

EXPORT-IMPORT BANK OF INDIA

WORKING PAPER NO. 117

Building Bridges: An Economic Analysis of India-Australia Trade and Investment Relations

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EXECUTIVE SUMMARY

Australia is the world's 14th largest economy, with a nominal GDP of US\$ 1.7 trillion in 2022. It is the world's largest island, smallest continent and the sixth largest country after Russia, Canada, the US, China and Brazil. Australia is a service driven economy, with services contributing 75% of the GDP while industry and agriculture contribute 22% and 3%, respectively. Australia's growth is driven by its robust export expansion, increased contribution of services sector, expansion of mining as a substantial industry and effective governance structure which resulted in a stable and transparent work environment. Moreover, an advanced research and development infrastructure supports the growing economy through innovation and automation, reducing the dependence on labour.

Australia is rich in minerals. It is the world's largest producer of lithium and is globally among the top five producers of gold, iron ore, lead, zinc and nickel. It also has the world's largest uranium and the fourth largest black coal resources. Australia is one of the world's leading producers of bauxite (aluminium ore), diamond, rare earth elements and zinc. Australia also has large mineral sand deposits of ilmenite, zircon and rutile. In addition, Australia produces large quantities of manganese, antimony, silver, cobalt, copper and tin. Mining and quarrying sector is also the highest foreign direct investment (FDI) attracting sector of the economy. Even during the COVID-19 pandemic, the sector attracted 35.1% of the total FDI received by Australia.

Australia is one of the most urbanized countries in the world. Over 85% of the population lives in cities, with majority living in the four largest state capitals. These capitals are also among some of the lowest density metropolitan areas in any developed country. The Australian Government has decided to invest US\$ 110 billion over 10 years from 2021-22 in transport infrastructure across Australia, through its rolling infrastructure pipeline, of which a substantial component is under the Infrastructure Investment Program.

International Trade of Australia

Before the onset of COVID-19 pandemic, Australia witnessed 28 years of continuous annual economic growth. The economy recovered in 2021 growing at 4.9%, largely driven by increased resource exports (accounting for 70.7% of the total exports). According to the Reserve Bank of Australia, mining is the leading sector of the Australian economy, contributing 16% to Australia's GDP.

Australia is a highly free and open economy, with almost every one out of five jobs originating out of trade. Ensuring free trade, Australia has signed nineteen Free Trade Agreements (FTAs), out of which seventeen are in force. The Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) signed on April 2, 2022, came into force on December 29, 2022.

Australia's total merchandise trade has increased from US\$ 262.7 billion in 2006 to US\$ 692.3 billion in 2022. Merchandise exports increased from US\$ 123.3 billion in 2006 to US\$ 402.2 billion in 2022. Merchandise imports also increased from US\$ 139.4 billion to US\$ 290.1 billion during the same period. In 2022, the Australian economy recorded a remarkable trade surplus of US\$ 112 billion, representing turnaround followed by the COVID-19 pandemic.

In 2022, Australia was the 24th largest importer and 19th largest exporter of merchandise goods across the globe. Merchandise trade accounted for 40% of Australia's GDP in 2022. While Australia's share in global exports increased from 1.4% in 2012 to 1.7% in 2022, its share in global imports decreased from 1.4% in 2012 to 1.2% in 2022. Australia is the largest exporter of ores, slag and ash (HS-26) globally, with exports amounting to US\$ 102.4 billion (32% of total global exports) in 2022, deriving from increased exports of non-agglomerated iron ores and concentrates (excluding roasted iron pyrites) (HS-260111).

Merchandise Exports of Australia

Mineral fuels and oil (HS-27) were the largest exported items from Australia in 2022, with a substantial share of 39.7% in Australia's total exports. Other significant exported commodities are ores, slag and ash (25.5%), natural or cultured pearls and stones (4.8%), cereals (3.4%), meat and edible meat offal (3%) and salt, sulphur, plastering materials, lime and cement (2.1%), among others. At a disaggregated level, the major exported items in 2022 include non-agglomerated iron ores and concentrates (excluding roasted iron pyrites) (HS-260111), bituminous coal, whether or not pulverised (HS-270112), natural gas, liquefied (HS-271111) and gold, including gold plated with platinum, in semi-manufactured forms for non-monetary purposes (HS-710813).

Merchandise Imports of Australia

Mineral fuels and oil were the largest imported items in Australia's import basket, accounting for 16% of total imports in 2022, followed by machinery and mechanical appliances (13.6%), vehicles other than railway or tramway (12.3%), electrical machinery and equipment (10.2%), pharmaceutical products (4.5%) and optical, photographic, cinematographic and surgical instruments (3.3%).

Australia's Leading Merchandise Trade Partners

In 2022, 25.8% of Australia's exports headed to China, which amounted to US\$ 103.9 billion. Japan was the second largest destination for Australian exports worth US\$ 49.3 billion (12.2% of total exports), followed by South Korea (6.0%). In 2022, Australia's exports to India amounted to US\$ 14.8 billion, which was 3.7% of Australia's total exports in the same year. India was Australia's fourth largest export destination in 2022, moving upwards from its sixth position in 2019.

In 2022, China was also the major source of merchandise imports for Australia. Australia's merchandise imports from China amounted to US\$ 77.3 billion (26.6% of Australia's total imports in 2022). The US followed China as the second largest source of merchandise imports for Australia in 2022, with imports amounting to US\$ 29.3 billion and a share of 10.1% in total imports. India has made a remarkable improvement in its merchandise export performance, with the country elevated from being the 16th largest merchandise import source for Australia in 2019 to becoming the 10th largest contributor of Australia's import basket in 2022.

Services Trade

Australia is a world-class provider of a range of services such as education, tourism, professional services, financial services, energy and mining-related services, and environmental services. Australia prioritises these sectors where it seeks to improve access to foreign markets.

Australia's total trade in services has increased from US\$ 109.6 billion in 2010 to US\$ 143.1 billion in 2019, moderated thereafter to US\$ 84.6 billion in 2021. Services exports of Australia were recorded at US\$ 45.3 billion 2021, while services imports of Australia stood at US\$ 39.3 billion. Australia has a favourable services trade balance in the last two years, with a services trade surplus of US\$ 6 billion in 2021.

Travel services continued to be the largest service product exported from Australia, followed by business services, personal, cultural and recreational services and telecommunications, computer and information services. These three sectors together accounted for 79.3% of total services exports of Australia in 2021. Transport and business services constitute the largest services imports of Australia, accounting for 34.6% and 28% of the total services imports, respectively in 2021. Other major services imports include telecommunications, computer and information services, charges for the use of intellectual property and personal, cultural and recreational services.

China was the largest export destination of Australia's global services exports in 2020, accounting for 17.3% of total services exports from Australia. China was followed by the US, India, UK and New Zealand. The US, with a share of 18.7% was the largest services import source of Australia in 2020, followed by UK, Singapore, New Zealand and Germany.

India-Australia Bilateral Trade Relations: Goods Trade

India-Australia bilateral relationship has undergone evolution in recent years, developing along a positive track, into a strategic partnership. Developing a strong economic relationship with India, the Australian government accepted a number of recommendations of the India Economic Strategy (IES), prepared by Australian Think Tank, to define a pathway for Australia to unlock opportunities offered by Indian economic growth. The Strategy aims for a clear exposition of the kind of relationship Australia should aspire to have with India till 2035.

India formally launched negotiations for India-Australia Economic Cooperation and Trade Agreement (AI-ECTA) on September 30, 2021 and concluded on a fast-track basis by the end of March 2022. India signed ECTA with Australia on April 2, 2022. The AI-ECTA is the first trade agreement of India with a developed country after more than a decade. The Agreement came into force on December 29, 2022.

The total trade between India and Australia doubled in 2021 to US\$ 22 billion from US\$ 10.7 billion in 2020, registering a growth of 107% in imports and 97% in exports compared to 2020. In 2021, exports rose majorly from an increased demand for mineral oils and India exporting light petroleum distillates to Australia. India's primary import item from Australia remains coal, with India's import from Australia under this category encompassing 45.8% of India's global imports of coal. India's imports of coal from Australia ballooned from US\$ 5.1 billion in 2020 to US\$ 11.1 billion in 2021. India has been persistently running trade deficit with Australia, which was the highest in 2011 at US\$ 11.3 billion before narrowing down to US\$ 8.2 billion in 2021.

India's Merchandise Exports to Australia

India-Australia trade relations have fared well after the coronavirus pandemic. In 2021, Australia was the 17th largest export destination of India, with a share of 1.8% in India's total exports. India's exports to Australia increased to US\$ 6.9 billion in 2021 from US\$ 3.5 billion in 2020.

India's exports to Australia have traditionally been dominated by mineral fuels and oils, which constituted almost half of the total exports from India to Australia in 2021. This was followed by natural or cultured pearls and stones (accounting for 5.3% of India's total exports to Australia), pharmaceutical products (5%), machinery and mechanical appliances (3.5%), articles of iron or steel (3.2%) and electrical machinery and equipment (2.8%).

India's Merchandise Imports from Australia

In 2021, Australia was the 11th largest import source of India, with a share of 2.6% in India's total imports. In product terms, mineral fuels and oils (HS-27) were the largest imported commodity, with a massive share of 75.6% in India's total imports from Australia in 2021. Under HS-27 at 6-digit level, the highest imported commodity was coal, with imports amounting to US\$ 11.2 billion in 2021. Other major imports include natural or cultured pearls or stones (7.6% of India's total imports from Australia), ores, slag and ash (5.3%) and inorganic chemicals (2.9%).

India's Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and matching it with Australia's import demand for these products is necessary for an India-Australia trade agreement to be successful. Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness.

To identify the products based on their export competitiveness in Australia, a four-quadrant analysis has been undertaken based on the HS Code classifications at 6-digit level, whilst calculating their Normalized Revealed Comparative Advantage (NRCA) and mapping them against the Average Annual Growth Rate (AAGR) of global imports of Australia. The quadrants are drawn by comparing the overall AAGR of global imports of Australia for all products during 2011-2021 (which was 2.5%), to the NRCA of India's exports to Australia of these products during the same period. This exercise aims to identify products whose imports in Australia over the period 2011-2021 have performed better than the overall average of Australia for all products during this period, implying that the share of such products in Australia's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 1 million from India to Australia, 467 products have been identified, with the total exports from India to Australia amounting to US\$ 6.5 billion while the total world imports by Australia in the same products stood at US\$ 105.7 billion in 2021.

Out of the 467 items at the HS 6-digit level, 225 items fell into the category of product champions. The combined exports of these items from India to Australia were US\$ 5.2 billion in 2021, representing approximately 75.4% of India's exports to Australia in 2021.

The total number of products in winners in declining sectors category is 101, with India's exports amounting to US\$ 785 million and constituting a share of 11.3% of India's exports to Australia in 2021. These are the products in which India has attained a significant share in Australia's import basket, but Australia's import demand for these products has been falling in the last decade.

This was followed by underachievers with 115 items, with India's exports worth US\$ 429.9 million to Australia. These products constitute a marginal share of 6.2% in India's total exports to Australia. These are the products in which import demand in Australian market is rising, but India does not have the required competitiveness in the export of these items.

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in Australian market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to product champions in the short run and underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to Australia. Further, the analysis suggests strengthening of the existing products in the category of product champions, in order to exploit the full potential of these products which are already showing a robust growth in Australian market, whilst India's exports also hold a comparative advantage.

Barriers in India-Australia Merchandise Trade

In the current study, tariffs at 6-digit HS Code is taken into consideration, using TRAINS based WITS data for the year 2021. Since AI-ECTA came into force on December 29, 2022, the effectively applied tariff on Australia remained the same as the MFN tariffs.

Tariffs on India's Imports from Australia

The simple average of the effectively applied tariff (AHS) imposed by India on its imports from Australia is the tariff that the Australian exporters face while exporting to India. There are 143 tariff lines (at 6-digit HS code) that has effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 183.5 million in 2021. The duty-free products correspond to a meagre 1.2% of the total imports of India from Australia in 2021. There are 77 tariff lines under 01%-03% effectively applied tariff rates, which correspond to the highest share of 80.6% of India's total imports from Australia in 2021, amounting to US\$ 12.2 billion.

Cumulatively, 98.1% of Indian imports from Australia face an effectively applied tariff rate of less than or equal to 15% when exported to India. 672 tariff lines face effectively applied tariff ranging between 15% - 150%, with the total import share of 1.1% in 2021. There were 69 tariff lines, majorly belonging to coffee, tea and spices (HS-09), beverages (HS-22) and automobiles (HS-87), with an effectively applied tariff of 100% and above.

Tariffs on Australia's Imports from India

Australia, being a developed region, has low MFN and effectively applied tariffs, thus promoting free and easy trade with its partners. There are 1,098 tariff lines (at 6-digit HS Code), with Australian imports of US\$ 3.8 billion from India in 2021, on which Australia imposes the effectively applied tariff of 0%. These

products constitute more than half (59.6%) of Australia's imports from India in 2021. There are 427 tariff lines, with imports amounting to US\$ 425 million under the 1%-3% effectively applied tariff level category, which corresponds to 6.7% of Australia's imports from India in 2021. Subsequently, there are 2,017 tariff lines, with Australia's imports from India amounting to US\$ 2.1 billion, facing effectively applied tariff between 3% to 5%.

Non-Tariff Measures in Goods Trade

According to the United Nations Conference on Trade and Development (UNCTAD), non-tariff measures are generally defined as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both." A large number of domestic regulations meant to protect the environment, consumers or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. Indeed, there is some evidence that the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff trade measures (NTMs) is large, their nature is complex and constantly changing.

Non-Tariff Measures Imposed by India

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, as of December 2022, India has imposed 618 NTMs towards all WTO members (including Australia), as well as bilaterally imposed by India on Australia. Out of the 618 NTMs, 120 were put into force and 498 initiated. SPS and TBT are among the most widely used NTMs, with 262 SPS (32 in force and 230 initiated) and 273 TBT (7 in force and 266 initiated) in place. Anti-dumping measures have also been adopted by India, followed by protection through quantitative restrictions, State Trading Enterprises, safeguard and tariff-rate quota measures, as of December 2022.

Non-Tariff Measures Imposed by Australia

As of December 2022, Australia has 940 NTMs towards all WTO members unilaterally (including India), as well as bilaterally imposed on India by Australia. Among the 940 NTMs, 252 are in force and 688 initiated. Australia's import NTMs are mostly technical measures, referring to technical regulations and procedures for assessing conformity with technical regulations and standards. SPS and TBT measures are among the mostly used NTMs, with 515 SPS and 239 TBT measures in place. Other than these, Australia has also adopted anti-dumping, countervailing, quantitative restrictions, tariff-rate quotas, state trading enterprises and export subsidies measures under NTMs.

India's Services Trade with Australia

Both India and Australia are major services trading countries globally. While Australia was the 28th largest services exporter globally in 2021, India was the 8th largest services exporter. In terms of imports, Australia was the 30th largest global services importer, while India stood at 10th position in 2021.

India holds strong services trade relation with Australia. India was the 3rd largest export destination of Australia, with a 9.6% share in Australia's global services exports and the 9th largest import supplier, with a 3.5% share in Australia's global services imports in 2020.

Australia's total services trade with India increased from US\$ 4.1 billion in 2010 to US\$ 6.2 billion in 2020. However, due to the pandemic and related uncertainties, Australia's services trade with India fell by 15.2% in 2020 from 2019, where it was at its peak of US\$ 7.2 billion. During 2010-2020, Australia has constantly maintained a services trade surplus with India, which stood at US\$ 3.4 billion in 2020.

Australia's Services Exports to India

India was the third largest services exports destination for Australia in 2020. The services exports of Australia to India have increased steadily over the last decade, from US\$ 3.3 billion in 2010 to US\$ 4.8 billion in 2020. The year 2019 reported the highest level of services exports to India from Australia (US\$ 5.3 billion) during the same period. However, exports fell by 9.4% in a single year during 2019-2020.

With a share of 92.5%, travel sector accounted for the largest share in Australia's total services exports to India in 2020. Other exports from Australia include personal, cultural and recreational services and telecommunication, information and computer services.

Australia's Services Imports from India

In 2020, India stood as 9th largest services supplier to Australia, with the share of 3.5% in Australia's total services imports. During 2010-2020, the total services imports from India have increased from US\$ 796 million in 2010 to US\$ 1.4 billion in 2020. Australia's services imports from India reached its peak in 2019 at US\$ 1.9 billion. Services including contact intensive sectors were severely impacted due to pandemic, and thus the imports from India fell by almost 26.3% alone in one year between 2019 and 2020.

Australia's total services imports from India consist mainly of the commercial services, with negligible share of government services. Telecommunications, computer and information services constitute 38% of Australia's services imports from India. This was followed by other business services and travel sectors, constituting 30.5% and 24.2% of the total services imports from India, respectively in 2020.

Barriers Faced by Indian Service Suppliers in Australia: Horizontal Restrictions

Under Mode 1: Under horizontal restrictions, Australia has not imposed conditions on operation through conditions on service suppliers. Australian laws do not distinguish between countries or regions to which data may be transferred to or accessed from abroad.

Under Mode 3: Under horizontal restrictions, Australia has imposed conditions on market entry through restrictions on acquisition and/or rental of land and real estate by foreigners. Foreign persons must get approval for a proposed acquisition of an interest in agricultural land, where the cumulative value of agricultural land owned by the foreign person (and any associates), including the proposed purchase, is more than US\$ 15 million. All foreign persons must get approval for a proposed acquisition of vacant commercial land, regardless of the value of the land. Such acquisitions are normally approved subject to development conditions.

However, Australia does not impose any prohibition on rental of land and real estate by foreigners, restriction on international data transfer: distinction between countries/regions, and restrictions on subsequent transfer of capital and investment.

Under Mode 4: Under horizontal restrictions, Australia has imposed conditions through administrative procedures and regulatory transparency.

In terms of administrative procedures, average visa processing time is 17 days in Australia, which means processing can take up to 17 calendar days after receiving the application. Applications for Visitor Visa (subclass 600) for business purposes are finalised between 7 and 17 working days. The cost to obtain a business visitor visa (subclass 600) starts at AUD 135 (about US\$ 100). The number of documents needed to obtain a business visitor visa ranges from 13 to 17 documents.

Also in Mode 4, Australia imposes Economic Need Test (ENT) or Labour Market Test (LMT) requirement. Australia has imposed ENT/LMT requirement in their market for all 3 categories of workers (contractual service supplier, independent professionals and intra-corporate transferees) across 23 sectors.

Investment Scenario

According to the UNCTAD World Investment Report 2022, Australia was the 16th largest foreign direct investment (FDI) recipient in 2021. Inflows to Australia rose by 50% to US\$ 25 billion in 2021 from US\$ 17 billion in 2020, driven in part by M&A sales in food and beverages including Coca-Cola European Partners (UK) acquiring a 69% stake in Coca-Cola Amatil for US\$ 5.2 billion.

India's Bilateral Investment Relations with Australia

According to UNCTAD World Investment Report 2022, India was the 7th largest FDI recipient across the globe in 2021, with an investment of US\$ 45 billion, moderating from US\$ 64 billion in 2020. Although, inflows to India declined in 2021, a flurry of new international project finance deals were announced in the country: 108 projects, compared with 20 projects on average for the last 10 years. The largest number of projects (23) were in renewables.

Australia's openness to trade and investment are central to its long-term success. Australia has 17 FTAs in force and has led the formation of multiple regional trade agreements in the Asia-Pacific region. Low tariffs and ready access to Asian markets make Australia a natural gateway for inward investment. Over 70% of Australia's trade is with fast-growing economies in the Asia-Pacific region.

Indian Investments in Australia

To get a more meaningful understanding on the trends in Indian overseas investments in Australia, this study has drawn upon the data collated by the Financial Times through its online database, tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during January 2012 to December 2021, total capital investment of India in Australia stood at a cumulative amount of US\$ 5.7 billion, making India the 10th largest investing country, through 76 projects and creating 5,147 jobs. Recovering from the pandemic, investment outflows from India to Australia increased to US\$ 52 million in 2021.

In terms of capital investments, majority share has been in the renewable energy sector (83.7% of Indian investments to Australia), software & IT services (9.1%), business services (2.8%) and transportation and warehousing (1.4%). In terms of job creation, software & IT services, business services and renewable energy have been the largest employment generating sectors during 2012-2021.

Australia's Investments in India

According to the fDi Markets database, India was the 11th largest FDI destination for investments flowing out of Australia during January 2012 to December 2021. India accounted for US\$ 2.9 billion of FDI receipts from Australia, coming through 65 projects and resulting in 19,608 jobs during 2012-2021.

In terms of investments, the larger share has been in the sectors of real estate (40.8%), coal, oil & gas (11.2%), renewable energy (9.3%), financial services (7%), software & IT services (6.6%) and business services (5.6%) during 2012-2021. In terms of job creation, real estate sector remained the biggest employer, followed by business services, financial services and software and IT services in the past decade.

Australia-India Economic Cooperation and Trade Agreement

India and Australia signed ECTA in April 2022. The agreement entered into force on December 29, 2022. AI-ECTA is a landmark agreement for India, given the size of Australian market and recent trade enhancement between both the countries.

Tariff Reduction Offered by India on Australian Imports

There are 1,595 products at 6-digit HS Code which have been excluded by India from any commitment of reduction or elimination of customs duties. This corresponds to US\$ 1.7 billion imports of India from Australia in 2021, amounting to 11.2% of total import basket. Under the excluded category, leading import item is gold in unwrought forms (HS-710812) which faces 12.5% of tariff, with imports amounting to US\$ 1.1 billion in 2021.

There are 1,590 product categories at 6-digit HS Code wherein customs duties on goods originating from Australia, classified under the tariff lines will be reduced or eliminated under equal annual instalments over 3, 5, 7 or 10 years. These products cumulatively account for 2.1% of total imports in 2021, amounting US\$ 320 million.

There are 2,196 product lines at 6-digit HS Code for which duties shall be eliminated, as from the date of entry into force of the AI-ECTA. Imports under this category amounted to US\$ 12.9 billion, with a massive share of 85.3% in India's total imports from Australia. In 2021, major imports under the 'elimination at force' category include coking coal (HS-270119) for which tariff charged is 1%, with imports amounting to US\$ 11.1 billion, copper ores and concentrates (HS-260300) facing tariff of 2.5% currently, with imports of US\$ 504.4 million and alumina, calcined (HS-281820) currently facing tariff of 6.25%, with imports of US\$ 400.7 million.

Tariff Reduction Offered by India on Australian Imports

Australia had import duty of 4%-5% on most of the products of India's interest. India has secured lucrative concessions from Australia regarding duty eliminations under the AI-ECTA. AI-ECTA is the first trade agreement of India with 100% tariff elimination by its partner country, i.e., duties on 100% tariff lines are to be eliminated by Australia over 5 years.

Under this Agreement, Australia is providing zero duty access to India for 100% of its tariff lines in two categories.

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- i. Zero duty immediately on 98.3% of tariff lines, amounting to 96.4% of value of India's exports. For those tariff lines, Indian exports will have immediate market access at zero duty from day one of the entry into force of the Agreement.
 - ii. Phasing out to zero duty on the remaining 113 tariff lines, constituting 1.7% of tariff lines and amounting to 3.6% of India's exports (in value terms) in 5 years in equal annual instalments, beginning on the date of entry into force of the agreement, which will benefit the remaining products.

Australia's Commitments in Services

Australia has undertaken GATS/ FTA plus commitment in services. Services sectors of India's interest have been committed by Australia like computer related services, audio visual services, other business services, R&D services, education services, health services, professional services (legal services, accounting, taxation, architectural services, engineering, integrated engineering, urban planning and landscape architectural services, medical, dental and veterinary services and nursing services, etc.), environmental services, financial services, tourism & travel related services and transport services, among others. These commitments include

- Commercially meaningful market access commitments for cross border supply of services and for services delivered through commercial presence
- Post study work visa up to 4 years for Indian students
- Generous temporary entry and temporary stay commitments (up to 4 years) for Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives
- Quota of 1800 per year for qualified, professional Indian traditional chefs and yoga instructors entering as Contractual Service Suppliers
- Work & Holiday visa arrangement for young professionals

Australia has offered market access to Business Visitors (BV), Intra Corporate Transferees, Contractual Services Suppliers, Independent Executives and Installers and Servicers for various services sectors. Besides, commitments on entry, stay and work rights for spouses and dependents have also been undertaken by both India and Australia.

India's Commitments in Services

Australia has offered commitments in 135 sub-sectors to India and India has made commitments in around 103 sub-sectors (GATS-36), with MFN in 31 sub-sectors, broadly including 11 service categories of IT and communication services, business services, construction and related engineering services, distribution services, educational services, environmental services, financial services, health related and social services, tourism and travel related services, recreational, cultural and sporting services and transport services.

Key areas of Australia's interest like business services, financial services and education are being committed by India. India will transition to negative schedule approach in 6 years. Both countries have agreed to detailed provisions to pursue mutual recognition of professional services and other licensed/regulated occupations.

Key Observations and Recommendations

The relationship between India and Australia is growing swiftly over the years, with India being identified as one of the major strategic partners for Australia. According to Ministry of Commerce and Industry

(MOCI), Government of India, with the India-Australia ECTA into force, exports are expected to increase by US\$ 10 billion by 2026-27 with a creation of approximately 10 lakh jobs. The total bilateral trade is expected to cross US\$ 45-50 billion by 2035.

The official text of the agreement stated that within 75 days after the signing of ECTA, a negotiation sub-committee shall commence negotiations on amendments to this agreement, on a without prejudice basis, on areas including inter alia market access for goods and services, a complete product-specific rules schedule, a digital trade chapter, and a government procurement chapter, to transform this agreement into a Comprehensive Economic Cooperation Agreement (CECA).

Some of the potential areas for India-Australia cooperation under the CECA could include support to small and medium enterprises, promotion of digital trade, trading in geographical indication certified goods, settlement of trade payments in local currencies, strategic alliance for sourcing critical minerals, government procurement, cooperation in international maritime transport services, agri technology partnership, entering into mutual recognition agreements and partnership in renewable energy.



INTRODUCTION

Australia is the world's 14th largest economy, with a nominal GDP of US\$ 1.7 trillion in 2022. It is the world's largest island, smallest continent and the sixth largest country after Russia, Canada, the US, China and Brazil. Australia is a service driven economy, with services contributing 75% of the GDP while industry and agriculture contribute 22% and 3%, respectively. Australia's growth is driven by its robust export expansion, increased contribution of services sector, expansion of mining as a substantial industry and effective governance structure, which resulted in a stable and transparent work environment. Moreover, an advanced research and development infrastructure supports the growing economy through innovation and automation, reducing the dependence on labour.

Australia has a long and rich cultural history given its multi-ethnic society. Australia was a British colony until 1901 and remains a Commonwealth nation till date. Until the 1970s, foreign investment in Australia was largely regulated. In 1980s, the Government of Australia introduced economic reforms, deregulating foreign exchange and reducing tariffs for integrating Australia with the global economy. The tariff rate (import-weighted) applied in Australia has come down from over 7% in 1986 to less than 1% in 2016. The reduction in tariff rates have resulted in increased total merchandise trade from 33.2% of GDP in 1986 to 40% of GDP in 2022. Furthermore, the Australian dollar was floated in 1980s leading to tariff reductions and increased capital inflows.

The housing bubble crisis of the US, which got transformed into a global financial crisis during 2008, directly affected Australia's real economy. However, the impact was milder compared to most other economies, deriving from its sizable fiscal and monetary stimulus, the recovery in commodity prices, the exchange rate flexibility of Australian economy and its strong financial system. Moreover, the global financial crisis accelerated the shift of global economic gravity towards Asia and reinforced the prediction of a new Asian century.

Australia is rich in minerals. It is globally among the top five producers of gold, iron ore, lead, zinc and nickel. It also has the world's largest uranium and fourth largest black coal resources. Australia is one of the world's leading producers of bauxite (aluminium ore), diamond, rare earth elements and zinc. Australia also has large mineral sand deposits of ilmenite, zircon and rutile. In addition, Australia produces large quantities of manganese, antimony, silver, cobalt, copper and tin.

Australia is the fourth largest mining country in the world, after China, the US and Russia. Beginning from mid-2000s the global demand for commodities such as iron ore, coal and natural gas increased dramatically,

whereas the supply of these commodities fell short. As per the Australia Economic Strategy Report, the period starting from 2003 to 2011-12 is termed as the “Mining Boom” era of Australian economy. However, the end of economic boom resulted in drastic decline in mining investment, though net service exports such as tourism, education and business service exports had expanded over time. Australia is the world’s largest producer of spodumene, the base material for lithium hydroxide and lithium carbonate, and has the second largest lithium ore reserves globally. These lithium reserves are among the highest grades globally and are extracted through hard-rock mining. Though Australia is the biggest producer of lithium, the third-biggest producer of cobalt and the fourth-biggest producer of rare earths globally, it has limited processing capability and capacity. Australia is aiming to become a globally significant producer of processed critical minerals by 2030. With this aim, the country is investing hugely in the sector. With the development of lithium refineries in the country, Australia would have a strong cost advantage and it also could become an attractive supplier to multiple markets under its various free trade agreements.

The Australian government in 2021 established A\$ 2 billion loan facility for Australian critical minerals projects, which would ensure that Australia remains at the forefront of emerging new opportunities in the global resources sector. Several plans for new and reliable critical-mineral supply-chains are being drawn up in various multilateral forums such as the QUAD grouping of the US, Australia, India and Japan. The US and Australia are working to build robust, responsible supply chains for clean energy minerals and metals through the Energy Resource Governance Initiative (ERGI).

Mining and quarrying sector is also the highest foreign direct investment (FDI) attracting sector of the economy. Even during the COVID-19 pandemic, in 2020, the sector attracted 35.1% of the total FDI received by Australia.

The National Innovation and Science Agenda report, released by the Australian Government in 2015, communicated a set of initiatives including assisting through capital and tax incentives to start-ups, increasing collaboration between the research and development sectors in Australia, encouraging women to take up careers in science and technology and tapping into research talent in schools and colleges.

Australia is a one of the most urbanized countries in the world. Over 85% of the population lives in cities, with majority living in the four largest state capitals. These capitals are also among some of the lowest density metropolitan areas in any developed country. These concerns have made infrastructure a growing concern for the Australian authorities. As a result, the Australian Government has decided to invest US\$ 110 billion over 10 years from 2021-22 in transport infrastructure across Australia through its rolling infrastructure pipeline, of which a substantial component is under the Infrastructure Investment Program.

Australia has one of the lowest overall tax rates among the OECD countries, measured as a percentage of GDP. According to Austrade, Australian Government, Australian social security taxes represent less than 1% of GDP, whereas the OECD average is 9%. Taxes on goods and services represented 7% of Australia’s GDP, compared to 11% across the OECD countries.

Table 1.1: Macroeconomic Snapshot of Australia - Select Indicators

Economic Indicators	2017	2018	2019	2020	2021	2022 ^e	2023 ^f
GDP (US\$ trillion)	1.4	1.4	1.4	1.4	1.6	1.7	1.8
Real GDP growth (%)	2.4	2.8	2.0	-2.1	4.9	3.8	1.9
GDP per capita, current prices (US\$)	55,812.0	56,333.5	54,323.1	52,952.8	63,464.1	66,407.6	68,023.2
Consumer price inflation (avg, %)	2.0	1.9	1.6	0.9	2.8	6.5	4.8
Population (mn)	24.76	25.15	25.53	25.64	25.77	25.97	26.28
Merchandise Exports fob (US\$ bn)	231.5	258	271.5	251.4	345.3	390	385.5
Merchandise Imports fob (US\$ bn)	221.1	237.1	223.4	210.9	257.6	298.2	303.7
Current-account balance (US\$ bn)	-35.6	-31.3	6.0	32.5	51.4	36.6	13.3
Current-account balance (% of GDP)	-2.6	-2.2	0.4	2.4	3.1	2.1	0.7
Total international reserves (US\$ bn)	66.6	53.9	58	42.5	57.8	56.4	57.7
Exchange rate (avg; A\$: US\$)	1.3	1.3	1.4	1.5	1.3	1.4	1.4

Note: ^e- Estimates; ^f- Forecasts

Source: IMF WEO October 2022 Database, EIU, WDI

Australia's economy has shown resilience to multiple shocks throughout the COVID-19 pandemic. Though Australia is home to just 0.3% of the world's population, it accounts for 1.7% of the global economy. Strong rebounds in growth followed as the population emerged from lockdowns. From a 2.1% contraction in 2020, GDP rebounded to 4.9% growth in 2021 and remains strong at 3.8% in 2022, driven by strong domestic and export demand (**Table 1.1**). Australia's growth in 2022 has been among the strongest in the advanced economies. Economic growth is expected to slow-down to 1.9% in 2023, given higher interest rates, persistent inflation, weakening export demand and declining housing prices.

The country is witnessing elevated inflation levels in the recent times, mainly due to high global energy prices, leading to the Reserve Bank of Australia raising interest rates at a rapid pace. The consumer price inflation rose strongly to record 6.5% in 2022. Inflation is expected to remain elevated in 2023 on the back of high energy and transport costs and rising nominal wages. The country is also witnessing labour shortages, with employment and participation rates near all-time highs. Russia-Ukraine conflict and the recent stringent lockdowns in China have exacerbated the supply-chain issues, especially in shipping industry.



INTERNATIONAL TRADE SCENARIO OF AUSTRALIA

Australia became renowned globally after the gold rush that began in 1850s, which in turn attracted people from all over the world to the country. Australia is rich in natural resources, having heavy deposits of many rare earth elements. These rare earth minerals are used in manufacturing of a number of appliances, from gadgets of routine use to those with futuristic purposes, including those helpful in efficiently addressing global warming issues.

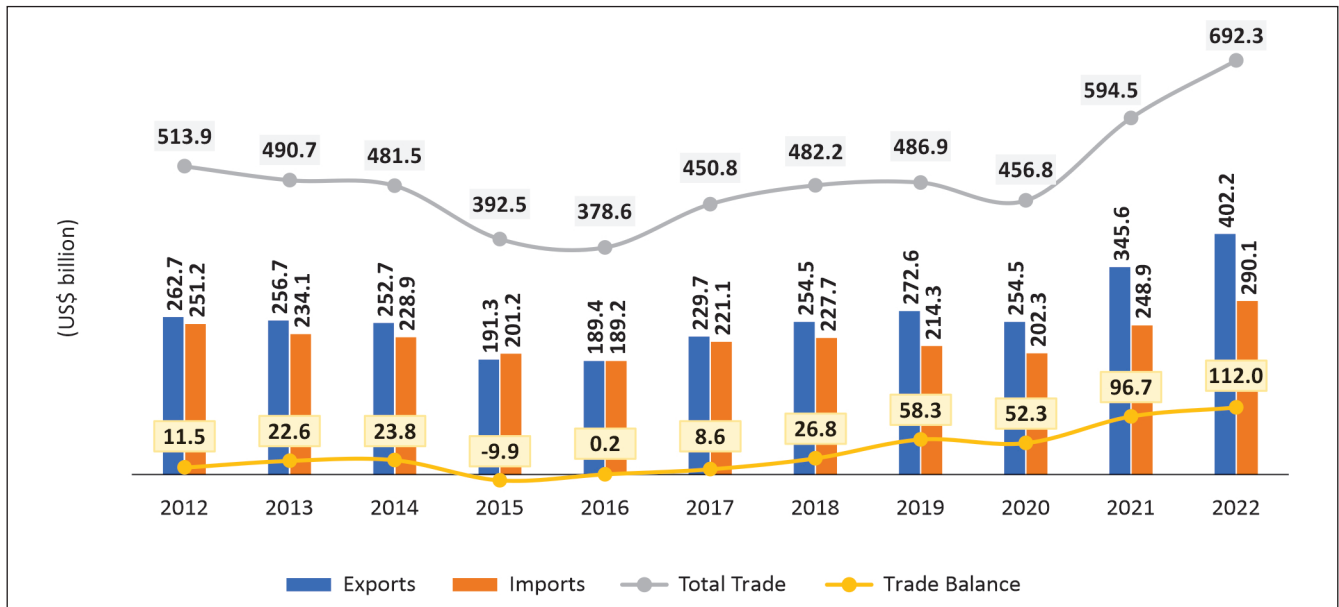
Before the onset of COVID-19 pandemic, Australia witnessed 28 years of continuous annual economic growth. The economy recovered in 2021 growing at 4.9%, largely driven by increased resource exports (accounting for 70.7% of the total exports). According to the Reserve Bank of Australia, mining is the leading sector of the Australian economy, contributing around 16% to GDP. Mining established itself as a promising sector even during the pandemic period which witnessed several restrictions, yet the sector fared well and registered positive growth.

Australia is a highly free and open economy, with almost every one out of five jobs originating from trade. Ensuring free trade, Australia has signed nineteen Free Trade Agreements (FTAs), out of which seventeen are in force. The Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) signed on April 2, 2022, came into force on December 29, 2022.

Currently, Australia is negotiating an FTA with the European Union, apart from the Comprehensive Economic Cooperation Agreement (CECA) negotiations with India. Further on, Australia is considering FTA negotiations with Gulf Cooperation Council (GCC) and a CECA with UAE.

Australia's total merchandise trade has increased from US\$ 262.7 billion in 2006 to US\$ 692.3 billion in 2022 (**Chart 2.1**). Merchandise exports increased from US\$ 123.3 billion in 2006 to US\$ 402.2 billion in 2022. Merchandise imports also increased from US\$ 139.4 billion to US\$ 290.1 billion during the same period. Since 2010, Australia entered the phase of trade surplus. In 2015, due to fall in exports and a drastic increase in imports, the nation recorded a trade deficit after 5 years. However, post 2016 the exports registered a remarkable growth and Australian economy came back to trade surplus stemming from increased exports of metal ores and minerals, coal, coke and briquettes and natural gas and a reduction in imports. In 2022, the Australian economy recorded a remarkable trade surplus of US\$ 112 billion, representing a sharp turnaround followed by the COVID-19 pandemic, and increased commodity prices amidst global geo-political uncertainties.

Chart 2.1: Australia's Trade in Merchandise Goods

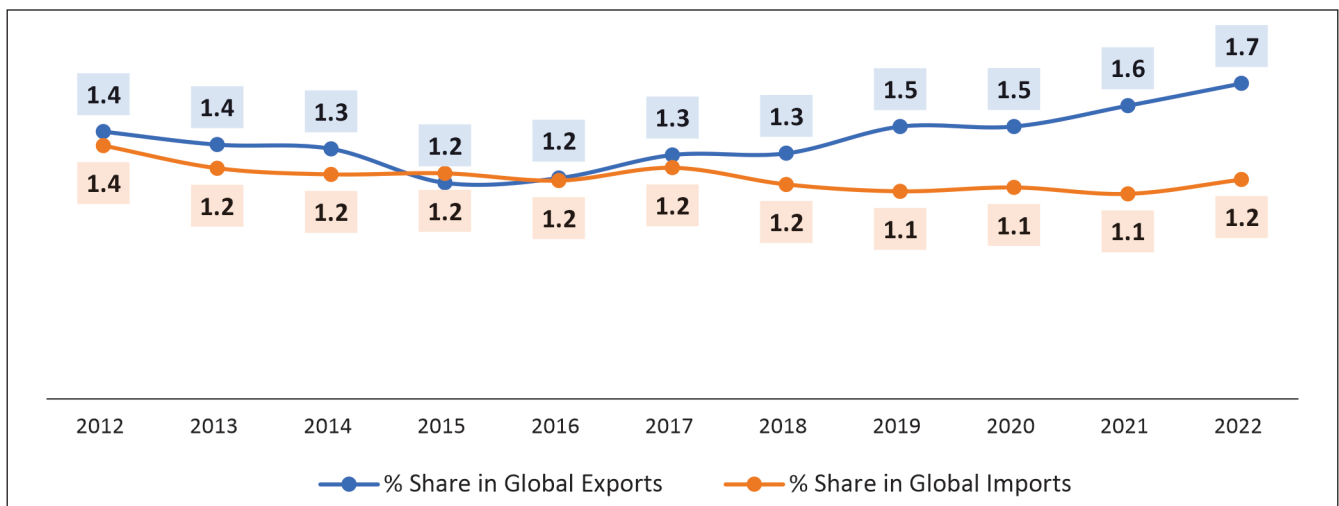


Note: 2022 figures are estimates

Source: ITC Trade Map and India Exim Bank Research

In 2022, Australia was the 24th largest importer and the 19th largest exporter of merchandise goods across the globe. Merchandise trade accounted for 39.2% of Australia's GDP in 2021, which increased to 40% of GDP in 2022. Australia has large reserves of coal, iron ore, copper, gold, natural gas, uranium and renewable energy sources. It has the second largest accessible reserves of iron ore in the world, the fifth largest reserves of coal and significant gas resources. It is also the world's largest producer of bauxite. While Australia's share in global exports increased from 1.4% in 2012 to 1.7% in 2022, its share in global imports decreased from 1.4% in 2012 to 1.2% in 2022 (**Chart 2.2**). Australia is the largest exporter of ores, slag and ash (HS-26) globally, with exports amounting to US\$ 102.4 billion (32% of total global exports) in 2022, deriving from increased exports of non-agglomerated iron ores and concentrates (excluding roasted iron pyrites) (HS-260111).

Chart 2.2: Share of Australia in Global Merchandise Trade



Source: ITC Trade Map and India Exim Bank Research

Merchandise Exports of Australia

Australia is the largest exporter of wool, iron ore, zinc ore, unwrought lead and coal, 2nd largest exporter of lentils and aluminium ore, 3rd largest exporter of meat and edible meat offal and copper ores, 4th largest exporter of raw cotton, 5th largest exporter of wine, and 6th largest exporter of gold, globally. Mineral fuels and oil (HS-27) were the largest exported items from Australia in 2022, with a substantial share of 39.7% in total exports (**Table 2.1**). Other significant exported commodities are ores, slag and ash (25.5%), natural or cultured pearls and stones (4.8%), cereals (3.4%), meat and edible meat offal (3%) and salt, sulphur, plastering materials, lime and cement (2.1%), among others. At a disaggregated level, the major exported items in 2022 include non-agglomerated iron ores and concentrates (excluding roasted iron pyrites) (HS-260111), bituminous coal, whether or not pulverised (HS-270112), natural gas, liquefied (HS-271111) and gold, including gold plated with platinum, in semi-manufactured forms for non-monetary purposes (HS-710813).

Table 2.1: Major Merchandise Export Commodities of Australia

(US\$ billion)

HS Code	Product	2019	2020	2021	2022	% Share in 2022
	Australia's Total Exports	272.6	254.5	345.6	402.2	100.0
27	Mineral fuels, oils and products of distillation	88.9	66.0	91.7	159.6	39.7
26	Ores, slag and ash	78.8	90.8	131.8	102.4	25.5
71	Natural or cultured pearls, precious or semi-precious stones and metals	18.1	19.6	20.6	19.4	4.8
10	Cereals	3.4	3.8	10.0	13.8	3.4
02	Meat and edible meat offal	11.6	10.4	11.6	12.0	3.0
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	1.2	0.8	1.5	8.5	2.1
28	Inorganic chemicals	6.3	5.2	6.4	7.2	1.8
12	Oil seeds and oleaginous fruits	1.3	1.4	3.1	6.1	1.5
76	Aluminium and articles	3.3	3.1	4.7	5.1	1.3
84	Machinery, mechanical appliances and parts	4.8	4.4	4.8	5.0	1.2
74	Copper and articles	3.1	2.7	3.9	4.0	1.0
90	Optical, photographic, cinematographic, medical or surgical instruments	3.3	2.9	3.5	3.7	0.9
85	Electrical machinery, equipment and parts	3.5	3.1	3.7	3.6	0.9
52	Cotton	1.1	0.3	1.5	3.0	0.7
30	Pharmaceutical products	3.8	3.5	2.4	2.6	0.6

Source: ITC Trade Map and India Exim Bank Research

Merchandise Imports of Australia

Mineral fuels and oil were the largest imported items in Australia's import basket, accounting for 16% of total imports in 2022, followed by machinery and mechanical appliances (13.6%), vehicles other than railway or tramway (12.3%), electrical machinery and equipment (10.2%), pharmaceutical products (4.5%) and optical, photographic, cinematographic and surgical instruments (3.3%) (**Table 2.2**). At a disaggregated level, the major imported items in 2022 include medium oils and preparations, of petroleum or bituminous minerals, not

containing biodiesel (HS-271019), motor cars and other motor vehicles principally designed for the transport of persons (HS-870323), crude petroleum oil and oil obtained from bituminous minerals (HS-270900), light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume (HS-271012), medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes (HS-300490) and motor vehicles for the transport of goods, with only compression-ignition internal combustion (HS-870421).

Table 2.2: Major Merchandise Import Commodities of Australia

(US\$ billion)

HS Code	Product	2019	2020	2021	2022	% Share in 2022
	Australia's Total Imports	214.3	202.3	248.9	290.1	100.0
27	Mineral fuels, oils and products of distillation	27.2	17.0	25.8	46.4	16.0
84	Machinery, mechanical appliances and parts	30.7	30.6	36.8	39.4	13.6
87	Vehicles other than railway or tramway rolling stock, and parts	26.7	23.8	33.2	35.8	12.3
85	Electrical machinery, equipment and parts	24.6	24.0	28.2	29.6	10.2
30	Pharmaceutical products	8.4	8.7	10.8	13.0	4.5
90	Optical, photographic, cinematographic, medical or surgical instruments	8.1	8.0	9.3	9.4	3.3
71	Natural or cultured pearls, precious or semi-precious stones and metals	6.6	8.7	7.6	8.1	2.8
39	Plastics and articles	5.8	6.2	7.3	7.7	2.7
73	Articles of iron or steel	4.5	4.5	5.7	6.4	2.2
94	Furniture, bedding, mattresses, mattress supports, cushions and similar stuffed furnishings	4.6	4.7	5.6	5.7	2.0
38	Miscellaneous chemical products	1.7	2.4	2.9	4.6	1.6
61	Articles of apparel and clothing accessories, knitted or crocheted	3.2	3.0	3.9	4.2	1.5
31	Fertilisers	1.5	1.5	2.5	4.0	1.4
62	Articles of apparel and clothing accessories, not knitted or crocheted	3.4	3.3	3.5	4.0	1.4
40	Rubber and articles	3.2	3.1	3.7	3.8	1.3

Source: ITC Trade Map and India Exim Bank Research

Australia's Leading Merchandise Trade Partners

In 2022, 25.8% of Australia's exports headed to China, which amounted to US\$ 103.9 billion. Japan was the second largest destination for Australian exports worth US\$ 49.3 billion (12.3% of total exports), followed by South Korea (6.0%). In 2022, Australia's exports to India amounted to US\$ 14.8 billion, which was 3.7% of Australia's total exports in the same year. India was Australia's fourth largest export destination in 2022, moving upwards from its sixth position in 2019 (Table 2.3).

Table 2.3: Australia's Major Merchandise Export Destinations

Export Destination	2019	2020	2021	2022	% Share in 2022
Australia's Total Exports	272.6	254.5	345.6	402.2	100.0
China	89.3	90.5	115.5	103.9	25.8
Japan	24.4	19.1	29.8	49.3	12.3
South Korea	13.6	13.0	21.9	24.1	6.0
India	9.0	7.0	12.8	14.8	3.7
USA	10.0	13.2	12.2	13.8	3.4
Taiwan	6.8	5.5	9.2	12.6	3.1
New Zealand	7.1	6.9	8.5	9.1	2.3
Vietnam	4.2	4.4	7.0	9.1	2.3
Indonesia	3.7	3.4	6.7	7.4	1.8
Malaysia	4.5	3.3	4.1	5.9	1.5
Hong Kong	5.3	4.7	7.1	5.5	1.4
Singapore	5.3	5.4	8.8	4.8	1.2
Netherlands	2.1	1.7	2.5	4.2	1.1
Thailand	2.6	2.3	4.4	3.9	1.0
Germany	2.1	2.6	2.7	3.5	0.9

Source: ITC Trade Map and India Exim Bank Research

In 2022, China was also the major source of merchandise imports for Australia. Australia's merchandise imports from China amounted to US\$ 77.3 billion (26.6% of Australia's total imports in 2022) (**Table 2.4**). The US followed China as the second largest source of merchandise imports for Australia in 2022, with imports amounting to US\$ 29.3 billion and a share of 10.1% in total imports. India has made a remarkable improvement in its merchandise export performance, with the country elevated from being the 16th largest merchandise import source for Australia in 2019 to becoming the 10th largest contributor of Australia's import basket in 2022. Imports from India increased from US\$ 3.2 billion in 2019 to US\$ 6.6 billion in 2022.

Table 2.4: Australia's Major Merchandise Import Sources

Import Source	2019	2020	2021	2022	% Share in 2022
Australia's Total Imports	214.3	202.3	248.9	290.1	100.0
China	54.7	57.6	67.9	77.3	26.6
USA	25.1	23.7	25.5	29.3	10.1
South Korea	8.0	6.0	9.1	18.3	6.3
Japan	14.9	12.1	15.2	17.0	5.9
Singapore	7.1	5.2	9.4	13.5	4.7
Malaysia	7.6	6.7	10.0	11.9	4.1
Thailand	10.1	9.6	11.1	11.8	4.1
Germany	10.1	9.3	10.7	11.4	3.9
Taiwan	3.3	3.2	4.4	7.5	2.6

Import Source	2019	2020	2021	2022	% Share in 2022
India	3.2	3.7	6.0	6.6	2.3
Vietnam	4.1	4.3	5.1	6.3	2.2
Italy	4.9	4.6	5.5	6.3	2.2
UK	5.0	4.8	5.3	5.1	1.8
New Zealand	5.4	5.0	5.0	4.9	1.7
France	4.2	4.0	4.4	4.5	1.6

Source: ITC Trade Map and India Exim Bank Research

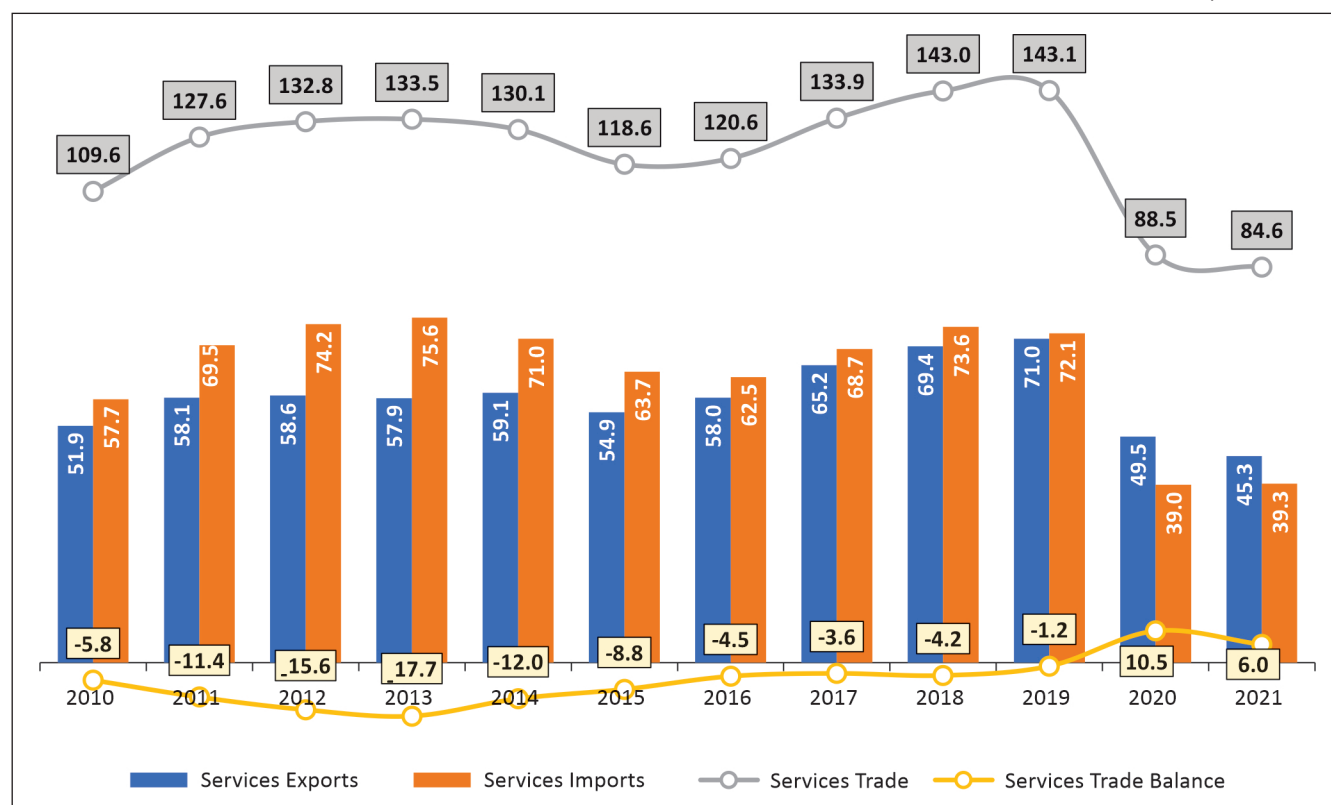
Services Trade

Australia is a world-class provider of a range of services such as education, tourism, professional services, financial services, energy and mining-related services, and environmental services. Australia prioritises these sectors where it seeks to improve access to foreign markets.

Australia's total trade in services has increased from US\$ 109.6 billion in 2010 to US\$ 143.1 billion in 2019, moderated thereafter to US\$ 84.6 billion in 2021. Services exports of Australia were recorded at US\$ 45.3 billion 2021, while services imports of Australia stood at US\$ 39.3 billion. Australia has a favourable services trade balance in the last two years, with a services trade surplus of US\$ 6 billion in 2021 (**Chart 2.3**).

Chart 2.3: International Services Trade of Australia

(US\$ billion)



Source: WTO and India Exim Bank Research

Travel services continued to be the largest service product exported from Australia, followed by business services, personal, cultural and recreational services, and telecommunications, computer and information services. These three sectors together accounted for 79.3% of total services exports of Australia in 2021 (Table 2.5).

Table 2.5: Services Exports of Australia

(US\$ million)

Product/Sector	2010	2015	2019	2020	2021	Share in 2021 (%)
Australia's Total Services Exports	51899	54871	70951	49522	45274	100.0
Government goods and services	774	781	835	657	728	1.6
Commercial services	51125	54090	70116	48865	44547	98.4
Goods-related services	85	72	31	19	46	0.1
Transport	5899	5076	5515	3227	2844	6.3
Travel	32584	34246	45709	25822	17538	38.7
Other commercial services	12556	14696	18862	19797	24118	53.3
Construction	84	141	613	410	513	1.1
Insurance and pension services	308	414	455	478	634	1.4
Financial services	1441	3052	3701	3213	3313	7.3
Charges for the use of intellectual property	973	785	897	877	1229	2.7
Telecommunications, computer, and information services	1859	2294	3596	3545	4366	9.6
Personal, cultural and recreational services	702	725	1160	3516	5539	12.2
Other business services	7189	7286	8440	7759	8524	18.8
Research and development services	587	664	627	697	883	2.0
Technical, trade-related and other business services	3465	2760	3684	3277	3385	7.5
Professional and management consulting services	3137	3862	4129	3785	4256	9.4

Source: WTO and India Exim Bank Research

Transport and business services constitute the largest services imports of Australia, accounting for 34.6% and 28% of the total services imports, respectively in 2021. Other major services imports include telecommunications, computer and information services, charges for the use of intellectual property and personal, cultural and recreational services (Table 2.6).

Table 2.6: Services Imports of Australia

(US\$ million)

Product/Sector	2010	2015	2019	2020	2021	Share in 2021 (%)
Australia's Total Services Imports	57709	63705	72112	39001	39272	100.0
Government goods and services	783	887	1205	1243	1377	3.5
Commercial services	56926	62818	70906	37758	37896	96.5
Goods-related services	260	359	813	389	383	1.0
Transport	13479	13361	13036	9205	13596	34.6
Travel	26647	29222	35989	6766	744	1.9
Other commercial services	16541	19876	21067	21399	23174	59.0

Product/Sector	2010	2015	2019	2020	2021	Share in 2021 (%)
Insurance and pension services	1034	573	723	734	868	2.2
Personal, cultural and recreational services	1310	1509	1497	1308	1752	4.5
Financial services	1025	2313	2144	2009	2130	5.4
Charges for the use of intellectual property	3414	3528	3455	3505	3726	9.5
Telecommunications, computer and information services	2019	2541	3612	3835	3715	9.5
Other business services	7739	9413	9636	10009	10982	28.0
Research and development services	239	183	221	185	143	0.4
Technical, trade-related and other business services	4526	4709	3781	3999	4226	10.8
Professional and management consulting services	2975	4521	5634	5825	6613	16.8

Source: WTO and India Exim Bank Research

China was the largest export destination of Australia's global services exports in 2020, accounting for 17.3% of total services exports from Australia. China was followed by the US, India, UK and New Zealand (**Table 2.7**).

Table 2.7: Major Services Export Destinations of Australia

(US\$ million)

Services Export Destination	2010	2015	2019	2020	2021	Share in Total Services Exports in 2020 (%)
Australia's Total Services Exports	51899	54871	70951	49522	45274	100.0
China	5936	8268	13444	8551	-	17.3
USA	5098	5904	7132	5391	-	10.9
India	3256	2644	5272	4750	-	9.6
UK	4098	4172	4068	2652	-	5.4
New Zealand	3242	3407	4359	2465	-	5.0
Singapore	2668	3268	3441	2353	-	4.8
Hong Kong	1613	1905	2213	1339	-	2.7
Malaysia	1671	1782	1848	1156	-	2.3
Vietnam	927	1086	1254	1055	-	2.1
Japan	1921	1513	1878	970	-	2.0
Ireland	578	434	1169	944	-	1.9
Indonesia	1129	1083	1242	818	-	1.7
South Korea	2011	1476	1554	776	-	1.6
Germany	1120	1087	1249	743	-	1.5
Philippines	382	600	834	696	-	1.4
Switzerland	827	748	804	523	-	1.1
Thailand	954	884	834	501	-	1.0
Taiwan	535	870	1018	499	-	1.0
Canada	794	775	827	471	-	1.0
France	663	780	772	460	-	0.9

Note: - not available

Source: WTO and India Exim Bank Research

The US, with a share of 18.7% was the largest services import source of Australia in 2020, followed by UK, Singapore, New Zealand, and Germany (**Table 2.8**).

Table 2.8: Major Services Import Sources of Australia

(US\$ million)

Services Import Source	2010	2015	2019	2020	2021	Share in Total Services Imports in 2020 (%)
Australia's Total Services Imports	57709	63705	72112	39001	39272	100.0
USA	9608	12282	12742	7276	-	18.7
UK	5834	6074	7071	4127	-	10.6
Singapore	3199	4068	4161	2496	-	6.4
New Zealand	2855	3248	4688	1954	-	5.0
Germany	1970	2337	2360	1808	-	4.6
Ireland	842	1014	1322	1598	-	4.1
Hong Kong	1887	2364	2553	1531	-	3.9
Japan	2184	2447	3237	1442	-	3.7
India	796	1353	1935	1374	-	3.5
China	1566	1947	2269	1020	-	2.6
France	1280	1572	1754	865	-	2.2
Canada	1142	1193	1680	796	-	2.0
Indonesia	2070	2410	3205	703	-	1.8
Sweden	201	231	542	679	-	1.7
Switzerland	975	518	665	661	-	1.7
Malaysia	1129	822	879	650	-	1.7
Philippines	432	648	816	555	-	1.4
Netherlands	1270	1024	630	535	-	1.4
Thailand	2074	1670	1743	392	-	1.0
Greece	659	809	594	357	-	0.9

Source: WTO and India Exim Bank Research



INDIA-AUSTRALIA BILATERAL TRADE RELATIONS: MERCHANDISE TRADE

India-Australia bilateral relationship has undergone evolution in recent years, developing along a positive track into a strategic partnership. The historical ties between India and Australia started immediately following European settlement in Australia since 1788. India and Australia established diplomatic relations in the pre-Independence period, with the establishment of India Trade Office in Sydney in 1941. The end of the Cold War and simultaneously India's decision to launch major economic reforms in 1991, provided the first positive move towards development of closer ties between the two nations¹. The movement of Indians to Australia can be traced back to the 19th and 20th centuries that witnessed movements of Indian settlers from Mauritius, Fiji, South Africa, British Guyana and the Caribbean to Australia.

With the evolving global scenario, Australia has come to look at India as an important partner in promoting regional security and stability. This led to the upgradation of bilateral relationship to a 'Strategic Partnership', including a Joint Declaration on Security Cooperation in 2009. With the passage of time, the relationship gained momentum towards a strategic relationship, alongside the existing economic engagement. Subsequently, Australia came up with a White Paper on Foreign Policy in November 2017. About India, the white paper states that "beyond an increasingly important economic relationship, our security interests are congruent, particularly in relation to the stability and openness of the Indian Ocean. Both the countries have common interests in upholding international law, especially in relation to freedom of navigation and maritime security"².

Towards developing a strong economic relationship with India, the Australian government accepted a number of recommendations of the India Economic Strategy (IES), prepared by Mr. Peter N Varghese AO, Chancellor, The University of Queensland, to define a pathway for Australia to unlock opportunities offered by Indian economic growth. The Strategy aims for a clear exposition of the kind of relationship Australia should aspire to have with India till 2035. Recently, the Minister for Trade, Tourism and Investment, Government of Australia released the update to India Economic Strategy to 2035 prepared by Department of Foreign Affairs and Trade, Government of Australia on March 22, 2022. The update sets out the areas where Australian Government will focus over the next five years to realise the IES ambition for India as a top tier economic partner. The updated report reinforces the traditional identified sectors that will continue being central to bilateral relations of India and Australia. Subsequently, the update recommends expanding investment and cooperation

¹ Ministry of External Affairs, India

² Foreign Policy White Paper, 2017, Government of Australia

in emerging sectors, such as low emission technologies, cyber and critical technologies, and space, that will underpin both countries' future prosperity.

India and Australia initiated negotiations for a bilateral free trade agreement labelled as Comprehensive Economic Cooperation Agreement (CECA) in 2011. After nine rounds of negotiations, both the countries decided to suspend negotiations in September 2015, pending the outcome of other multilateral regional negotiations like Regional Comprehensive Economic Partnership (RCEP). India and Australia were part of the RCEP negotiations since 2011. The agreement was finally signed off in November 2020, with Leaders of ASEAN member states, Australia, China, Japan, Republic of Korea and New Zealand, being the signatories.

In February 2020, during the 16th session of the Joint Ministerial Commission (JMC), India and Australia agreed to enhance bilateral trade through revival of the CECA negotiations. Thereafter, in June 2020, during the India-Australia Leaders' Virtual Summit, both the sides endorsed to engage on a bilateral CECA. In the 17th JMC, both India and Australia reiterated their commitment to reach an interim trade agreement by December 2021 and to conclude the negotiations on a full CECA by the end of 2022.

Stemming from its policy of providing a renewed push to bilateral trade and increased exports, India is entering into bilateral trade agreements as observed from its FTAs with Mauritius and UAE. In continuation, India formally launched negotiations for India-Australia Economic Cooperation and Trade Agreement (AI-ECTA) on September 30, 2021 and concluded it on a fast-track basis by the end of March 2022. India signed ECTA with Australia on April 2, 2022. The AI-ECTA is the first trade agreement of India with a developed country after more than a decade. The Agreement encompasses cooperation across the entire gamut of bilateral economic and commercial relations between the two friendly countries, and covers areas like Trade in Goods, Rules of Origin, Trade in Services, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) Measures, Dispute Settlement, Movement of Natural Persons, Telecom, Customs Procedures, Pharmaceutical Products, and Cooperation in other areas. Eight subject specific side letters covering various aspects of bilateral economic cooperation were also concluded as part of the Agreement.

The AI-ECTA covers almost all the tariff lines dealt in by India and Australia, respectively. India will benefit from preferential market access provided by Australia on 100% of its tariff lines. This includes all the labour-intensive sectors of export interest to India such as gems and jewellery, textiles, leather, footwear, furniture, food and agricultural products, engineering products, medical devices and automobiles. On the other hand, India has offered preferential access to Australia on over 70% of its tariff lines, including lines of export interest to Australia which are primarily raw materials and intermediaries such as coal, mineral ores, wines, etc.

As regards trade in services, Australia has offered wide ranging commitments in around 135 sub-sectors and Most Favoured Nation (MFN) status in 120 sub-sectors, which cover key areas of India's interest like IT, ITES, business services, health, education, and audio visual. Some of the key offers from Australia in the services space include quota for chefs and yoga teachers, post study work visa of 2-4 years for Indian students on reciprocal basis, mutual recognition of professional services and other licensed/regulated occupations and work & holiday visa arrangement for young professionals.

On the other hand, India has offered market access to Australia in around 103 sub-sectors and MFN status in 31 sub-sectors from the 11 broad service sectors such as business services, communication services,

construction and related engineering services, and so on. Both sides have also agreed to a separate Annex on pharmaceutical products under this agreement, which will enable fast track approval for patented, generic, and biosimilar medicines.

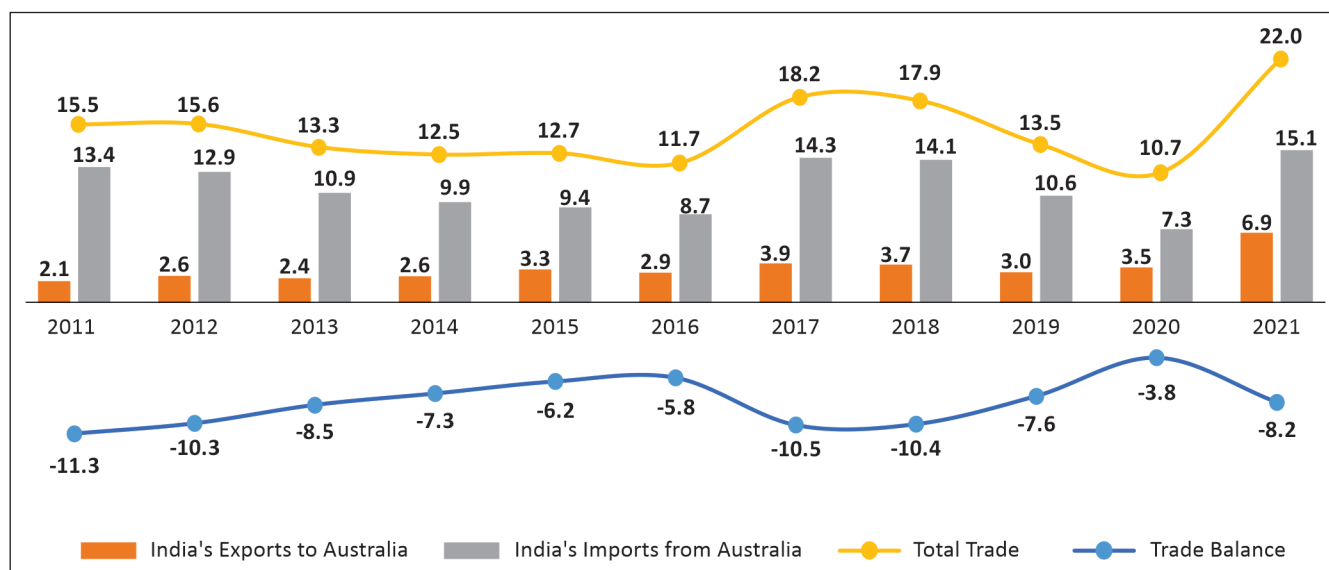
Bilateral Trade Relations of India and Australia

The GDP of India and Australia together recorded US\$ 5.2 trillion in 2022, accounting for 5% of the world GDP in 2022³. India and Australia are two of the most prominent economies in the Indo-Pacific region, with aligned interests and concerns.

From 2011 to 2016, India's total trade with Australia oscillated between US\$ 11 billion to US\$ 15 billion (**Chart 3.1**). In 2016, India's imports from Australia were recorded at US\$ 8.7 billion and exports were a meagre US\$ 2.9 billion. Thereafter, in 2017 imports witnessed a significant increase to US\$ 14.3 billion, due to increased imports of coal (whether or not pulverised and non-agglomerated). On account of the disruptions caused by the pandemic, bilateral trade witnessed a reduction to US\$ 10.7 billion in 2020. While exports have increased from US\$ 3 billion in 2019 to US\$ 3.5 billion in 2020, imports have decreased from US\$ 10.6 billion to US\$ 7.3 billion during the same period. The total trade between India and Australia doubled in 2021, registering a growth of 107% in imports and 97% in exports compared to 2020. In 2021, exports rose majorly from an increased demand for mineral oils and India exporting light petroleum distillates to Australia. India's primary import item from Australia remains coal, with India's import from Australia under this category encompassing 45.8% of India's global imports of coal. India's imports of coal from Australia ballooned from US\$ 5.1 billion in 2020 to US\$ 11.1 billion in 2021. India has been persistently running a trade deficit with Australia, which was the highest in 2011 at US\$ 11.3 billion before narrowing down to US\$ 8.2 billion in 2021.

Chart 3.1: India's Merchandise Trade with Australia

(US\$ billion)



Source: ITC Trade Map and India Exim Bank Research

³ World Economic Outlook, October 2022

India's Merchandise Exports to Australia

India-Australia trade relations have fared well after the pandemic, with the total trade increasing to US\$ 22 billion in 2021, increasing by 106% in comparison to that in 2020. In 2021, Australia was the 17th largest export destination of India, with a share of 1.8% in India's total exports.

India's exports to Australia have traditionally been dominated by mineral fuels and oils, which constituted almost half of the total exports from India to Australia in 2021 (**Table 3.1**). This was followed by natural or cultured pearls and stones (accounting for 5.3% of India's total exports to Australia), pharmaceutical products (5%), machinery and mechanical appliances (3.5%), articles of iron or steel (3.2%) and electrical machinery and equipment (2.8%).

At a disaggregated level, India's major exported items to Australia in 2021 include medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel (HS-271019), light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume (HS-271012), medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes (HS-300490), diamonds, worked, but not mounted or set (excluding industrial diamonds) (HS-710239), articles of jewellery and parts of precious metal other than silver (HS-711319), self-propelled railway or tramway coaches, vans and trucks, powered from an external source (HS-860310) and semi-milled or wholly milled rice, whether or not polished or glazed (HS-100630).

Table 3.1: India's Major Merchandise Export Commodities to Australia

(US\$ million)

HS Code	Product	2019	2020	2021	Share in 2021 (%)
	India's Exports to Australia	2,973.9	3,471.1	6,917.3	100.0
27	Mineral fuels and oils	353.4	839.3	3,347.6	48.4
71	Natural or cultured pearls and stones	268.9	229.9	365.1	5.3
30	Pharmaceutical products	251.9	292.3	343.1	5.0
84	Machinery and mechanical appliances	157.7	177.0	239.1	3.5
73	Articles of iron or steel	139.9	145.0	219.2	3.2
85	Electrical machinery and equipment	137.2	155.8	192.5	2.8
63	Other made-up textile articles	128.0	129.2	174.7	2.5
87	Vehicles other than railway or tramway	73.1	111.8	161.6	2.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	128.8	108.5	148.5	2.1
38	Miscellaneous chemical products	54.6	98.6	128.7	1.9
61	Articles of apparel and clothing accessories, knitted or crocheted	88.9	82.5	125.3	1.8
72	Iron and steel	29.4	46.1	97.7	1.4
57	Carpets and other textile floor coverings	69.0	79.7	88.4	1.3
39	Plastics and articles	55.1	53.6	85.1	1.2
42	Articles of leather and saddlery and harness	71.2	60.8	80.8	1.2

Source: ITC Trade Map and India Exim Bank Research

India's Merchandise Imports from Australia

In 2021, Australia was the 11th largest import source of India, with a share of 2.6% in India's total imports. In product terms, mineral fuels and oils (HS-27) were also the largest imported commodity, with a massive share of 75.6% in India's total imports from Australia in 2021 (**Table 3.2**). Under HS-27 at 6-digit level, the highest imported commodity was coal, with imports amounting to US\$ 11.2 billion in 2021, increasing from US\$ 4.9 billion in 2016. Other major imports include natural or cultured pearls or stones (7.6% of India's total imports from Australia), ores, slag and ash (5.3%) and inorganic chemicals (2.9%).

At a disaggregated level, India's major imported items from Australia in 2021 include coal, whether or not pulverised, non-agglomerated (excluding anthracite and bituminous coal) (HS-270119), gold, including gold plated with platinum, unwrought, for non-monetary purposes (HS-710812), copper ores and concentrates (HS-260300), aluminium oxide (excluding artificial corundum) (HS-281820), bituminous coal, whether or not pulverised, non-agglomerated (HS-270112), liquefied natural gas (HS-271111) and manganese ores and concentrates, including ferruginous manganese ores and concentrates (HS-260200).

Table 3.2: India's Major Merchandise Import Commodities from Australia

(US\$ million)

HS Code	Product	2019	2020	2021	Share in 2021 (%)
	India's Imports from Australia	10,569.4	7,263.3	15,103.0	100.0
27	Mineral fuels and oils	8,224.2	5,556.7	11,412.8	75.6
71	Natural or cultured pearls and stones	529.9	312.9	1,141.2	7.6
26	Ores, slag and ash	258.2	155.3	799.7	5.3
28	Inorganic chemicals	403.0	341.1	431.5	2.9
07	Edible vegetables and certain roots and tubers	41.1	72.9	120.7	0.8
76	Aluminium and articles	137.7	108.6	118.3	0.8
32	Tanning or dyeing extracts	84.3	65.0	112.4	0.7
44	Wood and articles of wood and wood charcoal	1.2	1.6	111.5	0.7
08	Edible fruit and nuts	70.6	58.1	104.3	0.7
90	Optical, photographic, cinematographic and surgical equipment	56.2	49.4	97.0	0.6
72	Iron and steel	99.7	97.4	95.8	0.6
51	Wool, fine or coarse animal hair	125.9	65.6	92.2	0.6
52	Cotton	33.3	6.5	66.3	0.4
84	Machinery and mechanical appliances	61.1	38.9	38.7	0.3
85	Electrical machinery and equipment	30.5	25.9	36.5	0.2
74	Copper and articles	26.8	22.5	33.6	0.2
25	Salt, sulphur and earths and stone	31.5	13.7	25.9	0.2
47	Pulp of wood or of other fibrous cellulosic material	29.7	21.9	19.3	0.1
78	Lead and articles	31.5	50.5	19.0	0.1

Source: ITC Trade Map and India Exim Bank Research

Revealed Comparative Advantage Analysis and Trade Potential

Analysing the key products where India has comparative advantage and matching it with Australia's import demand for these products is necessary for an India-Australia trade agreement to be successful. Quantification of comparative advantage will help in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country i for commodity j is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

X_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's export profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with Australia.

$$RCA_{iju} = (x_{iju}/X_{iu}) / (x_{wju}/X_{wu})$$

Where,

x_{iju} : India's Exports of commodity 'j' to Australia

X_{iu} : India's Total Exports to Australia

x_{wju} : World's Exports of commodity 'j' to Australia

X_{wu} : Total World Exports to Australia

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju} - 1) / (RCA_{iju} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1 means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to Australia's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing capabilities in exporting to Australia. These products are the potential export growth drivers from India to Australia and could be suitably targeted. The section also attempts to identify products where India could focus on, to realize potentially higher values of exports to Australia, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in Australia, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to Australia.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2011-2021.
- **Product Limit:** Only those products at 6-digit HS Code level with a minimum export value of US\$ 1 million from India to Australia is considered in the analysis.
- **Parameters in Consideration:** The analysis considers two major determinants of the India's performance in Australia, namely, NRCA for products, and Average Annual Growth Rate (AAGR) of Australia's global imports.

Based on the above three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of Australia > World Import AAGR of Australia; Positive NRCA):

These products have the maximum potential, as Australia's import demand for these products has shown robust AAGR over the period 2011-2021, while India's exports of these products to Australia are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to Australia and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in Australia.

Underachievers (Product Import AAGR of Australia > World Import AAGR of Australia; Negative NRCA):

India does not have competitiveness in these products although their import demand has grown in Australia significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to Australia and further expand its bilateral ties with Australia.

Winners in Declining Sectors (Product Import AAGR of Australia < World Import AAGR of Australia; Positive NRCA): India has competitiveness in these products, even though Australia's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of Australia < World Import AAGR of Australia; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in Australia during the period under consideration.

Chart 3.2: Identification of Products with Export Potential from India to Australia (2021)



Source: ITC Trade Map and India Exim Bank Research

To identify the products based on their export competitiveness in Australia, a four-quadrant analysis has been undertaken based on HS Code classifications at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of Australia. The quadrants are drawn by comparing the overall AAGR of global imports of Australia for all products during 2011-2021 (which was 2.5%), to the NRCA of India's exports to Australia of these products during the same period (**Chart 3.2**). This exercise aims to identify those products where imports in Australia over the period 2011-2021 have performed better than the overall average of Australia for all products during this period, implying that the share of such products in Australia's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 1 million from India to Australia, 467 products have been identified, with the total exports from India to Australia amounting to US\$ 6.5 billion while the total global imports by Australia in the same products stood at US\$ 105.7 billion in 2021.

Out of the 467 items at HS 6-digit level, 225 items fell into the category of product champions. The combined exports of these items from India to Australia were US\$ 5.2 billion in 2021, representing approximately 75.4% of India's exports to Australia in 2021. Major product champions are provided in **Table 3.3**.

Table 3.3: Top 15 Product Champions from India to Australia (HS 6-digit level)

HS Code	Product	India's Exports to Australia (US\$ million)	Share in India's Total Exports to Australia (%)	Global Imports of Australia (US\$ million)	Share in Global Imports of Australia (%)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel	2853.4	41.3	15069.8	6.1
271012	Light oils and preparations, of petroleum or bituminous minerals which \geq 90% by volume	469.4	6.8	3991.8	1.6
710239	Diamonds, worked, but not mounted or set (excluding industrial diamonds)	175.3	2.5	499.9	0.2
711319	Articles of jewellery and parts thereof, of precious metal other than silver	142.1	2.1	1063.2	0.4
860310	Self-propelled railway or tramway coaches, vans and trucks, powered from an external source	63.7	0.9	366.8	0.1
380893	Herbicides, anti-sprouting products and plant-growth regulators, put up in forms or packings	47.3	0.7	786.7	0.3
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	45.1	0.7	574.4	0.2
732591	Grinding balls and similar articles for mills, cast (excluding such articles of non-malleable)	43.9	0.6	107.3	-
760120	Unwrought aluminium alloys	42.8	0.6	188.9	0.1
730630	Tubes, pipes and hollow profiles, welded, of circular cross-section, of iron or non-alloy steel	40.8	0.4	143.3	-
380891	Insecticides, put up in forms or packings for retail sale or as preparations or articles	40.1	0.6	150.6	0.1
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton	38.6	0.6	149.5	0.1
854460	Electric conductors, for a voltage $>$ 1.000 V, insulated	38.3	0.6	218.5	0.1
630492	Articles for interior furnishing, of cotton (excluding knitted or crocheted, blankets and travelling)	35.8	0.5	14.1	-
630532	Flexible intermediate bulk containers, for the packing of goods, of synthetic or man-made textile	27.5	0.4	56.4	-

Note: - signifies marginal

Source: ITC Trade Map and India Exim Bank Research

The total number of products in winners in declining sectors category is 101, with India's exports amounting to US\$ 785 million, constituting 11.3% of India's exports to Australia in 2021. These are the items in which India has attained a significant share in Australia's import basket, but Australia's import demand for these products has been falling in the last decade (**Table 3.4**).

Table 3.4: Top 15 Winners in Declining Sectors from India to Australia (HS 6-digit level)

HS Code	Product	India's Exports to Australia (US\$ million)	Share in India's Total Exports to Australia (%)	Global Imports of Australia (US\$ million)	Share in Global Imports of Australia (%)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	310.1	4.5	4680.4	1.9
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	50.2	0.7	171.4	0.1
847490	Parts of machinery for working mineral substances of heading 8474	24.9	0.4	411	0.2
630419	Bedspreads of all types of textile materials (excluding knitted or crocheted, bedlinen, quilts)	19.6	0.3	3.4	-
570231	Carpets and other floor coverings, of wool or fine animal hair, woven, not tufted or flocked	18.2	0.3	9.6	-
711311	Articles of jewellery and parts thereof, of silver, whether or not plated or clad	14	0.2	185.1	0.1
732599	Cast articles of iron or steel (excluding articles of non-malleable cast iron)	12.4	0.2	42.3	-
090240	Black fermented tea and partly fermented tea, whether or not flavoured, in immediate packings	10.8	0.2	6.2	-
621142	Women's or girls' tracksuits and other garments, of cotton (excluding knitted or crocheted)	10.6	0.2	43.1	-
722240	Angles, shapes and sections of stainless steel	9.7	0.1	12	-
570330	Carpets and other floor coverings, of man-made textile materials, tufted needle punched	8.7	0.1	83	-
300410	Medicaments containing penicillins or derivatives thereof with a penicillanic acid structure	8.7	0.1	33.3	-
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	8.3	0.1	75.6	-
853690	Electrical apparatus for switching electrical circuits, or for making connections)	8.3	0.1	135.5	0.1
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	7.4	0.1	190.4	0.1

Note: - signifies marginal

Source: ITC Trade Map and India Exim Bank Research

This was followed by underachievers with 115 items, with India's exports worth US\$ 429.9 million to Australia. These products constitute a marginal share of 6.2% in India's total exports to Australia. These are the products in which import demand in Australian market is rising, but India does not have the sufficient competitiveness in the export of these items (**Table 3.5**).

Table 3.5: Top 15 Underachievers from India to Australia (HS 6-digit level)

HS Code	Product	India's Exports to Australia (US\$ million)	Share in India's Total Exports to Australia (%)	Global Imports of Australia (US\$ million)	Share in Global Imports of Australia (%)
210690	Food preparations	33.1	0.5	1556.7	0.6
870322	Motor cars and other motor vehicles principally designed for the transport of persons	28.5	0.4	1634.7	0.7
850440	Static converters	19.3	0.3	1211.8	0.5
854449	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors	14.7	0.2	623.6	0.3
730890	Structures and parts of structures, of iron or steel (excluding bridges and bridge-sections)	13.6	0.2	1055.8	0.4
848180	Appliances for pipes, boiler shells, tanks, vats or the like (excluding pressure-reducing)	11.9	0.2	1146.4	0.5
842951	Self-propelled front-end shovel loaders	11.6	0.2	775.7	0.3
851762	Machines for the reception, conversion and transmission or regeneration of voice, images	11.3	0.2	3411.4	1.4
732690	Articles of iron or steel (excluding cast articles or articles of iron or steel wire)	10.8	0.2	728.8	0.3
190590	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion	10.4	0.1	565.0	0.2
871690	Parts of trailers and semi-trailers and other vehicles not mechanically propelled	7.8	0.1	367.3	0.1
392690	Articles of plastics and articles of other materials of heading 3901 to 3914	7.4	0.1	969.4	0.4
210390	Preparations for sauces and prepared sauces; mixed condiments and seasonings (excluding soya)	6.7	0.1	357.5	0.1
841370	Centrifugal pumps, power-driven (excluding those of subheading 8413.11 and 8413.19, fuel, lubricating)	6.2	0.1	222.4	0.1
940320	Metal furniture (excluding for offices, seats and medical, surgical, dental or veterinary)	6.1	0.1	538.8	0.2

Source: ITC Trade Map and India Exim Bank Research

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in Australian market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to product champions in the short run and to underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to Australia. Further, the analysis suggests strengthening of the existing products in the category of product champions, in order to exploit the full potential of these products which are already showing a robust growth in Australian market, where India's exports also hold a comparative advantage.

Barriers in India-Australia Trade

There is wide consensus that liberalization of trade and FDI can lead to improved resource allocation across firms and sectors, boosting productivity and output. The most common barrier to trade is a tariff, which are customs duties on merchandise imports. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. The different types of tariff terminology and data used in the present analysis are as follows.

Most Favoured Nation Tariff

The most favoured nation (MFN) tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). Thus, in practice, MFN rates are the highest (most restrictive) tariffs that WTO members charge one another.

Some countries impose higher tariffs on countries that are not part of the WTO. In some rare cases, WTO members/GATT contracting parties have invoked the “Non-Application Clause” of WTO/GATT agreements and chosen not to extend MFN treatment to certain other countries.

Bound Tariff

Bound tariffs (BND) are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than actually applied rates.

Bound tariffs are not necessarily the rate that a WTO member applies in practice to other WTO members' products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis) so long as they do not raise them above their bound levels. If one WTO member raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country does not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff (actual tariff) is less than or equal to the bound tariff in practice for any product.

The gap between the bound (committed and difficult to increase) and applied MFN rates is called the binding overhang. It is argued that a large binding overhang makes a country's trade policies less predictable. This gap tends to be small on average in industrial countries and often large in developing countries.

Effectively Applied Tariff

Effectively applied tariff (AHS) is the actual tariff imposed by the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the MFN applied tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's rules of origin.

Preferential Tariff

A preferential tariff (PRF) is one that falls under a preferential trade agreement, where countries make a deal in which they agree to charge a lower rate than the MFN rate. Virtually all countries in the world are part of at least one preferential trade agreement, under which they promise to charge lower tariffs than their MFN rate to another country's products. In a customs union (such as the Southern African Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products. These agreements are reciprocal, where all parties agree to give each other the benefits of lower tariffs. Some agreements specify that members will receive a percentage reduction from the MFN tariff, but not necessarily zero tariffs. Preferences therefore differ between partners and agreements.

Tariff on India's Imports from Australia

In the current analysis, tariffs at 6-digit HS Code is taken into consideration, using TRAINS based WITS data for the year 2021. Since AI-ECTA come into force only in December 2022, the effectively applied tariffs on Australia remained the same as the MFN tariffs.

Table 3.6 disintegrates the simple average of the effectively applied tariff (AHS) imposed by India on its imports from Australia, which is the tariff that the Australian exporters face while exporting to India. There are 143 tariff lines (at 6-digit HS Code) that has effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 183.5 million in 2021. The duty-free products correspond to a meagre 1.2% of the total imports of India from Australia in 2021. There are 77 tariff lines under 01%-03% effectively applied tariff rates, which correspond to the highest share of 80.6% of India's total imports from Australia in 2021, amounting to US\$ 12.2 billion.

Cumulatively, 98.1% of Indian imports from Australia face an effectively applied tariff rate of less than or equal to 15% when exported to India. 672 tariff lines face effectively applied tariff ranging between 15% - 150%, with the total import share of 1.1% in 2021. There were 69 tariff lines, majorly belonging to coffee, tea and spices (HS-09), beverages (HS-22) and automobiles (HS-87), with an effectively applied tariff of 100% and above.

Table 3.6: Effectively Applied Tariff on India's Imports from Australia in 2021

Effectively Applied Tariff Rates (%)	No. of Tariff Lines (at 6-digit HS Code)	Total Imports (US\$ million)	Share in Total Imports (%)
0	143	183.5	1.2
01-03	77	12,178.3	80.6
03-06	217	517.5	3.4
06-09	1274	560.4	3.7
09-11	1472	214	1.4
11-15	334	1,172.40	7.8
15-20	340	18.2	0.1
20-25	34	1.6	0.01
25-30	156	127.4	0.8

Effectively Applied Tariff Rates (%)	No. of Tariff Lines (at 6-digit HS Code)	Total Imports (US\$ million)	Share in Total Imports (%)
30-35	43	1.9	0.01
35-80	30	2.7	0.02
80-100	15	0.3	0.002
125	4	0.6	0.004
150	50	10	0.1
Rate Not Specified	239	113.5	0.8
Total	4,428	15,103.0	100.0

Source: WITS Database and India Exim Bank Research

Tariffs on Australia's Imports from India

The tariffs imposed by Australia on India's exports at 6-digit HS Code level using TRAINS based WITS data is analysed in the current section. Australia, being a developed region, has low MFN and effectively applied tariffs, thus promoting free and easy trade with its partners.

Table 3.7: Effectively Applied Tariff on Australia's Imports from India in 2021

Effectively Applied Tariff Rates (%)	No. of Tariff Lines (at 6-digit HS Code)	Total Imports (US\$ million)	Share in Total Imports (%)
0	1,098	3,798.7	59.6
01-03	427	425.0	6.7
03-05	2,017	2,145.4	33.7
Total	3,542	6,369.1	100.0

Source: WITS Database and India Exim Bank Research

Table 3.7 disintegrates the simple average of the effectively applied tariff by Australia on Indian exports. There are 1,098 tariff lines (at 6-digit HS Code), imports for which amounts to US\$ 3.8 billion in 2021, on which Australia imposes the effectively applied tariff of 0%. These products constitute more than half (59.6%) of Australia's imports from India in 2021. There are 427 tariff lines, with imports amounting to US\$ 425 million under the 1%-3% effectively applied tariff level category, which corresponds to 6.7% of Australia's imports from India in 2021. Subsequently, there are 2,017 tariff lines, with Australia's imports from India amounting to US\$ 2.1 billion, facing effectively applied tariff between 3% to 5%.

Non-Tariff Measures in Goods Trade

According to the UNCTAD, non-tariff measures are generally defined as "policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both."⁴ A large number of domestic regulations meant to protect the environment, consumers or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. Indeed, there is some evidence that the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff

⁴ https://unctad.org/system/files/official-document/ditctab2019d5_en.pdf

trade measures (NTMs) is large, their nature is complex and constantly changing. This leads to challenges to ensure level playing fields between countries.⁵ Based on the WTO classification, the different types of non-tariff measures used by various countries are defined below.

- **Sanitary and Phytosanitary Measures**

Sanitary and Phytosanitary Measures (SPS) are measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins, or disease-causing organisms in their food; to protect human life from plant or animal-borne diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country from the entry, establishment or spread of pests; and to protect biodiversity. These include measures taken to protect the health of fish, wild fauna, forests and wild flora.

- **Technical Barriers to Trade**

Technical Barriers to Trade (TBT) are measures referring to technical regulations and procedures of assessment of conformity with technical regulations, excluding measures covered by the chapter on sanitary and phytosanitary measures. A technical regulation is a document that sets out product characteristics or related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory.

- **Anti-Dumping Measures**

Anti-Dumping Measures (ADP) are unilateral remedies which may be applied by a WTO member after an investigation and determination by that member, in accordance with the provisions of the Anti-Dumping Agreement, that an imported product is “dumped” and that the dumped imports are causing material injury to a domestic industry producing the like product.

- **Countervailing Measures**

Countervailing Measures (CV) are the actions taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country.

- **Safeguard**

Under Safeguard (SG), a WTO member restricts imports of a product temporarily to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the industry.

- **Quantitative Restrictions**

Quantitative Restrictions (QR) are prohibitions or restrictions other than duties, taxes or other charges applied by the WTO members on imports or exports of goods, which can be made effective through quotas, import or export licences or other measures.

- **Tariff-Rate Quota**

Tariff-Rate Quota (TRQ) allows for quantities inside a quota to be charged lower import duty rates, than those outside (which can be high).

⁵ World Trade Organization, 2012

- **State Trading Enterprises**

State Trading Enterprises (STE) are defined as governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and/or import. The STE might be used to provide protection for the domestic market in a given product by setting resale prices of imports at very high levels, thus negating tariff concessions bound.

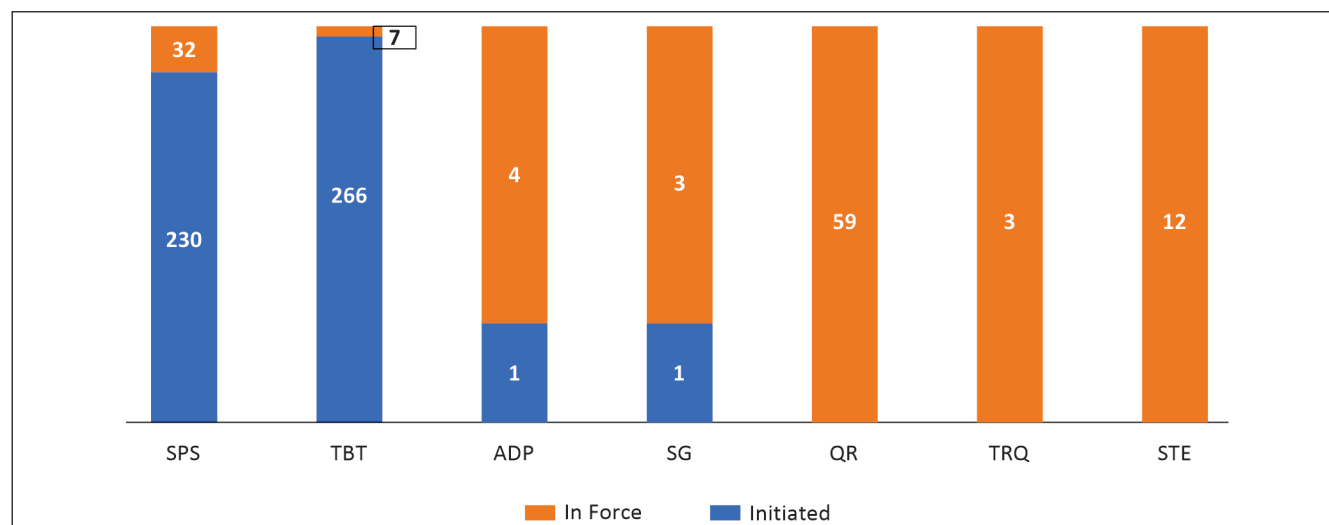
- **Export Subsidies**

Export Subsidies (XS) are defined as “subsidies contingent on export performance, including the export subsidies listed in detail in Article 9 of Agreement on Agriculture”.

Non-Tariff Measures Imposed by India

Based on the data retrieved from Integrated Trade Intelligence Portal (I-TIP), WTO, **Chart 3.3** shows that as of December 2022, India has imposed 618 NTMs towards all WTO members (including Australia), as well as bilaterally imposed by India on Australia. Out of the 618 NTMs, 120 were put into force and 498 initiated⁶. SPS and TBT are among the most widely used NTMs, with 262 SPS (32 in force and 230 initiated) and 273 TBT (7 in force and 266 initiated) in place. Anti-dumping measures have also been adopted by India, followed by protection through quantitative restrictions, STEs, safeguard and tariff-rate quota measures, as of December 2022.

Chart 3.3: Non-Tariff Measures Imposed by India as on December 31, 2022



Note: Anti-Dumping Measures [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate Quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Research

⁶ Initiation date is the date when the measure in preparation is made known to other WTO members; in SPS and TBT it is the date when the measure is distributed to other members through DOL. In AD, CV, and SG, the date of initiation of investigation is also the date when the affected member is notified of initiation. In agricultural NTMs, initiation is not applicable. In force is when the measure is put in force, in case of Anti-dumping, Countervailing, and Safeguards measures; while it may or may not be notified for SPS and TBT.

According to broad sector classification of I-TIP, WTO, food and beverage sector has the highest number of NTMs (111) imposed by India as of December 2022 (**Table 3.8**). Majority of the NTMs in the sector are in form of SPS (76), followed by TBT (34), and QR (1). Live animals and products and vegetable products are also substantially protected sectors combinedly consisting of 200 measures. These sectors are largely protected through SPS (121), TBT (45), QR (26), STE (6) and TRQ (2). There are a total of 176 measures for which the HS classification is not available, with SPS (88) and TBT (82), being the majority NTMs.

Table 3.8: Broad Sector Classification of NTMs Imposed by India on Australia as on December 31, 2022

HS Product Description	SPS	TBT	ADP	CV	SSG	SG	QR	TRQ	STE	XS
Measures without HS Code	88	82	2			4				
Live animals and products	49	21					25	1	2	
Vegetable products	72	24					1	1	4	
Animal and vegetable fats, oils and waxes	13	26					25	1	1	
Prepared foodstuff, beverages, spirits, vinegar and tobacco	76	34					1			
Mineral products	6	13	2				1		7	
Products of the chemical and allied industries	6	62					5		3	
Resins, plastics and articles and rubber and articles	7	38	2				1			
Hides, skins and articles, saddlery and travel goods							4			
Wood, cork and articles and basket ware	7	1					1			
Paper, paperboard, and articles		6	1				1			
Textiles and articles		9					1			
Footwear, headgear, feathers, artificial flowers, and fans		1								
Articles of stone, plaster, ceramic products, and glass		11	1							
Pearls, precious stones and metals and coins	1	1					1			
Base metals and articles		25	1				1			
Machinery and electrical equipment		61					2			
Vehicles, aircraft and vessels		10					1			
Instruments, clocks, recorders and reproducers		10	1				1			
Arms and ammunition							1			
Miscellaneous manufactured articles		13					2			
Works of art and antiques							1			

Note: Anti-Dumping Measures [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate Quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Research

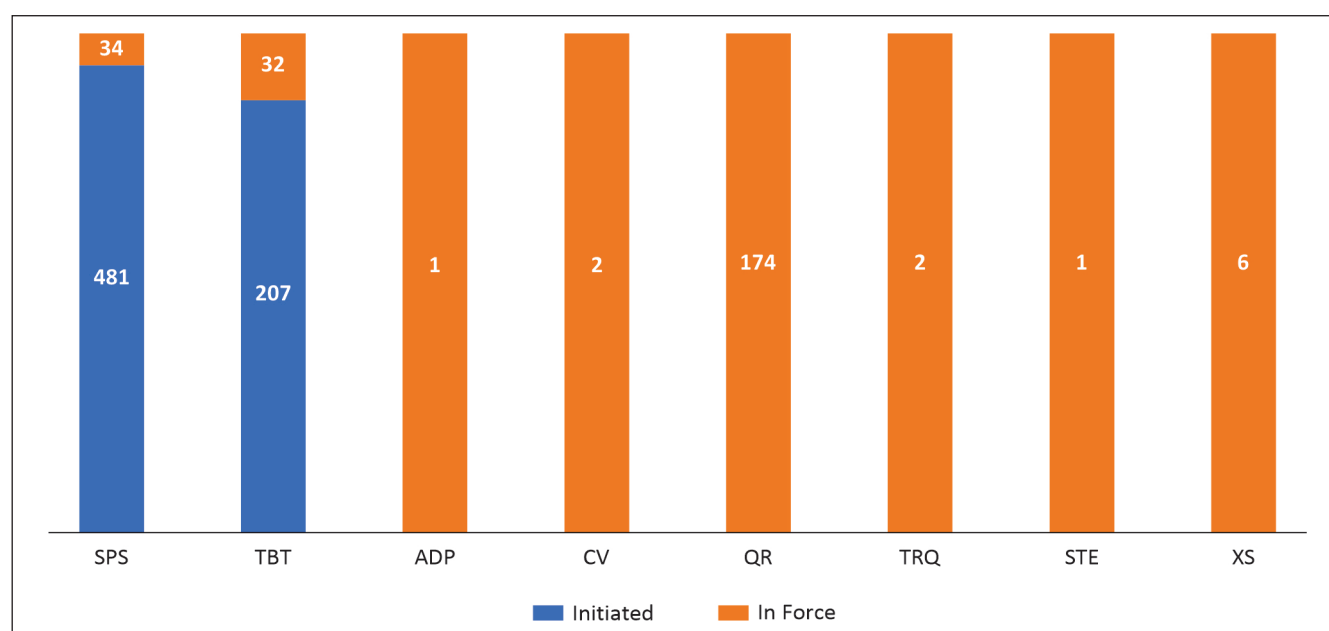
Non-Tariff Measures Imposed by Australia

Australia has a centralised information source for regulations. At the Commonwealth level, Food Standards of Australia and New Zealand is responsible for mandatory food standards in both Australia and New Zealand. The Therapeutic Goods Administration, under the Australian Government Department of Health, is responsible for

developing standards for pharmaceuticals and therapeutic goods. The Department of Transport and Regional Services is responsible for developing national standards for vehicle safety and emission requirements. The Consumer Affairs Division of the Department of the Treasury develops mandatory Commonwealth safety and information standards for selected consumer products. The Department of Agriculture is responsible for issuing the most NTMs.

Chart 3.4 shows that as of December 2022, Australia has 940 NTMs towards all WTO members unilaterally (including India), as well as bilaterally imposed on India by Australia. Among the 940 NTMs, 252 are in force and 688 initiated. Australia's import NTMs are mostly technical measures, referring to technical regulations and procedures for assessing conformity with technical regulations and standards. SPS and TBT measures are among the mostly used NTMs, with 515 SPS and 239 TBT measures in place. Other than these, Australia has also adopted ADP, CV, QR, TRQ, STE and XS measures under NTMs.

Chart 3.4: Non-Tariff Measures Imposed by Australia as on December 31, 2022



Note: Anti-Dumping Measures [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate Quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Research

The imposition of NTMs in Australia, as for other countries, is characterised by the simultaneous application of different measures to the same product (multiple NTMs). According to broad sector classification of I-TIP, WTO, products of the live animals and products have the highest number of NTMs (192) imposed by Australia as of December 2022 (**Table 3.9**). Majority of the NTMs are in form of SPS (155), followed by QR (29), XS (5), TBT (2) and TRQ (1). Vegetable products also have significant number of NTMs (144), including measures like SPS (124), QR (16), TBT (2), STE (1) and XS (1). Products of the chemical and allied industries and machinery and electrical equipment are combinedly protected through 186 measures. These sectors are largely protected through QR (124), TBT (56), SPS (4) and XS (2). There are a total of 359 measures for which the HS classification is not available, amongst these also, SPS (208) and TBT (151) are the majority NTMs.

Table 3.9: Broad Sector Classification of NTMs Imposed by Australia as on December 31, 2022

HS Product Description	SPS	TBT	ADP	CV	QR	TRQ	STE	XS
Measures without HS Code	208	151						
Live animals and products	155	2			29	1		5
Vegetable products	124	2			16		1	1
Animal and vegetable fats, oils and waxes	5	2			8			
Prepared foodstuff; beverages, spirits, vinegar; tobacco	37	8			17	1		2
Mineral products		1			22			
Products of the chemical and allied industries	4	15			82			2
Resins, plastics and articles; rubber and articles		10			16			
Hides, skins and articles; saddlery and travel goods		1			21			
Wood, cork and articles; basketware	6	3			15			
Paper, paperboard and articles		2			14			
Textiles and articles		2			12			
Footwear, headgear; feathers, artificial flowers, fans		1			10			
Articles of stone, plaster; ceramic prod.; glass		6			19			
Pearls, precious stones and metals; coin					15			
Base metals and articles		6	1	2	12			
Machinery and electrical equipment		41			42			
Vehicles, aircraft and vessels	1	11			21			
Instruments, clocks, recorders and reproducers		9			22			
Arms and ammunition					18			
Miscellaneous manufactured articles		15	1		51			
Works of art and antiques					13			

Note: Anti-Dumping Measures [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate Quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Research



INDIA-AUSTRALIA BILATERAL TRADE RELATIONS: SERVICES TRADE

Services sector is a key driver of the Indian economy with a share of 52.7% in Gross Value Added (GVA) and a growth of 8.4% of the overall GDP growth in 2021-22⁷. Growth in value added by services was severely impacted with a contraction of 7.8% in 2020-21 due to the pandemic. While many initiatives have been taken by the Government and Industry to accelerate services growth and trade, some inherent restrictions in the form of domestic regulations and procedures in India and domestic regulations in key markets impacting market access, have been affecting India's services exports.

India's global services exports have almost doubled in the last decade from US\$ 117.1 billion in 2010 to US\$ 240.7 billion in 2021. India's share in global services exports have also increased from 2.9% in 2010 to 4% in 2021. According to the RBI, services exports for 2021-22 stood at US\$ 254.5 billion surpassing the pre-pandemic levels of US\$ 213.2 billion in 2019-20. Software services, constituting more than 40% of India's total services exports, exhibited a strong growth in 2021-22 led by banking, financial and insurance services; retail and consumer business; communication, media and technology; and healthcare segments. The migration towards cloud services and the strengthening of infrastructure specifically to meet the pandemic-centric demand significantly aided the sector.

India's Services Trade with Australia

Both India and Australia are major services trading countries globally. While Australia was the 28th largest services exporter globally in 2021, India was the 8th largest services exporter. In terms of imports, Australia was the 30th largest global services importer, while India stood at 10th position in 2021 (**Table 4.1**).

⁷ GOI's Provisional Estimates

Table 4.1: Leading Global Services Exporters and Importers

(US\$ billion)

Top Global Services Exporters							Top Global Services Importers						
Sl. No.	Country	2010	2015	2020	2021	Share in 2021 (%)	Country	2010	2015	2020	2021	Share in 2021 (%)	
Total Services Exports		3972.7	5004.7	5171.7	6033.0	100.0	Total Services Imports	3872.6	4893.2	4880.0	5558.8	100.0	
1	USA	582.0	769.4	726.4	795.3	13.2	USA	436.5	498.3	466.5	550.0	9.9	
2	UK	267.3	375.4	385.7	417.5	6.9	China	193.3	435.5	381.1	441.3	7.9	
3	China	162.2	218.6	280.6	392.2	6.5	Germany	268.8	302.0	311.1	381.0	6.9	
4	Germany	247.5	280.7	310.7	377.2	6.3	Ireland	107.2	175.3	349.5	341.5	6.1	
5	Ireland	98.4	133.4	278.8	337.8	5.6	France	168.0	233.4	235.9	258.3	4.6	
6	France	196.3	255.7	254.6	303.0	5.0	UK	171.2	229.2	211.8	242.9	4.4	
7	Netherlands	118.0	197.9	224.2	247.6	4.1	Netherlands	106.2	213.4	213.1	236.8	4.3	
8	India	117.1	156.3	203.1	240.7	4.0	Singapore	100.6	161.7	203.8	223.6	4.0	
9	Singapore	94.5	153.2	209.7	229.9	3.8	Japan	157.4	178.6	197.0	207.3	3.7	
10	Japan	141.3	162.6	162.0	167.9	2.8	India	114.9	123.6	153.7	196.0	3.5	
11	Luxembourg	63.5	93.5	121.4	140.0	2.3	Switzerland	86.6	117.8	126.6	142.3	2.6	
12	Belgium	92.8	109.0	121.6	136.7	2.3	Belgium	82.0	104.3	119.5	134.5	2.4	
13	Switzerland	100.4	123.4	116.6	134.8	2.2	South Korea	95.9	112.1	106.3	127.1	2.3	
14	South Korea	87.3	97.5	90.1	122.7	2.0	Italy	110.2	103.1	93.9	113.5	2.0	
15	Spain	124.7	121.5	90.2	119.0	2.0	Luxembourg	37.4	67.7	96.4	110.5	2.0	
16	Canada	78.7	85.0	93.8	103.8	1.7	Canada	100.1	104.8	97.9	104.9	1.9	
17	Italy	98.0	98.4	85.6	102.4	1.7	Denmark	52.3	58.2	71.9	81.7	1.5	
18	UAE	11.7	60.8	78.1	101.8	1.7	Sweden	46.8	61.7	68.7	80.0	1.4	
19	Denmark	61.3	64.4	76.2	93.4	1.5	UAE	42.1	81.9	61.9	76.1	1.4	
20	Poland	32.7	44.1	66.1	80.6	1.3	Russia	73.4	88.8	64.8	75.9	1.4	
21	Sweden	61.1	72.7	68.5	79.0	1.3	Saudi Arabia	76.8	88.0	56.3	73.3	1.3	
22	Hong Kong	105.1	104.4	66.9	76.8	1.3	Spain	87.6	62.2	61.0	73.1	1.3	
23	Israel	24.8	37.4	53.6	71.8	1.2	Austria	37.0	47.7	55.9	67.0	1.2	
24	Austria	54.5	59.0	64.9	70.2	1.2	Thailand	41.3	42.5	46.9	65.5	1.2	
25	Turkey	36.5	55.5	35.4	58.2	1.0	Hong Kong	50.9	74.1	54.9	61.7	1.1	
26	Russia	45.1	51.6	48.6	56.6	0.9	Brazil	62.4	70.8	49.5	50.3	0.9	
27	Taiwan	40.4	41.0	41.2	52.0	0.9	Poland	29.7	32.0	40.1	49.3	0.9	
28	Australia	46.6	54.9	49.5	45.3	0.8	Norway	42.9	47.3	37.2	41.4	0.7	
29	Greece	37.7	35.1	25.9	41.4	0.7	Taiwan	37.9	51.8	37.5	39.6	0.7	
30	Norway	39.7	41.6	34.5	40.3	0.7	Australia	51.3	63.7	39.0	39.3	0.7	

Source: WTO Database and India Exim Bank Research

India holds strong services trade relation with Australia. India was the 3rd largest services export destination of Australia, with a 9.6% share in Australia's global services exports and the 9th largest import supplier, with a 3.5% share in Australia's global services imports in 2020 (**Table 4.2**).

Table 4.2: Major Services Trade Partners of Australia

(US\$ billion)

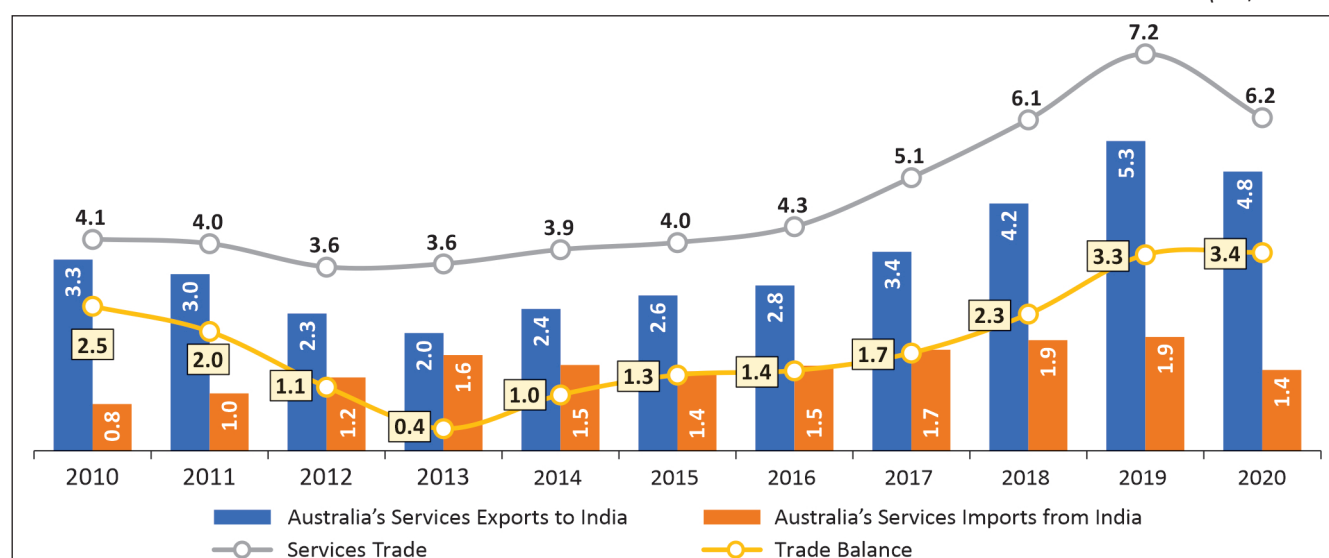
Top Services Export Destinations of Australia							Top Services Import Sources of Australia						
Sl. No.	Country	2010	2015	2019	2020	Share in 2020 (%)	Sl. No.	Country	2010	2015	2019	2020	Share in 2020 (%)
Total Services Exports		51.9	54.9	71.0	49.5	100.0	Total Services Imports		57.7	63.7	72.1	39.0	100.0
1	China	5.9	8.3	13.4	8.6	17.3	1	USA	9.6	12.3	12.7	7.3	18.7
2	USA	5.1	5.9	7.1	5.4	10.9	2	UK	5.8	6.1	7.1	4.1	10.6
3	India	3.3	2.6	5.3	4.8	9.6	3	Singapore	3.2	4.1	4.2	2.5	6.4
4	UK	4.1	4.2	4.1	2.7	5.4	4	New Zealand	2.9	3.2	4.7	2.0	5.0
5	New Zealand	3.2	3.4	4.4	2.5	5.0	5	Germany	2.0	2.3	2.4	1.8	4.6
6	Singapore	2.7	3.3	3.4	2.4	4.8	6	Ireland	0.8	1.0	1.3	1.6	4.1
7	Hong Kong	1.6	1.9	2.2	1.3	2.7	7	Hong Kong	1.9	2.4	2.6	1.5	3.9
8	Malaysia	1.7	1.8	1.8	1.2	2.3	8	Japan	2.2	2.4	3.2	1.4	3.7
9	Vietnam	0.9	1.1	1.3	1.1	2.1	9	India	0.8	1.4	1.9	1.4	3.5
10	Japan	1.9	1.5	1.9	1.0	2.0	10	China	1.6	1.9	2.3	1.0	2.6
11	Ireland	0.6	0.4	1.2	0.9	1.9	11	France	1.3	1.6	1.8	0.9	2.2
12	Indonesia	1.1	1.1	1.2	0.8	1.7	12	Canada	1.1	1.2	1.7	0.8	2.0
13	South Korea	2.0	1.5	1.6	0.8	1.6	13	Indonesia	2.1	2.4	3.2	0.7	1.8
14	Germany	1.1	1.1	1.2	0.7	1.5	14	Sweden	0.2	0.2	0.5	0.7	1.7
15	Philippines	0.4	0.6	0.8	0.7	1.4	15	Switzerland	1.0	0.5	0.7	0.7	1.7
16	Switzerland	0.8	0.7	0.8	0.5	1.1	16	Malaysia	1.1	0.8	0.9	0.7	1.7
17	Thailand	1.0	0.9	0.8	0.5	1.0	17	Philippines	0.4	0.6	0.8	0.6	1.4
18	Taiwan	0.5	0.9	1.0	0.5	1.0	18	Netherlands	1.3	1.0	0.6	0.5	1.4
19	Canada	0.8	0.8	0.8	0.5	1.0	19	Thailand	2.1	1.7	1.7	0.4	1.0
20	France	0.7	0.8	0.8	0.5	0.9	20	Greece	0.7	0.8	0.6	0.4	0.9
21	Netherlands	0.4	0.3	0.6	0.4	0.8	21	South Korea	0.5	0.8	0.6	0.3	0.8
22	Papua New Guinea	0.6	0.4	0.4	0.2	0.5	22	Norway	0.4	0.4	0.4	0.3	0.8
23	Italy	0.3	0.5	0.4	0.2	0.4	23	Vietnam	0.7	0.8	1.1	0.3	0.7
24	South Africa	0.5	0.3	0.2	0.1	0.3	24	Italy	1.2	1.3	1.9	0.2	0.6
25	Chile	0.2	0.1	0.2	0.1	0.3	25	South Africa	0.6	0.5	0.5	0.2	0.5

Source: WTO Database and India Exim Bank Research

Australia's total services trade with India increased from US\$ 4.1 billion in 2010 to US\$ 6.2 billion in 2020 (**Chart 4.1**). However, due to the pandemic and related uncertainties, Australia's services trade with India fell by 15.2% in 2020 from 2019, where it was of its peak at US\$ 7.2 billion. During 2010-2020, Australia has constantly maintained a services trade surplus with India, which stood at US\$ 3.4 billion in 2020.

Chart 4.1: Australia's Services Trade with India

(US\$ billion)



Source: WTO Database and India Exim Bank Research

Australia's Services Exports to India

India was the third largest services exports destination for Australia in 2020. The services exports of Australia to India have increased steadily over the last decade, from US\$ 3.3 billion in 2010 to US\$ 4.8 billion in 2020. The year 2019 reported the highest level of services exports to India from Australia (US\$ 5.3 billion) during the same period. However, exports fell by 9.4% in a single year during 2019-2020.

With a share of 92.5%, travel sector accounted for the largest share in Australia's total services exports to India in 2020 (**Table 4.3**). Other services exports from Australia include personal, cultural and recreational services and telecommunication, information and computer services.

Table 4.3: Services Exports of Australia to India

(US\$ million)

Product/Sector	2010	2015	2019	2020	Share in 2020 (%)
Australia's Services Exports to India	3256	2644	5272	4750	100.0
Government goods and services	12	16	19	12	0.3
Commercial services	3244	2628	5253	4738	99.7
Travel	3145	2451	5013	4393	92.5
Transport	31	17	18	3	0.1
Other commercial services	68	159	223	340	7.2
Insurance and pension services	8	4	4	3	0.1
Financial services	2	20	30	19	0.4
Charges for the use of intellectual property	5	11	8	-	-
Telecommunications, computer and information services	25	29	70	66	1.4
Personal, cultural and recreational services	3	65	84	233	4.9
Other business services	26	32	28	19	0.4

Note: "-" indicates not available or negligible

Source: WTO Database and India Exim Bank Research

Australia's Services Imports from India

In 2020, India stood as the 9th largest services supplier to Australia, with a share of 3.5% in Australia's total services imports. During 2010-2020, the total services imports from India have increased from US\$ 796 million to US\$ 1.4 billion in 2020 (**Table 4.4**). Australia's services imports from India reached its peak in 2019 at US\$ 1.9 billion. Services including contact intensive sectors were severely impacted due to pandemic, and thus the imports from India fell by almost 26.3% alone in one year between 2019 and 2020.

Table 4.4: Services Imports of Australia from India

(US\$ million)

Product/Sector	2010	2015	2019	2020	Share in 2020 (%)
Australia's Services Imports from India	796	1353	1935	1374	100.0
Government goods and services	28	37	50	38	2.8
Commercial services	769	1316	1885	1336	97.2
Travel	548	630	964	332	24.2
Transport	25	17	3	-	-
Other commercial services	196	669	918	1005	73.1
Insurance and pension services	7	7	4	4	0.3
Financial services	-	16	20	13	0.9
Charges for the use of intellectual property	-	1	1	1	0.1
Telecommunications, computer and information services	95	240	437	521	37.9
Other business services	91	401	430	419	30.5
Personal, cultural and recreational services	4	5	26	47	3.4

Note: “-” indicates not available or negligible

Source: WTO Database and India Exim Bank Research

Australia's total services imports from India consist mainly of the commercial services, with negligible share of government services. Telecommunications, computer and information services constitute 38% of Australia's services imports from India. This was followed by other business services and travel sectors, constituting 30.5% and 24.2% of the total services imports from India, respectively in 2020.

Services Trade Restrictiveness Index

The relative restrictiveness of Indian services trade policy can be analysed using the Services Trade Restrictiveness Index (STRI) developed by the OECD. The OECD database includes 22 services sectors for 38 OECD countries and 12 non-OECD countries - Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, Singapore, South Africa, Thailand and Vietnam. These countries and sectors represent over 80% of global trade in services. The STRI database contains information on trade restrictions and behind the border regulations in the following sectors:

- Computer services
- Construction
- Professional services (legal, accounting, engineering and architecture)

- Telecommunications
- Distribution
- Audio-visual services (broadcasting, motion pictures and sound recording)
- Transport (air, maritime, road freight and rail freight)
- Courier
- Financial services (commercial banking and insurance)
- Logistics services (cargo-handling, storage and warehouse, forwarding and custom brokerage)

The STRI score takes values between zero and one, with one indicating the most restrictive trade environment. The STRI also harmonizes policy measures implemented by the countries across the 22 services sectors. These policy measures are categorized under five policy areas:

- Restrictions on foreign ownership and other market entry conditions
- Restrictions on the movement of people
- Other discriminatory measures and international standards
- Barriers to competition and public ownership
- Regulatory transparency and administrative requirements

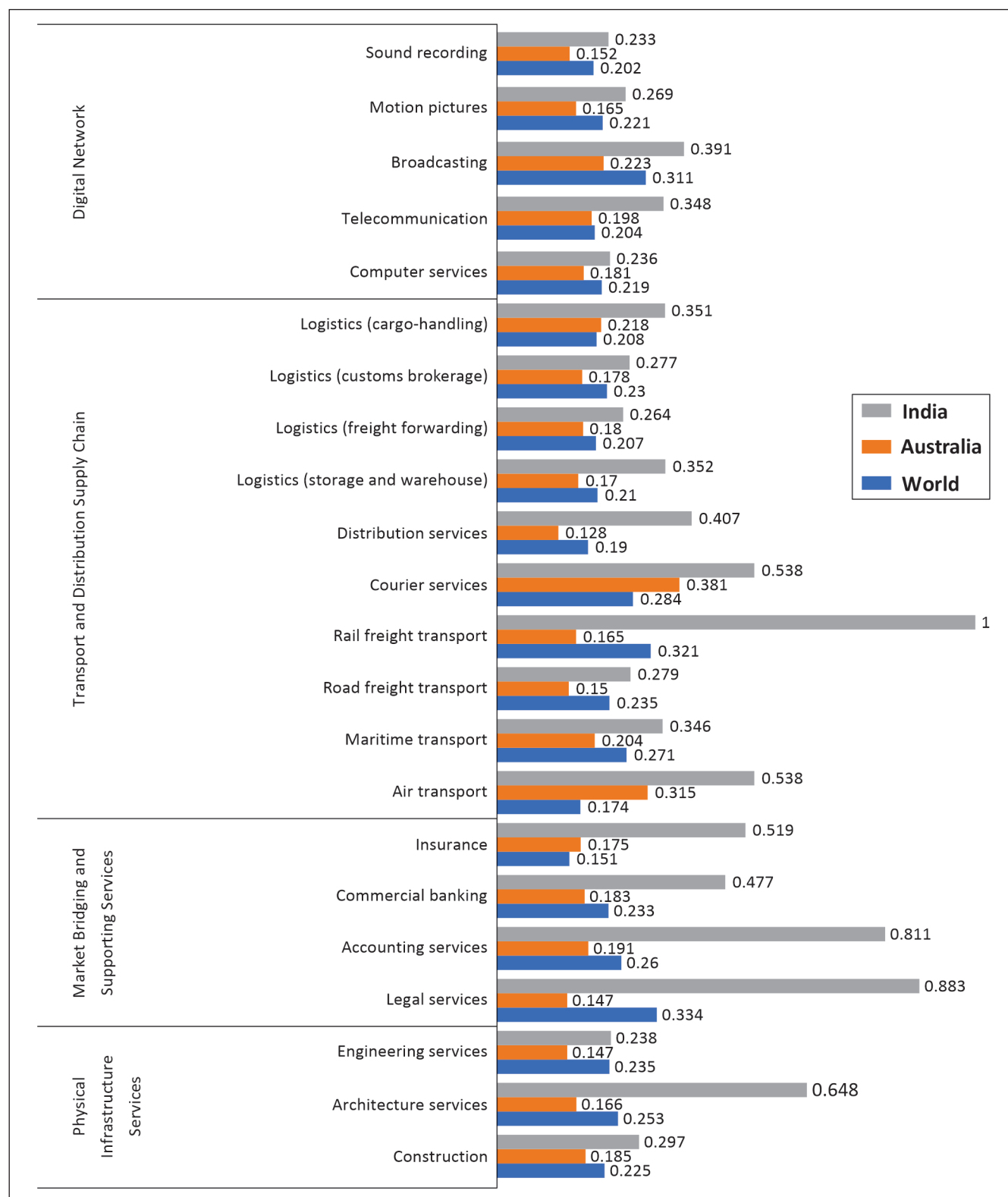
As stated by the OECD, the STRI database records regulations actually in force and does not take into account preferential agreements. In **Chart 4.2**, the STRI values by sectors and policy area for India, Australia and World are given across 22 sectors for 2021.

As can be seen in the case of Australia, among the sectors, courier services have the highest STRI value of 0.38 against the world average of 0.28. The other sectors with high STRI values are air transport (0.32), broadcasting (0.22) and logistics (0.22). The lowest STRIs are in distribution services (0.13) and legal services (0.15), against the world average of 0.19 and 0.33, respectively.

India has a STRI score above world average in all the 22 sectors. Among the sectors, rail freight transport has the highest STRI value of 1 (maximum STRI value), which is well above the world average of 0.32. The other two sectors with high STRI values are legal services (0.88) and accounting services (0.81). The services with STRI value above 0.5 are architecture services (0.65), air transport (0.54), courier services (0.54) and insurance (0.52). The lowest STRIs are in sound recording (0.23), computer services (0.24) and engineering services (0.24), against the world average of 0.20, 0.22 and 0.24, respectively.

Based on the above analysis, a comparison of India's STRI with STRIs of Australia reveals that India is a much-restricted economy in services trade than Australia, certainly due to high STRIs in rail freight transport, legal and accounting services as against Australia's average of 0.17, 0.15 and 0.19, respectively. However, Australia is restrictive in courier services and air transport services trade as STRIs for these remain above the world average in 2021. Thus, transport and distribution supply chain and market bridging and supporting services are the potential sectors which are likely to provide comparative advantage to both India and Australia.

Chart 4.2: Services Trade Restrictiveness Index for India, Australia and World in 2021



Note: The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Source: OECD STRI Database and India Exim Bank Research

Barriers Faced by Indian Service Suppliers in Australia: Horizontal Restrictions

Horizontal measures are cross-cutting restrictions across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector - specific measures, the horizontal measures make the whole sector restrictive. I-TIP, WTO database provides mode-wise horizontal measures impacting services sector. Currently, the database covers 31 service sectors in 76 economies.

According to the WTO, the 4 modes of services trade are defined as:

Mode 1: Cross-border Trade

A mode of service supply or trade where services are supplied from the territory of one country into the territory of another. For example, a user in country A receives services from abroad through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption Abroad

A mode of service supply or trade where services are supplied in the territory of one country to the consumers of another. This mode of supply requires that the consumer of services move abroad. An example is traveling abroad to receive medical treatment or to enrol in an education program. Nationals of A have moved abroad as tourists, students, or patients to consume the respective services.

Mode 3: Commercial Presence

A mode of service supply or trade where services are supplied through any type of business or professional establishment, i.e., foreign direct investment by one country in the territory of another. An example is the establishment of a branch of a foreign bank or of a franchising outlet in a foreign location. The service is provided within Country A by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company of Country B (bank, hotel group, construction company, etc.).

Mode 4: Movement of Natural Persons

A mode of service supply or trade where services are supplied by nationals of one country in the territory of another, requiring the physical presence of the service provider in the host country. This mode includes both independent service providers as well as employees of the services providers in a country. Examples include consultants, teachers and actors of one country supplying services through their physical presence in another country, or the managers of a multinational enterprise. A foreign national provides a service (say from country A) within country B as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

These modes of supply require the movement of either the service itself (Mode 1), the service consumer (Mode 2) or the service supplier (Modes 3 and 4). **Table 4.5** analyses Modes 1, 3 and 4 horizontal restrictions imposed by Australia on the services sector.

Table 4.5: Mode-wise Horizontal Restrictions on Services Sector Imposed by Australia

Sector	Response
Mode 1	
Category: Conditions on operations	
Sub-category: Conditions on service supplier	
Measure: International data transfer: distinction between countries/regions	No
Mode 3	
Category: Conditions on market entry	
Sub-category: Other conditions on market entry	
Measure: Acquisition and/or rental of land and real estate by foreigners restricted	Yes
Measure: Rental of land and real estate by foreigners prohibited	No
Category: Conditions on operations	
Sub-category: Conditions on service supplier	
Measure: International data transfer: distinction between countries/regions	No
Sub-category: Other conditions on operations	
Measure: Limits on subsequent transfer of capital and investment	No
Mode 4	
Category: Conditions on market entry	
Sub-category: Quantitative measures (for firms and natural persons)	
Measure: Limit on share of foreigners employed in the domestic economy	No
Category: Conditions on operations	
Sub-category: Conditions on service supplier	
Measure: International data transfer: distinction between countries/regions	No
Category: Administrative procedures and regulatory transparency	
Sub-category: Administrative procedures	
Measure: Average visa processing time (days)	17
Measure: Cost to obtain a business visa (US\$)	100
Measure: Number of documents needed to obtain a business visa	13

Source: I-TIP Database and India Exim Bank Research

Under Mode 1: Under horizontal restrictions, Australia has not imposed conditions on operation through conditions on service suppliers. Australian laws do not distinguish between countries or regions to which data may be transferred to or accessed from abroad.

Under Mode 3: Under horizontal restrictions, Australia has imposed conditions on market entry through restrictions on acquisition and/or rental of land and real estate by foreigners. Foreign persons must get approval for a proposed acquisition of an interest in agricultural land, where the cumulative value of agricultural land owned by the foreign person (and any associates), including the proposed purchase, is more than US\$ 15 million. All foreign persons must get approval for a proposed acquisition of vacant commercial land, regardless of the value of the land. Such acquisitions are normally approved subject to development conditions.

However, Australia does not impose any prohibition on rental of land and real estate by foreigners, restriction on international data transfer: distinction between countries/regions, and restrictions on subsequent transfer of capital and investment.

Under Mode 4: Under horizontal restrictions, Australia has imposed conditions through administrative procedures and regulatory transparency.

In terms of administrative procedures, average visa processing time is 17 days in Australia, which means processing can take up to 17 calendar days after receiving the application. Applications for Visitor Visa (subclass 600) for business purposes are finalised between 7 and 17 working days. The cost to obtain a business visitor visa (subclass 600) starts at AUD 135 (about US\$ 100). The number of documents needed to obtain a business visitor visa ranges from 13 to 17 documents.

Also in Mode 4, Australia imposes Economic Need Test (ENT) or Labour Market Test (LMT) requirements. These are the tests that condition access in Mode 4, upon the fulfilment of certain economic criteria. These economic criteria includes conditions such as the work permit to foreigners can be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy, among others. Australia imposes LMT/ENT conditions on the following 3 categories of workers:

- Contractual Service Suppliers
- Independent Professionals
- Intra-Corporate Transferees

Australia has imposed ENT/LMT requirements in their market for all 3 categories of workers across 23 sectors (**Table 4.6**).

Table 4.6: ENT/LMT Requirements on Services Sector Imposed by Australia

Sector	Contractual Service Suppliers	Independent Professionals	Intra-Corporate Transferees
Accounting services	Yes	Yes	Yes
Air freight domestic	Yes	Yes	Yes
Air freight international	Yes	Yes	Yes
Air passenger domestic	Yes	Yes	Yes
Air passenger international	Yes	Yes	Yes
Auditing services	Yes	Yes	Yes
Commercial banking	Yes	Yes	Yes
Fixed-line telecommunication services	Yes	Yes	Yes
Internet services	Yes	Yes	Yes
Legal services: Home country law and/or third country law (advisory/representation)	Yes	Yes	Yes
Legal services: Host country advisory services	Yes	Yes	Yes
Legal services: Host country representation services	Yes	Yes	Yes

Sector	Contractual Service Suppliers	Independent Professionals	Intra-Corporate Transferees
Life insurance	Yes	Yes	Yes
Maritime cargo-handling, storage, warehousing and container station depot services	Yes	Yes	Yes
Maritime intermediation auxiliary services	Yes	Yes	Yes
Maritime: Freight transportation	Yes	Yes	Yes
Mobile telecommunication services	Yes	Yes	Yes
Non-life insurance	Yes	Yes	Yes
Rail: Freight transportation	Yes	Yes	Yes
Reinsurance and retrocession	Yes	Yes	Yes
Retailing services	Yes	Yes	Yes
Road: Freight transportation	Yes	Yes	Yes
Wholesale trade services	Yes	Yes	Yes

Source: I-TIP Database and India Exim Bank Research



INDIA-AUSTRALIA: INVESTMENT SCENARIO

According to the UNCTAD World Investment Report 2022, Australia was the 16th largest foreign direct investment (FDI) recipient in 2021. Inflows to Australia rose by 50% to US\$ 25 billion in 2021 from US\$ 17 billion in 2020, driven in part by mergers and acquisitions (M&A) sales in food and beverages including Coca-Cola European Partners (UK) acquiring a 69% stake in Coca-Cola Amatil for US\$ 5.2 billion. FDI outflows from Australia were recorded at US\$ 9.2 billion in 2021, moderating from US\$ 9.9 billion in 2020.

Australia remains among the top FDI destinations in the world, mainly on account of the following salient features:

- It has witnessed an uninterrupted annual growth since 1991, until the COVID-19 pandemic struck the globe.
- It is rich in natural resources; it has huge reserves of rare earth minerals which are critical in high-end technologies.
- Australia's greatest asset is its skilled and innovative workforce. The education system of Australia offers great degree of cultural and linguistic freedom.
- Other than certain required review and approval procedures for designated types of foreign investment, there are no laws that discriminate against foreign investors.

To get a meaningful understanding of the trends in the Australia's inward investments, this study has drawn upon the data collated by the Financial Times through its online database, tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, Australia received a total envisaged investment of US\$ 187.6 billion from 4,146 projects during 2012-2021 (**Table 5.1**). Having recorded US\$ 15.3 billion in 2012, FDI inflows into Australia have averaged around US\$ 16.8 billion during the period 2013 to 2017. Moving on an upward trajectory, inflows were recorded at US\$ 22.1 billion and US\$ 34.1 billion in 2018 and 2019, respectively. Thereafter, FDI inflows witnessed a setback from the pandemic and moderated to US\$ 19.7 billion in 2020. In 2021, inflows witnessed further reduction due to unfavorable global economic prospects, amounting to US\$ 12.2 billion in 2021.

Table 5.1: Envisaged FDI Inflows in Australia (2012-2021)

Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2012	15,330.2	447	22,519	402
2013	14,120.4	398	32,288	345
2014	16,535.5	472	45,029	415
2015	15,772.2	390	39,332	352
2016	20,534.0	410	36,906	361
2017	17,227.7	421	30,900	353
2018	22,055.3	491	42,312	406
2019	34,105.0	448	37,504	386
2020	19,696.9	325	27,409	288
2021	12,228.3	344	27,387	309
Total	1,87,605.4	4,146	3,41,586	2,947

Source: fDi Markets online database and India Exim Bank Research

As shown in **Table 5.2**, maximum investments in Australia were recorded from the US, accounting for 22.1% of total capex invested in the country, during January 2012 to December 2021. The US was followed by Singapore (12.2% of total investment), UK (11.3%) and China (6.6%). India accounted for inflows amounting to US\$ 5.5 billion (3% of total investment) in Australia during the same time period.

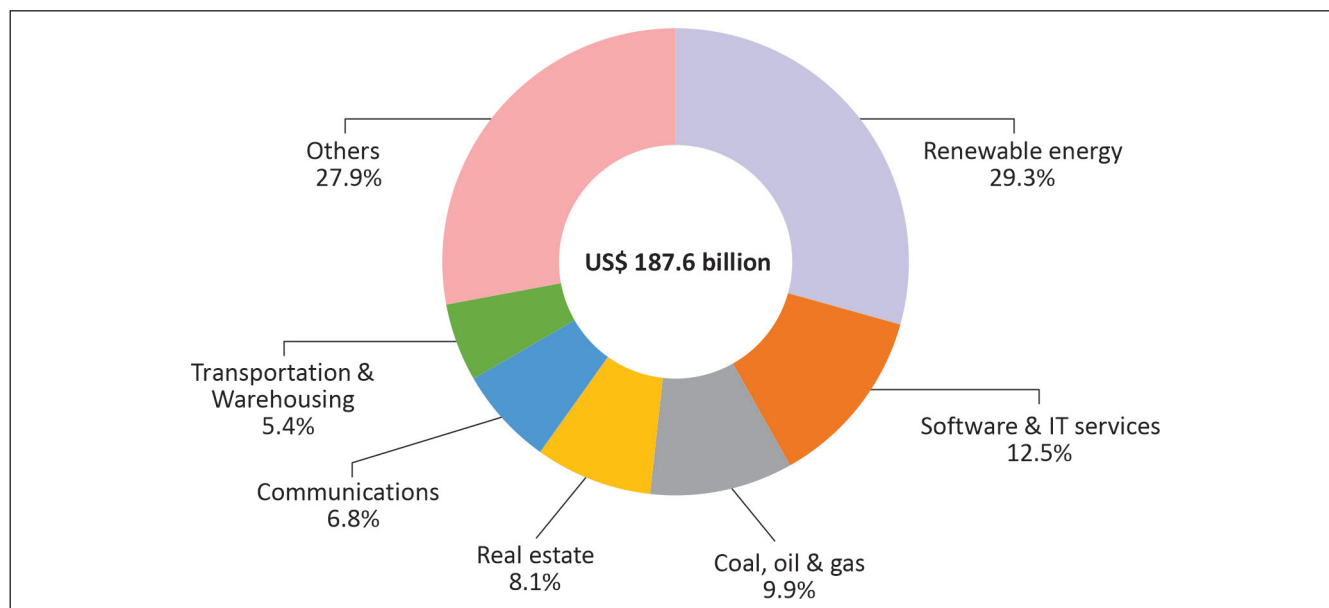
Table 5.2: Major Investors in Australia (2012-2021)

Source Country	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
USA	41,445.3	1,311	88,394	953
Singapore	22,813.8	108	17,408	71
UK	21,251.1	721	40,306	563
China	12,319.2	128	33,652	102
Japan	10,134.6	178	20,149	114
Germany	10,024.1	247	19,271	138
Netherlands	9,862.8	104	11,735	71
France	8,340.4	209	15,249	126
Spain	5,880.6	69	3,135	39
India	5,698.2	76	5,147	62
Canada	5,327.3	132	8,382	109
New Zealand	4,970.0	131	11,606	81
Switzerland	4,245.2	106	8,490	58
Ireland	3,868.9	53	4,570	44
Total	1,87,605.4	4,146	3,41,586	2,947

Source: fDi Markets Online Database and India Exim Bank Research

Renewable energy sector received the maximum investment of US\$ 54.9 billion, accounting for more than one-fourth of the total FDI inflows received during 2012-2021 (**Chart 5.1**). This was followed by investments in software & IT services (US\$ 23.5 billion), coal, oil & gas (US\$ 18.7 billion), real estate (US\$ 15.2 billion), communications (US\$ 12.7 billion) and transportation & warehousing (US\$ 10.2 billion), among others. The maximum number of projects were in software & IT services sector (1,069 projects), followed by business services sector (525 projects), textiles (319 projects) and communications sector (289 projects).

Chart 5.1: Major Sectors Attracting FDI in Australia (2012-2021)



Source: fDi Markets Online Database and India Exim Bank Research

A total outward direct investment of US\$ 107 billion was made by Australian entities from January 2012 to December 2021 (**Table 5.3**). FDI outflows from Australia which stood at US\$ 10.1 billion in 2012, increased

Table 5.3: Envisaged FDI Outflows from Australia (2012-2021)

Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2012	10,101.0	226	29,017	161
2013	10,995.5	257	25,351	187
2014	13,576.2	271	35,488	184
2015	10,449.8	284	36,594	205
2016	9,828.7	267	28,902	189
2017	7,695.1	298	28,936	181
2018	13,732.0	310	39,498	205
2019	11,254.2	357	38,450	222
2020	3,913.1	169	9,758	127
2021	15,499.5	223	25,023	169
Total	1,07,045.1	2,662	2,97,017	1,310

Source: fDi Markets Online Database and India Exim Bank Research

to US\$ 13.6 billion in 2014. Having recorded US\$ 10.4 billion in 2015, FDI outflows from Australia averaged around US\$ 10.6 billion during the period 2016 to 2019. The envisaged outflows recovered from low of US\$ 3.9 billion in 2020 to US\$ 15.5 billion in 2021.

The US was the biggest recipient of FDI from Australia (US\$ 21.3 billion), accounting for 19.9% of the total FDI outflows from January 2012 to December 2021 (**Table 5.4**). The US was followed by UK (12% of total investments), China (7.7%), Brazil (7.4%) and Singapore (5.7%). India received direct investments amounting to US\$ 2.9 billion (2.7% of total investment) from Australia during the same period.

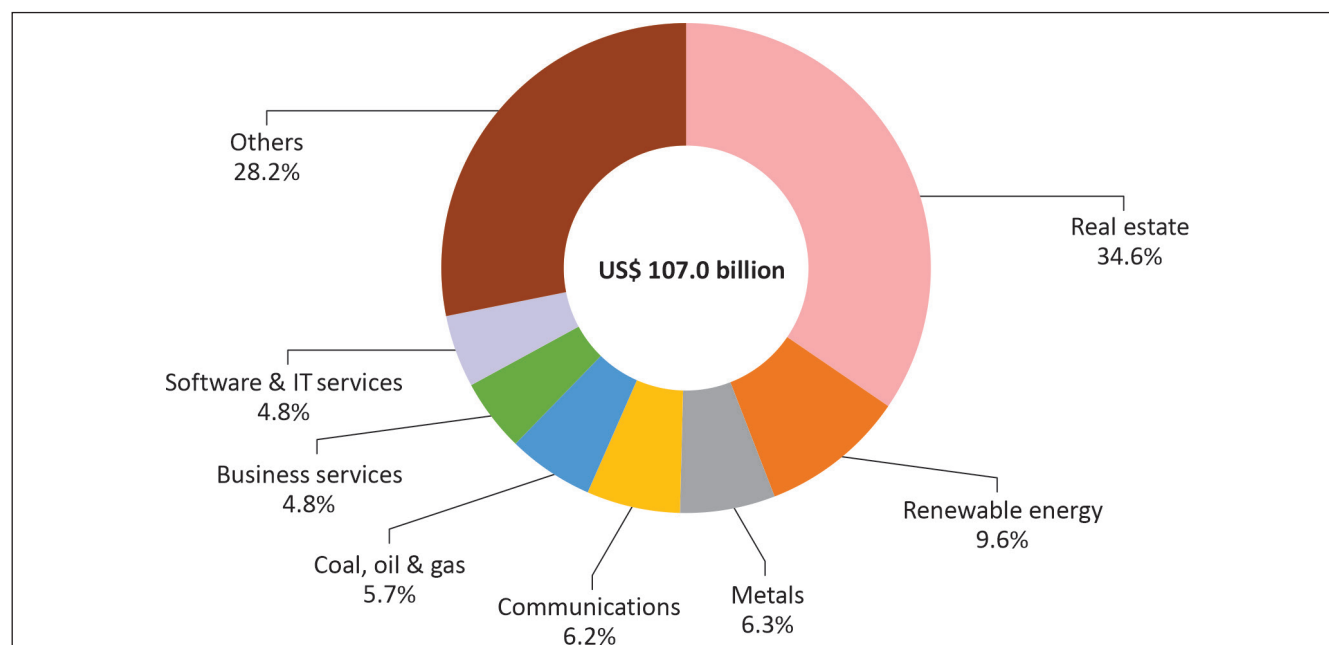
Table 5.4: Major Investment Destinations of Australia (2012-2021)

Destination Country	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
USA	21,330.4	654	50,262	377
UK	12,829.0	402	19,403	298
China	8,243.5	140	35,841	104
Brazil	7,880.5	33	8,856	29
Singapore	6,074.3	167	12,224	155
New Zealand	3,952.4	191	13,526	149
Malaysia	3,877.2	54	9,257	44
Indonesia	3,373.1	34	7,373	26
Chile	3,132.7	17	3,629	16
Germany	3,059.5	103	6,559	66
India	2,886.5	65	19,608	44
Japan	2,784.9	32	10,629	27
Poland	2,243.8	24	15,365	7
Hong Kong	1,969.0	65	5,947	61
Total	1,07,045.1	2,662	2,97,017	1,310

Source: fDi Markets Online Database and India Exim Bank Research

Real estate sector accounted for 34.6% of the envisaged investment flowing out of Australia, amounting to US\$ 37 billion during 2012-2021 (**Chart 5.2**). Other major sectors attracting capex were renewable energy (US\$ 10.3 billion), metals (6.7 billion), communications (US\$ 6.6 billion), coal, oil & gas (US\$ 6.1 billion), business services (US\$ 5.1 billion) and software & IT services (US\$ 5.1 billion). In terms of job creation, real estate, business services and software & IT services dominated in the past decade.

Chart 5.2: Major Sectors Attracting FDI from Australia (2012-2021)



Source: fDi Markets Online Database and India Exim Bank Research

India's Bilateral Investment Relations with Australia

According to the UNCTAD World Investment Report 2022, India was the 7th largest FDI recipient across the globe in 2021, with an investment of US\$ 45 billion, moderating from US\$ 64 billion in 2020. Although, inflows to India declined in 2021, a flurry of new international project finance deals were announced in the country- 108 projects, compared with 20 projects on average for the last 10 years. The largest number of projects (23) were in renewables. Large projects include the construction of a steel and cement plant in India for US\$ 13.5 billion by ArcelorMittal Nippon Steel (Japan) and the construction of a new car manufacturing facility by Suzuki Motor (Japan) for US\$ 2.4 billion.

In September 2021, India launched the National Single-Window System (NSWS), a one-stop shop for approvals and clearances needed by investors, entrepreneurs and businesses. NSWS is a one-stop digital platform that aims at allowing investors to apply for various pre-operations approvals required for commencing a business in the country. It makes the business registration process easier, allowing the beneficiary to get significant approvals online, without having to run to the government offices for approvals and can avail themselves of services with just a click. The initiative will further provide strength to India's reputation as a FDI destination and additionally assist other schemes including Make in India, Start-up India, PLI scheme, etc.

Australia is an attractive foreign investment destination. It is one of the easiest locations in the globe to start a business. Australia provides simplified business facilitation services in order to provide foreign investors a level playing field for commencement of their business activities. The Australian Government as well as state and territory governments provide a range of measures to assist investors with setting up and running a business and undertaking investment. Types of assistance available vary by location, industry and nature of the business activity. Austrade provides coordinated government assistance to attracting FDI and is intended to serve as the national point-of-contact for investment inquiries. State and territory governments similarly offer a suite of financial and non-financial incentives.

Australia's openness to trade and investment is central to its long-term success. Australia has 17 FTAs in force and has led the formation of multiple regional trade agreements in the Asia-Pacific region. Low tariffs and ready access to Asian markets make Australia a natural gateway for inward investment. Over 70% of Australia's trade is with fast-growing economies in the Asia-Pacific region.

Indian Investments in Australia

To get a more meaningful understanding of the trends in Indian overseas investments in Australia, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during January 2012 to December 2021, total capital investment of India in Australia stood at a cumulative amount of US\$ 5.7 billion, making India the 10th largest investing country through 76 projects and creating 5,147 jobs (**Table 5.5**). In 2014, total investments by Indian investors in Australia were US\$ 176.0 million. Investment outflows from India picked up in 2016 to US\$ 4.3 billion, before falling to US\$ 578.7 million in 2017. Post 2017, Indian investments in the Australia have been meagre, averaging at US\$ 122 million till 2020. Recovering from the pandemic, investment outflows from India increased to US\$ 52 million in 2021.

Table 5.5: Indian Foreign Direct Investments in Australia (2012-2021)

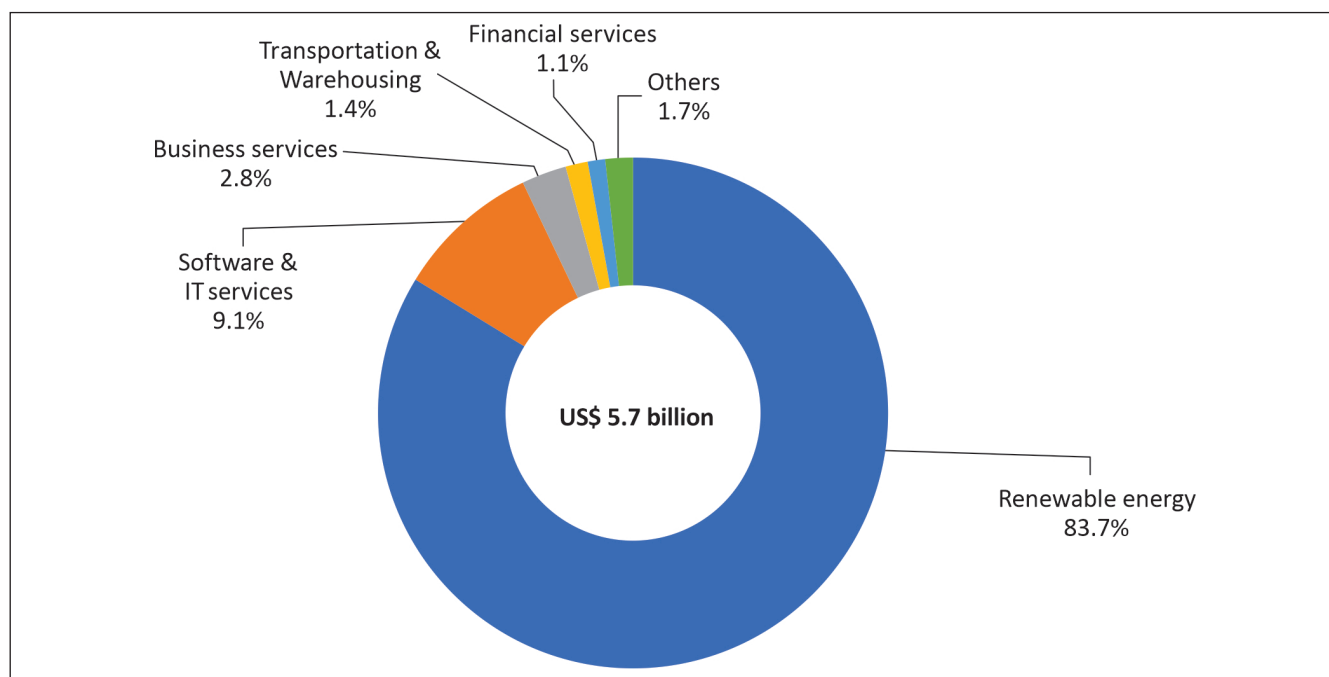
Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2012	60.1	6	233	6
2013	63.9	5	234	5
2014	175.9	11	1,476	11
2015	61.1	6	210	5
2016	4,348.5	10	453	7
2017	578.7	10	334	9
2018	262.3	10	1,665	9
2019	68.6	8	274	8
2020	35.1	4	71	4
2021	52.0	6	197	6
Total	5,698.2	76	5,147	62

Source: fDi Markets Online Database and India Exim Bank Research

The highest number of projects in Australia during 2012-2021 have been in software and IT services (36 projects), business services (12 projects) and renewable energy (8 projects), among others.

In terms of capital investments, majority share has been in the renewable energy sector (83.7% of Indian investments to Australia), software & IT services (9.1%), business services (2.8%) and transportation and warehousing (1.4%) (**Chart 5.3**). In terms of job creation, software & IT services, business services and renewable energy have been the largest employment generating sectors during 2012-2021.

Chart 5.3: Major Sectors Attracting Indian Investments in Australia (2012-2021)



Source: fDi Markets Online Database and India Exim Bank Research

Australia's Investments in India

According to the fDi Markets database, India was the 11th largest FDI destination for Australian investments during January 2012 to December 2021. India accounted for US\$ 2.9 billion of FDI receipts from Australia, coming through 65 projects and resulting in 19,608 jobs during 2012-2021 (**Table 5.6**).

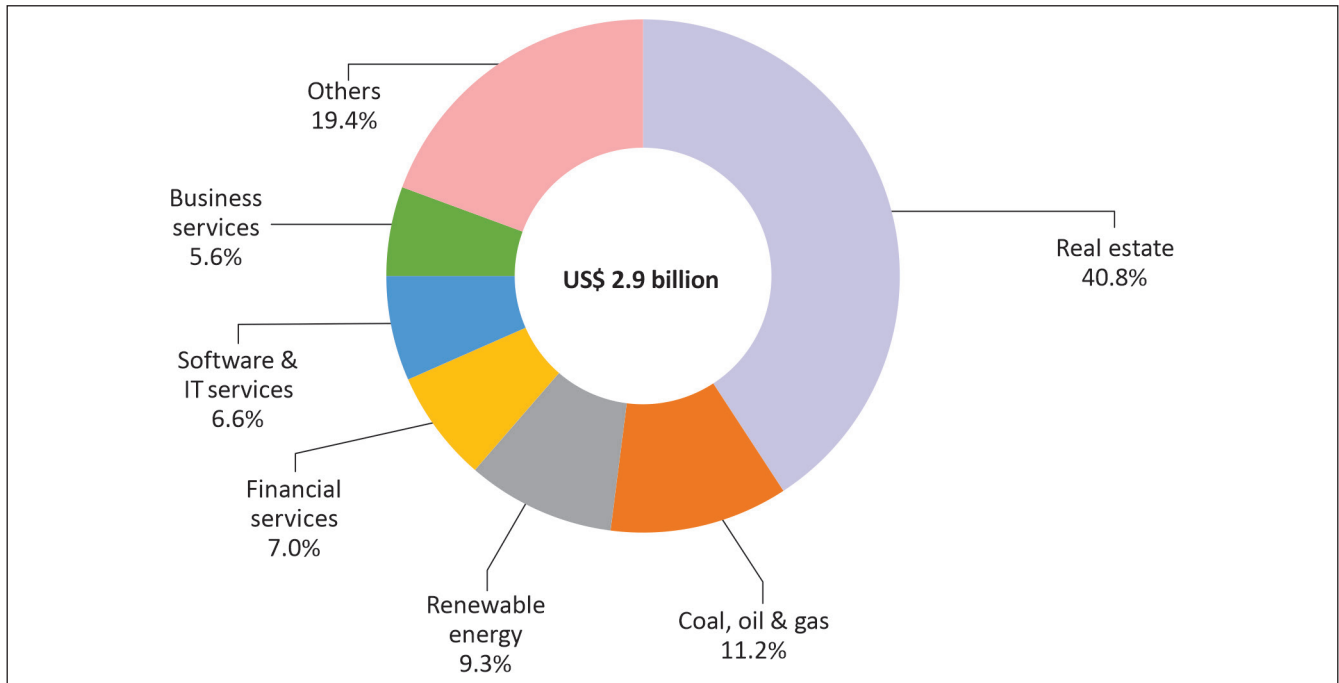
Table 5.6: Australia's Foreign Direct Investments in India (2012-2021)

Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2012	11.9	2	67	2
2013	62.3	8	928	5
2014	30.6	2	181	2
2015	373.0	6	2,747	6
2016	436.9	10	2,045	7
2017	1,350.5	8	6,888	4
2018	124.7	6	1,027	6
2019	107.8	4	826	4
2020	44.8	6	1,259	6
2021	344.0	13	3,640	8
Total	2,886.5	65	19,608	44

Source: fDi Markets Online Database and India Exim Bank Research

In terms of investments, the larger share has been in the sectors of real estate (40.8%), coal, oil & gas (11.2%), renewable energy (9.3%), financial services (7%), software & IT services (6.6%) and business services (5.6%) during 2012-2021 (**Chart 5.4**). In terms of job creation, real estate sector remained the biggest employer, followed by business services, financial services and software and IT services in the past decade.

Chart 5.4: Major Sectors Attracting Australian Investments in India (2012-2021)



Source: fDi Markets Online Database and India Exim Bank Research



AUSTRALIA-INDIA ECONOMIC COOPERATION AND TRADE AGREEMENT

Australia and India signed Economic Cooperation and Trade Agreement (AI-ECTA) on April 2, 2022. The Agreement has been passed by Australian Parliament on November 22, 2022. Accordingly, AI-ECTA entered into force on December 29, 2022. AI-ECTA is a landmark agreement for India, given the size of Australian market and recent trade enhancement between both the countries.

The Agreement is expected to consolidate and help in the growth of market share of Indian products and services in Australia. New markets for Indian goods in Australia are also likely to emerge. There is an expected growth in pharmaceutical products with the easing of Australian regulatory processes, along with an expected vertical movement in value chains, with the increasing presence of higher value products of advanced technology. Exports are expected to increase by US\$ 10 billion by 2026-27, with creation of approximately 10 lakh jobs. The total bilateral trade is expected to cross US\$ 45-50 billion by 2035. It is expected that there will be enhanced job opportunities for Indians in Australia and increased remittance and investment flows to India from Australia.

AI-ECTA has 14 chapters related to Initial provisions and general definitions, trade in goods, trade remedies, rules of origin, customs procedures and trade facilitation, sanitary & phytosanitary measures, technical barriers to trade, trade in services, movement of natural persons, transparency, general provisions and exceptions, administrative and institutional provisions, dispute settlement and final provisions. Additionally, there are eight “Side Letters” covering different aspects of the agreement wherein India and Australia have made further commitments. The official text of AI-ECTA establishes that India and Australia should set up a Negotiation Sub-committee which shall be composed of government representatives of the Parties. The Sub-committee will commence negotiations on areas including inter alia market access for goods and services, a complete Product Specific Rules Schedule, a Digital Trade Chapter and a Government Procurement Chapter, to transform AI-ECTA into Comprehensive Economic Cooperation Agreement (CECA).

Table 6.1: Tariff Concessions under AI-ECTA on India's Imports from Australia

Type of Concession	No. of Products (at 6-digit HS Code)	Indian Imports from Australia, 2021 (US\$ million)	Share in Indian Imports from Australia, 2021 (%)
Excluded	1595	1,692.5	11.2
Elimination in 3 Years	112	0.8	0.0
Elimination in 5 Years	334	262.9	1.7
Elimination in 7 Years	1136	46.3	0.3
Elimination in 10 Years	8	10.0	0.1
Elimination on Force	2196	12,870.8	85.3
TRQ	6	208.5	1.4
Total	5,387	15,103.0	100.0

Source: India Exim Bank Research

Table 6.1 highlights the concessions offered by India on Australian imports under the AI-ECTA. Firstly, there are 1,595 sensitive products at 6-digit HS Code, which have been excluded from any commitment of reduction or elimination of customs duties. This corresponds to US\$ 1.7 billion imports of India from Australia in 2021, amounting to 11.2% of total import basket. Under the excluded category, leading import item is gold in unwrought forms (HS-710812), which faces 12.5% of tariff, with imports amounting to US\$ 1.1 billion in 2021. Some of the other excluded products include milk and other dairy products, chickpeas, walnut, pistachio nut, wheat, rice, bajra, apple, sunflowers seed oil, sugar, oil cake, gold, silver, platinum, jewellery, iron ore and most medical devices.

There are 1,590 product categories at 6-digit HS Code, wherein customs duties on goods originating from Australia will be reduced or eliminated under equal annual instalments over 3, 5, 7 or 10 years. These products cumulatively account for 2.1% of total imports in 2021, amounting to US\$ 320 million. Some of these products include macadamia nuts, avocados, berries, seafood, pharmaceuticals, cochlear implants, vitamins, infant formula, breakfast cereals, pasta, sandalwood chips, pumps and fillers, wood and paper products, excavating machinery parts and lifting machinery for mines.

There are 2,196 product lines at 6-digit HS Code for which duties shall be eliminated, as from the date of entry into force of the AI-ECTA. Imports under this category amounted to US\$ 12.9 billion, with a massive share of 85.3% in India's total imports from Australia. The major imports under the 'elimination at force' category include coking coal (HS-270119) for which tariff charged was 1% with imports amounting to US\$ 11.1 billion, copper ores and concentrates (HS-260300) facing tariff of 2.5%, with imports of US\$ 504.4 million and alumina, calcined (HS-281820) facing tariff of 6.25%, with imports of US\$ 400.7 million.

Other duty-free key exports include wool, lamb, barley, oats, hides and skins, fresh rock lobsters, cosmetics, metallic ores, such as manganese, copper and zirconium, critical minerals, non-ferrous metals, railway equipment and titanium dioxide. Australia will also have immediate access to a duty-free quota for cotton; immediate access to a 50% tariff reduction in quota for almonds, lentils, oranges, mandarins and pears.

Tariff Reduction Offered by Australia on Indian Imports

Australia had import duty of 4%-5% on most of the products of India's interest. India has secured lucrative concessions from Australia regarding duty eliminations under the AI-ECTA. AI-ECTA is the first trade agreement of India with 100% tariff elimination by its partner country, i.e., duties on 100% tariff lines are to be eliminated by Australia over 5 years.

Under this Agreement, Australia is providing zero duty access to India for 100% of its tariff lines in two categories.

- i. Zero duty immediately on 98.3% of tariff lines, amounting to 96.4% of value of India's exports. For those tariff lines, Indian exports will have immediate market access at zero duty from day one of the entry into force of Agreement.
- ii. Phasing out to zero duty on the remaining 113 tariff lines, constituting 1.7% of tariff lines and amounting to 3.6% of India's exports (in value terms), in 5 years in equal annual instalments, beginning on the date of entry into force of the agreement, which will benefit the remaining products.

Under the products for which tariffs are being eliminated on the date of agreement enforcement, the largest imported commodity is petroleum oils and oils obtained from bituminous minerals, preparations (HS-271000), for which imports amounted to US\$ 2.3 billion in 2021. Other major imports under 'elimination at force' category are medicaments in dosage (HS-300490), diamonds (jewellery) worked but not mounted or set (HS-710239) and jewellery and parts of precious metal except silver (HS-711319), among others.

Top imports under 'phased elimination' category are balls, iron or steel, cast, for grinding mills (HS-732591), pipes, iron steel welded of diameter less than 406.4mm (HS-730630), articles of iron or steel (HS-732690) and table kitchen articles, parts, stainless steel (HS-732393).

Strict Rules of Origin have been included to prevent the third-party goods routed through the Partner country to get preferential benefit under this Agreement. Moreover, for goods to avail the benefit of AI-ECTA, they would require substantial processing in the territory of agreed parties. General Rule of Change of tariff subheading (CTSH) + 35% or 45% based on the method applied, product-specific rules (PSRs) for 807 products and wholly obtained for a number of products, primarily for agricultural products, are being applied.

Australia's Commitments in Services

Australia has undertaken GATS/ FTA plus commitment in services. Services sectors of India's interest have been committed by Australia like Computer related services, Audio visual services, Other business services, R&D services, Education services, Health services, Professional services (Legal services, Accounting, Taxation, Architectural services, Engineering, Integrated engineering, Urban planning and landscape architectural services, Medical, dental and veterinary services and nursing services, etc.), Environmental services, Financial services, Tourism & Travel related services and Transport services, among others. These commitments include

- Commercially meaningful market access commitments for cross border supply of services and for services delivered through commercial presence
- Post study work visa up to 4 years for Indian students

-
- Generous temporary entry and temporary stay commitments (up to 4 years) for Intra Corporate Transferees, Contractual Service Suppliers and Independent Executives
 - Quota of 1800 per year for qualified, professional Indian traditional chefs and yoga instructors entering as Contractual Service Suppliers
 - Work & Holiday visa arrangement for young professionals

Thus, on the services side, Australia has given wide ranging commitments in around 135 sub-sectors (GATS-104), with MFN in most sub-sectors. Australia has also taken commitments not to impose local presence requirements for cross border delivery of services in most of the sectors.

Australia has offered market access to Business Visitors (BV), Intra Corporate Transferees, Contractual Services Suppliers, Independent Executives and Installers and Servicicers for various services sectors. Besides, commitments on entry, stay and work rights for spouses and dependents have also been undertaken by both India and Australia.

India's Commitments in Services

Australia has offered commitments in 135 sub-sectors to India and India has made commitments in around 103 sub-sectors (GATS-36), with MFN in 31 sub-sectors, broadly including 11 service categories of IT and Communication services, Business services, Construction and related engineering services, Distribution services, Educational services, Environmental services, Financial services, Health related and social services, Tourism and travel related services, Recreational, cultural and sporting services and Transport services.

Key areas of Australia's interest like business services, financial services and education are being committed by India. India will transition to negative schedule approach in 6 years. Both countries have agreed to detailed provisions to pursue mutual recognition of professional services and other licensed/regulated occupations.



KEY OBSERVATIONS AND RECOMMENDATIONS

The relationship between India and Australia is growing swiftly over the years, with India being identified as one of the major strategic partners for Australia. The Australia India Strategy 2035 recommends raising “India to top three export markets, to make India the third largest destination in Asia for Australian outward investment, to bring India into the inner circle of Australia’s strategic partnerships, and with people-to-people ties as close as any in Asia.”⁸ India and Australia both share similar interests and concerns which in turn binds them more firmly. However, in order to enrich the partnership, there are certain hindrances which are yet to be dealt with. A careful assessment and resolution of these are required in order to take the relation to a new level altogether.

Enhancing Trade and Addressing Mounting Merchandise Trade Deficit

India recorded its highest merchandise trade deficit with Australia in 2011, that of US\$ 11.3 billion. During this period the exports from India were mere US\$ 2.1 billion and imports were at US\$ 13.4 billion. Subsequently the deficit narrowed until 2016 when it was recorded as low as US\$ 5.8 billion. Thereafter, the deficit again peaked in 2017 at US\$ 10.5 billion before declining to US\$ 3.8 billion in 2020, reflecting reduction in global trade as a result of the pandemic. In 2021, after the global economic turnaround, total bilateral merchandise trade doubled to US\$ 22 billion from US\$ 10.7 billion in the previous year. Consequently, merchandise trade deficit also doubled to US\$ 8.2 billion, with imports and exports rising to US\$ 15.1 billion and US\$ 6.9 billion, respectively.

According to Ministry of Commerce and Industry (MOCI), Government of India, with the India-Australia ECTA into force, Indian exports are expected to increase by US\$ 10 billion by 2026-27, with creation of approximately 10 lakh jobs. The total bilateral trade is expected to cross US\$ 45-50 billion by 2035. It is expected that there will be enhanced job opportunities for Indians in Australia and increased remittance and investment flows to India from Australia. Moreover, there is a lot of potential for exporting finished goods to Australia, since they have lower manufacturing base and largely produces raw material and intermediate products. India will get cheaper raw materials which will not only make it more competitive globally but also enable to serve Indian consumers better, by providing more quality goods at more affordable prices for Indian consumers.

⁸ Australia India Strategy 2035

However, while expanding trade there is a need to keep in check the increasing trade deficit between both the countries. In order to address the problem, trade should be promoted in goods, where India not only has the potential but also possess a comparative advantage so as to ensure an efficient outcome. Trade in advantageous goods should be promoted, as identified through competitiveness analysis in order to deal with the mounting deficit.

Enhancing Maritime Security

Indo-Pacific is one of the major trade regions globally, and India and Australia remain two significant players positioned at strategically important places in the region. A smooth movement in the region will surely increase trade for both the countries. Moreover, the upkeeping of the Indo-Pacific region is not only important for developing commerce but also for the geopolitics and geo-strategy.

During their virtual meeting in 2020, Prime Ministers of Australia and India reiterated that as two key Indo-Pacific countries, India and Australia have an enduring interest in a free, open, inclusive and rules-based Indo-Pacific region. They have a shared interest in ensuring freedom of navigation and overflight in the Indo-Pacific region, and maintaining open, safe and efficient sea lanes for transportation and communication. With a shared maritime geography and a deep and long-standing friendship, India and Australia are natural partners to work together towards realisation of this shared vision.

India and Australia are members of QUAD grouping, which also consists of the US and Japan. The group shares common maritime goals in the Indo-Pacific region. The access to Indo-Pacific region comes with plenty of economic opportunities for both India and Australia. There exists huge inter-dependence among the Indo-Pacific economies, which is evident from the large degree of trade that takes place within the region.

Elevation to Comprehensive Economic and Cooperation Agreement (CECA)

India and Australia started negotiating a Free Trade Agreement (FTA) since 2011 and signed India-Australia Economic Cooperation and Trade Agreement on April 2, 2022. The agreement was ratified on November 21st and came into force on December 29, 2022. It covers almost all the tariff lines dealt by India and Australia. India will benefit from preferential market access provided by Australia on 100% of its tariff lines, including all the labour-intensive sectors of export interest to India, such as gems and jewellery, textiles, leather, footwear, furniture, food and agricultural products, engineering products, medical devices and automobiles. On the other hand, India will be offering preferential access to Australia on over 70% of its tariff lines, including lines of export interest to Australia, which are primarily raw materials and intermediaries such as coal, mineral ores and wines.

The official text of the agreement stated that within 75 days after the signing of ECTA, a negotiation sub-committee shall commence negotiations on amendments to this agreement, on a without prejudice basis, in areas including, inter alia, market access for goods and services, a complete product-specific rules schedule, a digital trade chapter and a government procurement chapter, to transform this agreement into a Comprehensive Economic Cooperation Agreement (CECA).

CECA needs to be worked out soon to work around the sensitivity regarding various economic and strategic issues. The CECA could include areas like agriculture technology, maritime transport, government procurement, financial services, geographical indicators and small and medium enterprises, among others.

Potential Areas of Cooperation under India-Australia CECA

Small and Medium Enterprises

The Indian Micro, Small and Medium Enterprises (MSME) sector is the backbone of the national economic structure and has acted as the bulwark for the Indian economy, providing it resilience to ward off global economic shocks and adversities. The MSME sector contributes one-third to India's GDP and has the potential to grow further. The share of MSME sector in the country's annual merchandise exports has declined even as the latter hit a record high level in the financial year 2021-22. MSME exports' share dipped to 45% of merchandise exports in 2021-22 in comparison to 49.8% during 2019-20 and 49.4% during 2020-21.

MSMEs' share in exports assumes significance as the government has been targeting US\$ 1 trillion in exports by 2026-27. In accordance with the target, the government had added a new scheme - 'Capacity Building of First-Time MSME Exporters' (CBFTE) to enhance the quality of MSME products globally and increase exports. Growth of MSMEs is crucial for overall growth of the economy, with an added push to employment numbers. There are MSMEs which have not been active as far as international market for trade is concerned. A better platform for them through India-Australia CECA may help in increased information flow and thereby provide an upward trajectory for exports from current levels.

Australia has given commitments for collaboration and development of Small and Medium Enterprises (SMEs) in the RCEP Agreement, with one chapter being fully focused on issues specific to SMEs. The objective of the chapter is "to promote information sharing and cooperation in increasing the ability of SMEs to use and benefit from the opportunities created by RCEP Agreement". The scope of the chapter includes encouraging e-commerce use, promoting awareness, understanding, and effective use of the intellectual property system and sharing best practices on enhancing the capability and competitiveness of SMEs. A similar commitment by Australia would serve to enhance Indian MSMEs to participate in India-Australia commercial relations. These could cover areas such as

- Acknowledging the importance of cooperation to achieve progress in reducing barriers to SMEs' access to international markets.
- Identifying ways to assist SMEs in both countries to take advantage of the commercial opportunities under CECA.
- Exchanging and discussing each other's experiences and best practices in supporting and assisting SMEs with respect to, among other things:
 - o training programmes
 - o trade education
 - o trade finance
 - o identifying commercial partners in the partner country
 - o payment practices in each other's market

Digital Trade

Data is the new oil of the digital economy. Movement of cross-border data is important to promote innovation and investments. The opportunities in the digital economy, in platform services and e-commerce, for small to medium businesses to directly sell products and services across markets would result in mutual benefits.

The key to the expansion of digital and data services trade between India and Australia is the data protection regimes in both the countries and this need to be in alignment with each other. India has recently proposed and promulgated several data localization requirements that would serve as significant barriers to digital trade between Australia and India. These requirements could serve as a market access barrier. Data protection is vital; however, it is equally important to ensure that barring personal and sensitive data, non-personal and anonymized personal data can move cross borders, thus promoting new innovations based upon the needs of the consumers.

Both countries could agree over an India-Australia Data Adequacy Agreement that facilitates data movement based on mutual adequacy. The requirement to build data storage centres or use local facilities within each trading country which increases the cost and complexity of doing business may be part away with. The agreement could incorporate clauses that protect the personal data and privacy of the citizens of both the regions and the governments could guarantee the enforceability of these rights. These commitments could exclude the financial services sector and could be subject to exceptions that allow parties to implement measures for security and public policy reasons. Both countries would need to implement measures to protect personal information, deal with unsolicited or 'spam' messages and protect online consumers from fraud and misleading conduct. To ensure transparency and trade facilitation, both countries may publish their measures relating to digital trade, where feasible. The measures to be published could include laws and regulations, along with rules, procedures, decisions or administrative actions. Provisions for enhancing and facilitating trade such as supporting the use of electronic signatures and electronic authentication, as well as promoting increased acceptance of digital versions of trade administration documents may also be agreed upon.

Some of the commitments could be:

- i. Electronic Authentication and Electronic Trust Services
- ii. Conclusion of Contracts by Electronic Means
- iii. Paperless Trading
- iv. Cross-Border Transfer of Information by Electronic Means
- v. Cybersecurity
- vi. Collaborating on data-sharing projects, including projects involving researchers, academics and industry, using regulatory sandboxes as required to demonstrate the benefits of the cross-border transfer of information by electronic means.

Another area for India-Australia enhanced partnership is Fintech and the unification of the payment system. India and Australia have seen increased investment in new FinTech companies, involved especially in advanced payment application systems. In September 2021, under an agreement, India and Singapore linked their fast payment systems, i.e., linking India's Unified Payments Interface (UPI) to Singapore's PayNow. The Reserve Bank of India (RBI) and Singapore's Central Bank, the Monetary Authority of Singapore (MAS), have been working together and have completed technical preparations to link their fast payment systems. This will enable fund transfers between the two countries instantaneously and at low cost, a move which is aimed at benefitting migrant workers who typically sacrifice about 10% as fees charged by banks for money transfers. This development is expected to transform the way money is sent abroad or remitted in India. Indians would be able to make transactions with Singapore with the same ease of operating UPI in India. Over the years, the

cost of the payments for the cross-border transactions have become quite expensive and linking of payment system between India and Australia will not only make financial transactions between India and Australia faster but also cheaper, thus promoting easy flow of remittances and payments.

In terms of investment, with Digital India and Australia's Digital Economy Strategy in place, developing advanced digital infrastructure and services would be lucrative for investors from both countries. Artificial Intelligence (AI), Robotics, the Internet of Things (IoT), Distributed Ledger Technology (DLT)/Blockchain, Big Data, Cloud Computing, and 3D Printing are opening new opportunities for collaborations and investment in both countries. Indian companies could partner with Australia based companies to provide innovative digital solutions for customer management and operating model by offering a comprehensive advanced people, processes, technology and data analytics services.

Trade in Geographical Indication Certified Goods

According to the Ministry of Commerce and Industry, as of 2019, India has 370 GI-tagged products, least among all countries globally. Geographical Indication (GI) is a name used on a product that has a specific geographical origin and possesses qualities or a reputation that are essentially attributable to that origin. GI tags covering categories like agriculture, textile, food items and handicrafts, among others, are essential in creating a brand for the country in the international trade scenario, more so in the globalised world of today, with products that reflect a culture that is unique to India. Generally, once a GI is protected, the name may not be used except by producers who meet the rules protecting the GI. India may consider engaging with Australia on its GI interests. The protection of these GIs could be taken as a key objective in the CECA negotiations.

A geographical indication can be protected in Australia as a certification trademark (CTM) and through a separate wine GI system administered under the Wine Australia Act 2013, with further enforcement available for spirit GIs under the food standards code. GIs registered as a CTM last for ten years from the filing date and may be renewed towards the end of that period. Very few Australian businesses use GIs for goods other than the wine industry, which has approximately 116 registered GIs across Australia. Australia has signed side letters with UK for GI identification of wine and scotch.

Australia could agree to protect India's GIs in the CECA. India could seek a standard of protection for GIs in Australia which is equal to or exceeds international agreed standards for protection of GIs. If exceeds, then the use of a term protected by a wine or spirit GI can be prevented even if the use is not misleading, and the use of a GI word with 'type' or 'style' added to it could also be prevented.

However, reforms need to be made to Australia's legislative framework for the protection of GIs (amending the Trademarks Act 1995 to create a GI right). India could insist on the protection of agreement-specific lists of its GIs with Australia. This external protection of GIs through trade agreements will increase exports of Indian GIs while reducing the chances of duplication by the competitors. If Australia agrees to protect any of Indian GI request names as GIs, they would not be put through an application process in any new Australian GIs system but would be registered under the new GI legislation from the date the CECA enters into force.

In terms of substance, Sorgho and Larue (2014) finds that GIs lead to trade creation when both the exporting and importing countries have GIs. They attribute this to taste effects: importing countries with their own GIs prefer quality items. Thus, both India and Australia could agree on a chapter on GI as a part of the CECA negotiations.

Settlement of Trade Payments in Local Currencies

The Reserve Bank of India on July 11, 2022, unveiled a rupee settlement system for international trade, aiming to promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in Indian Rupee. Exporters and importers can now use a Special Vostro account linked to the correspondent bank of the partner country for receipts and payments denominated in local currencies. These Special Vostro Accounts can be used for payments for projects and investments, import or export advance flow management, and investment in Government Treasury Bills. All exports and imports under the invoicing arrangement may be denominated and invoiced in local currencies, while exchange rate between the currencies of the two trading partner countries may be market determined. This would also lead to internationalisation of Indian rupee. Currently, Indian Rupee accounts for only 2% of global currency market turnover.

The use of the Indian rupee in cross-border transactions reduces currency risk for Indian businesses. Currency volatility protection lowers the cost of doing business. It also enables better business growth and increases the chances of Indian businesses growing globally. At the same time, the internationalisation of the Indian rupee will reduce the RBI's need to hold high foreign exchange reserves. Additionally, by reducing its reliance on foreign currency, India becomes less vulnerable to external shocks. Reduced exposure to currency risk would substantially mitigate the pain of reversal of capital flows. As the use of the rupee becomes more significant, Indian businesses' bargaining power will improve, adding weight to the Indian economy and enhancing India's global stature and respect. It will also protect India from Balance of Payments crises as it can pay for external deficits with its own currency.

India and Australia could work on promoting mutual settlements of payments in national currencies as a part of the CECA for significantly increasing the volume of bilateral trade post tariff liberalisation. Central Banks of both countries could work out the modalities, especially pegging the rupee – Australian dollar exchange rate for bilateral trade in consultation with both governments.

There are also possibilities of countertrade mechanism where Australian banks and companies opening accounts with a few public sector banks in India for trade settlement. This would also require public sector banks in both countries opening branches in the other country. Funds in such accounts could act as a guarantee of payment for trade exchanged between two countries, while the parties' barter commodities from each other to offset the sum. Governments of India and Australia may identify Indian/Australian Banks which would be able to enter into a rupee/dollar trade mechanism with banks in Australia/India.

Strategic Alliance for Sourcing Critical Minerals

India is one of the largest Electric Vehicle (EV) markets in Asia, after China. The Indian Government's goal of 30% EV penetration for passenger cars, 70% for commercial vehicles, and 80% for two-and three-wheelers by 2030, through its flagship FAME Phase II policy is expected to greatly boost EV adoption. Nevertheless, as of now, India lags behind developed countries in terms of EV adoption. Consequently, the EV adoption rate in India, by the end of 2021, stood at merely 2%, thus lagging behind large automotive markets, which have double adoption rate or European countries which have higher than 10% adoption rate. This is due to price difference compared to traditional internal combustion engine (ICE) vehicles and dearth of charging infrastructure. At present, penetration of charging stations as a percentage of EVs are at 6% in India as compared to 18% in China. India's public EV charging infrastructure is at a nascent stage, compared to its

Asian peers like China and Japan, which took significant steps to set up a strong EV ecosystem in their countries. Given recent policy steps announced by the government (e.g., the draft battery swapping policy) and partnerships announced by original equipment manufacturers (OEMs), the growth of the charging infrastructure is expected to pick up.

Li-ion batteries are the future of automobiles owing to their unique properties — lightweight, high charge-holding capacity, and steady output. The increasing use of EVs in India is expected to raise demand for Li-ion batteries. To attain more than 30% EV adoption, India will require approximately 800 GWh of batteries by 2030. To meet this rising demand, India is accelerating plans to manufacture Li-ion cells within the country. Li-ion cell manufacturing is expected to evolve in stages, with a concentration on battery pack assembly in the initial phase, and manufacturing becoming more localized eventually.

The growing demand for electric vehicle components will create demand for various electronics and battery-related items, including controllers and capacitors. Thus, component makers are recognizing the importance of investing in EV component technology and capacity. Demand for required minerals such as lithium, cobalt, copper and nickel will increase with changes in component requirements. A challenge here is the reliance on a limited geography for such metals. To tackle this, India needs to form strategic alliances with countries, such as Australia, where these critical minerals are produced abundantly. Key industries in India such as telecommunications, electronics, energy, healthcare, defence, aerospace and transportation could benefit from Australia's reliable critical mineral and rare earth elements supply.

The high-tech industry is the driver of rare earth industry's future growth, especially technologies linked to the manufacture of products used in green energy production and storage. Solar photovoltaic plants, wind farms and electric vehicles generally require more critical minerals to build than their fossil fuel-based counterparts. A typical electric car requires six times the mineral inputs of a conventional car and an offshore wind plant requires thirteen times more mineral resources than a similarly sized gas-fired plant. Lithium, nickel, cobalt, manganese and graphite are crucial for battery performance. Rare earth elements (REE) are essential for permanent magnets that are used in wind turbines and EV motors. Electricity networks need a huge amount of copper and aluminium, with copper being a cornerstone for all electricity-related technologies. All of these minerals are essential for building the global green economy of the future and they also comprise new market opportunities for net-zero transitions.

Automobile companies largely depend on mining companies. The primary raw materials required for the cathode in cell manufacturing, which makes 35% of a cell cost and 10% of total EV cost, are cobalt, nickel, lithium and manganese. The mining of certain critical materials is geographically localized. India lacks all the raw materials except graphite, which is used in anode (4% of EV cost).

In fact, REE demand is set to surge 655% in a 100% EV world, even excluding demand growth from wind turbines, drones, motors, robots and other uses. The current world REE reserve stands at 120 million metric tonnes (Mt), with China's reserves representing 44 million tonnes, an equivalent of 37% of the world's total reserves. The world's REE market is largely controlled by China, but other major consumers are keen to establish alternative supply chains to ensure reliable and consistent supply at predictable prices. Whilst demand continues to increase, so does the risk of China forming a monopoly on the industry. In a bid to avoid this risk, major REE consumers like the US, the EU, Canada, Australia, Japan and South Korea are exploring options to develop alternative REE supply chains.

India also heavily relies on China to source different critical minerals. Australia has moderate to high reserves of around 24 of the 49 critical minerals. Australia accounts for more than 55% of global production of lithium. The Australian government has released a ‘critical minerals strategy’ to position the country as the ‘world powerhouse’ in critical minerals, which India needs to power its new energy economy. Australia could be a reliable supplier of 11 critical minerals to India (Antimony, Chromium, Cobalt, Gallium, Germanium, Lithium, Rare earth elements, Rhenium, Tantalum, Vanadium and Zirconium). Australia has the potential to be one of the top suppliers of cobalt and zircon to India, being in the top 3 for global production of these minerals.

India could set up joint exploration activities with Australia for securing critical mineral assets. Indian state-run companies can form joint ventures to secure critical mineral assets such as lithium and cobalt, that could fuel India’s plan for mass adoption of electric vehicles by 2030.

The recently signed (July 2022) three-year Australia-India Critical Minerals Investment Partnership may be strengthened in the CECA. India has set up the Khanij Bidesh India Limited (KABIL), a joint venture of three public sector companies, to ensure a consistent supply of critical and strategic minerals to the Indian domestic market. Australia’s Critical Minerals Facilitation Office (CMFO) and KABIL had recently signed a Memorandum of Understanding (MOU) aimed at ensuring reliable supply of critical minerals to India. Similarly, Indian Institute of Technology (Indian School of Mines) Dhanbad has signed an MOU with leading blasting technology company Orica Australia, under which the institute will receive 40 licences of BlastiQ software suite. BlastiQ is a cloud-based platform that provides effective storage, management, sharing and referencing of all kinds of blast-related information.

Multilateral Mineral Security Partnership

Recently, the US has convened the Mineral Security Partnership (MSP) with key minerals-rich countries to discuss priorities, challenges, and opportunities in responsible mining, processing and recycling of critical minerals. First announced in June 2022, the MSP is a new multilateral initiative to bolster critical mineral supply chains essential for the clean energy transition. The MSP aims to ensure that critical minerals are produced, processed and recycled in a manner that supports countries in realizing the full economic development potential of their mineral resources. The MSP will attract public and private investment, increase transparency, and promote high Environmental, Social, and Governance (ESG) standards throughout critical minerals supply chains. MSP partners include: Australia, Canada, Finland, France, Japan, the Republic of Korea, Norway, Sweden, UK, the US and the European Union. Additional minerals-rich countries attending meetings include Argentina, Brazil, DR Congo, Mongolia, Mozambique, Namibia, Tanzania and Zambia. The MSP is currently considering promising critical minerals projects that could be of interest to one or more MSP partners, promoting innovation, developing a joint approach on ESG standards and engaging both project operators and minerals-producing countries. In this context, the Export-Import Bank of the United States has shared a co-finance agreement with Korea Trade Insurance Corporation (KSURE) in September 2022. The new partnership will create a one-stop shop facility that will provide joint support for the US and Korean export projects in new and strategic industries, including critical minerals.

Source: Press Releases, US Department of State and Export-Import Bank of United States

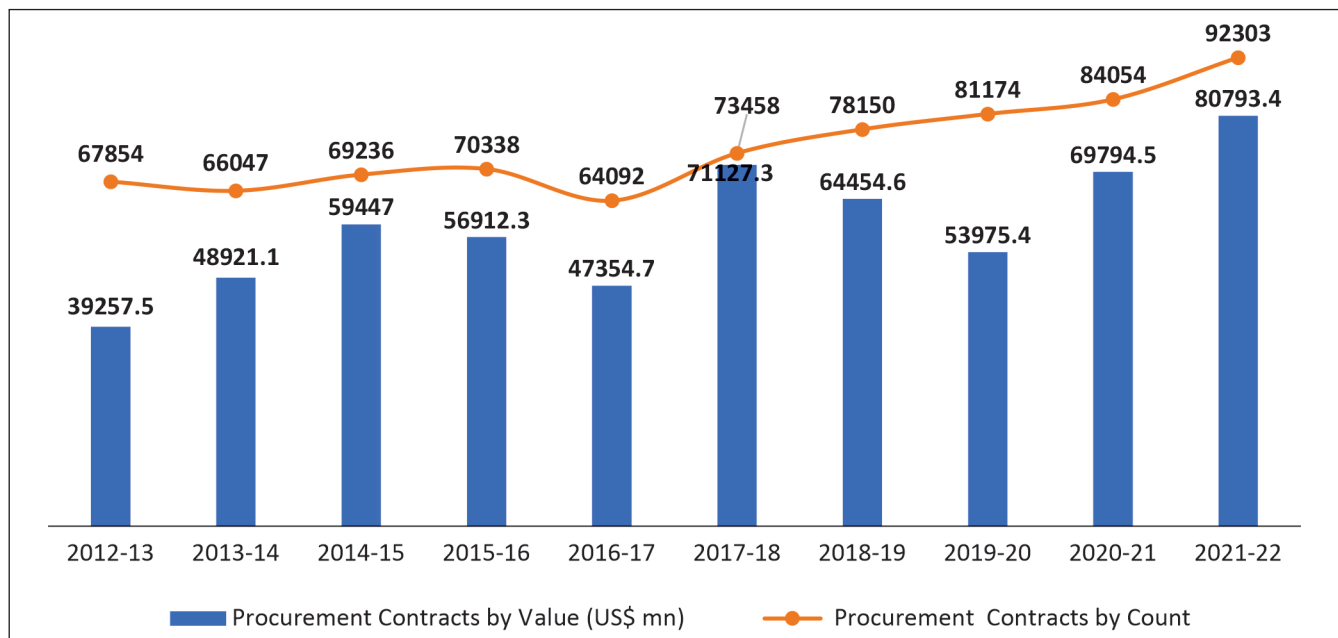
India and Australia could consider a free and more open trading and investment arrangement for critical minerals and involve in trilateral partnership with other countries, having tremendous capabilities and technical

knowhow in downstream processing. Measures may be adopted to encourage Business to Business (specifically SMEs) collaboration that supports transformative investments in technologies and processes around critical minerals. A dedicated funding mechanism, similar to that of the Australia-India Cyber and Critical Technology Partnership Grant, may be set up to engage in joint R&D projects and foster strategic collaborations that will look at critical mineral extraction, processing and supply chain supports. Joint investment opportunities may be explored for utilising the advanced lithium processing facilities in Australia. Thus, India could play a significant role in the Australian mining value chain to optimize benefits from the demand for critical minerals.

Government Procurement

Recently, India has announced that the country is open to negotiating government procurement agreements as part of bilateral deals, even though it has no plans to join the government procurement agreement grouping of the World Trade Organization (WTO). Australia is a signatory to the WTO Agreement on Government Procurement (GPA). The GPA is a plurilateral agreement within the framework of the WTO, meaning that not all WTO members are parties to the Agreement. At present, the Agreement has 21 parties comprising 48 WTO members (EU members are considered as single party). Thirty-five WTO members/observers participate in the Committee on Government Procurement as observers (India is an observer to the GPA since 2010). Out of these, 11 members are in the process of acceding to the Agreement. The fundamental aim of the GPA is to mutually open government procurement markets among its parties. As a result of several rounds of negotiations, the GPA parties have opened procurement activities estimated to be worth more than US\$ 1.7 trillion annually to international competition (i.e. to suppliers from the GPA parties offering goods, services or construction services).

Chart 7.1: Australia's Government Procurement Contracts



Source: Department of Finance, Government of Australia

Australia presents a huge government procurement market for India. In 2021-22, there were 92,303 contracts published on AusTender (official tender website of Australian Government) with a combined value of US\$ 80.8 billion. Contracts worth US\$ 45.9 billion was for the Department of Defence, followed by Department

of Home Affairs (US\$ 5.1 billion), Department of Education, Skills and Employment (US\$ 3.4 billion), and Department of Health (US\$ 3.2 billion).

95.4% by volume and 85.2% by value of the contracts in 2021-22 were awarded to businesses with an Australian address. Businesses with an overseas address represented 4.6% by volume and 14.8% by value. Standard Government Procurement practice in Australia entails an open tendering procedure for contracts above a certain threshold. This ensures that government procurement is open to all suppliers (national and foreign).

It has been decided that from July 1, 2022, Australia would source at least 20% by value of all procurements from SMEs, from the earlier 10%. Australia also sources at least 35% of contracts valued up to US\$ 20 million from SMEs. Accordingly, 86% of Australian Government suppliers in 2021-22 were SMEs.

Under Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Australia has committed to opening up of Government procurement for the member signatory countries. This obligation does not mean that government can only use open tendering. Australian Government may use pre-qualified tendering (where suppliers are pre-qualified for contracts on a registration system) or limited tendering (where only a few suppliers are considered for contracts), but only in specific circumstances outlined in the Government Procurement Chapter of CPTPP.

The commitment under CPTPP ensures that there is no discrimination against foreign suppliers when assessing tenders and awarding contracts. If India under the India-Australia CECA can negotiate similar benefits in the line of commitments offered by Australia under CPTPP, it can prove to be a big boost for Indian economy.

According to the SIPRI International Arms Transfer Database, Australia was the 16th largest defence exporter during the period 2017 to 2021, while India was the 23rd largest. India was the world's largest importer of major arms during 2017–21, accounting for 11% of total global arms imports in the period, while Australia was the 4th largest importer. The US accounted for 67% of Australia's imports of major arms, followed by Spain (24%) during the period. According to SIPRI, two Indian companies, Hindustan Aeronautics and Bharat Electronics are among the top 65 arms-producing and military services companies in the world.

An agreement on government procurement would establish rules for ensuring open, fair and transparent conditions of competition in government procurement. Only those procurement activities that are carried out by covered entities purchasing listed goods, services or construction services of a value exceeding specified threshold values could be covered by the Agreement. Government Procurement is a part of India's trade agreement signed with UAE, which came into effect on May 1, 2022. While this was the first time, India had included government procurement in a free-trade pact, it is only limited to a few central ministries and excludes key sectors such as construction, infrastructure projects and health care, including medical devices and pharmaceutical products. Government procurement is open to 34 ministries and departments, including power and education. State-owned firms, the defence ministry, subordinate entities of the central ministries including departments and attached bodies, autonomous bodies, government-owned firms, public sector enterprises, regulators or any other entity, wholly or partially, under the central government are excluded from government procurement. Under the pact, only government procurement contracts worth over ₹ 200 crore will be allowed for UAE-based companies on the same terms as Indian firms.

International Maritime Transport Services

Australia's geographical location and relatively small population means that the country relies largely on shipping for its ocean trade and security activities. This has resulted in the development of close alliances with UK and in recent times with the US for defense and economic activities. Australia has included a chapter on enhancing maritime transport partnership under its FTA with UK. Under the Chapter, both the countries have agreed to accord to vessels supplying an international maritime transport service and flying the flag of the other country and international maritime transport services suppliers of the other country, treatment no less favourable than that it accords to its own vessels.

Under the Chapter, Australia has also agreed for providing to each other's vessels:

- Access to ports
- Use of port infrastructure and services of ports, such as pilotage, towing and tug assistance, provisioning, fuelling and watering, garbage collecting and ballast waste disposal, port captain's services, navigation aids, emergency repair facilities, anchorage, berth, berthing and unberthing services and shore-based operational services essential to ship operations, including communications, water and electrical supplies
- Use of maritime auxiliary services
- Access to customs facilities; and
- Assignment of berths and facilities for loading and unloading.

Approximately, 95% of India's trade by volume and 70% in terms of value is moved by sea. Adopting a similar chapter in the CECA would be beneficial for both the countries.

Agri Technology Partnership

Australia faces extreme climate events with recurring droughts, heat stress, floods and temperature variability that present an enormous challenge for the agricultural food production system. Realising the potential for changes in drought characteristics due to global warming, institutional responses around drought management in agriculture have come to place a great deal of focus on building resilience and adaptative capacity of the farmers in proactively managing risks associated with climate change.

While there is a consistent focus on increasing productivity through science-based farming with minimal government subsidies (just over 2%) in Australia, the competitiveness of agribusiness is harnessed through continuous innovation in farm machinery, sophisticated plant and animal breeding programmes, and intelligent transport solutions. Locally developed production methods and technologies and international research and development collaborations are key to the growth of agribusiness in Australia.

Australia has scientists and researchers driving advances in bioscience, novel farming techniques, food innovation and processing. Australia is a pioneer in the development of drought-resistant crops, robust irrigation systems and technology that can predict yields and recommend optimal pastures and stocking density. 72% of production in agriculture sector of the country is exported with agrifood exports amounting to A\$ 57 billion in 2021-22. Australia's expertise can be used to enhance the resilience of Indian agriculture to climate vulnerability through strategic research and technology transfer. An MOU may be signed between Australian Centre for International Agricultural Research (ACIAR) and Indian Agricultural Research Institute

(IARI)/ Indian Council of Agricultural Research (ICAR) to support Indian agriculture, which is also witnessing similar climate challenges.

Mutual Recognition Agreements

India and Australia could also work towards drawing up 'Mutual Recognition Agreements' (MRAs). MRAs are bilateral agreements focussing on benefitting industries through reduction of technical barriers, by providing easier access to conformity assessment, thereby facilitating wider market access and promoting trade. Mutual recognition agreements lay down the conditions under which one Party will accept conformity assessment results performed by the other Party's designated conformity assessment bodies (CABs) to show compliance with the first Party's requirements and vice versa. Conformity assessment (i.e., product safety and standard testing) may take various forms, including inspection, testing, certification and licensing according to technical regulations and standards which are aimed at preventing safety, environmental and health risks. Broadly, MRAs include relevant lists of designated laboratories, inspection bodies and conformity assessment bodies in both India and its trading partners.

Entering into MRAs could significantly expand the market access of India's exports (both goods and services) and lead to better price discovery in partner countries, especially the ones that are also the co-signatories to trade agreements. The MRAs with Australia could be focussed on areas like regulatory standards, conformity assessment, accreditation procedures, qualifications, visas and social security. MRAs could be part of India-Australia CECA, which will facilitate the freer movement of people between the countries. MRAs are not expected to override local laws. Instead, the agreements are applicable only in accordance with prevailing laws and regulations of the host country.

Some of India's existing MRAs in Services include:

- MRA between the Institute of Chartered Accounts of India (ICAI) and the Certified Practising Accountant (CPA), Australia.
- MRA between the Institute of Chartered Accounts of India (ICAI) and the Malaysian Institute of Certified Public Accountants (MICPA) to enable appropriately qualified Chartered Accountants of either Institute to join the other Institute by receiving appropriate credit for their existing accountancy qualification.
- Indian Customs has signed MRAs with the Customs Administrations of South Korea, Hongkong and the US for the recognition of Authorised Economic Operators (AEOs), for faster export clearance.
- India has signed MRA in Nursing with Singapore, where Singapore recognised seven Indian nursing institutions.

Under the AI-ECTA, the annex on professional services mentioned about encouraging MRAs in professional services. Recently, India and UK signed an agreement for mutual recognition of educational qualifications, as part of the UK-India Enhanced Trade Partnership (ETP). It will allow Indian students who graduate from British universities to apply for postgraduate qualifications, or embark on government careers that require university qualifications, when they return back to India.

Similarly, India and Australia could enter into MRAs in educational qualifications, including professional degrees such as medicine, pharmacy, engineering and architecture. An MRA in professional degrees will pave the way for recognition of the professional bodies of one country by the other to institutionally access markets abroad. Furthermore, there lies huge opportunity for India in MRAs in talent and innovation with

Australia. This would lead the regulators of all regulated professions to deliver recognition of more Indian professional qualifications. This will also enable reciprocal mobility of students and researchers in professional degrees, and to consolidate networks of innovators and start-ups. This could mean professionals will be able to take on jobs in Australia without having to re-sit numerous exams/courses. Building mutually effective collaboration between Australia and India will enable professionals to seamlessly transition between the two countries, improve the skill base, cement institutional partnerships, catalyse greater research collaboration and increase investment and trade flows, ultimately resulting in more jobs and prosperity in both countries.

Like in the case of India-UAE CEPA, Australia can move towards mutual recognition of experience obtained, qualification requirements, licensing requirements and procedures in sectors such as architecture, engineering, medical, nursing, accountancy, tourism and company secretaries, allowing easier mobility of skilled professionals across the two countries.

Similarly, Australia needs to recognize that the designated testing body in India could perform required testing based on the technical requirements of Australia and vice versa with India. This will allow a product produced and certified in India to be exported to Australia without undergoing further testing in Australia and vice versa, to assess whether the product meets Australian technical requirements. Under the AI-ECTA, Australia has given commitment to pursue MRAs in areas such as organic goods.

Some of the Australia's existing MRAs include:

- The European Medicines Agency and the European Commission have had confidentiality arrangements with the Therapeutic Goods Administration, Australia since 2012, to allow the exchange of information between the parties as part of their regulatory and scientific processes. The EU and Australia also have an MRA in place on good manufacturing practice (GMP) compliance.
- Australia and Canada have an MRA on conformity assessment in relation to medicines good manufacturing practice inspection and certification.
- Australia and Singapore have entered into mutual recognition agreement on conformity assessment covering sectors such as electrical and electronic equipment sector, telecommunications equipment sector and the manufacturing process for products in the medicinal products sector.
- Australia has signed an agreement with the US Food and Drug Administration (US FDA) in April 2017, recognising Australia's food safety system and the US food safety system. Foods covered by this agreement include canned foods; dairy products (excluding U.S. Grade A milk and milk products); fresh fruits and vegetables; most seafood; fruit juices; confectionery; baked goods and game meat.
- The Australian Border Force (ABF) has MRAs with Canada Border Services Agency; General Administration of Customs of the People's Republic of China; Hong Kong Customs and Excise Department; Japan Customs; New Zealand Customs Service; Republic of Korea Customs Service; Singapore Customs; Taiwan Customs Administration and Thai Customs Department, to enable faster processing.

Some of the India-Australia MRAs could be between:

- *Central Drugs Standard Control Organization of the Government of India and Therapeutic Goods Administration (TGA) of the Australian Government:* Medical devices and IVDs in India are regulated by the Drug Controller General of India (DCGI) within the Central Drugs Standard Control Organization (CDSCO), part of the Ministry of Health and Family Welfare, Government of India. The Therapeutic Goods

Administration (TGA) of the Australian Government Department of Health and Ageing is responsible for regulating the Australian medicines, medical devices and biologicals market. This MRA could be in the same line as Australia's agreement with the EU.

- *Mutual recognition of Authorised Economic Operator Programmes – between Indian Customs and Australian Border Force (ABF) for smoother and faster customs clearance process.*

Additionally, India also requires institutional interventions for certifications. In this regard, the Digital Global Identity Systems for supplier verification and certification, based on Blockchain can be developed with Australia's assistance, which is particularly beneficial to the industries dominated by SMEs. These interventions could reduce non-tariff barriers to trade between both the partners.

Inclusion in Asia-Pacific Economic Cooperation (APEC)


Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989. The grouping aims at promoting balanced, inclusive, sustainable, innovative and secure growth and accelerating regional economic integration. APEC is one of the most significant regional forums in the Asia-Pacific region. It currently has 21 members, including Australia and accounts for approximately 60% of world GDP and 48% of world trade.

Inclusion of India in APEC will open plethora of opportunities for India and other member countries. India will have access to APEC methods and schemes, which will help in promoting domestic growth and emphasizing on regional integration goals. Subsequently, APEC will help India in increasing participation in the global and regional supply chains.

The complex levels of binding commitments in regional economic agreements may often have implications on developing economies. However, APEC has the exclusive characteristic that there are no binding commitments to be realized by the members to join the forum. APEC works through unanimity with non-binding agreements. After joining APEC, India will continue to have full flexibility in policy deliberations and conclusions, and hence could determine its own methodology for the implementation of APEC initiatives.

Partnership in Renewable Energy

The Renewable Energy Country Attractiveness Index (RECAI) released by Ernst & Young, grades world's top 40 markets based on their capability to attract investment in renewable energy sector and the operational prospects. In its 59th edition of RECAI rankings released in May 2022, India was ranked 7th, while Australia was ranked 6th in the same ranking. India aims to reduce its total projected carbon emission by 1 billion tonnes by 2030, reduce the carbon intensity of the nation's economy by less than 45% by the end of the decade and achieve net-zero carbon emissions by 2070. As of February 2023, installed renewable energy capacity (including large hydropower) of India is 174.53 GW, which increased by about 128.5% as compared to 76.37 GW in March 2014. Australia is also a member of International Solar Alliance (ISA) initiated by India and France, aimed at catalyzing solar energy growth while assisting to reduce cost of funding and technology. India has identified renewable energy and green energy as one of the key seven priorities, which clearly indicated a boost for the renewable energy sector. Several plans are announced to encourage cities and states to develop and implement carbon reduction strategies, provide viability gap funding for battery energy storage up to 4,000 MWh, allocate INR 35,000 crore towards net zero emissions and energy transition, target green hydrogen production of 5 million metric tonnes by 2030, and offer INR 20,700 crore for the



construction of an interstate transmission system for the evacuation of 13 GW of renewable energy from Ladakh. These initiatives bring India closer to achieving its green energy goals.

Australia is a rich source of critical earth minerals like cobalt, lithium, manganese, gallium, indium, etc., which are critical in renewable energy generation. Commonwealth Scientific and Industrial Research Organization (CSIRO) is a statutory authority established by Australian Government for carrying out scientific research for the welfare of the Australian economy. CSIRO has transformed many research innovations into products of commercial use. Their extensive research concentrating specifically in the solar energy sector involves efforts to develop more effective and efficient solar panels. Taking into consideration Australia's rich natural resources and technical know-how, Indian companies could collaborate with their Australian counterparts, in order to establish a forum for the promotion of joint research and investment in the renewable energy sector and for understanding the complementarities of the two countries in an effective manner.

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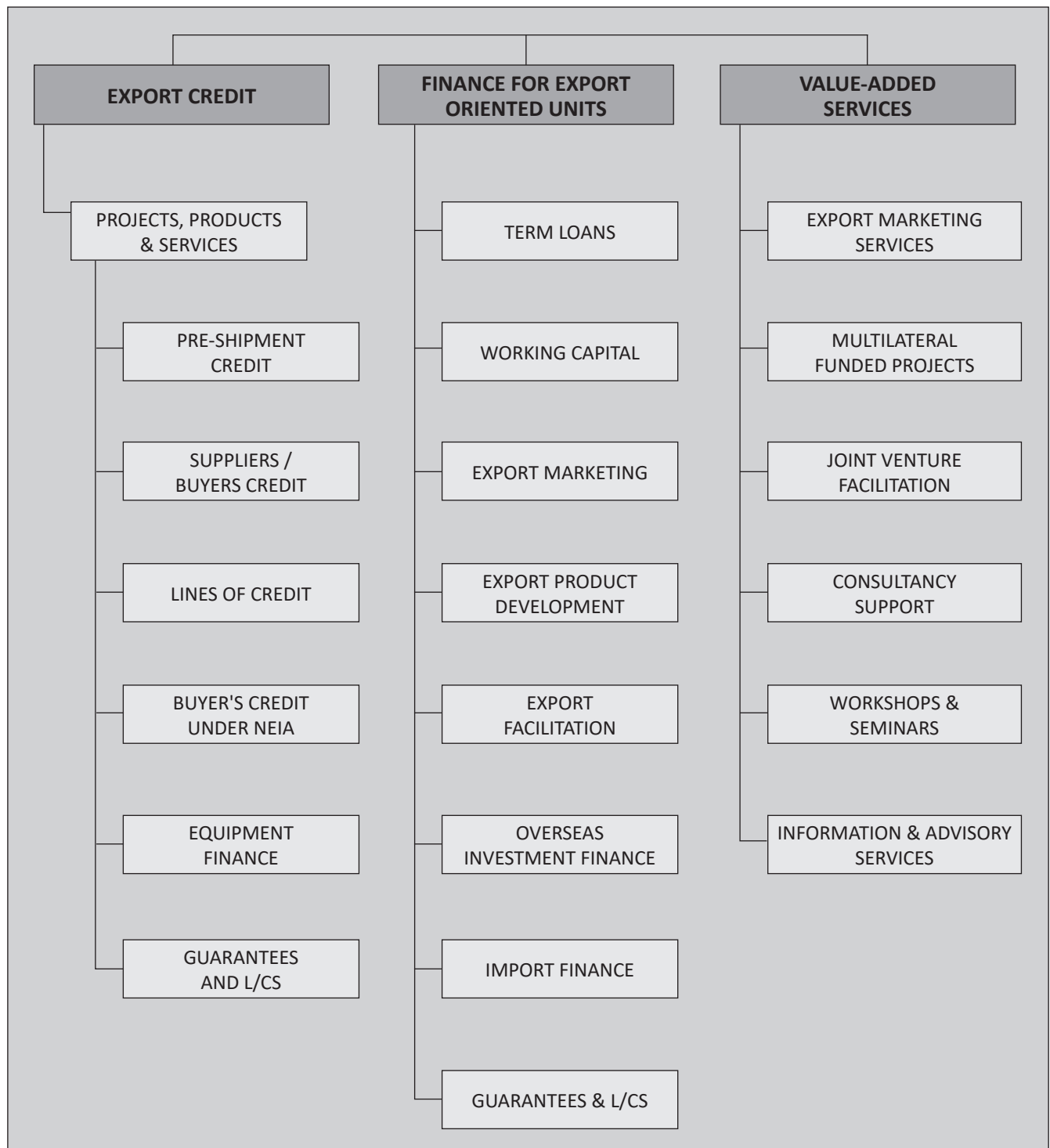
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