INDIA

What’s happening in this economy

Over the past year there has been a pronounced slowdown in the Indian economy. Private consumption has declined, industrial output has stalled, and exports have fallen. This is being exacerbated by tight credit conditions (including the overhang of non-performing loans in the public banking sector). The International Monetary Fund (IMF) downgraded its growth forecast for India to 6.1 per cent in 2019–20* (down from 7.3 per cent in April) in line with Reserve Bank of India forecasts.

The Modi Government has announced a range of measures to address the slowdown, improve business confidence and lower the cost and availability of credit. These reforms include a cut to the corporate tax rate, public sector bank consolidation and capital infusions, and a relaxation on external commercial borrowing for corporates. The RBI has made a series of cuts to the benchmark interest rate amounting to 135 basis points this calendar year, and has also delivered a record high dividend to the government to ease pressure on the budget from lower tax revenue growth (and tax cuts).

These measures follow a range of economic reforms introduced under the Modi government following its election in 2014. This includes introducing a GST, direct benefit transfers, and a new insolvency and bankruptcy regime to clean up non-performing assets in the public sector banks. There have been ongoing efforts to improve tax revenue collection, reduce red tape, and divest public assets to shore up the budget. Attracting foreign investment has been a key priority and the government has progressively lowered restrictions on foreign direct and portfolio investment in a range of sectors. These reforms have contributed to India’s rapid improvement in the World Bank’s Doing Business ranking from 142 in 2015 to 63 in 2020.

Despite the slowdown, India remains the fastest growing large economy in the world. Prime Minister Modi recently set an ambitious target to become a USD 5 trillion economy by 2025 (currently at USD 2.7 trillion). The IMF is forecasting a recovery to 7.0 per cent in the 2021 financial year, and assesses that India’s long term fundamentals remain sound.

Nevertheless, challenges and risks remain. In the near term, increasing protectionist sentiments around the world and rising oil prices could pose risks to India’s growth (India is a major crude oil importer). While ease of doing business has improved, India remains a challenging place to invest and do business. Areas such as contract enforcement and securing permits and approvals can be difficult. There are risks of drawn-out litigation, barriers to land acquisition, and strict labour laws. Infrastructure shortfalls, high costs of logistics, complex laws and regulations, unreliable and costly electricity, and poor infrastructure all impact the competitiveness of India’s manufacturing sector and exports.

* India’s fiscal year runs from April to March.
India faces the challenge of creating quality jobs for the large number of young people entering the labour market (more than 45 per cent of Indians are under 25), building human capital, and addressing challenges in the education and skills sector, as well as the health sector. Water scarcity—which has implications for food and energy security—and air pollution are looming concerns.

Trade, investment, and commercial opportunities and activities

- The Australian Government-commissioned *An India Economic Strategy to 2035* (IES) which explores practical measures to cement India as a priority economic partner. Released in July 2018, the report outlines why and how Australia should make a strategic investment in India and states that no single market over the next 20 years will offer more growth opportunities for Australian businesses than India:
  - the strategy identifies 10 key complementary sectors between the two economies and provides recommendations to build the economic relationship, and
  - the Government accepted 43 of the IES recommendations, which are at various stages of implementation.

- Australia’s exports to India grew 10.4 per cent in 2018 to AUD 22.4 billion, making it our fifth largest export destination:
  - India was Australia’s fourth largest merchandise export market in 2018 (AUD 16.8 billion), with exports concentrated in resource commodities (coal, natural gas, gold, copper), and
  - services exports (AUD 5.6 billion) were primarily education and tourism, and grew 26.8 per cent year-on-year in 2018.

- In 2018 Australia’s total investment in India grew 11.9 per cent year-on-year to AUD 15.6 billion (primarily portfolio investment). Australian investors are showing increased interest in India in areas such as infrastructure:
  - Macquarie made a landmark investment in 2018 to manage a ‘bundle’ of toll roads, and
  - AustralianSuper recently announced a commitment of up to AUD 1.4 billion in India’s National Investment and Infrastructure Fund.

- Indian investment in Australia in 2018 was AUD 15.1 billion, a marginal decline on 2017 but with a 5.6 per cent growth in direct investment to just under AUD 1 billion:
  - Indian investors view Australia favourably as a developed economy investment destination with strong education and innovation ecosystems, and
  - resources, strategic minerals and IT services are key areas of interest.

- To date Australia’s commercial engagement in the market has been predominantly agent based:
  - less than 200 Australian companies maintain a direct corporate presence.

- High ambitions for children—and the largest tertiary-age population in the world—are driving demand for quality education and training:
  - India is Australia’s second largest education market (around 107,000 Indian international students were in Australia at August 2019), and
there are opportunities for Australian education and vocational training services providers in skills training, and to expand on higher education services delivered in Australia.

India is one of the world’s fastest growing outbound travel and tourism markets, fuelled by rising incomes and more affordable airfares. India’s large diaspora acts as a pull factor:
- in the year ending April 2019, 364,500 Indians visited Australia, and
- more direct flights between Australia and India could help drive this growing market.

The government is developing a national infrastructure pipeline of AUD 2 trillion and is exploring innovative financing models to crowd in private investment and improve project management capabilities:
- there may be opportunities to bid for assets or for contracts, including under the large lending programs of multilateral development banks such as the World Bank.

Urbanisation is driving demand for better infrastructure:
- by 2025 there will be 69 cities in India with a population of more than one million, and
- programs such as the Indian government’s 100 Smart Cities program and the new Jal Jeevan Mission (tap water to all rural households by 2024), present opportunities in areas such as environmental technologies and services, water management, transport systems, clean energy solutions, town planning and architecture.

Rising incomes, industrial activity and infrastructure development will drive strong demand for resources, particularly metallurgical coal, and also copper and gold:
- growing energy demand means India remains heavily reliant on imported oil and gas, and
- India’s abundant reserves of natural resources, commitment to self-sufficiency and push to modernise its mining sector will also drive demand for Australia’s mining equipment, technologies and services sector.

India has an ambitious renewable energy target of 175GW of renewable energy by 2022 and 450 GW by 2040:
- these factors will drive demand for services and technologies that improve energy efficiency and uptake of renewables, particularly solar energy.

Cheap data, increased smartphone usage and internet access are driving rapid growth in ecommerce, helped by a fragmented physical retail sector and the introduction of the GST (which enabled India to become a single market):
- online retail sales in India are forecast to grow from USD 24 billion in 2017 to USD 200 billion by 2026
- India’s growing consumer class is a target market for Australian premium food and beverages, cosmetics and dietary supplements, and
- online marketplaces such as Amazon or Flipkart offer a lower risk entry point into the Indian market and direct access to second and third tier cities.

The need for more efficient food production and measures to address water scarcity, soil health and pollution concerns are creating pressure to modernise and driving interest in sustainable agricultural practices:
there are opportunities to support the agricultural sector pre and post farm gate, including through seed development, post-harvest supply chain infrastructure such as cold storage, and grain storage and logistics.

- India is focused on driving innovation and research and development through initiatives such as Start-up India and Digital India:
  - there is an appetite for collaboration and knowledge sharing, particularly through academic research organisations, and
  - Australia recently extended the Australia–India Strategic Research Fund out to 2022, building on a successful, 10-year program of joint, collaborative research across a range of fields from vaccine development to solar technology.

- In 2018 the government launched a new health insurance/primary health scheme, Ayushman Bharat, to provide more equitable access to health services:
  - there are opportunities in areas such as treatment of non-communicable diseases, trauma response, e-health solutions and aged care.

- The government is placing a high priority on improving the country’s sporting capacity—from grassroots to elite performance:
  - this will create opportunities for sporting education, services and technology providers.

- Major upcoming bilateral initiatives with India include the Australia–India Business Exchange 2019—a program of events commencing October 2019:
  - business missions, trade shows, commercial conferences and ministerial visits will be included in the agenda.

**Trade policy and negotiations**

India remains protective of its domestic market, with high tariffs on imported food and agriculture products. At times measures such as higher tariffs, quantitative restrictions and changes to SPS regulations are imposed at little or no notice. This can disrupt trade for Australian and other suppliers. India has previously imposed quantitative restrictions on imports of mung beans and yellow peas, increased tariffs on wheat, chick peas and lentils (though within WTO bound rates), and introduced export quotas. These measures have impacted the volume of Australia’s exports to India and global trade. In 2019 Australia commenced action in the WTO on support provided to the sugar industry.

Australia is negotiating bilaterally with India through the Australia–India Comprehensive Economic Cooperation Agreement (CECA) and in a plurilateral negotiation through the Regional Comprehensive Economic Partnership (RCEP). The last round of CECA negotiations was held in September 2015. RCEP discussions are ongoing.

India has free trade agreements with ASEAN, Korea, Japan, Malaysia, Singapore and Chile (limited products) among others. In addition to negotiating with Australia, India is working on bilateral trade agreements with the European Union, Thailand, New Zealand, the European Free Trade Association and Canada among others. Most of these negotiations have stalled. India is also currently undertaking a joint review of its free trade agreement with Korea.
India is a member of the WTO and has been a member of the General Agreement on Tariffs and Trade since 1948. India is also a member of the G20 and is a founding member of the Asian Infrastructure Investment Bank. India is not a member of APEC or the OECD.

Australia ceased bilateral aid to India in 2012. India still benefits from Australian development funding through regional and global programs as well as through multilateral organisations. Indian organisations can also benefit through Australia’s direct aid program.

Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee, and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.