Issue Note

A NEW ROADMAP FOR AUSTRALIA'S ECONOMIC ENGAGEMENT WITH INDIA

In an era of rapidly expanding global trade dynamics, the growing relationship between Australia and India emerges as a beacon of potential economic progress and collaboration. February 2024 marks one year since negotiations commenced to transform the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) into a Comprehensive Economic Cooperation Agreement (CECA) which is why now is the time to update, adapt and refine the efforts on both sides to reevaluate and realign the trade and economic relations as per the new strategic and geo-economic shifts in the region.

The negotiations to upgrade the Australia-India Economic Cooperation and Trade Agreement (ECTA) to a CECA are making steady progress. Both sides are committed to sealing a mutually beneficial and balanced agreement which can translate into tangible economic gains. Apart from deepening bilateral trade in goods on preferential terms, securing improved market access for their service suppliers is a key priority for both Australia and India.

However, achieving more ambitious outcomes in the next phase of talks towards CECA is expected to be much more challenging. The two sides have already secured commitments on aspects they were most comfortable with in the AI-ECTA.

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Arriving at landing zones in the remaining areas, particularly those sensitive to India and of significant export interest to both Australia and India, such as agricultural products or movement of natural persons, will require deft handling with the aim of finding a win-win solution.

Our organisation, [CUTS International] (Consumer Unity & Trust Society), established in 1983 in India, a global public policy research and advocacy group, is engaged in issues of rules-based trade and development, effective regulation and good governance dealt with through various resource centres. These centres are located in Geneva, Washington DC, Accra, Nairobi, Lusaka, Hanoi and New Delhi.

The CUTS Global Affairs Centre works at the global level advancing better understanding and cooperation on trade and strategic issues. CUTS is active in multiple stakeholder consultations and continues to contribute to economic security projects that equip us to submit positive inputs for a future roadmap of the Australia-India relationship. With a 40-year old experience and working towards assisting governments, CUTS has had various interactions in the Australia-India relationship that can be viewed *here.*

> ***The new roadmap will enhance our efforts to achieve closer bilateral economic cooperation and strengthen broader initiatives for a more prosperous region and both Australia and India***

Through this submission, we hope that the new roadmap will enhance our efforts to achieve closer bilateral economic cooperation and strengthen broader initiatives for a more prosperous region and both Australia and India.

Major Areas of Opportunity

Healthcare: Healthcare is one of the most critical, but complex, systems which is under constant challenge from vagaries of nature, changes in medical and digital technology as well as the population demographics.

Collaboration between India and Australia in the healthcare sector is crucial due to complementary strengths and pressing needs in both countries. India's rapidly growing healthcare sector, driven by an increasing population and rising burden of non-communicable diseases, mental health and specialised treatment faces a significant supply-demand gap, despite improvements in medical infrastructure and government spending.

> ***Engaging with India's National Health Mission and leveraging Australia's competitive advantages can foster trade, investment and interoperability***

Australia, with its robust healthcare system, expertise in remote care and established medical technologies, can help bridge this gap. Engaging with India's National Health Mission and leveraging Australia's competitive advantages can foster trade, investment and interoperability. This partnership can enhance healthcare delivery, drive innovation and contribute to economic growth and social stability in both nations.

Diaspora: The Indian diaspora in Australia can play a pivotal role in bridging gaps and enhancing bilateral ties. The Indian diaspora, comprising three per cent of the Australian population, presents a significant opportunity for enhancing economic and social ties between India and Australia. A human bridge is a key strategic driver that navigates the cultural and social relations between the two nations. To maximise its potential, Australia should recognise the Indian diaspora as a strategic asset, utilising their language skills, cultural understanding and transnational networks. Institutional mechanisms can unify this diverse group, fostering stronger bilateral relations and mutual economic benefits.

Investments and Technology-led Growth: To deepen economic engagement, investments and technology-led growth are crucial. Focusing on digital trade, similar to Australia's agreement with Singapore, and critical minerals trade, which includes comprehensive investments and technology transfer, can drive this growth. Trade in critical minerals requires a comprehensive approach because it is not just the purchase of commodities but also investments, transfer of technology and purchasing facilities. Combining the strengths of both countries in these areas can unlock new potentials beyond traditional trade. [1]

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This includes commodities like lithium and related minerals required for new equipment and technologies. There is a need for technology incubators to help absorb and propagate these technologies within India, which could be highly beneficial given the country's larger economy and population.

Defence Research and Development Manufacturing: This area has been identified as a focus area in the past between both countries, specifically advanced sensors, underwater technologies, quantum computing, cyber technologies, drones and hypersonic technologies. There is vast potential for Micro, Small and Medium-sized Enterprises (MSMEs) of both countries to collaborate in the manufacturing of defence sector equipment.

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In India, approximately 433 startups and MSMEs are actively engaged in defence sector production as of December 2023, reflecting a significant shift towards integrating more agile and innovative entities into the defence manufacturing landscape. This integration is mirrored in Australia's strategic defence policies, which continue to support and expand the capabilities of MSMEs in the sector.[2]

For Australia, similar engagement can be seen through initiatives like the Defence Trailblazer Programme, which has partnered with over 40 Australian companies, including startups, to develop cutting-edge technologies for the Australian Defence Force (ADF). Furthermore, the Australian defence sector sees active participation from numerous startups, particularly through programs such as the Defence 10x Accelerator and Office of Defence Industry Support, which supports startups with seed funding and mentorship.[3]

The Australian Defence industry contains over 4000 businesses and employs approximately 30,000 staff wherein SMEs account for the vast majority of these businesses.[4]

Defence R&D and manufacturing, including shipbuilding, semiconductors and advanced technologies, are prime areas for growth. Frequent meetings of joint working groups and focusing on specific agreed-upon areas can drive progress. Deeper maritime collaboration, through strategic agreements and real-time information sharing, can also be a significant growth area.

Ports' Interoperability, Maritime Operations and Green Shipping: Due to the large coastlines on the borders of the Indian Ocean, these coastlines facilitate access to major shipping routes and ports and there is plenty of scope for collaboration between Indian shipyards and Australian shipbuilding industries. The underwater domain awareness and protection of undersea assets, especially in strategic cable routes, represent an untapped domain for both nations. The launch of Australia's Cable Connectivity and Resilience Centre exemplifies its commitment to regional infrastructure, making it a strong partner for India in critical mineral supply chains. Though there is much enthusiasm at the government level, the industries have not shown the same keenness.

In the energy sector, India is seeking to diversify its Liquefied Natural Gas (LNG) imports and Australian LNG could be competitive due to lower freight costs compared to other suppliers like Qatar and African countries. However, there is a need for better shipping and transportation linkages, including establishing bilateral shipping arrangements to facilitate this trade. For example, LNG exports, particularly from Darwin in Australia to the eastern seaboard of India as the trading points, will be an economical option.

Major Obstacles and Solutions

Trade Costs and Supply Chains: High trade costs are a significant obstacle. Reducing these costs through initiatives like the CECA and resilient supply chain platforms with Japan, Indonesia, Singapore and similar countries can help. Minilateral and tri-lateral cooperation could be made more functional. Additionally, re-focusing on Australia for critical minerals, rather than shifting attention to other regions, can strengthen this sector.

In the pharmaceutical and medical devices sectors, there are significant hurdles due to the lengthy approval processes for drugs and devices already approved in other countries like the US or UK. These hidden barriers frustrate companies and hinder the utilisation of reduced duties on pharmaceuticals. Streamlining these processes is essential to facilitating smoother trade in this sector.

Defence Technology, Obligations and Space Collaboration: Australian defence manufacturers, especially SMEs, can leverage partnerships with Indian counterparts to tap into India’s burgeoning defence procurement market, thereby fulfilling offset obligations and fostering indigenous production capabilities. The maritime domain emerges as a focal point for collaboration, with prospects for joint ventures in maritime security and disaster relief operations. Similarly, in space collaboration, emphasising areas like remote sensing, satellite communications, space economy governance and ground station setups can enhance bilateral cooperation.

> ***Australian defence manufacturers can leverage partnerships with Indian counterparts to tap into India’s burgeoning defence procurement market***

Dormant Joint Working Group: Defence collaboration faces dormancy issues in joint working groups. There is an immediate need to revive the working groups that focus on government-to-government interactions and partnerships. Revitalising these groups to focus on niche technologies such as advanced sensors, underwater technologies, quantum computing, hypersonic technologies and shipbuilding, among others, can propel forward defence manufacturing and R&D.

Sectors with the Greatest Opportunities

Critical Minerals: Critical minerals offer vast opportunities. A comprehensive approach involving investments, technology transfer, and purchasing facilities can enhance trade in critical minerals. As a key strategic partner in the Indo-Pacific and Australia's fifth-largest market for energy and resources, India is a significant investor in Australian resources, with a rising demand for critical minerals and other materials. Australia, with its ready-to-develop critical minerals projects, is a natural choice for India to secure its supply chains.[5]

India's election as vice-chair of the IPEF Supply Chain Council underscores its strategic importance in enhancing regional supply chain resilience. Collaboration with Australia on critical minerals can leverage this role, combining India's resources and Australia's expertise. This partnership can diversify and secure supply chains for essential sectors, reducing dependence on China and promoting regional economic stability.

Additionally, Australian companies are well-equipped to cater to India's increasing need for mining equipment, technology, and services. They excel in mining consultancy, exploration technologies, mining software, processing components and systems, environmental and mineral quality technologies, safety equipment, and mining education and skills development.

It is thus proposed that a dedicated chapter on critical minerals be included in the Australia-India CECA that would treat critical minerals as "special products," complemented by long-term commodity agreements to facilitate their export to India.

A dedicated chapter on critical minerals be included in the Australia-India CECA

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This strategic inclusion would not only enhance trade security but also promote technological and economic collaboration between Australia and India, leveraging both nations' strengths in the critical minerals sector.

Agri and Allied services: India, as a major agricultural producer, has experienced substantial growth in agricultural output, averaging 3.6 per cent per annum since 2011. Despite this growth, the sector faces significant inefficiencies and volatile output. The agribusiness trade relationship between India and Australia is robust but sporadic, with India being Australia's sixth-largest market for agricultural exports in 2016-17.

The government is seen as willing to support projects that are linked with technological investments. For instance, in the dairy sector, new technologies should not only improve produce but also enhance quality throughout the value chain. Companies willing to invest in these technologies can expect government support, creating a formula that should attract more businesses willing to invest in India's agricultural and food sectors.

There is also a need to explore collaboration between the two countries to collaborate on reducing food wastage and enhancing food preservation

Australia is well-positioned to contribute significantly to India's agribusiness sector. With its advanced agricultural science expertise, Australia can assist in improving Indian food security by enhancing productivity, promoting sustainable practices and increasing the resilience of food systems.

Australian agribusinesses are known for their efficiency in exporting both staple and high-value products and possess world-class knowledge in agri-services, and land and water resource management. These capabilities can be harnessed to address some of the fundamental challenges faced by Indian agriculture, such as low productivity, resource inefficiency and vulnerability to climate change. There is also a need to explore collaboration between the two countries to collaborate on reducing food wastage and enhancing food preservation.

Introducing technology to improve food preservation and transportation can address the high spoilage rate and boost trade. Technological improvements are the most crucial area for collaboration as they can improve production, improve transportation and storage facilities.

Both Australia and India should open up their respective markets for agriculture, dairying, animal husbandry, veterinary medicine, fisheries, and blue economy-related services under Mode 1 (cross-border supply without physical presence), Mode 3 (investment) and Mode 4 (movement of natural persons).

Digital, IT and Financial Services: India is not only the fastest-growing major economy but also ranks third globally in terms of purchasing power parity. It boasts a youthful demographic profile and escalating consumer aspirations, supported by a burgeoning digital economy. Projections indicate that India will contribute 25 per cent of the global workforce within the next decade.

Additionally, India is on track to establish a digital economy worth US$1.00tn by 2026, supported by nearly 900 million active internet users and the highest fintech adoption rates worldwide. The country is home to 07 of the 36 global edtech unicorns and its e-commerce market is poised to reach US$325bn by 2030, underscored by the fastest-growing startup ecosystem in the world.[6]

India has been focusing on areas like e-commerce, cybersecurity, digital UPI payment interface, fintech, telecommunications and usage of artificial intelligence in healthcare, banking and fintech.

India's financial sector and digital inclusion are poised for significant growth driven by rising incomes and increased demand for financial services, including insurance and retail banking. By 2030, the number of high-net-worth individuals (HNWIs) in India is expected to triple to over 1.2 million. Additionally, by 2035, India's five largest cities will have economies comparable to middle-income countries today. Rapid digital adoption, particularly in fintech hubs like Hyderabad and Bengaluru, is expanding into regional and rural areas, leveraging technological advancements and an entrepreneurial ecosystem.[7]

Digital trade agreements can facilitate smoother bilateral exchanges, learning from successful models like Australia's agreement with Singapore. Collaborations between

Collaborations between Australian and Indian fintech firms can create world-class digital platforms

Australian and Indian fintech firms can create world-class digital platforms. Australia's capital and experience can merge with India's low-cost infrastructure and vast market potential. Furthermore, India can leapfrog legacy systems by adopting new technologies from Australian firms, enhancing financial inclusion, digital services and service efficiency.

Trade Diversification Opportunities

Sports Technologies and Equipment: Sports participation in India is on the rise, including among women and girls. The Indian government's policies to support elite sports are yielding positive results, evidenced by recent successes at the T-20 World Cup, Tokyo Olympic and Paralympic Games. Like Australia, India recognises the importance of sports not only as a major industry but also as a means to enhance its global reputation. India aims to develop its infrastructure and increase its capacity to host international sporting events. Australia's experience in hosting events like the 2023 FIFA Women's World Cup and the upcoming Brisbane 2032 Olympic and Paralympic Games presents opportunities for collaboration and sharing of expertise.

Australian sports, athletes and sports equipment like hockey sticks hold a strong reputation in India, which benefits Australia's leading sports service providers seeking to address India's growing need for expertise in facilities, training and event management. Over the years, Australian and Indian companies in India have successfully engaged prominent Australian athletes as brand ambassadors.

Education and Skilling: Education, particularly in sports and vocational training, is a promising sector. Collaborations in skilling and certification, alongside traditional education exchanges, can benefit both countries. Establishing

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Australian university campuses in India and ensuring degrees are recognised in both countries can attract more students and professionals, enhancing bilateral ties.

There are huge opportunities to further enhance collaboration between India and Australia in the skills training area in sectors, such as vocational education, digital technology, renewable energy and infrastructure through Australian training models and certification courses. Australia can play a huge role in India's journey as it traverses to fill its skills demand which is so massive over the next decade.

Road Ahead

Diaspora Engagement: The Indian diaspora in Australia can be better integrated into higher levels of business, academia and politics. This integration can provide deeper insights into the Indian market and strengthen bilateral relations. Encouraging more Indians on the boards of Australian companies can facilitate this process.

Specialised Delegations and Sector Focus: Focusing on specialised delegations rather than generalised large groups can enhance sector-specific collaborations. Areas like defence, space, energy technologies, fintech, biotech and medical devices require targeted focus to maximise potential. Establishing mechanisms to support these focused delegations can lead to more meaningful and productive engagements.

Lack of Awareness: One of the biggest weaknesses in India's trade strategy is the lack of awareness among exporters about how to utilise Free Trade Agreements (FTAs). Unlike the Department of Foreign Affairs and Trade (DFAT) in Australia, which provides extensive information and Q&A on utilising the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA), Indian chambers of commerce are not effectively disseminating this information. Organisations at the state level like Chambers of Commerce, States Export Promotion Council, State Bureau of Investment Promotion and similar organisations need to do more to educate exporters on how to leverage FTAs to their advantage.

Trilateral Cooperation: Australia and India may consider implementing trilateral development cooperation projects in less developed countries in the Indo-Pacific region with a focus on physical and digital infrastructure, sustainable and resilient agriculture and renewable energy. Australia currently has a range of isolated bilateral agreements with several Pacific Island Countries (PICs) that undermine the regional unity in the Indo-Pacific.

There is a sense of growing bilateralism which can be countered by enhanced regionalism through trilateral cooperation. This can be achieved by including India and Australia to pool resources and also to funnel their assistance through forums like the Pacific Islands Forum, Indo-Pacific Oceans Initiative (IPOI) and the Indian Ocean Rim Association (IORA).

Recommendations

- Deepen twinning, or sister city relationships, where two cities or states from Australia and India establish a partnership to promote understanding and cooperation. These relationships can enhance cultural ties, facilitate trade and encourage tourism focusing on specific sectors, such as education, infrastructure, defence, etc.
- Enhancing India's exports is also vitally important for deepening trade ties. This could be realised through larger export volumes of pharmaceuticals, textiles and garments — sectors in which India has a global competitive edge
- Future opening of India's market for Australian exports of goods and services through tariff reductions and otherwise may be subjected to Australia's investment in India on sectors to be mutually identified and decided by Australia and India as part of their CECA negotiation
- Pharmaceutical exports should benefit from the decision made by India and Australia to ensure that their drug regulators will work in close coordination to 'facilitate trade in human prescription medicines and medical devices'. India's electronics industry could also play an important role in increasing the country's footprint in Australia, given its robust export performance over the past few years
- Utilise FTAs to undertake domestic policy reforms and improve trade competitiveness, to be viewed as an attractive alternative location by multinational corporations in their 'China Plus One' strategy and to enhance its participation and share in global trade is crucial
- Develop a clearer understanding of the role of trade agreements in facilitating integration into global value chains and investments is important
- Indian MSMEs need to explore more collaboration in the Australian ecosystem, particularly in the defence equipment sector
- The promotion efforts by governments, export organisations and business chambers need to be beefed up. A Centre for Negotiations must be established to enhance skills in FTAs and business deals emphasising the importance of developing negotiation skills
- Australian perceptions of India and Indian perceptions of Australia urgently need to be updated, this is a legacy issue which needs to be addressed effectively
- Building business literacy and awareness is essential to boosting economic ties
- New stakeholders with no knowledge of India, need to be involved in awareness activities
- Deliver partnerships in high-value areas – next-generation services and technology – e.g., health, space, AI, quantum computing, workforce skilling and engagement

- New players in the Australian industry must start participating in India Australia engagement
- Provide trends, context and informed analysis objectively to help businesses understand the opportunities and make informed decisions about exporting, investing in or growing in India.
- Role of government and the private sector needs to be strengthened to build capabilities and innovation
- Focus on deeper entrepreneurial collaborations and harnessing the diaspora
- Need an ecosystem approach that addresses issues and includes five-fold engagement across government-academia-industry-regulator-philanthropy
- Australia needs to recognise that the Indian diaspora is a strategic asset that has been under-utilised. The diaspora is a living bridge between the nations, with a natural advantage of language skills, cultural understanding and transnational networks
- Remittances are not the only instrument of diaspora contribution. Diaspora can be a major source of foreign direct investment (FDI), market development (outsourcing), technology transfer, philanthropy, tourism, and more tangible flows of knowledge, new attitudes and cultural influence. There is a strong trend now for social remittances connoting diaspora contributions in wider fields of health, education, environment, energy and others
- Diaspora Engagement Committees for crucial ministries in the federal and state governments can be a possible step forward for greater involvement of the Indian diaspora in different economic sectors
- Advisory Committees in crucial federal ministries, such as Foreign Affairs, Education, Health, Water Development, Law, Science and Technology can be appointed in consultation with the Indian High Commission and Consulates in Australia
- An institutional mechanism can be created for greater diaspora involvement to address India’s pressing problems, the high-level knowledge, technical expertise and practical experience of many members of the Indian diaspora can be useful to India in some priority sectors/problem areas such as energy, urban infrastructure (mega projects), water development and poverty alleviation programmes

Endnotes

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6 https://www.governanceinstitute.com.au/news_media/interview-with-natasha-jha-bhaskar-elevating-role-of-australian-business-in-the-australia-india-bilateral-trade-engagement/

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