

INDIA

Business Conditions Snapshot

- The deep disruptions caused by COVID-19, followed by the introduction of economic support measures and structural reforms, mean India's business conditions have undergone significant changes over the past year.
- India's economy was beginning to recover from a period of slower growth before the COVID-19 pandemic. However, in the first quarter of 2020-21¹ India recorded its first economic contraction in 40 years, and in the second quarter, India's GDP shrunk by 7.5 per cent, officially entering into recession. In October 2020 the IMF predicted a 10.3 per cent contraction for India's economy for the full year.
- This slowdown in growth is predominantly the result of India's imposition of an 11-week nationwide lockdown from late March 2020, which was among the world's strictest. Longer lockdowns at the sub-national level and the global economic downturn have also been contributing factors.
- The government announced a range of measures to respond to the COVID-19 pandemic, guided by the principle of self-reliance. To date, its economic support packages have totalled A\$478 billion². Most initiatives have focused on liquidity support and risk underwriting for small and medium-sized enterprises.
- Since restrictions began easing in June, India's economy and labour market have shown signs of recovery. As elsewhere, tourism and hospitality, construction and aviation are among the worst-hit sectors. Agriculture is performing strongly, reflecting good seasonal and labour conditions. Retail, services and manufacturing also picked up in late 2020, buoyed by the festive season and a gradual return of domestic migrant labour.

Key facts and figures

- Population: 1,334.2 million (2018)
- GDP growth: 4.8% (2019)
- GDP per capita: US\$2,171.6
- Political system: democratic republic
- Two-way trade: A\$29.2 billion (2019)
- Exports: coal, natural gas, gold, copper ores; education, recreational and business-related travel
- Imports: refined petroleum, railway vehicles, medicaments; ICT and professional services, recreational travel.
- Two-way investment: A\$36.7 billion (2019)
- Major investments: A\$2 billion by Macquarie in national highways (2018), an agreement to invest up to US\$1 billion by Australian Super in transport and urban infrastructure (2019).
- Aid relationship: regional and multilateral programs.

¹ India's fiscal year runs from April to March.

² The Indian Government includes indirect spending (such as credit repayment extensions) and assistance for future years in its stimulus figures.



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- Attracting foreign investment remains a key priority and the Government has progressively lowered restrictions on foreign direct and portfolio investment.
- It has also introduced a new tax exemption for sovereign wealth funds on infrastructure investments, and plans to establish a single window of approval for foreign direct investment by March 2021 which promises to simplify the investment process.
- In addition, it has established production-linked incentive schemes to encourage investment in priority sectors—including mobile phone and electronics manufacturing, medical devices and pharmaceuticals—and plans to expand these into further sectors.
- India has continued its rise in the World Bank's Doing Business ranking from 142 in 2015 to 63 in 2020. Nevertheless, India remains a challenging place to invest and do business. Barriers to land acquisition, restrictive labour regulations, infrastructure shortfalls, costly logistics and weak contract enforcement and public institutions continue to impact competitiveness. Ease of doing business varies between India's states, which remain at different stages of development.
- India's medium-term economic recovery will be supported by the government's ongoing economic reform agenda. Key reforms include steps to liberalise internal agricultural markets and ease labour regulations, as well as reforms to the tax system and education policy. These new measures build on a series of economic reforms introduced during the Modi government's first term in office, such as the introduction of a GST, direct benefit transfers, and a new insolvency and bankruptcy regime.
- Over the longer-term, India's strong fundamentals – its youthful demographics, burgeoning consumer class, steady urbanisation, unmet infrastructure investment demand, and digitalisation and formalisation of the economy – will continue to drive sustained growth.

Trade and Investment Opportunities

- The Australia–India relationship was elevated to a Comprehensive Strategic Partnership at the Virtual Leaders' Summit between Prime Ministers Morrison and Modi in June 2020.
 - India has joined a select group of countries with which Australia has such a partnership.
- The Comprehensive Strategic Partnership has provided greater impetus to expanding the economic relationship. It was concluded alongside eight substantive agreements covering defence, economic, education, scientific and technology cooperation with India.



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- This will create new opportunities in emerging areas such as cyber security, critical minerals, grains management and logistics, and vocational education and training.
- In 2019, India was Australia's eighth largest trading partner and fifth largest export market, driven by metallurgical coal and international education.
- Two-way goods and services trade with India was valued at \$29.3 billion (around \$18.9 billion in goods and \$10.4 billion in services).
 - Goods exports were concentrated in resource commodities (metallurgical coal, natural gas, copper and gold).
 - Services exports were primarily education, tourism and business travel.
 - Two-way investment in 2019 was \$36.7 billion.
- In 2020, Australia's trade and investment relationship with India has reflected the fall in global trade amid the COVID-19 pandemic and associated restrictions on international travel.
- During India's nationwide lockdown which began in late March 2020, there was a significant reduction in manufacturing and steel production, which resulted in a decline in India's metallurgical coal imports.
- However, these have been steadily recovering since July, following the lifting of lockdown restrictions.
 - India's continuing appetite for infrastructure development and the urbanisation of its rural population suggest strong demand for resources will continue, particularly for metallurgical coal, and also for copper and gold. India also remains heavily reliant on imported oil and gas.
 - India's broader push to modernise its mining sector also signals further opportunities for Australian resources and METS suppliers.
- While COVID-19 has slowed economic activity across some areas, the pandemic has accelerated the adoption of digital platforms, digital payments and driven a surge in online retail in India.
 - This has presented opportunities for Australian suppliers, including of premium food, health and beauty products, to reach the vast Indian consumer class through e-commerce.
- A number of Australian entrants to the market have adopted an online-only strategy.
 - Online marketplaces such as Amazon or Flipkart offer a lower risk entry point into the Indian market.
- However, Indian retail and e-commerce will be a hotly contested market.
 - Marketing effort will be required to compete in India's retail market, including in agricultural food categories where market access has been achieved.



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- India announced a new National Education Policy in July 2020, its first in 28 years.
 - Australian providers can benefit from initiatives under the policy to internationalise India's higher education and vocational education systems, including increased foreign provider access.
 - Under the policy, the top 100 foreign universities – of which Australia has seven – will be allowed to establish operations in India.
- Reskilling and upskilling youth, including through the integration of vocational education into mainstream education, remains a key priority for the Indian Government.
 - This will create further opportunities for Australian education providers to partner with Indian institutions.
- India remains a market with considerable appetite for international study in Australia and scope for growth.
 - Aspirational ambitions, and the largest tertiary-age population in the world, will continue to drive demand for quality education and training post-COVID.
 - Emerging online opportunities extend to education technology and a greater emphasis on online delivery for education providers.
 - Virtual engagement effectively broadens Australia's reach across India, outside Delhi and Mumbai, to second and third tier cities which have been outside the traditional reach of providers.
- Overall, there has been growth in international student numbers from India.
 - At the end of September 2020, there were 112,109 Indian international students in Australia, representing growth of 3 per cent compared to the same period last year
 - there has been a 10 per cent decline in the number of higher education enrolments from India, but this has been more than offset by a 52 per cent increase in VET enrolments.
- Disruptions to India's start-up ecosystem are opening up opportunities for Australian start-ups across a range of sectors.
 - COVID-19 has helped catalyse digitisation in healthcare delivery. This includes Prime Minister Narendra Modi's announcement of a National Digital Health Mission in August 2020.
 - There are also emerging opportunities in financial technology, although traditional financial services firms have reported difficulties throughout the pandemic.
- Amidst border tensions with China, national security considerations are likely to play a greater role in India's approach across a number of sectors, including health, science and technology, defence, space, education, and investment.



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- India has considerably increased its scrutiny of foreign investment during 2020, and tightened restrictions on Chinese investors in particular.
- Australia is increasingly seen as a trusted supplier in India.
 - There is increased interest in Australian start-up hubs, renewed appetite in Australian infrastructure investment, collaboration in critical minerals and coal gasification.
 - In infrastructure, there continues to be opportunities for Australian companies in brownfield asset development in India, with transportation (including roads and ports) and digital infrastructure key prospective assets.
 - Subject to production capacity, Australia also has an opportunity to become a preferred supplier of critical minerals as India looks to increase manufacturing of electronics and electric vehicles, and to reduce its heavy dependence on China.
- India continues to assert an ambitious renewable energy target of 175GW of renewable energy by 2022 and 450 GW by 2030.
 - These factors are driving demand for services and technologies that improve energy efficiency, and uptake of renewables, particularly solar energy.
- New reforms announced in June 2020 to privatise India's space sector and establish the Indian Space Promotion and Authorisation Centre (IN-SPACe) offer opportunities for Australian firms to collaborate on end-to-end space missions.
 - There is growing interest from Indian space agencies and firms in research and development, technology and services to support launch operations, earth observation, satellite communication, navigation, remote sensing, life sciences and debris tracking.
- Many Australian firms with interests in India remain confident about India's prospects, despite the impacts of COVID-19, based on the long-term drivers of the Indian economy.
- The Australian Government continues to implement the [India Economic Strategy to 2035](#) (IES) which sets out practical measures to support a long-term upward trajectory in trade and investment.
 - Of the 43 IES recommendations the Australian Government accepted, 26 have been implemented to date, while others are at various stages of implementation.
 - The Australia India Business Exchange (AIB-X) trade mission to India led by Senator Birmingham before the onset of the pandemic brought over 100 Australian delegates to connect with Indian counterparts across seven streams and six cities.
 - The Australian Consulate-General in Kolkata commenced operations in March 2019 and has enhanced Australia's access to India's resources-rich states of eastern India.



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- The Australian Government extended the Australia–India Strategic Research Fund—Australia’s largest bilateral research fund, with \$15 million for four years (out to 2023–24).
- Throughout the pandemic, engagement with India and business outreach has continued at a high tempo through the use of virtual channels.

Trade Policy and Negotiations

- For several decades, India’s long-term trend has been of incremental integration into the global economy and liberalisation of trade. However, with self-reliance a key theme of its economic recovery, India is seeking to reduce reliance on imports and expand domestic manufacturing in priority sectors.
- India retains particularly high tariffs on imported food and agriculture products. From time to time, 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, chickpeas 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 has a productive market access relationship with India. India approved new market access for Australian walnuts in 2018, and new trade-facilitating treatment options for fruits and malting barley in 2020. In turn, Australia approved access Indian table grapes in 2018 and finalised approvals for fresh Indian pomegranates in September 2020.
- In 2019 India withdrew from Regional Comprehensive Economic Partnership Agreement (RCEP) negotiations. However, India remains able to re-join RCEP following the entry into force of the Agreement and can participate (as an observer) in any of RCEP’s institutional mechanisms. As part of the Comprehensive Strategic Partnership, India and Australia committed to re-engaging on a bilateral Comprehensive Economic Cooperation Agreement (CECA).
- India has preferential trade agreements with ASEAN, Korea, Japan, Malaysia, Singapore and Chile (limited products) among others, the most recent of which was concluded in 2011. In addition to negotiating with Australia, India has unfinished bilateral trade negotiations with the European Union, United States, United Kingdom, New Zealand, and Canada among others. Many of these negotiations are currently paused, and India has proposed entering into Early Harvest Scheme arrangements ahead of more comprehensive agreements.
- 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



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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.

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