	287.53	276.05	289.94	294.03	258.19
HS 73: Iron and Steel items	61.32	159.35	214.0	95.38	105.99	94.24	89.81	130.51	138.06	136.44
HS 84: Machinery	90.70	113.11	105.84	91.86	109.50	97.47	127.7	157.13	159.29	153.05
HS 85: Electric machinery	146.51	101.56	103.11	85.20	79.29	78.37	88.90	135.85	182.90	126.32
HS 86: Rail loco & parts	0.06	0.75	1.80	4.37	6.51	9.79	103.53	206.25	350.07	89.29
HS 87: Vehicles & parts	186.68	184.12	218.64	246.21	205.01	116.13	105.20	134.50	78.78	86.57
Total of all exports	1713.02	2476.84	2348.65	2300.28	2782.13	3262.98	2957.79	4012.32	3520.4	2852.1

Source: Department of Commerce, India

Annex 2
India's imports from Australia of lead items (at HS code 2-digit level) in US\$ mn

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
HS 07: Edible Vegetables	119.89	173.74	486.28	189.52	188.41	624.34	92,174	924.14	24.06	54.22
HS 08: Edible fruits and nuts	29.09	46.58	60.51	106.03	102.81	158.49	90.94	131.69	107.71	70.37
HS 10: Cereals	40.90	3.40	3.85	6.98	14.01	128.18	529.67	131.46	6.07	7.13
HS: 26 Ores, slag and ash	1293.49	1698.02	1701.76	1450.65	1145.63	651.54	593.34	689.01	731.60	232.34
HS 27: Mineral fuels	4950.11	8319.93	6063.20	5536.90	5720.64	5052.30	7025.76	9343.96	9664.58	7672.69
HS28: Inorganic Chemicals	94.54	214.96	374.75	389.13	256.13	262.19	341.53	641.92	664.48	283.03
HS 32: Dyes & pigments	44.37	55.23	69.64	73.63	76.05	52.22	58.26	83.20	95.30	85.30
HS 51: Wool	152.17	222.37	183.03	158.84	174.91	164.74	159.92	179.46	202.19	123.94
HS 52: Cotton	3.86	7.32	31.53	21.96	54.00	29.92	282.86	141.82	58.99	31.37
HS 71: Precious metals & jewellery	3047.85	3846.10	3183.21	1037.25	1647.25	918.23	400.03	778.20	579.51	436.62
HS 72: Iron & Steel	63.72	73.84	94.18	100.25	148.20	142.36	66.80	113.39	117.84	99.47
HS 76: Aluminium and products	60.54	82.79	96.31	80.61	100.80	139.40	158.12	212.68	193.09	130.68
HS 78: Refined Lead	85.13	90.06	92.00	112.10	113.98	96.46	94.99	120.56	110.74	31.30
Total of all imports	10789.0	15578.52	13085.70	9822.52	10247.24	8898.78	11154.48	13993.75	13131.21	9782.22

Source: Department of Commerce, India

Annex 3
AUSTRALIA'S SERVICES TRADE WITH INDIA (A\$ million)

(Australian Financial Year- July 1st to June 30 th)	2014-15	2015-16	2016-17	2017-18	2018-19
Total services exports	3,191	3,630	4,110	4,802	6,629
Total services imports	1,710	1,869	2,007	2,450	2,581
Balance on services trade	1,481	1,761	2,103	2,352	4,048

Services Export (Australian Financial Year- July 1st to June 30th)	2014-15	2015-16	2016-17	2017-18	2018-19
Manufacturing services on physical inputs owned by others	0	0	0	0	0
Maintenance & repair services	0	0	0	0	1
Transport services	21	25	37	35	46
Travel services*	2940	3371	3871	4543	6248
Travel services (Business)	146	169	201	204	269
Travel services (Personal)	2795	3202	3670	4338	5978
Travel services (Personal: Education Related)**	2342	2733	3160	3808	5495

Services Export (Australian Financial Year- July 1st to June 30th)	2014-15	2015-16	2016-17	2017-18	2018-19
Travel services (Personal: excl education related)	452	470	510	530	483
Construction services	0	0	0	0	0
Insurance & pension services	5	5	6	7	7
Financial services	28	40	49	37	39
Intellectual property charges nie	13	16	20	13	31
Telecom, computer & information services	40	32	47	89	98
Other business services	34	42	34	37	40
Personal, cultural & recreational services	90	77	22	17	94
Government services	20	21	25	26	27

Services Imports (Australian Financial Year- July 1st to June 30 th)	2014-15	2015-16	2016-17	2017-18	2018-19
Manufacturing services on physical inputs owned by others	0	0	0	0	0
Maintenance & repair services	0	0	0	0	0
Transport services	18	8	5	2	1
Travel services*	844	860	988	1304	1386
Travel services (Business)	83	94	102	131	132
Travel services (Personal)	760	766	886	1174	1254
Travel services (Personal: Education Related)	6	6	5	11	15
Travel services (Personal: excl education related)	755	760	880	1162	1239
Construction services	0	0	0	0	0
Insurance & pension services	9	9	6	6	6
Financial services	28	22	28	24	31
Intellectual property charges	2	0	1	2	1

Services Imports (Australian Financial Year- July 1st to June 30 th)	2014-15	2015-16	2016-17	2017-18	2018-19
Telecom. computer & information services	274	354	338	432	481
Other business services	482	558	580	609	587
Personal, cultural & recreational services	7	6	6	6	14
Government services	46	52	54	65	74

* Travel is broken down into two components, Business travel and Personal travel. Personal travel is further broken down into Education- related travel and Other personal travel. Education- related travel also includes tuition fees while Other personal travel also includes health- related travel and cruise fares.

** Indian student enrolment in Australia has been steadily increasing from 64,037 in 2017 to 74,734 in 2018 and 102,852 in 2019.

Report on Trade in Services Australia (2018-19). Published by Australian Government (Department of Foreign Affairs and Trade)

Link: <https://www.dfat.gov.au/sites/default/files/trade-in-services-australia-2018-19.pdf>



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India Habitat Centre, Lodhi Road
New Delhi - 110003
India

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