



ECTA: India and Australia a win-win deal

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Paper - II
(International Relations)

❖ India-Australia ECTA is a landmark in bilateral relations, will deepen ties.

The ratification of the India-Australia Economic Cooperation and Trade Agreement (ECTA) by the Australian parliament on Tuesday demonstrates India's skill in trade negotiations. The deal sailed smoothly through the Australian parliament, despite the fact that it was negotiated when the Liberal Party was in power and signed on April 2, 2022, and Labour came to power in May. This is salient also because most free trade deals New Delhi has negotiated and entered into have been mostly with South Asian countries and hardly served India's trade interests. Rather, they became counterproductive.

India-Australia ECTA and dispute

Prime Minister Narendra Modi and his Australian counterpart Prime Minister Anthony Albanese and Commerce Minister, Piyush Goyal and his counterpart, Trade, Tourism and Investment Minister of Australia, Don Farrell need to be complemented for striking the first trade deal with a developed country in a decade. On the one hand, it provides an opportunity for Australian exporters to tap the vast Indian market of 1.4 billion consumers, on the other, it provides an opportunity for Indian exporters to market their value-added products.

Other Important Facts

- For India, ECTA with Australia is the first agreement concluded with any major developed economy of the world after more than a decade. Australia is also the third OECD country after Japan and South Korea with which India has signed a Free Trade Agreement (FTA).
- With the deepening of Australia-India bilateral relations, Australia can also help create an advocacy lobby within APEC for India's membership.

Free Trade Agreement (FTA)

- It is an agreement made between two or more countries to reduce barriers to imports and exports.
- Under a free trade policy, goods and services can be bought and sold across international borders, for which provisions such as little or no government duties, quotas and subsidies are made.
- The concept of free trade is the opposite of trade protectionism or economic isolationism.

Considerable preparation and hard work had gone into finalising the negotiating agenda. Indian negotiators must be complimented for managing to get exclusions for the most sensitive sectors, and dairy and agriculture. These provide employment in rural areas to about 50-55 per cent of its population with small landholdings and 1-2 cattle per farmer. This is in sharp contrast to Australian agriculture and dairying. This bone of contention had stood in the way of a free trade deal.

Common interests of India and Australia

India and Australia both are Commonwealth countries, and parliamentary democracies with similar legal systems. Besides, India and Australia also are members of the Quad, a trilateral Supply Chain Resilience Initiative (SCRI) and the Indo-Pacific Economic Framework (IPEF).

Share of China and India in trade with Australia

China is Australia's largest trade partner with a 33 per cent share in its exports and a 27 per cent share in its imports, compared to India's 3.7 per cent share in its exports and a 2.4 per cent share in its imports as of 2021. Strategically, the need for trade diversification away from China for Australia, in view of a multiplicity of geopolitical factors, significantly tilts the balance in favour of India, leading to a win-win partnership. Manufactured goods such as petroleum, medicaments, diamonds, jewellery, railway coaches and vehicles, milled rice and herbicides constitute 72 per cent of India's exports to Australia. India primarily imports raw materials. Eighty-two percent of its imports from Australia are coal, gold, copper ore, aluminium oxide, liquified natural gas, manganese ore, aluminium waste, pigments, lentils, etc.

Commonwealth

- The Commonwealth is an intergovernmental organization of 53 members spread across 6 continents. These are countries that were formerly colonies of Britain. All these countries have signed an agreement for democracy, gender equality, international peace and security. It includes about one-third of the world's population and people belonging to different castes, religions, languages and incomes. This includes established economies such as Australia, Canada and New Zealand, as well as emerging markets such as India, Malaysia and South Africa. The organization is governed by the consensus of the member states and is organized through the Commonwealth Secretariat and non-governmental organizations. India is the largest member state of the Commonwealth and the fourth largest contributor to its budget.

Quad

- The Quad, also known as the 'Quadrilateral Security Dialogue' (QUAD), is an informal strategic forum consisting of four nations, the United States of America (USA), India, Australia and Japan. The primary objective of the Quad is to work for a free, prosperous and inclusive Indo-Pacific region. The idea of the quad was first mooted by Japanese Prime Minister Shinzo Abe in 2007. However, the idea did not develop further as Australia distanced itself from it due to pressure from China. Finally, in the year 2017, India, Australia, America and Japan came together to form this "quadrilateral" alliance.

Supply Chain Resilience Initiative (SCRI)

- On April 27, 2021, India, Australia and Japan formally launched the Supply Chain Resilience Initiative to counter China's dominance in the global supply chain. It was proposed by Japan whose main objective is to reduce dependence on China and increase foreign direct investment and turn the Indo-Pacific region into an "economic powerhouse".

Benefits from India-Australia ECTA

The Ind-Aus ECTA will lead to duty elimination on 100 percent tariff lines with no restrictions and benefit India's labor-intensive exports such as textiles and apparel, agriculture and fish products, leather, footwear and furniture, several engineering products, jewelry, select pharmaceutical and medical devices, furniture, and sports goods. These now fetch 4-5 percent import duty in the Australian market. The agreement would provide duty-free access to over 6,000 broad categories of Indian products in the Australian market. The trade deal will boost exports of pharmaceuticals, India's second-largest export after petroleum products, to Australia, as medicaments that have already been approved in the US and the UK will get expeditious regulatory approval from Australian authorities.

Why is ECTA important for India?

India is the world's largest importer of coal. Out of India's coal trade deficit of \$24 billion, Australia accounts for \$11 billion. The Ind-Aus ECTA is likely to make coal, a crucial input for India's energy needs and its industrial growth, available at competitive prices. Besides, duty-free imports of Australian raw materials such as copper, nickel, aluminum, manganese, wool, hide and skins, etc, would boost the competitiveness of Indian industry and create enormous job opportunities. Australia will also allow duty-free import of Indian wines, while India will reduce import duties from 150 percent to 100 percent on Australian wines of \$5 per bottle, down to 50 percent in 10 years.

The Ind-Aus ECTA goes beyond merchandise trade and the Indian services sector also gets a major boost as it makes wide-ranging commitments in around 135 service sectors. The Most Favoured Nation (MFN) status will be granted in about 120 sub-sectors covering key areas of India's interest such as IT, ITES, education, health, and audio-visual. The deal provides an annual quota of 1,800 for yoga teachers and Indian chefs and a commitment to over one lakh of India's outgoing students to Australia, who are likely to benefit from post-study work visas ranging from one-and-half years to four years.

what's next

The Ind-Aus ECTA is expected to increase bilateral merchandise exports by \$10 billion by 2026-27. It will contribute to the creation of additional job opportunities for Indians in Australia and an additional 10 lakh jobs in India as a result of Australian investments. The trade deal also resolves the long-pending Double Taxation Avoidance Agreement (DTAA) related to IT/ITES. This will lead to yearly savings of over \$200 million, a remarkable achievement. The trade deal will prove to be a milestone in India-Australia relations that will not only increase mutual cooperation but also significantly contribute to boosting economic growth and the strategic partnership between the two countries.

Indo-Pacific Economic Framework (IPEF)

- ➔ IPEF is seen as an important step in America's decade-old 'pivot to Asia' strategy. The Framework is a declaration of the collective will to make the Indo-Pacific an engine of global economic growth. Its objective is to strengthen the economic partnership between partner countries to promote resilience, sustainability, inclusiveness, economic growth, fairness and competitiveness in the Indo-Pacific region. Quad member countries US, India, Japan and Australia besides 10 ASEAN countries, South Korea and New Zealand have joined IPEF.

Expected Question

Que. Consider the following statements -

1. The Supply Chain Resilience Initiative (SCRI) includes India, Australia and Japan.
2. The Quad comprises India, Australia, the US and Japan.
3. The Indo-Pacific Economic Framework (IPEF) comprises 10 ASEAN countries, South Korea and New Zealand, apart from the US, India, Japan and Australia.

Which of the above statement(s) is/are true?

- (a) Only 1 and 2 (b) Only 2 and 3
(c) Only 1 and 3 (d) All of the above

Answer : D

Mains Expected Question & Format

Que.: What do you understand by Free Trade Agreement? Why is the recent Economic Cooperation and Trade Agreement (ECTA) between India and Australia important for both countries? discuss.

Answer Format :

❖ **Introduction (40-50 words)**

Define free trade agreement.

❖ **Main Body (150-160 words)**

ECTA between India and Australia. Explain in detail why the agreement is important for both the countries.

❖ **Conclusion (30-40 words)**

Give a balanced answer considering the future prospects for India.

Note: - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC mains examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.