



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG POLICY BRIEF

India-Australia FTA Talks: A Quick Harvest Should Not Become the Sole Harvest

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Volume VI, Issue 30

September 4, 2021



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www.delhipolicygroup.org



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Cover Photograph:

India and Australia raised their relationship to a Comprehensive Strategic Partnership after a virtual summit between Prime Ministers Narendra Modi and Scott Morrison on June 4, 2020. Source: Flickr/MEA Photogallery

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India-Australia FTA Talks: A Quick Harvest Should Not Become the Sole Harvest

by
V. S. Seshadri

India is getting seriously back into the FTA game again. A joint press statement¹ between India's Commerce and Industry Minister Piyush Goyal and the Australian Trade Minister Dan Tehan on August 26, 2021 has directed officials from the two sides to speed up negotiations to achieve an early harvest interim agreement by December this year and pave the way for a comprehensive agreement. Separately, Minister Goyal, in a recent address² to India's export promotion councils, has also indicated the government's intention to speed up FTA negotiations with the UK, the European Union, UAE, Israel and other willing partners. Whether these will also have similar interim deals is unclear.

An early harvest agreement can be useful in propping up the two way trade and investment environment between countries. The pandemic has affected business sentiment to varying degrees and companies are looking for fresh opportunities to open up. The aggressive behaviour shown by China both across India's land borders and over its economic borders with Australia has given this matter some urgency to and perhaps a sense of common resolve. Such a quick interim agreement to be followed by a comprehensive deal can also help economically underpin the emerging strategic convergence between these two Quad partners, particularly after India's withdrawal from the RCEP negotiations in 2019.

An early harvest normally comprises provision of limited but impactful market access benefits, more immediately by each country to the other partner. This allows the business community in the two countries to get a foretaste of favourable prospects of an eventual comprehensive agreement, without having to wait for the complex process of negotiations to get completed on all the rules and other market access issues, some of which could be in sensitive areas and may need time. If done well, an early harvest could also impart the necessary thrust and mutual confidence for the two sides to subsequently address those sensitive issues in a mutually beneficial manner.

India has, however, not had a particularly good record with early harvest deals. One of the first FTA deals that India attempted outside of South Asia was with

¹ <https://www.trademinister.gov.au/minister/dan-tehan/media-release/joint-press-statement-india-australia-trade-talks-trade-ministers-australia-and-india>

² <https://indianexpress.com/article/business/finalising-early-harvest-trade-deal-with-aus-talks-on-with-uk-goyal-7462023/>

Thailand³ and the early harvest⁴ was limited to 82 tariff lines in 2003, with the remainder of the agreement to soon follow. Till today, this remains more or less where the matter rests, with the early harvest becoming the only harvest. Several subsequent attempts to revive talks have not helped in finalising a comprehensive bilateral agreement⁵. Indeed, the early harvest which had a particularly strong impact on the automotive and certain other engineering sectors, that also resulted in some instances of inverted duties, was not favourably looked upon by Indian industry and the government was persuaded to make no similar early harvest moves subsequently. Even though India started negotiating a bilateral FTA slightly later with Singapore, and three years later with Malaysia, those comprehensive deals got finalised without resort to an early harvest, just as in the case also of CEPAs with Japan and Korea.

Another FTA with a kind of early harvest was with the ASEAN as a whole, in which the market access component for goods was finalised in 2009 and came into force on January 1, 2010. But this led to a loss of momentum for the negotiations on trade in services, an area of substantial interest to India, and a rather weak agreement had to be concluded on these areas subsequently in 2014.

To be more successful this time with Australia, lessons from our earlier experience need to be recalled. First, care has to be exercised about the concessions being offered so that there is no adverse impact to a degree that may then jeopardise the whole deal subsequently. Australia can well be expected to seek urgent access in certain areas, including in the farm sector, where it can quickly gain the maximum. That may however not fully be in India's interests or even in that of the two sides eventually reaching a final agreement. Political or industry opposition, once it gains momentum, can be difficult to contain or reverse.

The second lesson is the need for balance in gains and of interests in both the interim and in the eventual comprehensive agreement. An early harvest deal by itself should be well balanced so that benefits accrue adequately to both sides and are also seen to be doing so. Secondly, it should still leave adequate interest

³ The Joint Press statement issued on the occasion of PM Thaksin Shinawatra's visit to India in November 2001 announced that India and Thailand had agreed to set up a Joint Working Group at the governmental level to undertake a feasibility study on a Free Trade Area Agreement between them.

⁴ <https://commerce.gov.in/international-trade/trade-agreements/framework-agreement-with-thailand/list-of-82-items-under-the-early-harvest-scheme/>

⁵ It could be argued that the issue has been overtaken by the India-ASEAN FTA agreements in which Thailand is also a participant. But a regional deal is different from a bilateral one. In fact the bilateral CECA with Malaysia, another ASEAN member, was signed in 2011 after the India-ASEAN free trade agreement on goods came into force in 2010.

in each side to persuade it to quickly negotiate and conclude the remaining part and not leave matters for endless rounds or for a weak eventual outcome.

Australia, fortunately, is somewhat differently placed when seen from the perspective of India's interests. There are more economic complementarities between the two countries than in the case of Thailand or ASEAN as a whole, whose economies are more of a competing kind vis-a-vis India. Further, the two sides are likely to be familiar with the negotiating priorities of each other, having gone through several rounds during the earlier phase of the bilateral CEPA discussions between May 2011 and September 2015, which got stalled before their revival last year. Separately, the two countries were also part of the RCEP negotiations for six years till 2019, during when their sensitive issues would have been identified, even as this was a regional agreement involving many more partners.

In certain ways there is also a parallel in this regard with the Phase-1 bilateral FTA deal signed in September 2019⁶ between the other two Quad members, Japan and the United States, that could be quickly put together because both had been part of the TPP negotiations and its final conclusion, before the United States decided to withdraw from the TPP. Admittedly, in that case, the TPP deal had been fully finalised before the US withdrawal. The task before the Phase-1 negotiators of those two sides was perhaps largely limited to selectively pick from the TPP outcome what elements should go into the finalised Phase-1 deal.

We do not know what stage of finalisation RCEP had reached in November 2019, particularly in respect of market access related issues, before India decided to opt out. But it certainly was at a very advanced stage that should enable the two countries to get a sense of what may now be feasible bilaterally and identify what could go into the early harvest and what could be the level of ambition set for the overall agreement.

In an earlier DPG brief,⁷ this author had dwelt broadly on the possible issues to focus in India's CECA with Australia and aspects on which flexibility and understanding will be needed to address their sensitivities. But in an early harvest deal, which is normally restricted to market access for a small number

⁶ This had been briefly analysed by the author at <https://www.delhipolicygroup.org/publication/policy-reports/us-trade-deals-under-president-trump-what-they-mean-for-india-and-world-trade.html>

⁷ https://www.delhipolicygroup.org/uploads_dpg/publication_file/boosting-australia-india-economic-relations-2129.pdf

of tariff lines and perhaps a few services sectors, the following points may need to be kept in view by India:

- The market access secured for any tariff line in the Australian market should be fully on par with what is already available for Australia's other FTA partners and not involve a phased reduction. Only then can such access have some quick impact on trade.
- Wherever market access is secured by India, it will be important to also ensure that standards or other non-tariff barriers will not that hinder market access.
- While India should be able to meet similar reciprocal demands by Australia on non-agricultural products, experimentation with limited tariff rate quotas on a few sensitive farm items could be attempted. This may also help provide understanding on how they should be structured and implemented in an eventual comprehensive agreement. India's experience with administering such TRQs is limited.
- Improved access for certain services segments should also be attempted along with an annex on movement of natural persons. The commitments on the latter by Australia in RCEP, that includes the categories of contractual service suppliers and independent professionals, apart from business visitors and intra corporate transferees, could be the basis for negotiating⁸ such an annex.

In their joint press statement on August 26, the two ministers had also emphasised that the negotiations should take into account the views of business, industry and other stakeholders. Taking the stakeholders along would be important particularly in the Indian context, in view of what happened in the case of RCEP as also a generally prevailing industry scepticism about FTAs. Minister Goyal had himself emphasised the need for such engagement in his address to the export promotion councils in order to ensure that the FTAs are "fairly and equitably crafted". It should not happen yet again that the early harvest becomes the sole harvest or does not yield optimal gains in a comprehensive agreement.

⁸ <https://rcepsec.org/wp-content/uploads/2020/11/Australia-Schedule-of-Specific-Commitments-on-Temporary-Movement-of-Natural-Persons.pdf>



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