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AN INVESTMENT-LED STRATEGY FOR BUILDING AUSTRALIA-INDIA ECONOMIC RELATIONS

Sonia Arakkal

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EXECUTIVE SUMMARY

India's size and economic dynamism presents a major opportunity for Australia. As the rise of Japan, Korea and China did in previous decades, building an Australia-India economic relationship will fundamentally reshape Australia's integration in the Indo-Pacific. In 2018, the Australian Government released an India Economic Strategy (IES) that recognised the opportunity and mapped out 'the where and the what' for the future economic relationship. Our focus must now turn to the how.

Building a successful economic relationship with India will require Australia to adopt new approaches. In previous relationships with Northeast Asia, Australia was able to rely on trade complementarities in two sectors – natural resources and education – to provide a foundation for broader economic ties. But India does not have the same demand for resources, and COVID-19 has dented educational links. Australia therefore needs to develop economic strategies that are sector agnostic and tailored to engage with post-pandemic India.

To do this Australia need not reinvent the wheel. The strategies of peer countries which have the kind of economic relationship with India that Australia desires provide a useful template. An analysis of the Japanese, German and British approach reveals the importance of investment to economic engagement with India. For these countries foreign direct investment, institutional support for joint ventures, and the strategic deployment of development assistance play a core role in growing bilateral economic relations. Australia can borrow from this successful playbook to recalibrate a new approach to India.

Australia needs to emphasise investment with India to properly unlock the synergies between the two economies. The report identifies three specific strategies for realising this goal: promoting Australia private sector investment into India, the encouragement of joint ventures in global value chains, and the alignment of Australian economic diplomacy to India's strategic goals. By adopting an investment-driven approach, Australia and India can develop an economic relationship that realises their joint ambitions in the 21st century Indo-Pacific.

About the author



Sonia Arakkal is a Policy Fellow at the Perth USAsia Centre. In addition to planning and coordinating a range of program and research initiatives, Sonia directs the Centre's India programs and convenes policy workshops focussed on Australia-India relations.

 @sonia_arakkal

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COMMONALITIES IN THE ECONOMIC RELATIONSHIP WITH INDIA



JAPAN



GERMANY



UNITED KINGDOM

All three countries are in the top ten foreign direct investors into India

TOP-5 FOREIGN INVESTORS IN INDIA 2000-2021

| COUNTRY | RANKING | (\$US MILLION) FDI EQUITY INFLOWS FROM APRIL 2000 TO MARCH 2021 |
|----------------|---------|--|
| Japan | 5 | 36,641 |
| United Kingdom | 6 | 35,449 |
| Germany | 7 | 12,863 |

All three countries use development banks to direct public and private investment into India.

The Japan Bank for International Cooperation uses concessional loans program and private sector investment finance for India who is their largest development partner.

The German Investment Corporation invested a record amount of 1.614 billion euros for cooperation with India in 2019. Of that total, 1.595 billion euros is for financial cooperation.

The Commonwealth Development Corporation had more than 25% of funds committed to India in 2020, supporting 482 companies and 75 funds in a wide range of industries.

All three have bespoke mechanisms to support their investments and businesses in India

Japan Plus

Indo German Fastrack Mechanism and Make in India Mittelsand Program

UK Fast Track Mechanism and Access India Programme

All three are in the top 10 providers of overseas development assistance to India

TOP 5 BILATERAL DAC DONORS TO INDIA, 2019

| DONOR | RANK | (\$US MILLION) ODA TOTAL COMMITMENTS | PERCENT OF TOTAL |
|----------------|------|---|------------------|
| Germany | 1 | 1885.15 | 57.9% |
| Japan | 2 | 612.25 | 18.8% |
| France | 3 | 417.7 | 12.8% |
| United Kingdom | 4 | 137.76 | 4.2% |

POLICY RECOMMENDATIONS

1 Institutionalise an annual investment and finance dialogue between India and Australia

An annual investment and finance dialogue can identify initiatives that can progress economic integration beyond trade. A forum like this should:

- ▶ Provide a forum where Australian policy makers can advocate for an Australia specific fast-track dispute mechanism,
- ▶ Support the negotiation of the services and regulation chapters of IA CECA, and
- ▶ Facilitate regulatory harmonisation to provide the groundwork to make cross border investment attractive.

2 Prioritise facilitating investment in commercial diplomacy

Investment promotion efforts should focus on projects that are likely to support growth in Australia's strategic export sectors or those that will provide substantial returns to Australian firms and shareholders. This could look like:

- ▶ Explicitly facilitating outbound investment and joint ventures as a strategic purpose of Australian commercial diplomacy through Austrade,
- ▶ Developing industry-specific plans for bilateral investment, and
- ▶ Including incentives or market access for Indian-Australian joint ventures in the services and/or regulatory chapters of IA-CECA.

3 Formalise a development assistance program focused on technical assistance in agriculture

Beyond the important developmental objectives such a program should allow Australia to:

- ▶ Build on and bring together existing work through the India-Australia Grains Partnership and ACIAR with a specific development focus
- ▶ Showcase Australia's ag-tech capabilities and value to the Indian agricultural market, and
- ▶ Position Australia as a collaborative technology partner, rather than competing source of imports, to India's agricultural sector.