GATEWAY HOUSE
INDIAN COUNCIL ON GLOBAL RELATIONS

INDIA-AUSTRALIA ECONOMIC COOPERATION AND TRADE AGREEMENT

A Case Study in Overcoming Reticence and Establishing Trust

CASE STUDY NO. 2 | JANUARY 2025

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Anil Wadhwa and Manjeet Kripalani

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Introduction

The Comprehensive Strategic Partnership between India and Australia rests on the pillars of trust and reliability. With a greater convergence of views on global issues,[1] and a shared commitment to rules-based order in the Indo-Pacific, the two countries have taken their cooperative partnership to new heights. Participation in the Quad, with the U.S. and Japan since its revival in 2017, has sealed a burgeoning strategic relationship.

Bilaterally, defense and space relationships have moved at a fast pace. So has mobility and migration. The Indian diaspora in Australia has reached 976,000, making it the second-largest group of overseas-born residents in Australia, and Indian students in Australia currently number close to 100,000. The diaspora is largely comprised of professionals in technology, healthcare, marketing, engineering and science.

Australia and India make for natural trading partners based on their respective endowments. Australia has a comparative wealth of mineral resources and agricultural commodities, while India's strength is in services and labour-intensive manufacturing. However, while trade and investment between India and Australia saw a steady increase earlier in this century from a low base, business growth has not been spectacular and has always been considered to be below its potential.

Australian businesses had never fully explored the Indian market, and perceptions of India were stereotypical – a largely inward-oriented economy with a plethora of business regulations at the national and state levels. With China a major commercial partner of several large Australian companies, especially those dealing in commodities, and other traditional trading partners such as the UK, the U.S. and Japan, Australian businesses' investment in and understanding of India has been less of a compulsion – a country they put in the "too hard" basket.[2]

Indian businesses, in turn, have not viewed Australian markets with the same enthusiasm as they had for the U.S. or Europe. Just a decade ago, Australia was not among India's top 10 overseas direct-investment destinations. Rather surprisingly, the Australian market was seen as small, highly regulated and distant.

These perceptions have undergone a distinct change over the last 10 years. Bilateral trade in goods and services was $16 billion[3] in 2008-09, inched up to $18 billion in 2020 and is now at $25.9 billion.[4,5] The 2018 report by former Australian Foreign Secretary Peter Varghese, *An India Economic Strategy to 2035*, laid it out when he said that "no market over the next 20 years offers more growth opportunities for Australian business than India", projecting a 10-fold growth in Australian investment in India, to $100 billion by 2035.[6]

The rise of China as a global commercial player and Australia's growing export concentration on that country, coupled with its concerns over foreign interference, has made India more relevant to Canberra's strategic aims, both politically and economically. By around 2010, the term Indo-Pacific had become popular in Australian political circles, including India in a new geographic consciousness.

The Case for Trade

Like many countries, Australia had been in line to sign a trade agreement with India. Beginning in 2011, Australia and India had been negotiating a bilateral free trade agreement, the Comprehensive Economic Cooperation Agreement (CECA). But the start of negotiations for the Regional Comprehensive Economic Cooperation Agreement (RCEP), a trade agreement between the 10 ASEAN members and its free-trade partners – Australia, China, India, Japan, South Korea and New Zealand – lowered interest in the bilateral approach even though Australia was keen to negotiate both agreements in parallel.

For its part, India had long been a reluctant partner in trade regimes. The reasons were varied and complex: significant big businesses, a large domestic market, colonial suspicions, a focus on tech and labour exports, the lack of a strong administrative trade infrastructure and inadequate research by government and the private sector. All these contributed to a damping down of India's appetite for global trade regimes. Even as Australia was gaining a slightly higher profile as an education hub for Indian students, it continued to be seen as a remote and secondary market.

However, a number of high-level visits by both sides over the last decade has radically changed that perception and helped the relationship to progress quickly. In November 2014, Narendra Modi became the first Indian Prime Minister to visit Australia since Rajiv Gandhi (in 1986); that occasion was preceded by a visit to New Delhi two months earlier by Australian Prime Minster Tony Abbot.[7] The message was clear: Australia was no longer peripheral to India's interests.

Table 1: Bilateral Prime Ministerial Visits
Indian Prime Ministers to Australia

May 2023	**Narendra Modi**
November 2014	**Narendra Modi**
October 1986	**Rajiv Gandhi**
October 1981	**Indira Gandhi**
February 1978	**Morarji Desai**
May 1968	**Indira Gandhi**

Source: Ministry of External Affairs, Govt. of India[8]

Table 1: Bilateral Prime Ministerial Visits
Australian Prime Ministers to India

Sept. 2023	**Anthony Albanese (G20 Leaders' Summit)**
Mar. 2023	**Anthony Albanese**
Apr. 2017	**Malcolm Turnbull**
Sept. 2014	**Tony Abbott**
Oct. 2012	**Julia Gillard**
Nov. 2009	**Kevin Rudd**
Mar. 2006	**John Howard**
July 2000	**John Howard**
Feb. 1989	**Bob Hawke**
Nov. 1983	**Bob Hawke (CHOGM Meeting)**
Jan. 1979	**Malcolm Fraser (Chief Guest Republic Day)**
June 1973	**Edward Gough Whitlam**
Dec. 1950	**R.G. Menzies**

Source: Ministry of External Affairs, Govt. of India

Both countries were starting to realize that their interests around the world were converging: Their common participation in the Quad and China's assertive behaviour in the South China Sea, East China Sea and the Pacific resulted in enhanced dialogues relating to security, defence, trade and investment – in short, positive prospects for a strong partnership.

Varghese's comprehensive report on Australia's economic partnership with India – commissioned by Australian Prime Minister Malcolm Turnbull[9] – was published in 2018, boosting attention in both countries to the benefits of closer economic engagement. The Australian strategy concentrated on 20 sectors and 10 states in India.

By the end of 2018, India's then Minister of Commerce and Industry, Suresh Prabhu, tasked[10] Anil Wadhwa, former Secretary (East), to draft a reciprocal *Australia Economic Strategy Report*, with assistance from the Confederation of Indian Industry (CII), the country's leading association of commercial interests.

The report was released by Prabhu's successor, Minister Piyush Goyal, in November 2020 after it was revised to take into account the changed trade and investment scenario in the aftermath of the Covid-19 pandemic. *The Australia Economic Strategy Repor*t identified 20 sectors of cooperation – 12 in the traditional areas of trade and investment and eight in futuristic fields and technologies.

These reports were both in place by the end of 2020, and subsequently, Australia updated its economic strategy report,[11] completing the circle of identified opportunities and areas where businesses from both sides could expand their engagement.

At the India-Australia Leaders Virtual Summit in June 2020, PM Modi and PM Scott Morrison transformed the relationship, elevating it to a Comprehensive Strategic Partnership.[12,13] This has enabled plurilateral and trilateral cooperation across sectors, including education, agriculture, science, technology, defence and energy. The CSP also initiated the so-called 2+2 dialogue between the foreign and defence ministers, making Australia only the fifth country with which India has such an arrangement.

In quick succession, a Mutual Logistics Support Agreement[14] was inked in June 2020, and the defence research organizations of the two countries embarked on a joint programme to share research and interoperability of naval and other military platforms and exercises through a formal memorandum of understanding (MOU). In August 2021, former PM Abbott arrived in India as PM Morrison's special envoy, tasked with revitalizing CECA discussions, which had been stalled since 2015 after nine rounds, primarily due to talks surrounding a RCEP (which in the end India did not join).[15] The inaugural 2+2 Ministerial Dialogue was held shortly thereafter in New Delhi in September 2021.[16]

Table 2: Chronology of an Agreement

2011	Negotiations for the first Comprehensive Economic Cooperation Agreement begin.
2016	CECA discussions suspended (after nine rounds of negotiations).
2017	Australian PM Malcolm Turnbull assigns former Foreign Secretary Peter Varghese to undertake a comprehensive report for Australia's partnership with India.
2018	*An India Economic Strategy to 2034* is published; India Commerce Minister Suresh Prabhu assigns Anil Wadhwa to construct a reciprocal report.
2020 (June)	India-Australia Leaders Virtual Summit between PM Narendra Modi and PM Scott Morrison transforms bilateral into a Comprehensive Strategic Partnership.
2020 (June)	A Mutual Logistics Support Agreement is signed.
2020	The reciprocal *Australia Economic Strategy Report* by India is published.
2021 (April)	A Resilient Supply Chains Initiative is signed by India, Australia and Japan; India Commerce Minister Piyush Goyal and Australian Trade Minister Dan Tehan hold bilateral discussions
2021 (August)	Former Australian PM Tony Abbott is sent to India as PM Morrison's special envoy to revive trade talks.
2021 (September)	2+2 Ministerial Dialogue held.
2022 (March)	India-Australia Virtual Summit: Letter of Intent on Migration and Mobility Partnership Arrangement, Letter of Arrangement for Educational Qualifications Recognition are signed.
2022	Decision for a two-part agreement is made to harvest low-hanging fruit and build out later.
2022 (April)	India-Australia Economic Cooperation and Trade Agreement (ECTA) signed.
2022 (November)	Under PM Anthony Albanese, Australian Parliament passes ECTA and the agreement enters into force on 29 December.

The Geopolitical Context

Because of trade disruptions due to Covid, supply chains took on a new and crucial importance. India, Japan and Australia signed a Supply Chain Resilience Initiative (SCRI) in 2021[17], with the three countries agreeing to diversify and secure supply chains and make them sustainable, balanced and inclusive, thus creating a new trio of cooperation that can reduce dependence on China. This led Indian Commerce Minister Goyal and his Australian counterpart, Dan Tehan, to hold serious discussions in the long-dormant bilateral format. The SCRI and the cordiality of the ministers meeting was an added incentive for India and Australia to proceed quickly towards trade liberalisation.

The geopolitical mood was conducive to such an engagement. The Quad, which had been revived in 2017, met at the summit level in 2021, and the four member countries – the U.S., India, Australia and Japan – agreed on a number of initiatives involving the exchange of information and inter-dependency

This was a major change from the aforementioned eight-year-long negotiations[18] for India to join the RECP talks, though it eventually pulled out before the agreement was signed in November 2020. China was a significant reason for the withdrawal: Many Chinese goods were being routed through the India-ASEAN FTA into India in violation of India-ASEAN rules-of-origin provisions. In April 2020, just weeks after the Covid lockdown began, India restricted Chinese investments; by June 2020, India was engaged in a four-year border stand-off with China. Not surprisingly, India was looking to find new trading arrangements and increase exports. Forging an FTA with Australia was a logical step.

Australia's challenging relations with China was also a significant motivating factor for Canberra. China had long been Australia's largest two-way-trade partner, and Australia was the most popular destination for Chinese students. But public concerns over China's growing political influence in Australia – fueled in part by reports in 2019 about China allegedly attempting to infiltrate Australia's Parliament by backing a candidate for MP – led to a crackdown on foreign interference:

— In 2018, Canberra passed the Espionage and Foreign Interference Act, 2018[19], accelerating tensions with Beijing.

— In 2020, Australia forbade its telcos to use equipment made by Chinese electronics behemoths Huawei and ZTE.

— Also in 2020, Beijing banned the import of some Australian beef and barley that had previously been allowed.[20,21]

— China also reduced imports of Australian agricultural produce, commodities like iron ore and coal – even wine.[22]

These regional tensions led Australia to seek diversification and new partners for its exports. Countries such as India and Indonesia became a natural focus of attention. Australia also stepped up its security posture in the region and on Sept. 5, 2021, signed the Australia-UK-U.S. trilateral security partnership (AUKUS). India was not part of the partnership, but the value of having a trading partner and friend in the Indo-Pacific waters was becoming more obvious.

Australia has a large network of trade agreements and was keen for India to be part of it, hence the effort to sign an FTA since 2011. India itself had been recognized by the Varghese report as being the only country where "the market over the next 20 years offers most growth opportunities for Australian business." The report added that such opportunities "will require an approach to the investment relationship with India that markedly differ from the trajectory of Australian investment in most other Asian markets."

The Domestic Contexts of India and Australia

India (domestic compulsions)

By 2021, India had come to realize that in the changed geo-strategic scenario lay an opportunity to become more of a global competitor by partnering with high-capacity countries and transforming itself into a nation based on resilient and inclusive economic growth. In particular, it was looking to countries focused on innovation, high technology and research & development to manufacture quantitatively better products.

The Modi government had launched the Make in India initiative in 2014 to increase foreign investment and expand India's domestic manufacturing to 25% of GDP, with the goal of creating 100 million jobs. While foreign investment did increase, manufacturing as a share of GDP remained stagnant at 14.7%. A 2016 plan to double farmers' income by 2022[23] was undertaken, but the reforms needed to wrest control of agricultural goods from powerful middlemen were thwarted.

By the beginning of the ruling Bharatiya Janata Party's (BJP) second term in office, it had become clear that to bring in foreign direct investment (FDI), hurdles to doing business needed to be dismantled and import tariffs had to be lowered. Indian[24] trade experts closely watching China began urging the government to act in defence of the Indian economy through diversification.

In 2020, the Atmanirbhar Bharat (or self-reliant India) programme was launched with a budget of nearly $250 billion to dramatically improve infrastructure. The aim was to move away from fossil fuels, usher in a revolution in clean technologies (including e-vehicles) and fulfill the country's massive infrastructure, manufacturing, technology and energy needs. This called for collaboration with trusted partners. Australia, with its abundant resources and high-tech skills, fit the bill.

A new set of reforms in India began, aimed at liberalising inward investment regulations and increasing domestic manufacturing capacity. In the period 2018-2020, these included reforms in the mining, healthcare, IT, defense, space, agriculture, financial and banking sectors. India successfully launched phase two of the Make in India programme, the Production Linked Incentive scheme (PLI), which gave 13 sectors (since expanded to 17) additional incentives to manufacture at home. The goal was to build India into a resilient manufacturing hub producing a minimum of more than $500 billion worth of goods within five years. India also abolished retrospective taxation in which taxes are imposed years later, bringing predictability and stability to the investment environment. It attracted the positive attention of investors all over the world and brought in a record $81.7 billion FDI in 2021-21,[25] about 3% of GDP.

These successes instilled a measure of confidence in the Modi government. At the Commerce Ministry, discussions began to resurface about signing trade agreements, starting with friendly countries. B.V.R. Subrahmanyam, then Commerce Secretary, encouraged a change in attitude towards FTAs to increase export income.

India had multiple trade challenges: Upgrades to its congested infrastructure were still needed; regulatory hurdles in land, labour and capital remained; and project approval processes continued to require improvement. India's states are powerful and independent, and their governance on subjects like tax and labour vary.[26] India also had mechanical and philosophical hurdles to trade such as application processes, approvals for imports/exports and a perception of imports as undesirable even if essential for manufacturing.

Although India signed multiple trade agreements starting in 1991, none had been exercised in full. As late as 2019 there continued to be skepticism about the utility of those early agreements, and their underutilization by domestic businesses led to a growing trade deficit. The 2010 ASEAN-India agreement, which facilitated cheap Chinese imports, was a particular bugbear,[27] with farmers and businesses seeing it as unfair. (The ASEAN-India FTA is now under review.)

Table 3: India's deficit with trade partners worsens

Source: ITC Trade Map, United Nations[28]

The turning point was November 2019, when India withdrew from the Regional Comprehensive Partnership Agreement (RCEP).[28] Much analysis has been done about the reasons for India's withdrawal,[30] especially the fear of surging Chinese imports, the inadequate rules of origin and dispute settlement mechanisms and concerns about the storage of data. In addition, the existing FTAs with ASEAN, Japan and South Korea had not borne much fruit (Table 3).

After the withdrawal from RCEP, there were worries that India would be left behind in international trade since the agreement was viewed as the quickest way to establish the country as a manufacturing hub in Asia.

The Covid-19 pandemic showed up India's dependencies, especially on Chinese active pharmaceutical ingredients (APIs). In 2019, India's dependence on Chinese APIs hit 70%, a major concern, especially given China's concurrent aggressive stance on India's northern borders.

These were the catalysts for India remodeling its approach to international trade from passive to active in the years since 2019, revisiting strategies as it looked to deeper bilateral trade with its partners through free-trade agreements. Australia was high on this list. One year after the RCEP, the Commerce Ministry began the process of looking for increased exports through FTAs with new partners. Australia was a natural choice, not only because of its geopolitical situation but also because of the complementary characteristics of the two countries: India with its services and consumption economy, Australia with its natural resources and exports orientation.

Australia (domestic compulsions)

Australia had its own reasons for looking to India. The Chinese clampdown on Australian expats, delays at the ports, a war of words over Chinese political interference in Australia and calls for a review of the security relationship led Canberra to look beyond Beijing with an openness to other partners.

India had already entered the Australian mind space, highlighted by the Varghese report, which pointed out the growth opportunities in the Indian market, and the alignments for the technological future as AI, big data, machine learning and new manufacturing norms increasingly become a reality.

The Varghese report had pointed out that Australian business needed a different approach to India. But a few Australian businesses like Macquarie, the world's largest infrastructure asset manager, had already identified India as an important market. Since 2009, it has invested $3.5 billion in physical and digital infrastructure, plus energy projects. In 2018, Macquaries became one of the first private investors in India's roads,[31] and its CEO, Shemara Wikramanayake, was part of the business delegation that accompanied Australian PM Albanese on his March 2023 visit to India. A company document from last year sees the next decade as transformational: "Supporting the notion that India's decade is nearing a combination of geopolitical shifts, technological leaps, and ambitious reform," it said.[32]

But other strategic engagements were needed to draw the two countries closer. India and Australia decided to step up their defence relationship and ensure that Australia could participate in the India-initiated Malabar Exercises as a trusted Quad partner,. In 2020 several key defence agreements were signed involving mutual logistics support (the Mutual Logistics Support Arrangement), cooperation on science and technology (the Defence Science and Technology Implementing Arrangement) and platform interoperability training. An Indian Ocean centre for joint training was inaugurated in Gurugram, and the Australian and Indian navies were to train personnel there. In October 2020, four months after the 2+2 Dialogue was upgraded to a ministerial level, Australia participated in the Malabar Exercises, for the first time joining India, the U.S and Japan.

India's changed circumstances, the encouragement of Canberra and the bonhomie between PM Modi and PM Morrison resulted in the second India-Australia Virtual Summit in March 2022. Several key agreements were reached, including a Letter of Intent on Migration and Mobility Partnership Arrangement to foster the exchange of skills and a Letter of Arrangement for Educational Qualifications Recognition to facilitate the mobility of students and professionals – typical precursors to a full FTA. The countries had signed a Letter of Intent on New and Renewable Energy in February 2022 that provided for cooperation to reduce the cost of renewable energy technologies, especially ultra-low-cost solar and clean hydrogen. Australia was one of four countries with which India was engaged on energy, part of the Modi government's goal of supplying uninterrupted power to all Indian villages and households.[33]

It was clear by then that Australia was committed to making India one of its top three export markets by 2035, as the initial 2018 *India Economic Strategy To 2035* report said, and "to make it the third-largest destination in Asia for Australian outward investment, and to bring it into the inner circle of Australia's strategic partnerships and with people-to-people ties as close as any in Asia."

Australia was domestically prepared for a trade deal with India 10-15 years ago. Even though there wasn't a large Indian community in Australia then, its numbers and influence have grown over the past decade. Australia has made an effort to understand Indian systems, and the chambers of commerce on both sides have helped – mainly the Indo-Australia Chamber in Chennai and the Australia-India Chamber in Victoria, although several other business groups have emerged as champions of the India-Australia economic relationship. These include the Australia-India Business Council (AIBC) and the Business Council of Australia (BCA). In addition, frequent discussions were held with export promotion councils, and business sectors began to engage more closely.

The Australia-India CEO Forum also spurred progress. Begun in 2012, it lay dormant until it was relaunched by Prime Ministers Modi and Albanese in 2023. The revived forum has also helped connect Indian business voices to the broader Australian community.

As the Morrison government, eager to lock in the India partnership, neared its end, trade negotiations gained momentum. Unlike many trade negotiations, which can often be acrimonious, the India-Australia negotiations seem to have been conducted smoothly at the working and elevated levels. Personal chemistry between ministers and bureaucrats – Prime Ministers Modi and Morrison, Commerce Ministers Goyal and Tehan, chief negotiators Frances Lisson (chief negotiator for CECA, DFAT) and Amit Yadav of India's Ministry of Commerce – played a significant role.

Goyal and Tehan began negotiations in earnest in September 2021. A 15-minute one-on-one led to a three-hour lunch at the Maurya Hotel in New Delhi. A decision then to "embark on an interim economic agreement" resulted in a substantial pact a few months later. At the joint press conference on April 2, 2022, when the agreement was announced, Tehan talked of the "hard work night and day" by the Indian and Australian negotiators, and the twice-daily calls with Goyal – "even at 2 am in the morning…with never a cross word spoken."[34]

The agreement covered areas considered delicate – wine, wool, coal, construction, student work visas, mutual recognition for services (from chartered accountants to yoga instructors), tourism and logistics. But much more needed to be addressed: agricultural goods such as dairy and foodgrains, environmental and education services, government procurement, digital trade, etc.

However, it was apparent by then that all the desired elements for bilateral trade would not be possible to include in one agreement. India favoured an interim agreement, to do what it could in the short term and have time to prepare for the more difficult discussions. India was moving with trust, and Australia was keen to gain the first-mover advantage. Tehan agreed to India's suggestion for a two-part deal: one with the less complicated trade configurations, and the next perhaps two years later after negotiations had been completed on issues like enhanced market access, mobility and digital trade.

On April 2, 2022, a month before the Australian parliamentary election, the India-Australia Economic Cooperation and Trade Agreement (IA-ECTA) was signed – a pragmatic, "first-stage agreement" containing 14 chapters, 11 chapter-specific annexes and seven side letters.[35]

It went into force on December 29, 2022. That year saw 18 ministerial-level cross-visits, including from the new government of Prime Minister Anthony Albanese, who took office in May 2022 and affirmed the trade commitment to India.

Table 4: Composition of the ECTA: Chapters, Annexes, Side Letters

Chapters, Annexes and Side Letters defined

Chapters are the main subdivisions of an agreement.

Annexes are attached to the main document as supplementary papers, providing further information/details.

Side Letters are documents that are ancillary to the main contract. They act as supplementary and clarifying documents. Where a side letter explicitly provides that it is an integral part of the IA-ECTA, it shall constitute an integral part – that is, they are not extrinsic materials.[36]

List of Chapters, Annexes and Side Letters

Chapters	Annexes	Side Letters
1. Initial Provisions and General Definitions		Trade in Production of Wine – Australia to India; India to Australia
2. Trade in Goods	Annex 2A – Tariff Schedule of Australia; Tariff Schedule of India Wine Appendix	Trade in Organic Goods – Australia to India; India to Australia
3. Trade Remedies		Post-Study Work Visas – India to Australia
4. Rules of Origin	Annex 4A – Minimum Information Requirements Annex 4B – Product-Specific Rules of Origin	Taxation – Australia to India; India to Australia
5. Customs Procedures and Trade Facilitation		Work and Holiday Visas – Australia to India; India to Australia
6. Sanitary and Phytosanitary Measures		Whisky and Other Alcoholic Beverages – India to Australia Whisky; Australia to India
7. Technical Barriers to Trade	Annex 7A – Pharmaceuticals	Wine (Most-Favoured-Nation Treatment) – India to Australia; Australia to India
8. Trade in Services	Annex 8A – Financial Services Annex 8B – Telecommunications Services Annex 8C – Professional Services Annex 8D – Foreign Investment Framework Annex 8E – Schedules of Specific Commitments – Schedule of India Annex 8F – Schedule of Non-Conforming Measures – Schedule of Australia	
9. Temporary Movement of Natural Persons	Annex 9A – Schedule of Specific Commitments of Australia Annex 9A – Schedule of Specific Commitments of India	
10. Transparency		
11. General Provisions and Exceptions		
12. Administrative and Institutional Provisions		
13. Dispute Settlement		
14. Final Provisions		

Overcoming Challenges

India is a market of 1.4 billion consumers, a diversified economy with a 7% growth trajectory. As the Varghese report pointed out, by 2025 a fifth of the world's working-age population will be Indian, and by 2030, India will have over 850 million internet users. By 2035, India's five largest cities will have economies whose size is comparable to middle-income countries today. India presents significant prospects for Australian businesses, including in education, agriculture, energy, resources, tourism, healthcare, financial services, infrastructure, science, innovation and sports. The report, therefore, recommended that "Australia should set itself the goal to lift India into its top three export markets by 2035, making it the third-largest destination in Asia for Australian outward investment." The ECTA has created enormous trade diversification opportunities for Australian producers and service providers, especially in travel and tourism bound for India, that are currently valued at nearly $10 billion[37] a year.

The ECTA provides Indian exporters duty-free access in traditional Indian exports such as textiles, leather, furniture, jewelry and machinery. From Day One, Australia offered zero-duty access to India for about 96.4% of those exports (by value) or 98% of the trade tariff lines. Around 113 remaining tariff lines – amounting to 3% of Indian exports – were set to be phased out over five years. In the non-agricultural sector, there is an exclusion list of items like silver, platinum, jewelry and iron ore for Australian exports.

Agriculture

The ECTA gives about 85% of Australia's exports zero-duty access to the Indian market, including for coal, sheep meat and wool, plus lower-duties on its almonds, lentils and certain fruits such as oranges, mandarins, pears, apricots and strawberries, for which there is high demand in India. This will increase to 90% by 2026. Import duties on Australian wine, which is widely popular in India, were also reduced based on a formula of differing tariff reductions with a cut-off price tag arrived at in consultation with the Indian wine industry and accepted by Australia. This was the only such agreement involving wine that India had with any country, at the time.

India's trade fears have been largely concentrated around the agriculture and dairy industries. The latter, comprised of thousands of cooperatives, is led by Amul, the world's largest dairy cooperative and India's most powerful brand. The dairy industry had also resisted India's accession to the Regional Comprehensive Economic Partnership in 2017, citing the vulnerability of 150 million farmers.[38] India successfully negotiated protective terms for its dairy sector and sensitive agricultural items like chickpeas, wheat, rice, bajra, sunflower oil and sugar.

Education and Human Resources

The all-important education sector had its own section in the ECTA. For years, mainly management and liberal arts students went to Australia, which in fact sought STEM (science, technology, engineering and mathematics) students. The agreement now facilitates exchanges of students as well as professionals. Indian STEM students are granted extended post-study work visas, with a bonus year of stay, and Australia has established a programme that will grant visas to 1,000 young Indians to pursue "working holidays" during which they can travel and work, an arrangement currently offered only to Americans and Europeans. In vocational services, 1,800 Indian traditional chefs and yoga teachers will be allowed to enter and work in Australia annually as contractual service providers.

A week before the first Albanese visit to India in March 2023,[39] the far-reaching Mechanism for Mutual

Recognition of Educational Qualifications, which India has only[40] signed with the UK and France, was finalised, and the scope of the Australia-India Education Council, which "drives the bilateral education, research and training agenda," was[41] widened to include cooperation in skills development. Specifically, $1.89 million was set aside by Australia for developing skills in agriculture.[42] An agreement to hold further discussions on migration and mobility was proposed; it was signed two months later.[43]

Following the announcement of the New Education Policy (NEP) by India in 2020, there has been progress in increasing research collaboration and dual degree programmes between Indian and Australian universities. The University of Melbourne, for instance, is partnering with University of Madras, Savitri Bhai Phule Pune University and the Gandhi Institute of Technology and Management, Hyderabad to offer a new Bachelor of Science dual degree. Australia's Deakin and Wollongong Universities announced the establishment of campuses in Gift City in Gujarat (Deakin opened in January 2024).

While there were no specific anti-India groups in Australia, the issue of immigration was real, as was the opening up of Australia to Indian services. Locals have complained about rising housing costs because of the crush of students. University classes have become crowded, with Indian and Chinese students compromising 16% and 22%, respectively, of Australia's total college-level students.[44] Reports show that while the supply-demand gap in rental housing in Australia has been a consistent problem, international students, who utilize just 4% of the rental market, are not the problem.[45]

In September 2022, the Albanese government announced that Australia would increase its permanent immigration numbers by 35,000, to 195,000 in that financial year, in an effort to mitigate skill shortages. That presented an opportunity for the large population of skilled younger workers in India. Australia is India's third-largest services market, at nearly $7 billion in 2020.[46]

Detailed provisions to pursue mutual recognition of professional services and other licensed/regulated occupations such as designers, accountants, nurses, care-givers, security personnel, computer programmers and even masons came in the form of an Annexe on professional services attached to Trade in Services, Chapter 8 in the agreement.[47] These comprise elements such as coverage of degrees and skills in the identified fields of all licenses and regulated occupations, allow for temporary and project-specific licenses where feasible and establish a working group to pursue obligations related to this issue. This mechanism was put in place through an Annexe,[48] pending the finalization of a full Mutual Recognition Agreement and paved the way for initiating dialogues between professional bodies on Mutual Recognition Agreements (MRAs) in nursing, architecture, physiotherapy and other services,

The mutual recognition arrangements attached to the ECTA identified a list of services from education and business to R&D and banking. In financial and insurance services, India agreed that Australia could invest 49% more than countries like Japan, Singapore and South Korea with which it has significant similar arrangements. However, Indian companies like Adani, which invest in Australia, have faced challenges in getting environmental clearances and therefore remain unable to secure loans from Australian banks; they still have to go to the State Bank of India to finance their investments.

A major breakthrough was the elimination of double taxation for the Indian IT industry – a problem that it faced in other geographies. The sensitive MRAs were pragmatically done through Side Letters, rather than being included in the main document.

There was also an enhanced commitment on the movement of professionals as intra-corporate transferees. This is the same issue that India's IT professionals traveling to the U.S. face, and the Australian agreement resolved this by introducing a new category of corporate transfer visa good for three months, after which new personnel can be rotated in.

Critical Minerals/Resources

A month or so before the Morrison government ended in May 2022, it unveiled plans to invest $280 million to further growing economic ties and support jobs and businesses in both countries. The plans included $7 million to support cooperation in research, production and commercialization of clean technologies, critical minerals and energy; $25.2 million to deepen space cooperation with India; and $28.1 million to launch the Centre for Australian Indian Relations (CAIR) in Sydney.

Australia is a major exporter of key resources, some of which India needs to import to sustain its economic growth. For example, coal accounted for 68% of Australia's exports to India in 2023and used to carry a duty of 2.5%, which was considered high given the volume. The total elimination of duties on (coking) coal has boosted the competitiveness of Indian steel exports. India imports 54% of its natural gas, and Australian companies have an opportunity there, too.

A 2022 MOU signed between Australia's Critical Mineral Office and India's Khanij Bidesh India Limited (KABIL), an Indian government joint venture, committed USD6 million – with equal contributions from Australia and India – to develop secure, robust and commercially viable critical-mineral supply chains.

The two countries are currently working together to undertake due diligence on selected battery mineral projects in Australia to support India's ambition to secure a consistent supply of such resources.[49] Perth-based Legacy Iron Ore[50], in collaboration with India's premier iron-ore producer, National Mineral Development Corp. (NMDC), is actively involved in exploring and developing mineral projects in Western Australia, focusing on iron ore, manganese, gold and base metals.

Assessing the ECTA

The ECTA negotiations were largely driven by the negotiators on both sides, and particularly by the personal commitment and camaraderie of Indian Commerce Minister Goyal and DFAT Minister Tehan.[51]

Australian business participated with more vigour than Indian business did, given Australia's rigorous institutional processes; they made 100 submissions to the FTA consultation process,[52] all of which were considered by the Australian government.

Indian business participation may see an uptick: The dormant CEO Forum has been revived and met in Mumbai in 2023.[53] More important perhaps, the ECTA is opening new doors for commerce in both countries, though Australian business may initially be better able to capitalize on its promise.

Australia has several decided advantages in FTAs:

— It has signed 18 FTAs, a global record, more than the U.S. or the European Union. Its pragmatic approach, which sets aside tricky issues[54] – like diary with India, for example – makes it a winner at the negotiating table.

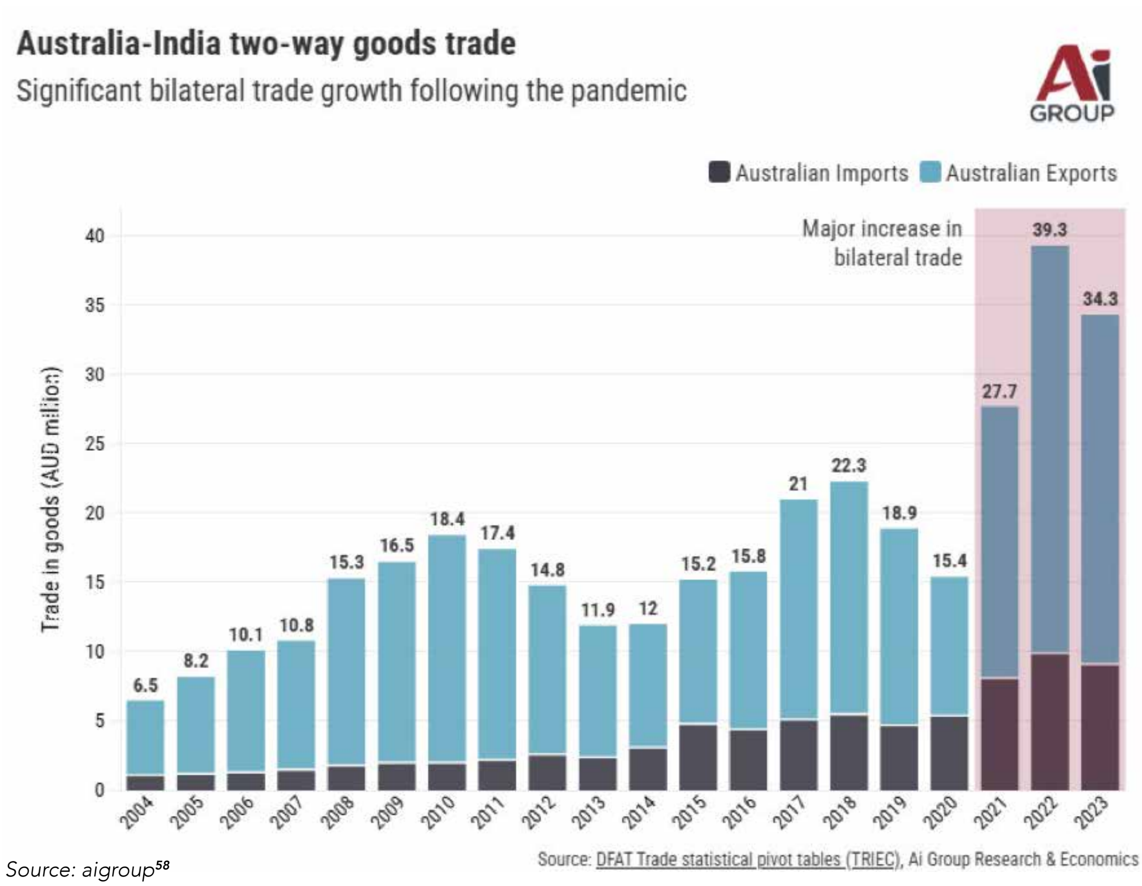
— FTAs generate paperwork and additional compliance, which business often finds onerous. The Australian trade department and the chambers together constitute a dedicated support system that helps businesses overcome these hurdles. Developing countries like India do not have such strengths. In FTAs signed between advanced economies like Australia and emerging markets like India, the advanced economy usually benefits more and earlier. Extending and sharing best practices to build an ecosystem of support around the FTAs will be helpful.

— The benefits of FTAs need to be marketed well. India imports more wine from Australia than any other country – 44% of all wine.[55] Since December 2022, Australia has been marketing its wines proactively on LinkedIn in India; it's a limited outreach, but it is being noticed. India has not done similar marketing for its pharma or services. This must be corrected. A large opportunity for foreign investment – in this case, by Australian businesses – has become available under India's national asset monetization plan pipeline,[56] which in 2021 announced plans to monetize $81 billion worth of brownfield assets and build new infrastructure over three years, 2022-2025. Some high-potential sectors for Australia are roads and railways, power, public warehouses, civil aviation and port infrastructure, sports stadiums and mining assets. Australia's $1.5 trillion pension fund sector can be a potential steady source of investments for India's infrastructure and disinvestments.

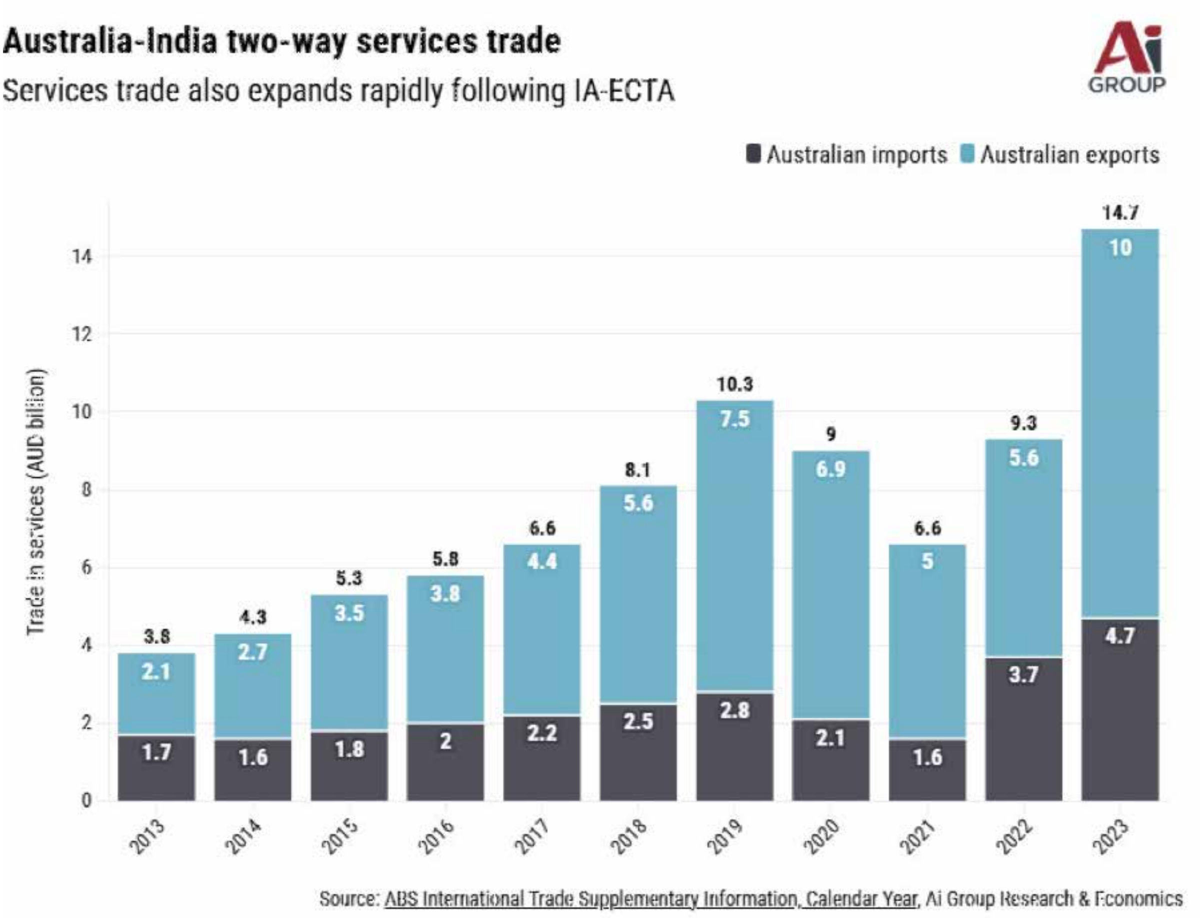
The learnings from the 2014 Make in India programme have been incorporated, and the Production Linked Incentive[57] schemes that New Delhi launched in August 2023 now account for 17 sectors, from medical devices to food products Several of these offer manufacturing incentives for Australian companies. In August 2024, Commerce Minister Goyal stated that 14 PLI schemes have attracted investments of $17.7 billion, resulting in $147 billion in incremental production/sales and exports of over $47 billion.

The latest data for 2024 (Jan-Oct) show the success of the ECTA: Indian goods exported to Australia (excluding diesel) were up 15% compared with the same period pre-ECTA (2022). Ditto with agriculture exports to Australia, also up 15%, and industrial exports like telephones and passenger cars were up 41% and over 100%, respectively, in the first year of the ECTA.

Figure 5: Utilisation



Source: aigroup[58]



In the first year of the ECTA, 79% of Indian exports to Australia and 84% of Australia's exports to India were utilising ECTA preferences.[59] This is in line with India's increasing exports to Australia, up 66% in the last five years, nearly twice the 37% growth in the country's global exports.

This access is set to increase, covering 91% of Australia's exports by value and over 70% of India's tariff lines over 10 years. It was agreed that no tariffs would be attached to Australian LNG, alumina and metallic ores, while tariffs on popular Australian avocados, onions, shelled pistachios, macadamia nuts, cashews in shell, blueberries, raspberries and blackberries will be eliminated over seven years. Import duties on Australian wines were to be significantly slashed but not eliminated fully; these will be gradually brought down over 10 years.

Still to be worked on are market access issues, pricing for Indian generics,

And critical services issues, "including the consideration of India's request for facilitation of cross border e-payments and mutual recognition agreements in professions like nursing and dentistry."[60]

Preparing for the CECA

The March 2023 Albanese visit to India took forward bilateral cooperation, with new engagements especially in science and technology research, defence co-production, space and security bilaterally and under the aegis of the Quad. The visit commenced preparation for part two of the trade agreement, the Comprehensive Economic Cooperation Agreement. In retrospect, the decision to suspend the early trade talks and conclude a getting-to-know-you ECTA has paid dividends.

Now the goal – announced after the Joint Ministerial Commission meeting in March 2023 – is to take bilateral trade to $100 billion in the next five years.

Under the full CECA, negotiations for which got underway in New Delhi in September 2022, the two sides are to intensify engagement in full-trust areas like government procurement, defence, investment, energy and resources, intellectual property rights, sustainability and digital trade. Other areas like sports, mining, critical minerals[61] (essential for India's e-mobility programme), space technologies and opportunities in the digital sector are also under discussion for mutual collaboration and joint ventures. In mining, India and Australia have already formed a strategic partnership to secure the critical-mineral supply chain.

Australia's international space investment initiative[62] included India for the first time in 2022. It covers research with the Indian Space Research Organization (ISRO) and grants to eligible projects in the broader space sector, including for start-ups.

Australia hopes that the CECA agreement will take its agriculture cooperation with India even further, through collaborations on better farming practices, Australian technologies for animal diseases, lowering emissions of fertilisers, water management research and drought-resilient grains and pulses. Partnering with India on horticulture, wine and dairy is on the agenda, too.[63]

Multiple dimensions of the agreement will need attention and overcoming the small hurdles count. Still to be worked on are market access issues and pricing for Indian generics,

In wine, Australia's duty-free concession from India is not being adequately exploited. Mass-produced wines from vineyards like Jacob's Creek are among the few brands available, imported in barrels and capped in India. For a country known globally for its production of, and research on,[64] sumptuous wines such as those from top brands like Penfolds and Giaconda, introducing better wines in India is an obvious opportunity. Young Indians are increasingly switching to wine, with 10 million imbibing annually[65] and consumption up by nearly 30% in 2022.

With countries like Argentina and Chile angling for a similar concession, and India in an accelerated mode for signing trade agreements, Australia should capitalise on its early start. In addition, seizing this opening will make wine less of a potential pressure point for Australia in its dealings with China.

Conclusion

Regardless of the geopolitical factors that brought the two countries close together, the partnership has now acquired a momentum of its own. Governments, however, can only provide a policy framework – it is up to business and enterprise to take the trade and investment relationship forward. India is aware of its shortcomings: Further reforms are needed in the labour and land segments. The Indian government is working on modernising agriculture, food processing and grain-storage technologies, as well as dairy yields. The effort to make clean drinking water, electricity and digital connectivity available to all its villages is ongoing and has momentum.

Australian companies are aware of the opportunities India offers in grain management, waste control, cost rationalization and logistics. India's infrastructure development in airports, ports, inland waterways and toll roads offers a chance for Australian pension and investment funds to obtain good returns on investments, while in the education sector – a traditional Australian strong point – more attention will need to be paid to the cost-effective scaling-up of skills in India. Australia also needs to switch to a l ow-cost, high-volume model of skills development and training in India.

Australian investments in India will mean much-needed diversification for the Australian economy, and Indian investment in Australia's critical minerals and commodities sectors will drive and power India's economic surge. India is at the downstream end of value chains, while Australia is at the upstream end. This natural ying-and-yang fit creates opportunities for both to exploit. The trilateral Supply Chain Initiative with Japan (SCRI) and the 14-member Indo Pacific Economic Framework (IPEF) will provide both countries with new synergies.

What the Trade Agreement Accomplished

The ease with which negotiations proceeded on the ECTA revealed the flexibility of both countries. Tariff reductions in key Indian sectors such as apparel, industrial machinery and electrical equipment have improved market access for India's exports in the first year of the ECTA – up 14% in the April-November 2023 period. Indian exports of engineering goods, electronics and plastics to Australia have also improved. India is now exporting 700 new items to Australia, including smart phones, gems and jewelry, light oils and non-industrial diamonds, as well as non-silk shirts and dresses.

The momentum injected by the ECTA – complemented by other bilateral agreements with Australia in education, audiovisual services and mobility – has provided a perfect backdrop for strong growth in business expansion and an almost 100% increase in study-work visas for Indian students. India's IT industry, relieved from double taxation after ECTA, is now competing on a level playing field in Australia.

Next Steps

The hard work, especially for India, begins now. Hereafter, Indian manufacturers may not find it easy to increase their share of the Australian market.[66] Both Vietnam and China have preferential access to the Australian market through the RCEP and China-Australia Free Trade Agreement (ChAFTA), respectively. While overcoming entrenched competitors is difficult, in the ongoing CECA negotiations, India will now have to negotiate thornier issues that may include opening up sensitive sectors such as dairy, providing enhanced market access for wines and addressing the e-commerce questions of data ownership, storage location and privacy.

Bilateral trade between India and Australia, under CECA, will be driven by investment, as stated above. In the context of investment liberalization, which has been left out of the ECTA, India may have to review its 2016 model bilateral investment treaty developed by the Ministry of Finance for all countries and fine-tune provisions such as investor-state dispute resolution to make it balanced, comprehensive and in line with global best practices. India can use the model for arbitration and dispute resolution that it signed in the new bilateral treaty with the UAE[67] that allows investors to move to arbitration within three years, instead of the previous five, should domestic courts be unable to resolve disputes.

These are signs that India is softening its previously immobile position on these issues as it seeks enhanced foreign direct investment, especially to drive its manufacturing sector. Making the leap from the interim ECTA to a full CECA will surely pose several new challenges as the focus expands beyond goods and services tariff negotiations. But these are not insurmountable hurdles.

The CECA with Australia is the first agreement in which India will include a "negative list approach" for its service commitments, which needs to be provided within five years. This means that Australia will always receive India's best market access given in the future to any potential FTA partner. Coming up are the more sensitive issues of trade and services, and India is working to ensure there are no non-tariff barriers that will hamper future negotiations.

Along the way, there will certainly be minor irritants and small pinpricks. These will need to be overcome and avoided. The commitment of the bureaucracies and politicians of India and Australia is unquestionable. For India, a successful CECA will take its unique "sensitivities" into account and make it a model for other countries to follow.[68] Both countries now have a mature relationship in which enhanced people-to-people contacts and embedded business interests and practices will help to develop an increased understanding of each other.

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[63] *"We have seen Australian imports of India's agricultural goods increase[…]. Our CECA agreement will take this even further and faster to deliver for Australian and Indian businesses. There is scope for more cooperation on agriculture. Australia and India have been collaborating for decades on better farming practices. This is particularly important since 700 million Indian livelihoods are dependent on agriculture. Australia is proud to be delivering them support. Australian firms are deploying technology to tackle animal diseases and to lower the emissions of fertilisers. Our agencies are sharing research on sustainable water management and more drought resilient rice, chickpeas and wheat. And now with ECTA, our industries are partnering together across sectors like horticulture, wine, dairy, cotton and wool. [See Australian High Commission, New Delhi, "High Commissioner Philip Green's Keynote Address at Asia Society Policy Institute India," December 12, 2023, https://india.highcommission.gov.au/ndli/HOMSpeech13122023.html]*

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