

India-Australia Trade Pact: ECTA's Economic Reverberations

written by Jidesh Kumar | April 20, 2022



India Australia ECTA (Economic Co-Operation and Trade Agreement) was recently executed and it is believed to be a historic trade agreement that will benefit economies of both nations. Considering how Australia is the third OECD country following Japan and South Korea with which India has signed a Free Trade Agreement (FTA), it is a historic trade agreement.

India Australia ECTA

Currently, India is Australia's ninth-largest trading partner and the bilateral trade between the two countries is expected to increase from \$27.5 billion to \$45-50 billion after five years. It is also speculated that its operations in the market would whip up over 1 million jobs in India.[1] The fundamentals of the agreement provide the following benefits to India.

- Employment & Trade-in Services:

This agreement would help Indian graduates from STEM sectors (Science, Technology, Engineering and Mathematics) obtain extended post-study work visas for two to four years on a reciprocal basis. Both parties to the agreement have conceded to allow the movement of businessmen, installers and servicers involved in trade-in services temporarily. Young professionals would get work and holiday visa arrangements as well. In the service sector, Australia will allow temporary entry to 1800 traditional Indian chefs & yoga instructors as Contractual Service Suppliers and will grant licenses to other professionals as well.

- Zero-Duty Access

Under this treaty, Australia would provide zero duty access to India amounting to 96.4 per cent of exports to Australia, for textiles, leather, furniture, jewellery, machinery and selected medical equipment; while India would offer zero duty access up to 85 per cent of Australia's export to Indian market comprising coal, wool, almonds, lentils etc.

Here, zero duty access means the permission given by a government for a foreign country to export goods into their country without having to pay tax.[2]

- Upgraded Exports:

Over the past few years, Indian exports were facing a tariff disadvantage of 4-5 per cent in many sectors against competitors like China, Thailand, South Korea, Japan, Indonesia and Malaysia etc. The India Australia ECTA promises to remove these barriers, which could affect India's exports positively. Here, tariff disadvantage is when import tax has applied the prices of the foreign goods increases as compared to domestic goods of the importing country, affecting export costs.

On the other side, for Australian exports, India is offering concessions on raw materials in the way of tariff elimination, tariff reduction with or without a tariff-rate quota (TRQ), which is a taxing mechanism that allows the import of a specific quantity of specific products. This is generally applied to agricultural products.

The offer made by India in the agreement warrants a tariff elimination on 40 per cent of Indian tariff lines including the 85 per cent of Australia's exports to India and another 30.3 per cent of the tariff lines to be reduced in the regular interval of 3, 5, 7 and 10 years. Under the TRQ, a few agricultural products such as oranges, mandarins, almonds and pears have been

allowed.

India has kept aside sensitive products in the excluded 29.8% of tariff lines without offering any discount. Milk and dairy products, chickpeas, walnuts, pistachios, wheat, rice, millets, apples, sugar, oil cake, gold, silver, platinum jewellery, iron ore and most medical equipment fall under this category. This exclusion will earn major gain for India. [3]

- Low-cost Raw Materials:

Australian exports to India are predominantly centered on raw materials. As discussed above, the zero-duty access to up to 85 per cent of Australian products will facilitate many Indian industries to get raw materials at a cheap rate which will make the market more competitive, in sectors like steel, aluminium, power, garments, engineering etc.

- Strengthened Indo-Pacific Relations:

Since the deal has been signed during the ongoing Ukraine crisis wherein both countries are not following the same principles, the agreement certifies the peace & cooperation between the two vis-à-vis Indo-Pacific relations.

Further, considering that India has not been attached to any regional economic groups such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or the Regional Comprehensive Economic Partnership, the bilateral trade agreement validates India's relationship with the leading economies of the Indo-Pacific.

- Pharmaceuticals

The agreement would provide fast-track approvals and quality drug inspections of manufacturing facilities since both countries have agreed to accept reports from the therapeutic goods regulators of each country for purposes of evaluation and quality assessment before releasing the same products into the market.

- Taxation

Australia has agreed to review and alter its domestic tax law to put an end to the taxation of offshore income of Indian firms which provide technical services. Such companies include major IT firms like Infosys, TCS, Wipro, and HCL. This will ultimately be profitable for Indian companies to green-light operations.

As per industry calculations, the Double Taxation Avoidance Agreement of 1991 has cost a massive \$1.3 billion since 2012. It is hoped that this will change after India Australia ECTA's implementation.[4]

The Expected Development of the Indian Market

India has established the Australia-India Infrastructure Forum, to promote the mutual investment in infrastructure and enhance trade and investment bilateral goals. This agreement will allow India to concentrate on its manufacturing sector and focus on launching ultra-low-cost solar and green hydrogen technologies for low-emission solutions to aid the environment.

India has also committed to reaching a 5 per cent share in the total world exports and a 7 per cent in worldwide services exports within 3 years. India Australia ECTA will help India to do this.

What About Investment Protection?

The India Australia ECTA refers to investment as part of the trade-in services as discussed above, but there is no mention of investment protection such as protection from expropriation, fair and equitable treatment of foreign investment, legally acknowledging the investor's right to sue the State if the treaty is breached and so on. This is odd considering that

Australia included a chapter on investment protection while signing economic agreements with Peru, Indonesia, and Hong Kong.

However, no such chapter is included in the recent Comprehensive Economic Partnership Agreement (CEPA) that India signed with the United Arab Emirates (UAE)[5] on February 18th 2022 or in the Comprehensive Economic Cooperation and Partnership Agreement (CECPA) signed with Mauritius on February 22nd 2021 either.[6]

Will Excluding The Investment Chapter Affect India?

The reasoning behind signing the Comprehensive Economic Cooperation Agreement (CECA) is to get included in the global value chains (GVCs). However, India will only realize the real impact of the CEPA & CECPA since both the trade and foreign investment are at the focal point of the GVCs.

If investment clauses get incorporated into the CECAs, India would be able to bargain more effectively as compared to its bargaining power obtained from a single investment treaty.[7]

The India Australia ECTA is the root that will ultimately bloom into a full Australia-India Comprehensive Economic Cooperation Agreement. From the moment Comprehensive Strategic Partnership (CSP) emerged in 2020 between the nations, international relations have intensified across several sectors, to welcome a mutually beneficial partnership.

This agreement also presents an opportune moment for India to get the Asia-Pacific Economic Cooperation (APEC) membership, which would give India a significant position at a global governance level, facilitating positive economic reforms and enhancing domestic competitiveness.

After the negotiation ends by this year, the trade, investment, and commerce will automatically lead to the betterment of research and technology, ensuring the bilateral defence trade. It is also expected that after testing the success of ECTA, India could sign a limited trade deal with the US in future as well.

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