
Enhancing The Australia-India Partnership: Submission for a Comprehensive Economic Cooperation Agreement (CECA)



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Executive Summary

The Australia India Institute (All) is Australia's leading centre dedicated to promoting support for and understanding of the Australia-India relationship. Its mission is to increase the policy and public importance of India as a crucial partner in Australia's future, and of Australia as a crucial partner in India's future; and to provide leadership on the nature of a closer and mutually beneficial partnership across a wide range of interests. In this mission, the Institute is guided by the principles of bharosa (trust), maryada (respect) and kalyan (welfare).

In response to the invitation from The Department of Foreign Affairs and Trade (DFAT) for interested stakeholders to make submissions on the opportunities, challenges and impact of a CECA, the Australia India Institute is pleased to provide its submission for the Australia-India Comprehensive Economic Cooperation Agreement (CECA).

This submission proposes four (4) recommendations to the Australian government. They aim to enhance existing initiatives that will help drive mutual economic growth and create further commercialisation opportunities. This submission discusses Australia and India's trading priorities and trade barriers, market access challenges, the geopolitical context within which negotiations are being conducted, and other issues of importance in doing business together. The submission also contains commentary on the merits and risks of an early harvest agreement.

Recommendations

The Australia India Institute (All) recommends that the Australian government consider the following proposals in negotiations for the Australia-India Comprehensive Economic Cooperation Agreement (CECA).

1. Maintain the momentum of the Australia India Business Exchange (AIBX) through holding two, not one, flagship events per year.
2. Enhance the annual Australia India Youth Dialogue (AIYD) by making it a track 1.5 dialogue with endorsement and participation from Australia's DFAT and India's MEA, and through engagement with NGOs/state governments/businesses to help drive the AIYD forward.
3. Support the development of an India Business Intelligence micro-credential within Australian corporations and boards as a means of increasing 'India literacy' for Australian businesses.
4. Resource the Australian Researcher Cooperation Hub India (ARCH-India) in order to strengthen research collaboration and commercialisation opportunities.

Background

In June 2020, Prime Ministers Scott Morrison and Narendra Modi agreed to re-engage on CECA negotiations when Australia and India upgraded their relationship to a [Comprehensive Strategic Partnership \(CSP\)](#). Since 2011, Australia and India have attempted to negotiate a FTA with over thirteen rounds of CECA negotiations, however both sides are yet to reach an agreement. In October 2021, the two countries reaffirmed their commitment to conclude a CECA, including reaching an interim agreement by December, and to conclude the negotiations on a full CECA by the end of 2022. On February 15 2022, India's Commerce Minister Piyush Goyal and Australia's Trade Minister Dan Tehan announced an interim agreement would be announced in 30 days and would cover areas of mutual interest for both countries, whilst avoiding the more sensitive areas.

The Department of Foreign Affairs and Trade (DFAT) has committed to an [update of the India Economic Strategy report](#), authored by Australia's former High Commissioner to India and former DFAT Secretary, Peter Varghese, with the objective of setting priority action items for the Government to achieve over the short-term. The Australia India Institute contributed to the consultation process of the IES update through the University of Melbourne.

In response to the invitation from The Department of Foreign Affairs and Trade for interested stakeholders to make submissions on the opportunities, challenges and impact of a CECA, herein lies the Australia India Institute's submission for an Australia-India CECA. Based on policy-oriented research and analysis from both the Australian perspective and Indian perspective, this submission recommends several

proposals for the Australian government to consider. The recommendations are based on enhancing existing initiatives that will help accelerate mutual economic benefit and present favourable trade and investment outcomes. This submission discusses Australia and India's trading priorities and trade barriers, market access challenges, the geopolitical context within which both countries find themselves and other issues of importance in doing business together. The submission also contains commentary on the merits and risks of an early harvest agreement, as was discussed during one of the Australia India Institute's co-partnered events with the Australian Institute of International Affairs (AIIA); [*The CECA: Roadmaps for the Australia - India Economic Relationship*](#). This event featured preeminent speakers in the Australia-India trade and investment space, including Peter Varghese AO FAIIA, Ambassador Anil Wadhwa and Dr. Amitendu Palit.

According to a [joint media release](#) on October 1st 2021, Mr Dan Tehan MP, Minister for Trade, Tourism and Investment said that India-Australia bilateral trade in 2020 had exceeded AUD\$24 billion. Major Indian exports to Australia were petroleum products, medicines, polished diamonds, gold jewellery, apparels etc, while key Australian exports to India included coal, LNG, alumina and non-monetary gold. In services, major Indian exports related to travel, telecom and computer, government and financial services, while Australian services exports were principally in education and personal related travel. In 2020, India was Australia's seventh-largest trading partner and sixth largest export destination, driven by coal and international education. In FY21, bilateral trade between the two countries stood at about \$12.5 billion and in the first ten months of FY22, bilateral trade has surpassed \$17.7 billion.

Analysis

*The CECA: Roadmaps for the Australia - India Economic Relationship
with Mr. Peter Varghese AO, Ambassador Anil Wadhwa and Dr. Amitendu Palit*

In November 2021, in joint partnership with the Australian Institute of International Affairs (AIIA), the Australia India Institute co-hosted '[The CECA: Roadmaps for the Australia - India Economic Relationship](#)', a virtual event that focused on the twin roadmaps set out by Australia and India towards greater trade and economic relations. Moderated by the Australia India Institute CEO the Hon. Lisa Singh, the panel included Dr. Amitendu Palit, Ambassador Anil Wadhwa and Peter Varghese AO FAIIA. While panelists expressed opposing views on the merits of an early harvest agreement, one key point that emerged from the discussion was that investment in India, rather than trying to export to India, was key to bringing both countries closer together.

Reflecting on the economic trajectories of both Australia and India, Mr. Peter Varghese AO, author of the [India Economic Strategy \(IES\)](#) report, stated that both countries face challenges in making sure that economic momentum is maintained and enhanced, and that CECA alone would not fix these problems. The impact of the COVID-19 pandemic has forced both countries to develop economic reform agendas, or a “post-COVID rebound” agenda. Economic cooperation thus heavily depends on how both countries can include each other in their economic reform agendas moving forward. Importantly, Mr. Varghese highlighted that both countries seek to transition towards decarbonised economies.

On CECA, Mr. Varghese stated there are high risks associated with early harvest agreements. “The objective of FTAs is to achieve as comprehensive a liberalisation of trade between two or more countries as possible”. In his view, the only way one ends up with a substantial outcome is if they are able to recognise the balance of benefits in an agreement. He described the balance of benefits as understanding that “you may not get 100% of what you want on big issues, but the gap between what you want and what you can settle for is compensated for by the smaller bits and pieces of an FTA”. In other words, if you agree on easier bits in the beginning (low hanging fruit), it makes negotiating harder bits at the end even harder.

Ambassador Wadhwa, author of the reciprocal [Australia Economic Strategy \(AES\)](#) report, shared an opposing view, stating that “an early harvest agreement helps build trust and momentum for the finalisation of a CECA”. He emphasised that if Australia invested in India’s growth trajectory today, it would create new opportunities for Australia tomorrow, citing India’s demand for critical minerals in meeting environmental goals as an example. Ambassador Wadhwa identified several areas to be targeted as part of an early harvest agreement, including fintech, cloud computing, IT, cybersecurity, critical minerals, rare earths, healthcare, and education. Ambassador Wadhwa also identified the agricultural sector and visa norms as two of the more sensitive areas from the Indian perspective and Australian perspective, respectively. Similarly, Mr. Varghese also identified these areas as some of the “bigger issues” in his comments.

One key point panelists agreed on was that investment is key to driving the economic relationship forward. Mr. Varghese viewed investment as playing a “disproportionate” role in the development of the economic relationship, because India is more open to investment than it is to trade liberalisation, adding that he

would like to see investment as part of an early harvest agreement rather than deferred to the more comprehensive agreement. Touching on one important sector, Mr. Varghese stated that “if Australian businesses want to make progress in agribusiness such as value adding to Australian agricultural produce in India, then it is going to require an investment dimension, not just the exporting of commodities.” Ambassador Wadhwa echoed Mr. Varghese’s sentiments, stating that investment was key to India’s economic growth, and would in turn provide new opportunities for Australia that “cannot yet be imagined”, in sectors such as water management and environmental services.

Mr. Varghese also cited Australia’s superannuation funds as a key source of further investment, as well as India’s manufacturing incentives under its [national monetisation plan](#) as investment opportunities for Australian businesses. Australia’s pension fund sector currently sits at \$2.3 trillion and could be a regular source of investment in India. On February 12 2022, Australia’s Foreign Affairs Minister Payne [announced](#) the establishment of the Australia-India Infrastructure Forum, which will help finance the enormous infrastructure opportunities in India. Firms interested in financing such projects would need to consider several things including (a) which Indian business leaders are likely to be the most receptive, reliable and respected partners; (b) an effective dispute settlement mechanism, noting that long delays in either Australian or Indian courts could point to the need for a third party (e.g. Singapore) as a site for resolving commercial disputes; and (c) the term of investment, with super firms encouraged to invest in the long-term.

For Australia, it is important to take into account India’s protectionist instincts, and its historical and persistent mindset associated with *swadeshi*, which loosely translates to “self-sufficiency”. This is reflective of several of Prime Minister Modi’s

policies such as the [Make in India](#) initiative, which has resulted in major import substitution, and the [Atmanirbhar Bharat](#) initiative, which also aims to promote domestic industry and reduce reliance on foreign suppliers. This calls into question traditional export-led approaches of Australia's FTA negotiations.

It is important for Australia to understand that, [according to the United Nations](#), just under 60% of Indians are employed in agriculture, but the sector produces only 23% of the country's GDP. This means that it is highly unlikely the sector would be opened up to increased competition. The repeal of Modi's controversial "three farm laws" also demonstrates moderate support for Indian farmers. Demanding too much in the way of tariff reductions for agricultural goods would not be in Australia's interests. At best, it should propose quotas on niche agricultural products, such as wine or gourmet cheese products, which would target the premium end of the market so as to not displace India's domestic producers.

Nonetheless, It would be extremely limiting to assume there is no room for Australia and India to find areas of cooperation on the agricultural front. When focusing on agriculture negotiations, Australia should note: (a) it has a competitive advantage and established market position with a number of agricultural exports; (b) understand there are areas in which Australia is not directly competitive, such as counter-seasonal production or products aimed at a particular price point (e.g. elite hotels); and (c) safeguards are a useful mechanism should volume or prices surge in imports. Progress in this area is possible, as evidenced by [India's recent dropping of import tariffs on lentils](#). Aside from agricultural products, Australia should focus on exporting products which could help serve India's national interests, including critical minerals and rare earths which are required for its e-mobility program and

environmental goals. Ambassador Wadhwa said Australia is well placed to do this given it has 21 out of the 49 minerals identified by India's [critical mineral strategy](#).

India's policy of strategic autonomy and desire to become more self-sufficient should be a signal to Australia that its economic relationship with India should focus increasingly on investment-led growth. This would enable India to meet the demands of its growing population and infrastructure needs. To reiterate, Peter Varghese stated "investment will play a disproportionate role in the development of the economic relationship, as India is more open to investment than it is to trade liberalisation." Generally, trade is said to dominate Australia's economic partnerships with investment lagging by a wide margin. However, it is promising that in the [IES](#), India is said to have a relatively open foreign investment regime, sharing many institutions with Australia - both derived from British models - which suggests that investment could and should form the basis of Australia's economic relationship with India. In other words, India is not seeking to simply import Australian goods and services, but to substitute commercial qualities as a means of becoming more self-sufficient. As noted in the IES, Australia should set itself the ambition by 2035 for India to be the third largest destination in Asia for outward Australian investment. Australian negotiators should be aware of the need to understand India as India sees itself.

It is also worth noting the current geopolitical context in which this FTA is being negotiated. Free trade agreements generally provide countries with insurance against emerging conditions that threaten economic interests. For example, against economic shocks that disrupt the international market, trade coercion, or "dead-locked" multilateral trade negotiations. In today's context, CECA would provide Australia and India with an increased level of insurance against global

financial crises, stalled WTO negotiations, and allow both countries to become less reliant on certain trade partners, rendering them less vulnerable to trade sanctions or other forms of economic coercion. This would further support efforts to mitigate trade risks through diversifying supply chains such as the Supply Chain Resilience Initiative between Australia, India and Japan. In a recent report titled '[Responding to Trade Coercion: A Growing Threat to the Global Trading System](#)' led by the Perth US-Asia Centre and Asia Society Policy Institute, the key recommendation for countries moving forward was to ensure they had diversified trade relationships, based on risk assessments. CECA is not a complete solution to trade coercion, however it would enable both Australia and India to diversify their economies away from an over reliance on other partners.

India has also indicated a preference to engage economically with other countries on a bilateral or plurilateral basis, as opposed to large multilateral platforms. Indeed, it is often easier to achieve economic interests when there are less stakeholders involved as there is a higher degree of consensus among members. In recent years, a number of mega preferential trade agreements between like-minded countries have been proposed and established. However, within this context, India has shown no sign of joining (or rejoining) mega-PTAs such as RCEP or the CPTPP. India is demonstrating a preference to engage bilaterally and with a smaller number of stakeholders, signifying the importance in getting CECA over the line.

The Australia India Institute's recommendations take into account Australia and India's trading priorities outlined herein and build on existing initiatives that will help drive mutual economic benefit and lead to favourable trade and investment outcomes. They focus specifically on business and investment, young and emerging

leaders in the bilateral space, 'India literacy' for Australian businesses, and international research collaboration.

Enhancing the Australia India Business Exchange (AIBX)

The [Australia India Business Exchange \(AIBX\)](#) is the Australian Government's flagship trade and investment multi-year promotion program for India, which aims to increase two-way trade and investment partnerships and commercial outcomes. The AIBX provides insights into emerging market opportunities, taxes and regulations, business culture and operational environment, guides to accessing e-commerce marketplaces, through holding virtual events, briefings, expos, webinars, conferences, masterclasses and other activities. The AIBX plays a pivotal role in helping Australian businesses expand their operations into India, as well as fostering closer ties between Australian and Indian businesses. Asialink's '[India Country Starter Pack](#)' featured on the AIBX website also provides Australian businesses with a comprehensive introduction to India's business environment. The AIBX is the primary forum within which businesses can come together, create new jobs overseas, and promote the private sectors of both economies to ensure that government policy changes reflect commercial realities on the ground. The AIBX should aim to hold more than one flagship event per year, as a way of gradually expanding and deepening the spectrum of industry sectors covered under the AIBX. Currently, the AIBX promotes Education, Food & Agribusiness, Healthcare, Infrastructure and Mining & Resources, however this could be expanded to also include Cyber and Critical Technology, Entrepreneurship, Startups and Innovation, and Low Emissions Technology, as reflected in the government's [agenda](#). By holding

more than one flagship event per year, this would allow for more sectors to be covered equally, with a larger pool of business leaders pointing out key gaps in policy. A mechanism whereby business leaders report to their relevant ministers after each session should also be considered.

Recommendation #1: that the Australian government maintains the momentum of the Australia India Business Exchange (AIBX) through holding two, not one, flagship events per year.

Elevating the Australia India Youth Dialogue (AIYD)

The [Australia India Youth Dialogue \(AIYD\)](#) is the pre-eminent track-two young leaders' dialogue, which enables the exchanging of ideas between emerging leaders from both Australia and India. The AIYD fosters the youth, talent, innovation and entrepreneurial spirit of both countries that will continue to strengthen the bilateral relationship. Peter Varghese notes in the IES that by 2030, India aims to lift its higher education enrolment rate to 50 per cent, which would mean that 1 in 4 graduates in the world would be from India. Not only does this present huge opportunities to Australian institutions to provide higher education to young Indian students, but it also means more Indian graduates offering their talent, innovation and entrepreneurship to the Australian workforce. The AIYD is a leading body driving the partnership forward. The '[Build Back Better: a Post-COVID 19 Recovery Strategy](#)' report led by the AIYD outlines several recommendations under five key areas reflective of what Peter Varghese described as a "post-COVID rebound agenda". The key areas include (1) Education (2) Arts and Media (3) Public Diplomacy (4) Health

and (5) Technology & Innovation. Given these areas were identified as targets for an early harvest agreement, the AIYD and its strategy report is clearly in step with government interests from both the Australian perspective and Indian perspective. The AIYD is crucial to driving the relationship forward and with the support of NGOs, business champions from the private sector, as well as endorsement and participation from both Australian and Indian governments, this would help elevate the AIYD to a track 1.5 dialogue to help inform policy from tomorrow's leaders on Australia-India relations.

Recommendation #2: that the Australian government enhance the annual Australia India Youth Dialogue (AIYD) by making it a track 1.5 dialogue with endorsement and participation from representatives from Australia's Department of Foreign Affairs and Trade (DFAT) and India's Ministry of External Affairs (MEA), and through engagement with various NGOs/state governments/business champions to help drive the dialogue forward.

Increasing Australia's "India literacy"

There is a current lack of understanding in Australia of India, and importantly how business in India operates. In the workforce, literacy of Indian culture and preferences is limited. Low 'India literacy' among Australian state and federal governments, as well as Australian corporations, poses a challenge for business-to-business collaboration and foreign investment. Improving literacy of India's business environment within corporate Australia would help support long term strategic investments in India and provide Australian businesses with the

necessary tools and knowledge to communicate with their Indian counterparts. [Austrade](#) currently engages in work that aims to increase India literacy, through holding events for Australian businesses that seek insights into India's foreign direct investment policies and regulations. The Australian government should aim to continue building on the work of Austrade, including the AIBX and the India Business Mission, to help raise Indian literacy for Australian exporters, financiers, investors, consultants, training institutions and start-ups. Supporting the development of a 'Business in India' micro-credential as part of corporate professional development would help strengthen understanding and cultural bridges leading to favourable trade and investment outcomes for both Australian and Indian businesses. The finance and IT sectors would be good places to start.

Recommendation #3: that the Australian government builds on the work of Austrade through supporting the development of an India Business Intelligence micro-credential as part of corporate professional development within Australian corporations and boards, focusing on business culture in India.

Resourcing ARCH-India

Deepening research collaboration between Australia and India through university-to-university collaboration and government funded research initiatives can help inform policy and lead to commercialisation opportunities. The Joint Statement on a Comprehensive Strategic Partnership commits the Australian and Indian governments to enhanced science, technology and research collaborations focused on medical research and development, strengthening healthcare systems and

diversification of supply chains. These policy agendas are facilitated by key Australian Government funding initiatives, including the Australia India Strategic Research Fund (AISRF), Australian Research Council (ARC) schemes, the Global Science and Technology Diplomacy Fund (GSTDF) and the National Health and Medical Research Council (NHMRC). Collaborations are supported through the Overseas Counsellors Network (with one counsellor based in New Delhi). The Australia India Institute believes the recently established [Australian Researcher Cooperation Hub India \(ARCH-India\)](#) is well positioned to drive this research collaboration forward. Established in 2021, ARCH-India increases the number of Australian and Indian researchers collaborating with one another, identifies major sources of funding that can facilitate research, increases awareness of research strengths of both countries, diversifies the reach of Australian and Indian research institutions to a wider network, and increases mobility of research students between both countries. The Institute believes it is an important asset to the bilateral relationship.

Recommendation #4: that the Australian government resource the Australian Researcher Cooperation Hub India (ARCH-India) in order to strengthen research collaboration and commercialisation opportunities, and to consolidate its usefulness across academia, government and industry.