

An Analysis of Trade and Foreign Direct Investment between India and Australia

Prof. Krishn A. Goyal,
Department of Business Finance
& Economics,
Faculty of Commerce and
Management Studies,
& Director, Institute of Evening Studies
Old campus,
Jai Narain Vyas University, Jodhpur, India.
Email: kag.bfe@jnvu.edu.in

Teena Mertiya,
Corresponding Author
Assistant Professor,
Department of Economic
Administration and Financial Management,
Government, Bangur
Postgraduate College, Pali,
Jai Narain Vyas University, Jodhpur, India.
Email: teenamertiya97@gmail.com

Abstract

Existing theoretical and analytical investigation have acknowledged India's rising influence to the Australian economy, even though revealed that FDI and trade patterns have largely remained unexplored. Therefore, this paper is an attempt towards analyzing trade and foreign direct investment (FDI) trends between India and Australia. Secondary data has been used for analyzing over the period of past ten years from 2012 to 2022. According to findings, both FDI and trade have been expanding over the previous ten years. Further, results indicating a trade deficit for India since exports were erratically less than imports. Nevertheless, the relative trends produce a positive picture since export growth has outpaced import growth eight out of ten occasions. In addition, India clearly prefers to encourage FDI inflows instead of making outward investments in Australia. The relative trends indicating inbound FDI has outpaced outbound FDI seven out of ten occasions. Lastly, it's not just India that is going to be benefitted but it will have a reciprocal effect. Australia's vulnerability to global risk will be minimized if India would be one of its top 3 export destinations, and can generate greater two-way investment, to diversify and protect from uncertainty.

Keywords: Trade, Foreign Direct Investment

Introduction

India–Australia relations are the diplomatic cooperation between the Commonwealth of Australia and the Republic of India known as the "Comprehensive Strategic Partnership". India and Australia indeed were wedge of the British Monarchy before their independence. Both being Commonwealth of Nations appendage share political, economic, defense, linguistic, and sporting associations. The bilateral naval exercise between Australia and India is an example of their military collaboration. Cricket, just like the English dialect has arisen as a clear ethnicity between both countries through a legacy of Colonization.

Slowly but gradually, India and Australia have forged a strong sense of

confidence over the decades. From the time when a 'Consulate General of India' was established as a Trade office in Sydney in 1941, later appointment of Lieutenant-General Iven Mackay as Australia's first High Commissioner to India in 1944 till Barry O' Farrellin in 2020. Although the bilateral relations hit pathetically when the Government of Australia protested India's nuclear testing in 1998. Ever since, the relationship has incubated when Australia signed a uranium supply agreement with India in 2014, the first of its kind with a non-signatory to the Nuclear Non-Proliferation Treaty, in acknowledgment of India's faultless non-proliferation record, it became obvious what kind of relationship Australia desired with India.

On December 29, 2022, Australia and India signed the Economic Cooperation and Trade Agreement (ECTA). Also the exciting news is that, in September 2021, both prime ministers decided to take up a Comprehensive Economic Cooperation Agreement (CECA), negotiation again which would give exporters wider access to markets (Sharma, 2016). These pictures promise in the direction of improving the trade and economic relations between both countries. Each side issued details of products and services. The CECA's assertion might well enlarge the trading platform, eliminate non-tariff restrictions, stimulate investment and resolve trade frontier constraints. The negotiation process is active since 2011.

To encourage trade and FDI, decision-makers should create the mechanism smoother and it is critical to find the right incentives (Goyal and Khicha, 1997). A great deal of research has been done on the relationship between the variables so that policymakers may use these factors to figure out the size and trajectory of flows. Perhaps this is the time to think about how the two sides can strengthen reciprocal trade and investment connections.

In such a circumstance, this research paper would be a pragmatic endeavor to identify the historical trade and investment interactions, as well as to propose directions to bridge the economic gap between the two sides. Thus, the present research brings relevant action plans on the road to upturn the trade and economic rapport between both nations.

Literature review

There is still no basic explanation that can comprehensively justify the nature of overseas investment since an individual company can have a wide range of motivations to invest. Post World War II, as the waves of globalization, began to spread, the reasoning of International exchange began. According to the literature both trade and FDI are expected to grow as a result of liberalization, (Rugman, 1990). Observantly after the advent of economic reforms in the 1980s and 1990s Indian manufacturing sector has seen steady growth in all metrics. Labor productivity and value-added job opportunities have improved considerably and trade balance too strengthened during this same time, as a result of this. Regrettably, labor-intensive textile and footwear industries threaten to be a flaw in the growth trend (Sen, 2008). India was also able to draw decent FDIs than the advanced countries despite the adverse times. FDI allowed India to attain a certain level of financial stability, prosperity, and development to contend on a global arena via technology diffusion, job creation, and universal exposure to managerial skills & logistics source, subsequently leading towards stimulated economic growth (Azhar and Marimuthu, 2012).

Bilateral transactions between Australia and India

Bilateral trade between Australia and India has progressed from concept to reality especially in recent years. The valuation of bilateral products and services trade has increased from \$A6.8 billion in FY2003-04 to \$A14.8 billion in FY2013-14. Furthermore, energy, high-tech, telecommunications, and finance industries are where Australian corporations are most evident in India; spent A\$ 6.57 billion in 2013, 13.7 percent up from A\$ 5.78 billion in 2012 (Sharma, 2016). Economic affairs experts however appear to be mystified by Australia-India ties. Since Australia is still unable to build a solid relationship despite the apparent implications of closer relations (Gurry, 2011; Hall, 2022). As it has in building relations with Japan, China, and Indonesia and it has approached every episode of the encounter as fresh engagement, has gone through many stages beginning with a fleeting period of warmth in

the years following frosty decades of the Cold War and India's independence ending with a fragile relationship due to issues like not to export uranium to India (Mayer and Jain, 2010).

Australia and India differ on several fronts.

India has repeatedly rejected the Western-liberal hegemonic culture and pursuing polycentric rule by criticizing international forces. It keeps on resisting nuclear non-proliferation treaties moreover building selective multilateral alliances. In contrast, Australia is active in defending the liberal model dominated by the United States (Chacko and Davis, 2017).

Australian authorities have used Nuclear Non-Proliferation Treaty (NPT) to disagree with India's constant mandates for uranium. Therefore, (Roy, 2011) explores India's cleavage to the strategy also mulls over how long Australia might uphold its stance in the wake of an ever-changing climate, economic development, and rising bilateral cooperation among two nations with mutual interests. If we take a clue from previous Australian investments ANZ manufacturing companies use wholly-owned subsidiary operating frameworks moreover market-seeking and efficiency-seeking foreign direct investment where there is a quite wide market opportunity yet low cultural gap. Reduced exchange rate volatility improves the likelihood (Tahir and Weijing, 2011)

The popularity of free trade agreements (FTAs) has grown over the years as these measures lessen trade barriers (Timsina and Culas, 2020) revealed that China, Korea, the United States, and Japan have significantly larger trade creation implications in the agriculture sector for Australians. The greatest impact on sugar and wine exchange among the goods studied. All in all, the FTAs culminated in more trade creation than an export diversion.

According to a feasibility report undertaken recently by India and Australia, a Free Trade Agreement (FTA) will be beneficial to both nations (Chanda et al., 2012) argues that an FTA might exp and the trade deficit in the Australian favor firstly, but it will be advantageous to India in the long run not only in form of higher trade but by acquiring a better understanding about primary industries can reap significant

exposure to eastern markets that have previously been underserved. The clothing industry is a good example. China, Australia's biggest exporter, and India's closest rival have a massive 77 percent market share, while India has just 2.34 percent.

Research Methodology

Research gap - A considerable amount of literature has been documented to examine Australia's potential relationship with India as a whole, but somehow the shreds of evidence are ambiguous based on the time frame and approach adopted. To the best of my knowledge, there is limited research concerning avenues of trade and FDI in India vis-à-vis that of Australia. There is a need to put together a systematic study of past trends of trade and FDI flows in between India – Australia to increase their current stream. Therefore, this research aims to put in fruitful contribution on the topic of economic alliance among the two most influential economies of the world.

Objectives

- To analyze India's past trends of trade and foreign direct investment relationship with Australia.
- To explore mutual benefits through trade and foreign direct investment cooperation in particular and overall economic relation in general, between India and Australia.

The period and data source—This research is exploratory and descriptive. Secondary data have been processed for this purpose for the past ten years from 2012 to 2022. The study uses the annual data depicting FDI flows, the volume of exports, and imports between India – Australia. The data source is the Reserve Bank of India, Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, DFAT, Australia Bureau of Statistics database. The trends of bilateral economic relations have been analyzed by the absolute volume of trade and FDI with relative rate of growth.

Trade relationship between India and Australia:-

During the last couple of decades, the bilateral trading

relationship with Australia has strengthened significantly. Indian economy's increased openness coupled with high demand for Australian products has resulted in the growth in two-way trade. Till July 2023 India's merchandise exports to Australia were \$ 5,282 million while imports were \$13,746 million. Though the tariff scheme in India is bit high; MFN applied simple average tariff in 2022 was 18.1% weigh against to Australia's 2.4%. Accordingly, Australia and India signed the Economic Cooperation and Trade Agreement (ECTA). As deliberation by ECTA up to 90% of Australian product shipments to India and up to 100% of Indian imports will be duty-free by 2026.

In 2022, India was 6th largest two-way goods and services trade market for Australia, and 4th-largest export market, and 5 years-trend indicates 7.7% growth a huge possibility of an emergent trade relationship. However, India's economic agenda to stimulate investment and productivity have fuelled overall import demand, which has done well for Australia directly. Even then India accounts for a tiny share of 4.4% in two-way merchandise trade with a value of A\$46,530 million in 2021-22. Australia runs a sizeable trade surplus with India – total exports to India were A\$33,340 million while imports were A\$13,190 million over the same period.

Table 1 India's trade relationship with Australia (Values in US\$ Million)

Year	Export	Import
2012-2013	2,349	13,086
2013-2014	2,300	9,823
2014-2015	2,782	10,247
2015-2016	3,262	8,898
2016-2017	2,957	11,154
2017-2018	4,012	13,993
2018-2019	3,520	13,131
2019-2020	2,852	9,782
2020-2021	4,044	8,247
2021-2022	8,283	16,756
	36,363	1,15,119

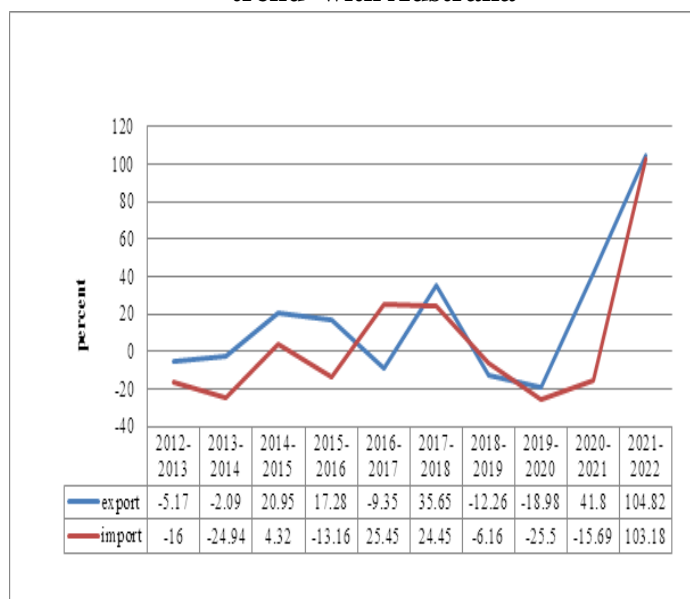
Source: DGCI & S, Department Of Commerce, Ministry of Commerce and Industry, Government of India.

It is evident from table 1, that India has been experiencing a fluctuating tendency in the annual trade relations with Australia, though mostly depicting upward inclination. Yet exports have always been lower than imports that point towards a trade deficit. Exports for India ranges from US\$2,349 million to US\$8,283 million during the period often years i.e. 2012-2013 to 2021-2022, where as imports range from US\$13,086 million to the US\$16,756 million over the same period. Nevertheless, the relative trends in Figure 1 produce a positive picture since export growth has outpaced import growth eight out of ten occasions. Product bifurcation suggests that coal account for half of the overall imports for India then places copper ores & concentrates, natural gas, non-ferrous waste & it exports refined petroleum, medicaments, pearls & gems, jewelry. Services

trade cover information and telecommunications, education, and tourism. Australia's International Business Survey states that India is just behind China, has the second-highest number of foreign enrolments in higher education in Australia.

China represents roughly 29 % of Australia's trade, a major bidirectional ally in goods and services. After Australia backed a proposal for an investigation regarding China's medication of Covid-19 eroded their economic relations since China decided to impose a set of restrictions on Australian imports with retrospective effect, including fresh tariffs and suspensions on barley, wood, gas, cotton, wine, and lobster. Therefore, India could come forward as the next biggest trade marketplace for Australian exporters.

Figure 1 India's trade annual growth trend with Australia

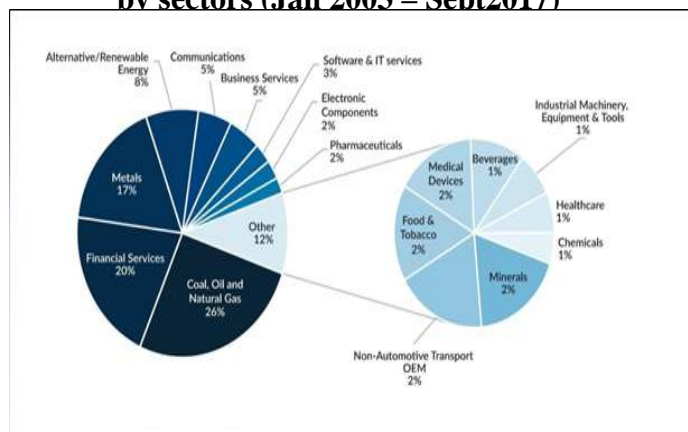


Source: DGCI&S, Department Of Commerce, Ministry of Commerce and Industry, Government of India.

Investment relationship between India and Australia:-

Australian investment in Asia has rapidly increased in past eight years though bilateral investment between India and Australia is indeed in its early iterations. India may be a tempting destination for Australian investors who wish to diversify their portfolios' regional and resource classification coverage employing profound analysis of the sectors in which their fellow entities invested (Figure 2).

Figure 2 Australian Capex in India by sectors (Jan 2003 – Sent2017)



Source: India Economic Strategy 2035 report.

Rather direct investment taking off from a minimal concentration. Table 2 shows that India has been able to engage decently bilateral foreign direct investment relationship with Australia. About the fact that India's preference has been to draw inflows rather than make outbound investments in Australia. Australia invested a total of\$ 1,539million on the other end India's investment in Australia was \$551millionin 2022. India has received cumulative inward FDI during the past ten years spanning 2012 to 2022,\$15,653million; with the highest amount of \$1,907million in 2019but unfortunately, the next few years has registered the lowest figure among all. Whereas India's outbound FDI is pretty much half of inbound FDI maneuvering approximately around\$627million which cumulates\$6,265millionover the same period. In addition, figure 3 reveals that inflows are less inconsistent than outflows.

Table 2: India's Foreign Direct Investment Flow with Australia (Values in US\$ Million)

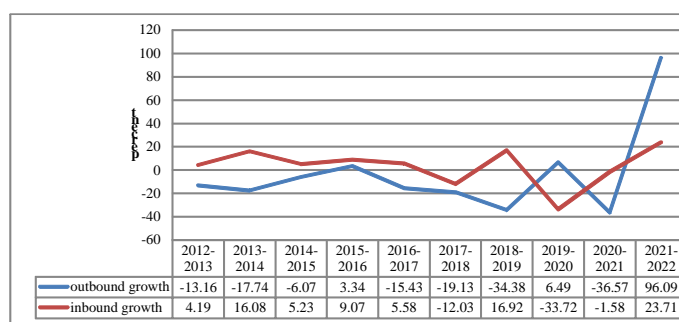
Year	Inward	Outward
2012-2013	1318	1161
2013-2014	1,530	955
2014-2015	1,610	897
2015-2016	1,756	927
2016-2017	1,854	784*
2017-2018	1,631	634
2018-2019	1,907	416
2019-2020	1,264	443
2020-2021	1,244	281
2021-2022	1,539	551
	15,653	6,265

Source: Australian Bureau of Statistics. (2022). International Investment Position, Australia: Supplementary Statistics. ABS. <https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>.

*average since data available

The relative trends produce a constructive picture since inbound FDI growth has outpaced outbound growth seven out of ten occasions.

Figure 3 India's Foreign Direct Investment Annual Growth Trend with Australia



Source: Australian Bureau of Statistics. (2022). International Investment Position, Australia: Supplementary Statistics. ABS. <https://www.abs.gov.au/statistics/economy/international-trade/international-investment-position-australia-supplementary-statistics/latest-release>.

Mutual Benefits to both Economies with the Rise in Trade and Investment:-

China's confrontational foreign policies and America's fragile art of war have put the rule of law in global governance under threat, and now the COVID-19 crisis with its ensuing economic turmoil has exacerbated the situation of aeons. In such a state of affairs, regional partnerships do have a pivotal role to play. Thus, Indo-Pacific continent will be at the forefront of public debate against China. All aspects of the game of control in the Indo-Pacific are becoming significant. India and Australia, two greatest maritime forces among the Indian Ocean's littoral hence their role is extremely important (although Japan will always have its name on top of the list). Accentuate by the fact that India and Australia seek to

deepen rapport with the significance of their strategic alliance as well as promising demographic prospects.

From a historic point, the political and commercial environment in itself was rather encouraging to shape stronger links following the Cold War conclusion. Australia-India relations initiated to flare up long before China surfaced as a geopolitical threat for countries. Since the two sides have proliferated strategic alliances together with economic cooperation (Grare, 2014). Even though suspect India's strength still Australia acknowledges its commonalities with India in facilitating the vulnerabilities in the region principally with China's rising dominance and assertiveness, prevalent worries about its intentions and capacities have overshadowed Canberra's skepticism over the determination of the Indian Government to liberalize the economy and enhance bilateral trade and investment. Similarly, India too interacting closely with a nation it never acknowledged as a peer (Hall, 2022). Henceforth, regional peace and salvation are at risk, two realms cannot afford to ostracize one another.

The reason for this is exceptional performance, innovation, and competencies by Australian brands. Therefore, collusion with Australian businesses can assist Indian enterprises to increase the worth of their firms and provide themselves a significant lead. Alongside unrestricted access to the new products and processes, professional expertise in the industry, smart solutions, and resource sharing. Australian multinationals will be wonderful business associates. As foodservice; automobile; security; aviation, mines and mineral wealth; renewable energy; infrastructure, engineering, and design; green architecture; agro-industries; information and communications technology; health; biotech; hospitality; education are a few of those sectors in which Australia can beat single-handed to any competitor in the world.

About the fact that it's not just India that is unilaterally going to be benefitted but it will have a reciprocal effect. Australia's vulnerability to global risk will be minimized if India would be one of its top 3 export destinations, and can generate greater two-way investment, to diversify and protect from uncertainty. This is critical for a nation where nearly half of exports go to mere two nations, both of which

have aging demographics. India, with its vast young populous, brings balance to Australia's economic relationships and spreads risk. A research and engineering collaboration with India will also help boost domestic competitiveness and build employment in Australia's key industries. Australia's economic stability is bolstered by a close economic alliance with India by ensuring its position in the prosperous economies of the world. As Australia is competent enough to pull million of Indians out of poverty and reduce inequalities, therefore, must provide welfare services, if feasible in remote regions. Assist in increasing productivity of both primary and secondary sector; should also collaborate on education and training programs, affordable healthcare, and social infrastructure. Indeed, the strongest component of our long-term economic engagement with Australia is expected to be the service sector. Hence, indulging with Indian policy formations and regulatory settings will help Australia in successfully aligning to global supply chains. There is an obvious rationale to take account of India as the Australian economy is dependent on exports and foreign investment to sustain a growing living standard.

Conclusion:-

India and Australia do have a healthy and fruitful bilateral relationship. The depth of Australia's engagement with India has grown in tandem with India's steady economic and diplomatic annexation, supported by trade and investment. Both exports and imports are steadily increasing; India has now become Australia's 6th largest export market, highlighting India's significance as a potential export and business market for Australia. Merchandise exports to India increased 13.43percent from US\$2,349 million to US\$8,283 million during the period of ten years i.e. 2012-2013 to 2021-2022, whereas India imports increased 2.50percent from US\$13,086million to the US \$16,756 million over the same period. Coal, copper ore, gold, pearls & gems, jewelry, and other commodities are among the top merchandise trade. Moreover, the flow of inward FDI has also enticed during the last eight years. India has received cumulative inward FDI from Australia during the past ten years,\$15,653million. Whereas India's

outbound FDI is pretty much half of inbound FDI maneuvering approximately around\$627million which cumulates \$6,265millionover the same period.. This happened as a result of progressive liberalization of trade and investment, as well as endeavors to attract foreign investment. Amongst the remarkable adjustments are easing the most draconian provisions of the Foreign Exchange Regulation Act, concedes raising foreign ownership caps in a multitude of sectors and tax amelioration so on. Australia often considered being an attractive source because of its sheer predominance in industries such as mining and defense, finance, information, and technology as well as petroleum.

Furthermore, if we look at the global arena countries with similar ideals nowadays are concentrating their efforts on creating supply chains that are stable and highly reliable because of unexpected global incidents. They are encountering an unprecedented effect in terms of supply chain failures worldwide owing to a variety of reasons. Similarly to challenge China's tyranny of the Indo-Pacific distribution network, India, Australia, and Japan too officially unveiled the Supply Chain Resilience Initiative (SCRI). This will also have a reinforcing effect on Australia-India relations.

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