

# The Indo - Australia Free Trade Agreement-New Chapter of Trade Cooperation

Roli Raghuvanshi<sup>1</sup> and Ravinder Rena<sup>2</sup>

<sup>1</sup>Assistant Professor Department of Commerce, Shyam Lal College (eve.), University of Delhi, Delhi, India. E-mail: [rraghuvanshi@shyamlale.du.ac.in](mailto:rraghuvanshi@shyamlale.du.ac.in) ; [roliraghuvanshi29@gmail.com](mailto:roliraghuvanshi29@gmail.com)

<sup>2</sup>Department of Entrepreneurship and Business Management, Faculty of Business and Management Sciences Cape Peninsula University of Technology, District Six Campus, Cape Town, Republic of South Africa. E-mail: [renar@cput.ac.za](mailto:renar@cput.ac.za); [ravinder.rena1@gmail.com](mailto:ravinder.rena1@gmail.com)

Received: 12 January 2024; Revised: 15 February 2024;  
Accepted 24 February 2024; Publication: 29 June 2024

**Abstract:** In the times, when the entire world scenario is changing owing to the Russia-Ukraine war, then, a Bi-lateral agreement for FTA (Free Trade Area) between India and Australia is a very imperative step towards economic cooperation. This agreement (India-Australia Economic Cooperation & Trade Agreement: (ECTA) becomes even more significant when Australia is in the list of countries who are continuously imposing stringent sanctions against Russia. India has a different stand on Russia and despite if Australian government has agreed upon a Free Trade Area Agreement, it is something which is vital and has several implications. It clearly indicates that bilateral relations are going to play a very conducive role in the coming years. As Australia is also a part of QUAD (Quadrilateral Security Dialogue) and is apprehensive of the expansion strategy of China and its increasing dominance in the South -China Sea, this bilateral agreement is also a tough message to Beijing. It is expected that five years down the line the trade between India and Australia will increase from 27 billion US Dollars to 50 billion US dollars.

**Keywords:** Free Trade Agreement, Trade, Export, Import, Market Access, Bilateral Relations

## INTRODUCTION TO THE INDO- AUSTRALIA FTA

It has been discussed for a long time, but, the Indian and the Australian government could not come to any consensus. It's only the virtual summit

### To cite this paper:

Roli Raghuvanshi & Ravinder Rena (2024). The Indo-Australia Free Trade Agreement-New Chapter of Trade Cooperation. *Indo-Asian Journal of Finance and Accountings*. 5(1), 1-8. <https://DOI:10.47509/IAJFA.2024.v05i01.01>

held on March 21, 2022, between the States Heads, Prime Minister of India Mr. Narendra Modi & Prime Minister of Australia Mr. Scott Morrison played a vital role in sorting out the differences. In lieu of this trade agreement, the volume of trade will increase and lenience in trade will take place on one hand and India will no longer depend on China for supply chain as earlier. Very recently India also signed a bilateral free trade area agreement with UAE (United Arab Emirates). Its soon going to be implemented and talks are on with Britain.

In a decade India's trade agreement with Australia is first of its kind with one of the developed countries. India has taken enough care that taking advantage of this trade agreement the countries like China, Vietnam, Indonesia, Singapore is prohibited from sending their commodities via Australia, as the RCEP (Regional Co-operation Economic Partnership) is already in place. India has made it sure that the rule of "Country of Origin" is executed with full effect.

It is expected that Australia and India will be able to upsurge the pliability of supply chains, and play a major role in steadying the Indo-Pacific region. The trade deal with Australia, is a momentous milestone in a time when India is having a long-drawn-out trade battle with China and the economies are looking forward to hedging their supply chain dependency. China-plus-one strategy is the need of the hour, as economies cannot afford to disrupt their supply chains cause of the unpredictable events the world has witnessed in the past few years.

### **Body of the Paper**

Indian exports to Australia have been rising at a speedy clip and it is expected that after the full-fledged implementation of the agreement, around 95% of the Indian Exports will be enjoying zero duty access to the Australian markets, as, according to the World Trade Organization Article XXIV rules related to Free Trade Area, it states that when a deal is finalised between a developed and a developing country, as in the case of Australia and India, the members must do away with almost all trade restrictions and duties on considerably all products traded midst them. In other words, the partial trade preferences in Free trade Areas are only possible when the deal is among the developing members specifically, where the member nations can exercise a partial reduction in trade barriers rather than eliminating the barriers to full extent. In ensures therefore full-fledged access to each other's markets.

When we look at the Indian Exports to Australia as given in the Table 1, it is evident that the labour-intensive industries, like H.S Code 62, 63 & 74

**Table 1: Top 10 Indian Exports to Australia, value based (US\$), year 2017-18 to 2021-22**

Sl. No.	H.S Code	Commodity	2017-18	2018-19	2019-20	2020-21	2021-22**
1	27	Mineral fuels, Mineral oils and product of their distillation; Bituminous substances; Mineral waxes	1359.97	631.21	353.75	1135.95	4115.03
2	30	Pharmaceutical Products	227.02	248.11	252.64	316.9	325.71
3	71	Natural or cultured pearls, Precious or Semi-precious stones, Pre metals clad with pre metals & articles thereof; Imitation jewellery, Coins	289.94	294.03	258.19	277.79	314.7
4	73	Articles of Iron & Steel	130.51	138.06	136.44	180.66	189.65
5	85	Electrical machinery and equipment and parts thereof; sound recorders & reproducers, Television image & sound recorders & reproducers and parts	135.85	182.9	126.32	172.68	179.97
6	84	Nuclear reactors, Boilers, Machinery and mechanical appliances & parts thereof	157.13	159.29	153.05	193.39	177.94
7	87	Vehicles other than railway or tramway rolling stock, and parts & accessories thereof	134.5	78.78	86.57	114.24	177.94
8	63	Other made-up textiles articles; sets; worn clothing & worn textiles articles, Rags	130	130.44	120.89	149.78	154.83
9	62	Articles of apparels & clothing accessories, not knitted or crocheted	109.08	109.76	127.91	111.8	142.49
10	38	Miscellaneous chemical products	63.4	59.34	53.48	110.27	124.56

Source: Directorate General of Foreign Trade Database, Compiled by Authors

\*\* The data for year 2021-22 is for the period of April 21 to February 22

commodities will be enjoying full-fledged access to Australian market, and it will help the labour-intensive units to grow and generate employment. Also barring the period of the Covid-19 exports we see a rising tendency in the Indian exports to Australia in the given time mentioned in the Table 1. For the

last five years the growth of Indian Exports to Australia can be observed from the same

This FTA between Australia and India becomes even more important because all the Free Trade Area Agreements that India has signed so far is majorly with the developing counterparts. (Panagariya, 2022) It is only Japan with whom India has signed the FTA in the developed country category. It clearly means that partial concessions were being exercised between India and the other developing nations. And now thereafter nearly complete market access will be evident in case of the agreement between India and Australia which will be a great opportunity for the Indian exporters.

For understanding the situation if we look at Table 2 which refers to the Indian Free Trade Area Agreements, we find that Japan was the only exception in the list before we signed an agreement with Australia.

**Table 2: India's FTA with Developed & Developing Countries**

<i>Sl No.</i>	<i>Country</i>	<i>FTA Agreement Year</i>
1	Sri Lanka	2000
2	Thailand	2004
3	SAFTA	2004
4	Singapore	2005
5	Nepal	2009
6	Bhutan	2006
7	South Korea	2010
8	Asean	2010
	Japan	2011
9	Malaysia	2011
10	UAE	2022
11	Australia	2022

*Source:* Press Information Bureau, Government of India, Ministry of Commerce & Industry

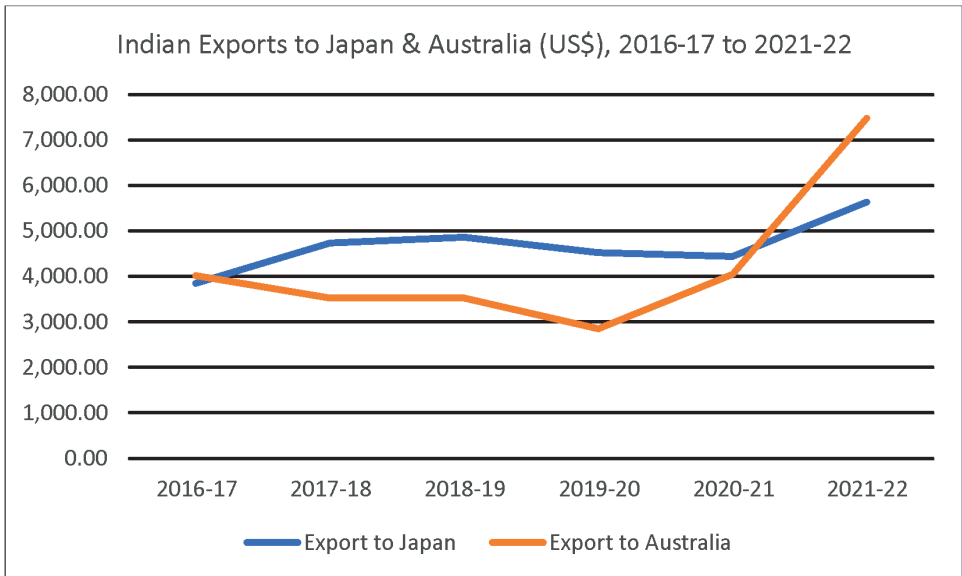
It is of utmost importance to understand the dynamics of the Indo-Australian deal. According to the DGFT (Directorate General of Foreign Trade) trade data the percentage share of Indian exports to Australia in 2020-21 & 2021-22 have been 1.38 % and 1.98 % respectively. In case of Japan, it has been 1.51 & 1.49 for the same period.

Imports from Australia stands to be 2.09% and 2.75% of the total imports in India for the year 2020-21 & 2021-22 and from Japan it has been 2.76% & 2.38% for the same tenure. In case of both the trading partners we see a increased trade volume in case of Australia when compared with Japan. According to the

Export-Import data bank, Ministry of Commerce the total trade volume with Australia is recorded to be 22,605.12 million U.S Dollars with an import of 15,175.26 & exports worth 7,474.86 million USD. For Japan it was recorded to be 18,730.51 million USD as total trade which comprised of 13,102.47 million USD of imports & 5,628.04 million USD of exports.

Therefore, an increasing trend is recorded in trade with Australia as compared to Japan. Figure 1 depicts the exports to Japan and Australia in last six years and it is evident from the figure that exports to Australia is on an increasing trend. The latest data confirms the increased role of the Australian economy for the Indian exporters. The Free Trade Agreement between the two nations promises better market access to not only products but also the services and human resources thereof.

In the present scenario the GDP of India stands near \$ 3 trillion, and the GDP of Australia is \$ 1.3 trillion. With expected growth rate of 7 to 8% the Indian economy has large scope of benefitting from the Indo-Australian EKTA Deal.



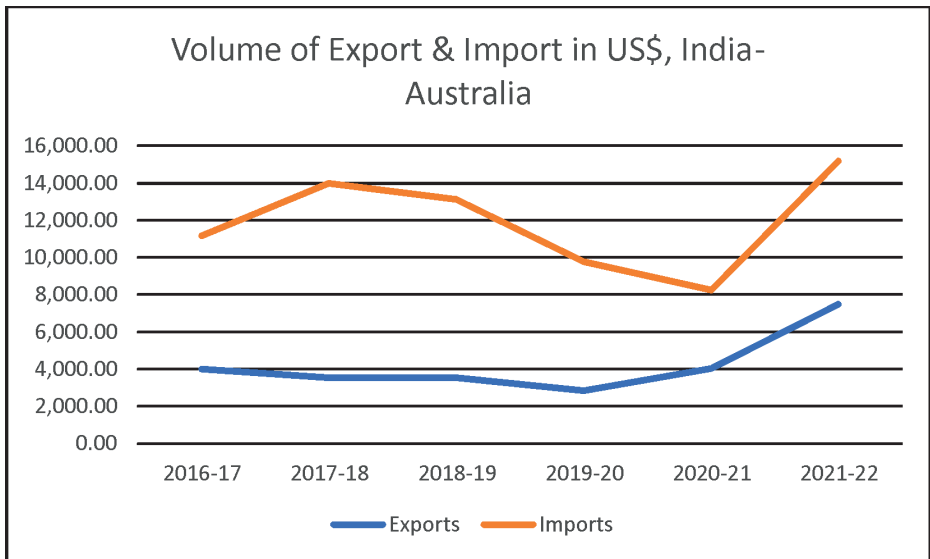
**Figure 1: Exports from India to Japan & Australia, (value: US \$), 2016-17 to 2021-22**

Source: Directorate General of Foreign Trade Database, Compiled by Author

\*\* The data for year 2021-22 is for the period of April 21 to February 22

There is no doubt that Australia still enjoys a favourable BOP with respect to trade with India, albeit when we introspect the trade data for few previous

years, we see that the gap between exports and imports of India with Australia is on declining trend as evident from Figure 2 which considers the data for 2016-17 to 2021-22. Earlier the gap was much wider and as per expectation of the Indian Government 95% of commodities from India and 85% of commodities from Australia will get hassle free access to each other's markets, which will play a significant role in bridging the gap between the same and promising a better future for Indian trade with Australia. Also, duty free entry of Australian goods in the Indian territory will generate direct benefits to the consumers in terms of lower prices because of zero tariff rates on many articles.



**Figure 2: Export and Import Volume of India & Australia, USD, 2016-17 to 2020-21**

Source: Directorate General of Foreign Trade Database, Compiled by Author

\*\* The data for year 2021-22 is for the period of April 21 to February 22

In case of labour-intensive exports India faces tough competition from its Asian counterparts, such as in textiles and readymade garments Indian exporters face competition from Vietnam and Bangladesh and in some categories with China too. Vietnam and China already have a Free Trade pact with Australia in place, therefore in this context after India has entered the deal, the exporters will certainly benefit from the same.

Several areas of cooperation have been identified in the deal. Provision of a separate chapter in the agreement is done to provide better environment to the human resource. Extended post study work visa is one of the provisions

which will benefit the Indian students looking forward to making their career in STEM & ICT. The professionals will also be getting opportunities in several fields as both the governments will relax the rules of human resource movements between both the nations. (Goel & Dan, 2022)

Australia majorly exports raw materials to India, like coal, gas, aluminium etc. on which the GOI has provided relaxation in duties, which apparently will bring down the cost of production for the Indian manufactures of finished commodities

The textiles, leather goods, gems & jewellery, engineering goods, pharmaceuticals, nuclear reactors, chemical products, electronic goods, engineering goods, iron & steel etc, are the industries which are going to be benefitted most (Rena,2006).

With reference to the agriculture sector, provision of shielding is ensured on many sensitive agricultural commodities and the dairy segment will not face any challenges as the GOI has ensured that these segments will not be facing any deduction in the tariff rates and hence fourth the Indian farmers interests are safeguarded completely (Rena,2006; Sen Amiti, 2022)

India will also be benefited in terms of achieving its target of clean and green energy as many scarce minerals and materials required for expansion of electric vehicles could now be easily tapped from Australia and it will substantiate in energy storage and solar energy expansion. At current India imports majority of items related to solar energy and electrical vehicles from China. India has identified 41 minerals which will be helpful for ensuring use of clean energy. It is expected that 21 out of 41 would be imported from Australia on zero duty. According to the agreement Australia will supply cobalt, lithium, tantalum, antimony, zircon etc to India. Recently, the government of Australia has also announced the largest ever single investment worth \$ 280 million in space cooperation, green technology, skill development and critical minerals.

## **CONCLUSION**

In conclusion, the Ministry of Commerce has also stated that it has made sure in the agreement that passable safeguards are in place to avert by-passing, and it also safeguard the interest of domestic manufactures so that they are been given a safe environment to avoid a abrupt surge in the imports from Australia. Also, provision of compulsory review is in place to match the changing business environment after fifteen years. From a macro perspective it is expected that both the nations will be in a win-win situation as Australia would get access to

emerging Indian market in terms of manganese, coal, aluminium, meat wool, nickel, manganese, copper and India will benefit in textiles & clothing, gems & jewellery, pharmaceutical, engineering goods etc.

India is also in discussion with Gulf-Cooperation Council, Israel, United Kingdom, and European Union for Free Trade Agreement and expects that the talks will soon turn into reality with increased market access and bundle of opportunities to the traders and the economy on a whole.

### *References*

- Directorate General of Foreign Trade Database, Ministry of Commerce & Industry, Government of India, <https://www.dgft.gov.in/CP/?opt=trade-statistics>
- Goyal Piyush & Tehan Dan, “A trade deal that will create jobs”, *Times of India*, April 11, 2022
- International Trade Agreements, Department of Commerce, Ministry of Commerce & Industry, Government of India, <https://commerce.gov.in/international-trade/trade-agreements/>
- Panagariya A.(2022). “Oz is just the start”, *Times of India*, April 6, 2022.
- Rena, R. (2006) *A Handbook on the Eritrean Economy: Problems and Prospects for Development*, Dar es Salaam (Tanzania): New Africa Press. Pages: 280
- Press Information Bureau, Government of India, Ministry of Commerce & Industry, 09 December, 2013, <https://pib.gov.in/newsite/PrintRelease.aspx?relid=101156>
- Sen Amiti(2022). “All about India-Australia Economic Cooperation”, *The Hindu Business Line*, April 04.