

India: A trading partner of growing importance

India grew to be Australia's ninth largest trading partner in 2006-07, reflecting strong export growth over the past five years: India is now Australia's sixth largest export market. Gold, education services, ores and metals dominate Australia's exports to India, but other exports are growing in importance. Import growth from India has been steady over the past 10 years but grew faster than imports from the world more recently. Given the growing importance of the bilateral relationship to both countries, Australia and India have agreed to undertake a joint feasibility study on the merits of a free trade agreement.

India offers great opportunities for Australian exporters. In recent years it has become more open to the world economy and more economically dynamic. India's real GDP growth over the past four years has averaged 8.8 per cent in constant 1999 Rupee terms. Real GDP per capita has grown substantially, giving rise to a sizable middle class, (estimated to be over 70 million households) with significant disposable income by Indian standards, which is seeking new products. The *Economist Intelligence Unit* has forecast India will be the fastest-growing economy in the world between 2007 and 2030, with growth averaging 6 per cent a year.

As a result of extensive reforms, including in the financial sector, trade liberalisation and reduced government administrative controls, trade is of growing importance to India. Between 2000 and 2006, India's merchandise exports increased by about 200 per cent, outstripping GDP growth: the ratio of merchandise trade to GDP jumped from 22 per cent in 2000 to 35 per cent in 2006. In 2006, India was ranked as the world's 28th largest exporter of goods and 10th largest exporter of commercial services. Services exports increased by over 30 per cent a year between 2001 and 2006, outpacing merchandise exports, and now account for around 38 per cent of total exports. The strong growth in services exports has been led by software and business process outsourcing, tourism and transport services.

Imports have also grown significantly, driven by the wide-ranging reforms to the economy. Barriers to

trade are still quite high, but they have declined from tariffs as high as 200 per cent to below 15 per cent. The government intends to implement a progressive reduction in peak customs duties on imports, in line with its commitment to reduce duties to 4.5-5.5 per cent by 2010. Liberalisation of import duties will be more rapid for non-agricultural than for agricultural products. Merchandise imports have grown at an annual average of 23 per cent since 2000. Reflecting strong demand for industrial inputs and energy, the majority of imports are raw materials – including petroleum products, metals and electronic goods. According to the International Energy Agency, India's primary oil demand will rise from 2.6m barrels a day in 2006 to 6.5m by 2030.

Australia's trade with India

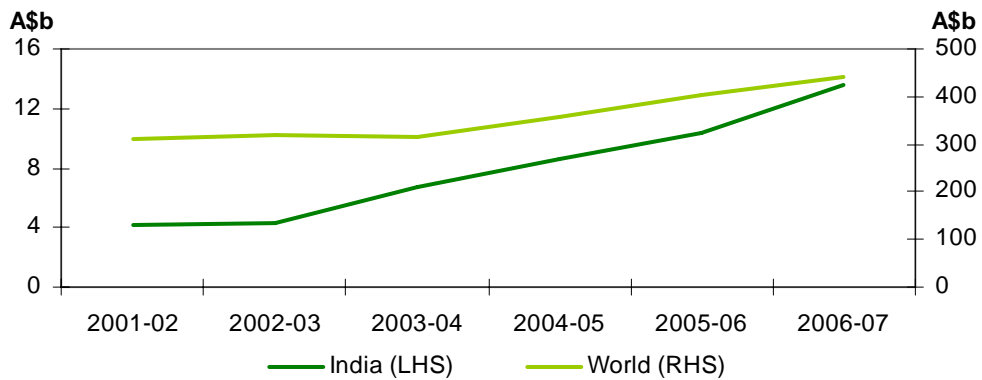
Australia's two-way goods and services trade with India grew to \$13.6 billion in 2006-07, making India Australia's ninth largest trading partner (see **Table 1**). Five year average annual growth in two-way goods and services trade was almost 30 per cent – about four times faster than Australia's total two-way trade growth over the same period (see **Chart 1**). Australia is an important source of imports for India, increasing from the 10th largest merchandise import source (2.4 per cent of total imports) in 2001, to 7th in 2006 (3.7 per cent of the total). Australia has also emerged as an important trading partner for India: Australia ranks as India's 11th largest merchandise trading partner accounting for 2.5 per cent of total trade, compared with 15th in 2001.

Table 1: India's ranking as a trading partner with Australia

	2001-02		2006-07		Five year trend growth	
	Rank	A\$m	Rank	A\$m	India	World
Two-way goods and services	17	4,110	9	13,568	28.9%	7.7%
Exports of goods and services	12	3,037	6	11,846	33.8%	7.3%
Imports of goods and services	23	1,074	23	1,722	10.4%	8.1%

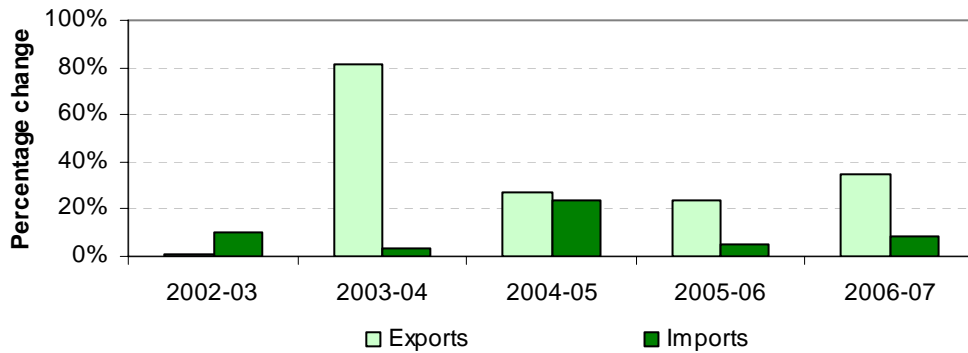
Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Chart 1: Australia's two-way goods and services trade with India and the World



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Chart 2: Growth in Australia's goods and services trade with India



Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

Australia's exports of goods and services to India rose by an annual average of nearly 34 per cent over the five years to 2006-07 (see **Chart 2**). This is about four and a half times faster than annual average growth for Australia's exports to the world over the same period. India's ranking among Australia's export destinations has risen from 12th to sixth in this period. Imports also grew strongly, albeit at a slower rate.

Australia's merchandise exports to India are very concentrated. Australia's top five exports to India in 2006-07 were non-monetary gold, coal, education-related travel services, copper ore and wool (see **Table 2**). Three products – non-monetary gold, coal and copper ores – account for over 80 per cent of Australia's exports to India, with non-monetary gold being the dominant export. Non-monetary gold exports to India have increased more than 10 fold between 2001-02 and 2006-07: non-monetary gold exports were valued at \$4.7 billion in 2006-07, making India Australia's largest export market for gold. India was Australia's second largest export market for coal and copper ores in the same year.

Amongst other merchandise exports, India was Australia's number one export destination for

vegetables, particularly chickpeas, in 2006-07, growing by an average of 37 per cent over the past five years. It was Australia's third largest market for lead and for wool, and a growing market for nickel exports. Exports of simply transformed chemicals and chemical preparations have grown by an annual average of almost 50 per cent over the past five years.

Australia's merchandise imports from India are somewhat lower than our exports, but are spread more widely and evenly. Imports from India have grown faster than from the world over the past five fiscal years, increasing by an annual average of 10.4 per cent compared with 8.1 per cent. India was Australia's number one source of pearls and gems and these products are Australia's most prominent merchandise imports from India. Other significant imports include woven female clothing, travel goods and medicaments.

Two-way merchandise trade growth slowed significantly in calendar year 2007 (the slowest rate of growth since 2002), according to initial full year merchandise trade data. Still, at \$10.7 billion it was

Table 2: Top 10 Australian exports to and imports from India for 2006-07

Exports			Imports		
	A\$m	% share		A\$m	% share
Total	11,846		Total	1,722	
Non-monetary gold	4,727	39.9	Other travel services (including personal travel)	228	13.2
Coal	2,483	21.0	Pearls and gems	105	6.1
Education-related travel services	1,319	11.1	Computer and information services	68	3.9
Copper ores	1,050	8.9	Business travel services	56	3.2
Wool	162	1.4	Other textile manufactures	51	2.9
Vegetables	150	1.3	Jewellery	44	2.5
Other travel services	123	1.0	Floor coverings	38	2.2
Other ores	115	1.0	Medicaments (incl. veterinary)	36	2.1
Transportation services	94	0.8	Structures of iron, steel or aluminium	31	1.8
Lead	85	0.7	Tea and mate	29	1.7

Source: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

up 6.4 per cent on calendar year 2006 levels – and above the growth rate of 4.7 per cent for total Australian merchandise trade. Australia's imports from India rose strongly (increasing 14 per cent in 2007 to \$1.5 billion), export growth moderated (increasing 5.3 per cent to \$9.3 billion in 2007 compared with a 26.3 per cent rise in 2006).

Services trade amounts to about 16 per cent of Australia's total two-way goods and services trade with India, compared with almost 21 per cent for Australian trade with the world. Travel services exports account for 87 per cent of total Australian services exports to India. At \$1.3 billion, education-related travel services dominate: enrolments of Indian annual students in Australia have increased at an average rate of around 41 per cent since 2002 and there were over 62,000 Indian enrolments in Australian educational institutions in the first 11 months of 2007.

Services accounted for about 24 per cent of Australia's total imports from India. Travel services accounted for 73 per cent of services imports from India and are dominated by personal travel services (mostly Australian tourists travelling to India). Computer and information services imports (\$68 million) are growing in importance.

Bilateral trade links

Australia's bilateral relationship with India has increased in significance in recent years. Cooperation between India and Australia spans a range of areas. Notable agreements include a Trade and Economic Framework as well as Memoranda of Understanding on Defence Cooperation, Customs, Information and Communications Technology, Combating International Terrorism and Biotechnology, a bilateral Air Services Agreement, and the Scientific Collaboration Fund.

Given this rapidly expanding bilateral trade and economic relationship, Australia and India have agreed to undertake a joint feasibility study of the merits of a free trade agreement (FTA). That study is expected to be completed by early 2009. Industry and private sector submissions are welcome. For the latest developments in the study, including advice on how to lodge submissions, please visit www.dfat.gov.au/geo/india/fta-study/index.html.

An FTA between Australia and India would provide benefits to both countries. Australia is a reliable supplier and would provide India with inputs for its growing manufacturing sector. Both countries would benefit from an FTA, including from increased investment flows, not just from each other, but from other sources as a result of a comprehensive FTA.