

VICTORIAN GOVERNMENT SUBMISSION
TO THE JOINT FEASIBILITY STUDY ON A POSSIBLE AUSTRALIA-INDIA
FREE TRADE AGREEMENT

1. Introduction

The Victorian Government welcomes the opportunity to provide input to the Department of Foreign Affairs and Trade (DFAT) on issues relevant to a possible Free Trade Agreement (FTA) between Australia and India. We acknowledge the importance of Australia's bilateral engagement with India, and look forward to developments in the relationship that are in the best interest of the Victorian economy.

The Victorian Government is committed to achieving a stronger economic and trade relationship with India, and regards India as a potentially significant trade and investment partner. There are real opportunities to position Victoria with India as a:

- strategic partner in transforming and enabling sectors such as biotechnology, medical research and healthcare, ICT, financial, education, aviation and aerospace, and professional and technical services (e.g. urban design, environmental services, sports and events management, infrastructure and logistics);
- supplier of high value added consumer goods and services where we have unique and competitive advantages, such as wine, high quality food products, tourism and entertainment;
- sophisticated investment destination and gateway to other regional economies across the Pacific, Asia and South America; and
- location which welcomes cultural exchanges and learning activities.

A comprehensive reciprocal FTA between Australia and India could have a significant impact in strengthening the business relationship between the two countries. Therefore, Victoria supports the Federal Government commissioning rigorous independent economic modelling of the potential costs and benefits of an FTA with India through a Feasibility Study (the Study). The Government should ensure that the methods and assumptions underpinning the modelling are transparent and considerate of domestic political reality in both countries. The results should be made available to all stakeholders.

The Study should investigate all issues related to trade with India. In particular, the Study should:

- identify all restrictions (tariffs, non-tariff barriers and regulatory arrangements) on trade between Australia and India;
- document the extent of these restrictions;
- determine how an FTA could address these restrictions;
- analyse the impact of removing these restrictions at the national, state and industry levels;
- analyse a potential FTA between Australia and India within the broader context of both countries' bilateral trade agenda; and

- analyse a potential FTA within the context of the Federal Government's review of export policies and programs, and its emphasis on domestic economic reform as a necessary complement to trade liberalisation.

2. Economic and cultural relations with India

In recognition of the trade and investment opportunities India presents Victorian businesses, the Victorian Government has developed a number of initiatives to establish more formal linkages between Victorian industry and India. These include:

- identification of India as a major new market for Victoria in its *Opening Doors to Export Plan*;
- establishment of the Victorian Government Business Office in Bangalore (VGBO) in 2005;
- *Access India* program which provides assistance through the VGBO to Victorian businesses planning to establish new export markets in India;
- appointment of a Special Trade Envoy to act as top-level advocate and advisor for Victorian export efforts in India;
- signing a Memorandum of Understanding (MoU) in 2005 with (then) Chief Minister of State of Karnataka which aims to establish stronger links in education, tourism, ICT, manufacturing and biotechnology;
- Victorian Government supported Trade Missions for sectors such as food and wine, manufacturing, precision engineering, building products, ICT and biotechnology; and
- a range of other activities working towards increasing investment and trading opportunities such as those organised throughout 2007-08 as part of AusTrade's promotional activity, Utsav Australia (Celebrating Australia), and those as part of the 2006 Commonwealth Games (India companies accounted for around 50 per cent of all the international *Business Club Australia: M2006* members).

2.1 Merchandise Trade

Victoria's two-way merchandise trade with India totalled \$874 million in FY2007 and is Victoria's 18th largest (goods) trading partner. It is a relatively small but growing relationship. Two-way merchandise trade grew nearly 50 per cent from \$589m to \$874m during FY2002 and FY2007.

India is Victoria's 16th largest export market (\$388m) and is concentrated in non monetary gold, wool, lead, fruit and nuts, and confidential items. From FY2002 to FY2007 Victoria's exports to India grew on average each year by 8.6 per cent. After a decline in exports from FY2002 to FY2003 of 24.5 per cent, (from \$257m to \$194m), Victoria's exports had not returned to FY2002 levels by FY2006 (\$210m). The significant increase in exports from FY2006 to FY2007 (85.2 per cent) was primarily due to exports of non-monetary gold and lead.

India is Victoria's 21st largest import market (\$486m), primarily in tea and mate, other textiles and manufacturers, confidential items, toys, games and sporting goods, and footwear. From FY2002 to FY2007 imports from India grew on average each year by 7.9 per cent.

2.2 Services trade

While services exports data is not readily available, there are real opportunities for Victorian business in India's services sector. India is a prime market for education and the Victorian Government has an Education Service Manager located in the VGBO Bangalore. In 2007, 25 per cent of international enrolments in Victoria came from India – 33,460 out of a total of 132,448. Victoria now leads all other States in Indian enrolments while India is Victoria's second largest source of overseas students (after China).

Tourism Victoria has designated India as a Tier two market recognising that while current visitation to Victoria is only 32,375 (*International Visitor Survey year ending December 2007*) the forecast annual growth rates corresponding to this market are the highest of any target markets. There is also the opportunity to secure business tourism from this market and to leverage Victoria's strength in the education sector and via sporting links such as cricket. Tourism Victoria, through its representative company in India, Beautiful Planet, undertakes a range of marketing and public relations activities and works closely with airlines such as Qantas and Singapore Airlines and preferred travel distribution partners.

India is an important source of skilled migrants for Victoria. In FY2006, 20.4 percent of all skilled migrants came from India. India is Victoria's top source for State sponsored skilled migrants (34.5 percent in 2005-06), from a range of occupations including mechanical engineering tradespersons (24.8 per cent), building and engineering professionals (13.1 per cent), electrical and electronics tradespersons (6.7 per cent), natural and physical science professionals (5.8 per cent), and computing professionals (20.4 per cent).

2.3 Investment with India

Foreign investment figures are not available at a state based level. However, in FY2007 the Department of Innovation, Industry and Regional Development facilitated AUD\$13.8 million worth of investment from India, representing an increase of 70 per cent compared with the previous financial year. The investment facilitated in 2006-07 was expected to create 231 jobs, an increase of 131 per cent from the previous financial year. Indian investment in FY2007 consisted of 5 projects, 4 from the Information Technology & Telecommunications (IT&T) sector and 1 from Food and Related Industries sector.

Investments from India have been predominately in the ICT sector. Victoria is home to the leaders of the Indian ICT industry. Total Indian ICT investment in Victoria has exceeded \$20 million generating over 1,000 jobs. High-profile Indian ICT companies operating in Victoria include Tata Consultancy Services, Satyam, Infosys, Birlasoft, Wipro and NIIT – several of whom have established partnerships and MoUs with Victorian Universities (Tata with Monash's School of Business Systems, Satyam with Victoria and Melbourne Universities).

2.4 Cultural ties

The latest Census in 2006 recorded 147,111 Indian-born persons living in Australia of whom 52,851 live in Victoria (NSW 57,154 and WA 15,157). Between 2001 and 2006 the highest growth rate of Victoria's overseas born population was Indian migrants (72.1 per cent). Overall, Indian-born immigrants have a higher level of educational training and qualifications than the Australian average and a higher level of computer ownership and access to internet. As a result a high proportion of Indian-born Australians are employed in professional, technical and white-collar occupations.

Cultural activities between Victoria and India include the range of programs delivered through Asialink and The Asia Education Foundation such as the exchange programs for school principals and teachers, which includes producing curriculum about India for Australian schools. Asialink's Arts program provides residencies annually for visual and performing artists, arts managers and writers to spend up to 3 months in India.

In late 2007 Melbourne and Delhi established a strategic alliance (sister city relationship) which was the first of its kind between capital cities in Australia and India. The Australia-India Business Council has an active Victorian Chapter.

3. Key issues to be addressed by the Feasibility Study

The Victorian Government has identified a range of issues that it considers should be included in the scope of the Feasibility Study:

3.1 Removal of tariff barriers

Despite economic reform since 1991, which includes restructuring of the tariff system, the Indian Government continues to use tariffs as its main instrument of trade policy and as a major (although declining) source of tax revenue. While most-favoured-nation (MFN) applied tariffs in non-agricultural products have been reduced, tariff peaks applied to non-agricultural goods have increased and agricultural tariffs remain high in areas of interest to Victoria such as wine, animal and dairy products. Furthermore, while the Indian Government has bound 73.8 per cent of its tariff lines, the majority of these bindings exceed India's applied rate of duty. This makes tariff escalation a potential issue because tariffs could increase from the applied rate of duty to the bound level creating an uncertain trading environment for Victorian business.

The Study should examine these issues as well as the potential impact of lowering tariff barriers in sectors of interest to Victoria such as textile, clothing and footwear (TCF) and automotive, noting the scheduled reduction in Australian tariffs for TCF and automotive in 2010.

3.2 Removal of non-tariff barriers

It is important that issues relating to non-tariff barriers to trade are addressed as part of the Study into a possible FTA with India. Consultations indicate that the main problems are associated with transparency, consistency in customs administration,

import licensing and quarantine arrangements, and extensive documentation requirements making the import process into India overly complex and burdensome.

Standards and technical regulations

The Feasibility Study should consider the extent to which an FTA could address the mutual recognition of qualifications, and the appropriate occupational registration and accreditation arrangements. This is particularly the case for sectors such as education, legal and other professional services (e.g. aviation, medicine, dentistry, architecture, engineering, journalism, accounting, auditing, and human resources). Also, issues have been raised about quarantine measures such as the restriction on dairy imports.

Investment

Increased investment by Australian firms in India is likely to lead to increased trade and benefits to Australian industry and as such the Study should thoroughly examine restrictions on Australian investment into India. While most sectors of the Indian economy are now partially open to foreign investment, the Indian Government continues to prohibit or severely restrict FDI in sensitive sectors such as agriculture, retail trading, railways and real estate. For example, the retail sector is largely closed to foreign investment. FDI in multi-brand retail outlets is not permitted, and while FDI in single-brand retail stores is allowed, it's subject to a foreign equity cap of 51 per cent.

3.3 Ease of doing business in India

The Study should examine the cultural and regulatory barriers to the establishment of business presences in India by Australian firms, including, for example, any investment restrictions, restrictive licensing provisions, restrictive employment practices (e.g. academic employment is highly restrictive) and administrative and bureaucratic complexities. For example, there is currently no framework in India that recognises the establishment of international schools. The Study should consider appropriate trade facilitation, capacity building programs and initiatives that would improve the ease of doing business in India.

For example, India and Australia have a long-standing commitment to research, science and technology, especially in the public research sector. As India continues to modernise its economy, science and technology will play an increasingly key role in its development. There are potential opportunities for (a) collaborative research (b) technology transfer from Australia to India and (c) exchanges of scientific personnel in areas of complementarity; for example, agriculture, food technology, pharmaceuticals. The proposed FTA should consider protocols to enhance collaboration.

Rules of Origin

The Feasibility Study should analyse and provide an assessment of a range of rules of origin systems that could be adopted under an FTA, such as local value adding or the change in tariff classification (CTC) system. The assessment should take into account issues such as ease of administration, enforcement and review procedures.

Protection of intellectual property

An FTA with India could provide export opportunities for Australia's knowledge-based industries in areas such as education, design, architecture, healthcare and agribusiness. As the result, it is important that the Feasibility Study assess India's current level of intellectual property protection and the extent to which these laws are enforced. The Australian Government and industry need to be satisfied that there is vigorous enforcement of these laws.

Government procurement

The inclusion of government procurement in an FTA could present significant opportunities for Australian businesses to tender for government work in India. The Feasibility Study should consider whether government procurement could be included in an FTA, and analyse how government procurement regimes operate in India. US Reports (*USTR Foreign Trade Barriers India 2007*) state that Indian Government procurement practices are non-transparent and that foreign firms rarely win Indian government contracts due to the preference afforded to Indian State-owned enterprises.

Business mobility and movement of natural persons

The Study should consider the effect of current visa and immigration requirements, and the impact of any changes to these requirements.

Investor State dispute resolution

The Study should consider whether an FTA should include an Investor State Dispute Settlement clause, as an incentive to encourage two-way investment. This would involve analysing India's legal system and its methods for dealing with investor disputes and determining whether this would represent a barrier or disincentive for Australian companies to invest in India.

4. Conclusion

Victoria supports the examination of the benefits of an FTA with India, and therefore welcomes the current DFAT Feasibility Study. There are commercial opportunities for Victorian exporters and investors from increasing market access to this regional market through trade liberalisation in both tariff and non-tariff measures.

Further detail on the issues raised in this submission and stakeholder feedback is available on request. The Victorian Government looks forward to further communication and cooperation with DFAT on completion of the Study.