



India-Australia Economic Relations: Exploring New Vistas for Cooperation

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The India-Australia economic relationship has been on an upswing in recent years. This was highlighted during the Indian President Mr. Ram Nath Kovind's recently concluded three-day state visit to Australia from 21-23 November 2018, the first-ever Indian head of state's visit to Australia. Economic cooperation was one of the crucial areas of discussion during the President's visit. An agreement was signed between Invest India and Austrade to facilitate bilateral investment. While addressing the annual event of Australia-India Business Council, he said that India and Australia share strong economic complementarities, and there are "limitless prospects and possibilities" of enhancing cooperation in trade and investment, technology, skills or education.¹ The Indian President also addressed the Australian Financial Review India Business Summit, where he referred to the 'India economic strategy', document recently released by the Government of Australia. During the President's visit, the Australian Prime Minister Scott Morrison announced the Australian Government's in-principle support to the report's 20 priority recommendations and released an initial implementation plan for 12 months².

Earlier this year the Australian Government, Department of Foreign Affairs and Trade released a report on its India economic strategy. The report titled An India Economic Strategy to 2035: Navigating from Potential to Delivery written by Mr. Peter N Varghese, a former Secretary of the Department of Foreign Affairs and Trade and also a former High Commissioner to India, was first presented to the Australian Prime Minister, on 12th July 2018. It was formally released in India on 8th August 2018. The report explores the prospects of building economic cooperation between India-Australia over the coming two decades. The work on the report had started when the former Australian Prime Minister Malcolm Turnbull during his April 2017 visit

to India announced that, the Australian Government would commission an independent India Economic Strategy to identify opportunities for Australian business community in India and consider India's growth trajectory out to 2035.³

The report is a timely recognition of positive developments and also an effort in the direction of further enhancing the partnership between the two economies. In the recent years, as Australia looks forward to adopting the Indo-Pacific world view, it has emphasized relations with its western neighborhood especially India. At the same time, India's reinvigorated 'Act East' policy focused on its extended eastern neighborhood has brought Australia in India's ambit of interest. Therefore, given the growing trade relations, the report will further enhance their mutual understanding and facilitate practical cooperation.

An Overview of India-Australia Economic Relationship

Historically, India and Australia have shared number of features like similar legal and governance structure and a commitment to liberal democratic values; to naturally develop mutually beneficial long-term partnerships. Despite these pertinent commonalities, a long term partnership did not materialize easily. The compulsions of the Cold War politics was the main impediment as both the countries took different paths to secure their respective interests. It was only after the end of the Cold War that the two countries started to look at bilateral relations through a new prism which resulted in bringing a sea-change in their relationship over the past two decades. New Delhi's 'Look East Policy' of 1991 and market reforms of the early 1990s created considerable interest in Canberra. Alongside, Australia's change of attitude towards Asia in general and India in particular and especially its 'look west' policy 1995, played a crucial role in creating an enabling the environment for bilateral relations to make strides. A Joint Declaration on Security Cooperation was signed in 2009, emphasizing bilateral cooperation within the regional multilateral frameworks like East Asia Summit (EAS) and ASEAN Regional Forum (ARF). In recent years, Australia and India have recognized each other as natural partners with considerable alignment in their strategic interests. Reciprocal Prime Ministerial level visits in 2014 and the Australian Prime Minister's visit to New Delhi in 2017 provided further impetus to the bilateral relationship.

The foundation stone of Australian economy is international trade, on which depends much of economy's prosperity. India is Australia's fifth largest trading partner. India's total trade in goods and services with Australia for 2017-18 was US\$18billion, including imports US\$14 billion and exports of US\$4billion. This was a significant increase from the previous year; 2016-17 total trade valued at US\$14 billion.⁴

India's main exports to Australia include refined petroleum, mineral fuels, mineral oils, pharmaceutical products, pearls, precious or semiprecious stones and major imports include coal, non-monetary gold, copper, wool, fertilizers and education related services. In terms of

investment, Australia's investment in India for 2017 was A\$13,957million and India's investment in Australia was A\$15,494million.⁵

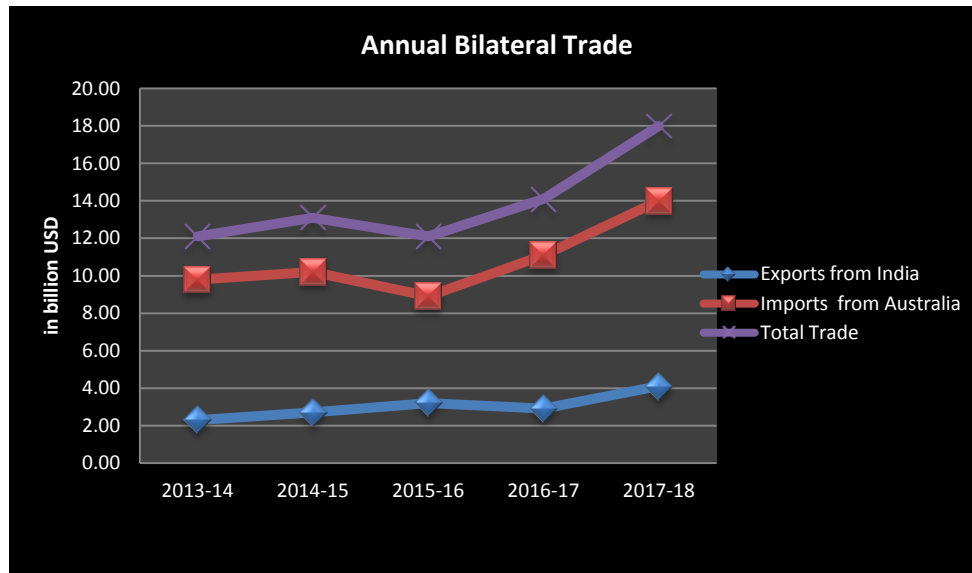


Figure: 1

Source: Department of Commerce, Export Import Data Bank, Ministry of Commerce and Industry
Available at: <http://commerce-app.gov.in/eidb/icstcntq.asp>

Australia's exports to India are highly tilted towards coal and natural gas, although efforts are being made to expand the product basket. Much of the export of Australia bound for India comes from the state of Western Australia. The mining boom, and discovery of hydrocarbon resources in the Western Australia during the 1970s, changed its status within the Australian economy. Mining and petroleum exports from the Western Australia valued at \$19.4 billion in 2002-03 increased to \$109.6 billion in 2017-18, contributing to 85% of merchandise exports of the country.⁶ Known as the nucleus of Australia's economy, Western Australia accounts for 48 percent of the country's total exports and nearly 32 percent of total trade.⁷ India is the seventh largest export destination for the state and the total value of exports to India for 2017-18 was US\$3.1billion⁸.

Australian economy's recent balance of trade surplus is primarily on account of the energy accounting for nearly half of the Australia's total export. Australia is a major exporter of natural gas, coal, uranium and LNG to Asia. However, Australia's domestic reserves of refined oil are only enough to supply the country for a few weeks. Therefore, the country is dependent on constant import of refined oil. The new mega refineries in Asia, particularly in India and Singapore are reliable and economical for Australia.⁹

India also contributes significantly in terms of immigrants, tourists and students exchange to Australia. India plays a crucial role in the growth of Australia's education sector, which is the third largest export earner for Australia. Education is the second most important sector in terms

of Australia's export to India. Over 60,000 Indian students contribute roughly 45.4% of total international students in Australia.¹⁰ India is also Australia's ninth largest market for tourists. By 2035, the number of Indian tourists to Australia is expected to grow four-fold, from 300,000 in 2017 to nearly 1.2 million.¹¹

The two countries are currently negotiating a Comprehensive Economic Cooperation Agreement (CECA). Several rounds of negotiations have taken place since 2011. The two sides have already exchanged their goods and services offer lists. Once concluded CECA will expand the base of merchandise trade, remove non-tariff barriers, encourage investment, provide greater market access to exporters of goods and services and address the border restrictions to trade. India and Australia are also involved in negotiations on the Regional Comprehensive Economic Partnership, known as RCEP or ARCEP. The mega trade-block is being negotiated among the ten members of the ASEAN group and six other countries that have an FTA with ASEAN namely South Korea, Australia, China, Japan, New Zealand and India.

Platforms like India-Australia CEO Forum facilitate businesses from both nations to engage directly to discuss trade and investment prospects in different sectors. In recent years, knowledge-based partnership between Australia and India through initiatives like the Australia India Strategic Research Fund (AISRF) has grown. The fund is to work on collaborative research projects in areas such as agricultural research, astronomy and astrophysics, environmental sciences, microelectronics, nanotechnology, renewable energy and marine sciences.¹² Since its establishment ten years ago, over \$100 million from the AISRF has supported some 300 joint projects, contributing in improving agricultural productivity, fighting diseases and other areas.¹³ India's growing energy requirement provides an important market for Australian coal, LNG and now uranium following the Civil Nuclear Cooperation Agreement, 2014 in place. India on the other hand has an interest in investing in Australian energy and resource sector and advanced manufacturing, services and technology capability.

An analysis of the India Economic Strategy Report and Future Prospects of Cooperation

The report An India Economic Strategy to 2035: Navigating from Potential to Delivery is ambitious, future focused with over 90 recommendations to the Government of Australia. It is directed at the Australian audience particularly to the Australian business community to highlight the potential areas to intensify Australia-India economic ties. It recognizes the enormous opportunities that the growing Indian economy, along with the huge labour force expected to cross over 1 billion by 2050, offers and which can be leveraged by the Australian Government. The report recognizes that while India already the third largest economy in terms of PPP and a significant contributor to global economic growth, yet there is also considerable untapped potential. Although India is Australia's fifth largest trading partner. But India still represents only 3.6 percent of Australia's global trade compared to China at 24 percent. The strategy therefore, aims to bring India into top tiers of Australia's economic partners, to lift India to Australia's top three export markets, and make it third largest destination for Australian

investment in Asia by 2035. For the purpose a better understanding of India and the institutions need to be developed in Australia.

The report points out that it is important for Australia to understand that India is not a single national economy but an aggregation of different state economies, each growing at different rates, driven by different strengths and regulatory regimes, and likely to continue to be uneven in their progress. As Australia looks forward building close economic relations with India, it is important to understand India's model of 'cooperative and competitive federalism'.

As the core of strategy, the report identifies ten promising sectors for Australian trade and investment and ten states having more potential for closer economic engagements. The states are Maharashtra, Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, West Bengal, Punjab, the National Capital Region of Delhi and Uttar Pradesh. The ten sectors are divided into a flagship sector i.e. education, three lead sectors including agribusiness, resources and tourism and six promising sectors including energy, health, financial services, infrastructure, sport, science and innovation.¹⁴ The report also welcomed the introduction of GST in India, in 2017, as a big step in the direction of removing barriers for trade across states.

The report suggests that India-Australia bilateral relationship should rest on a three pillar strategy focusing on: geopolitics, people and economics. Under changing geopolitical landscape of the Indo-Pacific, the two countries need to develop a robust cooperative relationship. The economic relationship should be developed within the framework of the overall bilateral relationship with India. Emphasis should also be on enhancing people to people ties and embracing the contributions of Indian diaspora in Australia. The report recognizes that the large "Indian diasporas of 700,000 now, is an economic asset for Australia".¹⁵ It will play an important role in building partnerships for the future in the field of business, education and civil society given their knowledge of Indian market and political cultural landscapes.

At the current stage progress towards the much talked about CECA appears to be a bit slow. Both the countries are going to go into elections next year. The changing political environment in both the countries will also play an important role in determining the relationship. An important argument of the report is that negotiating positions of India and Australia on CECA "are too far apart" for its conclusion to be a realistic objective in the near term.¹⁶ Therefore, at this stage Australia should instead priorities negotiations with India in the RCEP agreement and return to bilateral trade negotiations once RCEP is concluded.

A key conclusion of the report is that there is no market that offers more opportunity to Australia over the next 20 years than India, which will continue to grow at 6 to 8 percent over the next 20 years. It also highlights that as the Indian economy grows; its trajectory of growth will not be necessarily be linear and will be different from other Asian economies like China, given different international and domestic circumstances.

On the whole the report aims at finding complementarities and interoperability with the Indian economy. For this purpose, it suggests to establish a ministerial level Strategic Economic Dialogue with India to facilitate deeper discussion on wide range of issues. It also suggests the setting up of an Australia-India Infrastructure Council as a forum for collaboration between government and the private sector from both countries for exchange of expertise in infrastructure financing and to identify opportunities, mitigate risks, and develop appropriate entry and exit strategies for investing in India.¹⁷

Conclusion

Australia has a strong interest in improving relations with India not only as an important trading partner but also as an emerging strategic partner. The two countries broadly share objectives of stability, openness, and rules based order in the Indo-Pacific along with US and Japan, on which depends their economic stability and security. This shared vision forms a basis of the quad consultations (United States, Japan, India and Australia). Nevertheless although the bilateral relationship is developing there is still kind of political ambivalence on both the sides, when it comes to playing an active role to build a stable regional order in the broader Indo-Pacific region. Security cooperation between the two has been slow to develop. This is in part because of their differing attitude towards the role of China and the US in regional affairs, particularly as Australia tries to maintain a balance in its relationship with US, China and India and does not want to be caught in a zero-sum game. Therefore, the bilateral relationship between India and Australia can be spearheaded best by economic cooperation. Economic complementarities can facilitate cooperation in other areas as well. Australia and India share an interest in existing regional multilateral institutions in the Indo-Pacific, especially the EAS, for promoting economic integration and strategic stability. Australia also supports India's inclusion in the APEC. Australia is well-placed to supply India's industrial and infrastructure development needs. At the same time as Australia's limited domestic manufacturing base provides an opportunity for India to contribute to Australia's imports of manufactured goods and particularly refined oil. Overall as the report shows, the potential for cooperation is exciting. The lengthy report now endorsed by the Australian government, exploring opportunities for comprehensive, multidimensional cooperation provides an analytical base to reboot the India-Australia economic relationship for the future.

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Disclaimer: The views expressed are that of the Researcher and not of the Council.*

Endnotes

¹ Address by President at Australia-India Business Council event in Sydney, November 22,
https://mea.gov.in/Speeches-Statements.htm?dtl/30624/Address_by_President_at_AustraliaIndia_Business_Council_event_in_Sydney

² Media Release, 22 Nov 2018, Prime Minister, Minister for Foreign Affairs, Minister for Trade Tourism and Investment, <https://www.pm.gov.au/media/boosting-our-economic-ties-india>

³ Joint Statement by Prime Minister Turnbull and Prime Minister Modi, visit to India 2017, 10 April 2017, Australian Government, Department of Foreign Affairs and Trade, <https://dfat.gov.au/geo/india/Pages/joint-statement-by-prime-minister-turnbull-and-prime-minister-modi-visit-to-india-2017.aspx>

⁴ **Ministry of Commerce and Industry**, Government of India, Export-Import Data Bank, <http://commerce-app.gov.in/eidb/iecnt.asp>

⁵ Australian The Australian Government, Department of Foreign Affairs and Trade, <https://dfat.gov.au/trade/resources/Documents/inia.pdf>

⁶ Government of Western Australia, Department of Jobs, Tourism, Science, Innovation “Western Australia Economic Profile September 2018”, https://www.jtsi.wa.gov.au/docs/default-source/default-document-library/wa-economic-profile-0918.pdf?sfvrsn=ee0d721c_4

⁷ Department of Jobs, Tourism, Science, Innovation, Western Australia, <https://www.jtsi.wa.gov.au/trade-with-wa>

⁸ I. bid, no. 4

⁹ Hoffman, Martin (2013), “The Importance of Maritime Trade: Perspectives on Australia’s Energy Security”, in Justin Jones (ed.) Maritime School of Strategic Thought for Australia Perspectives, Sea Power Series-1, Sea Power Centre, p. 126.

¹⁰ India country brief, Australian Government, Department of Foreign Affairs and Trade, <https://dfat.gov.au/geo/india/Pages/india-country-brief.aspx>

¹¹ Peter Vargesh, An India Economic Strategy to 2035: Navigating from Potential to Delivery, 2018, p. 146, <https://dfat.gov.au/geo/india/ies/pdf/dfat-an-india-economic-strategy-to-2035.pdf>

¹² India-Australia Bilateral Relations, Ministry of External Affairs, Government of India, https://www.mea.gov.in/Portal/ForeignRelation/Australia_05_09_2017.pdf

¹³ I. bid. no 8

¹⁴ India Economic Strategy to 2035, p. 7, <https://dfat.gov.au/geo/india/ies/pdf/dfat-an-india-economic-strategy-to-2035.pdf>

¹⁵ I. bid p. 356

¹⁶ I. bid, p. 332

¹⁷ I. bid. p. 63 and 231