An investment-led strategy for building Australia-India economic relations

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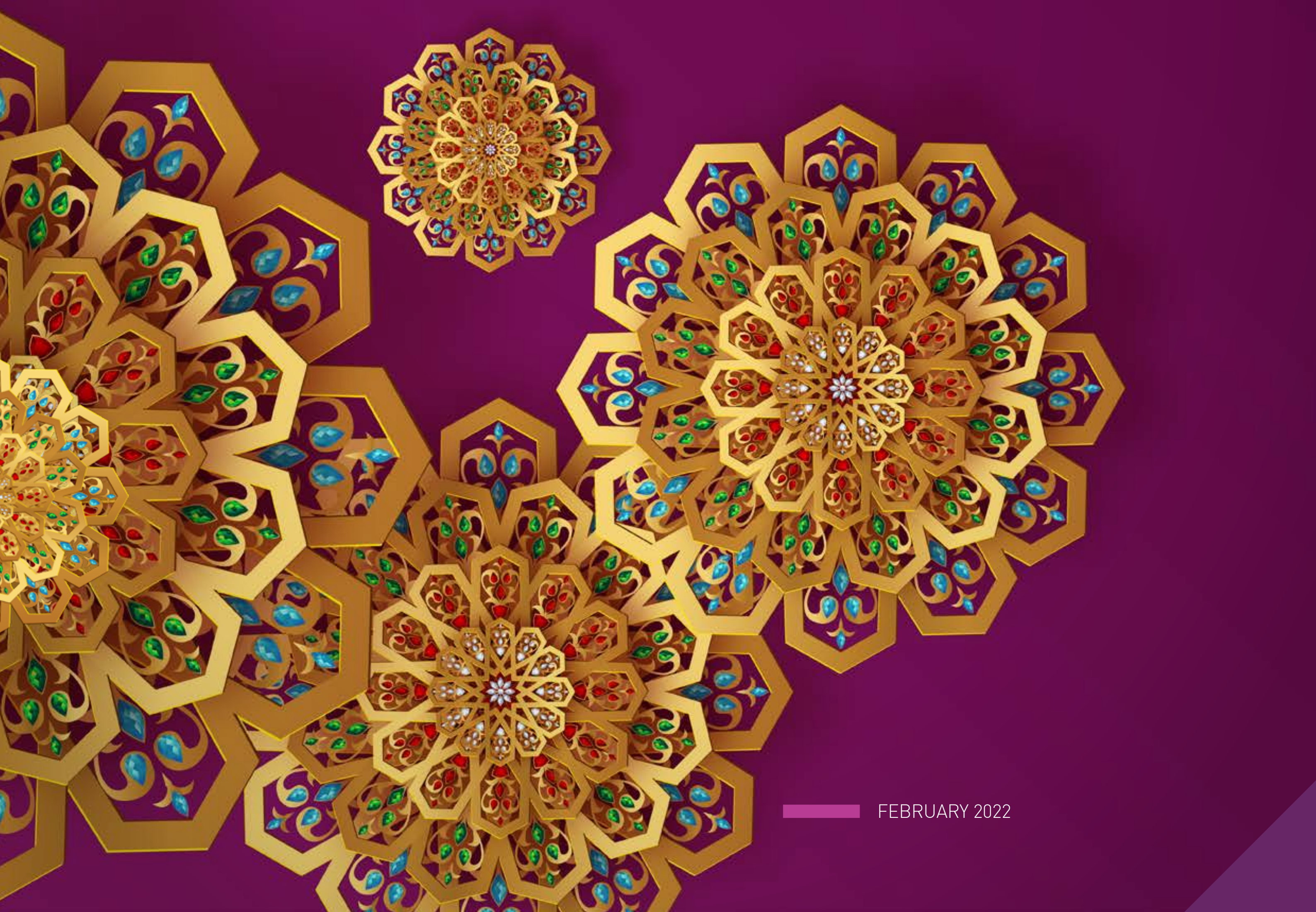

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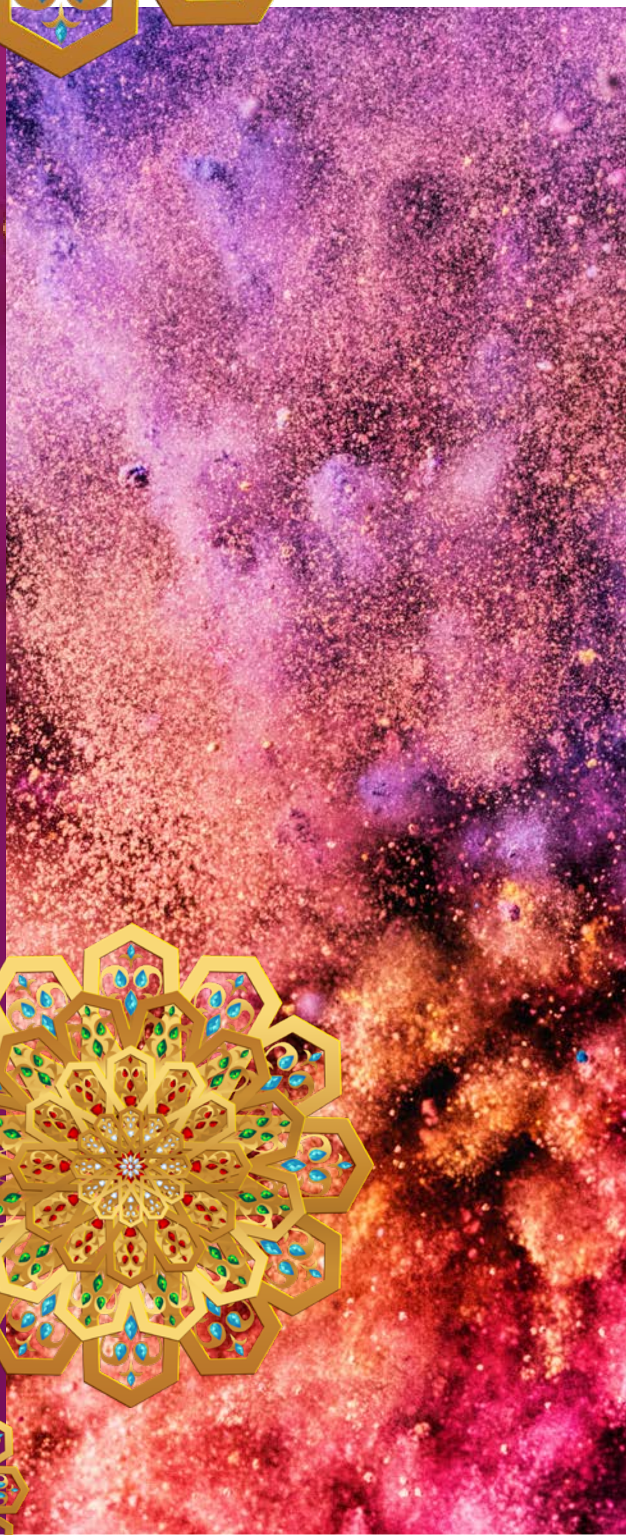


EXECUTIVE SUMMARY

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.

RECALIBRATING AUSTRALIA'S ECONOMIC ENGAGEMENT WITH INDIA

In the post-war period, Australia honed a successful model for economic partnership building in Asia. This playbook relies on establishing a key sector as a flagship export industry, then building a fuller bilateral economic relationship around it. For example, underpinning success with Japan, Korea and China is Australia's ability to export mineral resources – iron ore, coal and gas – to service demand from Northeast Asia's heavy industries. As these resource exports industries grew, Australia was able to attract inbound investment from these partners, establishing strong corporate relationships. Australia established many other economic linkages – in agriculture, services, technology and education – upon the foundation of a flagship resource export.

While this model proved successful in building economic relationships with Northeast Asian partners, it is not a replicable strategy for the contemporary Australia-India economic relationship. Unlike Northeast Asia, India is a services-driven economy which does not have obvious complementarity with key Australian export sectors. India does not demand Australian minerals resources, and its relative food self-sufficiency means agriculture will not be prominent either.[1] As a developing economy India is a net capital importer and is unlikely to be able to invest significantly in Australia.[2]

AUSTRALIA HAS RECOGNISED ITS APPROACH TO INDIA MUST BE CUSTOMISED

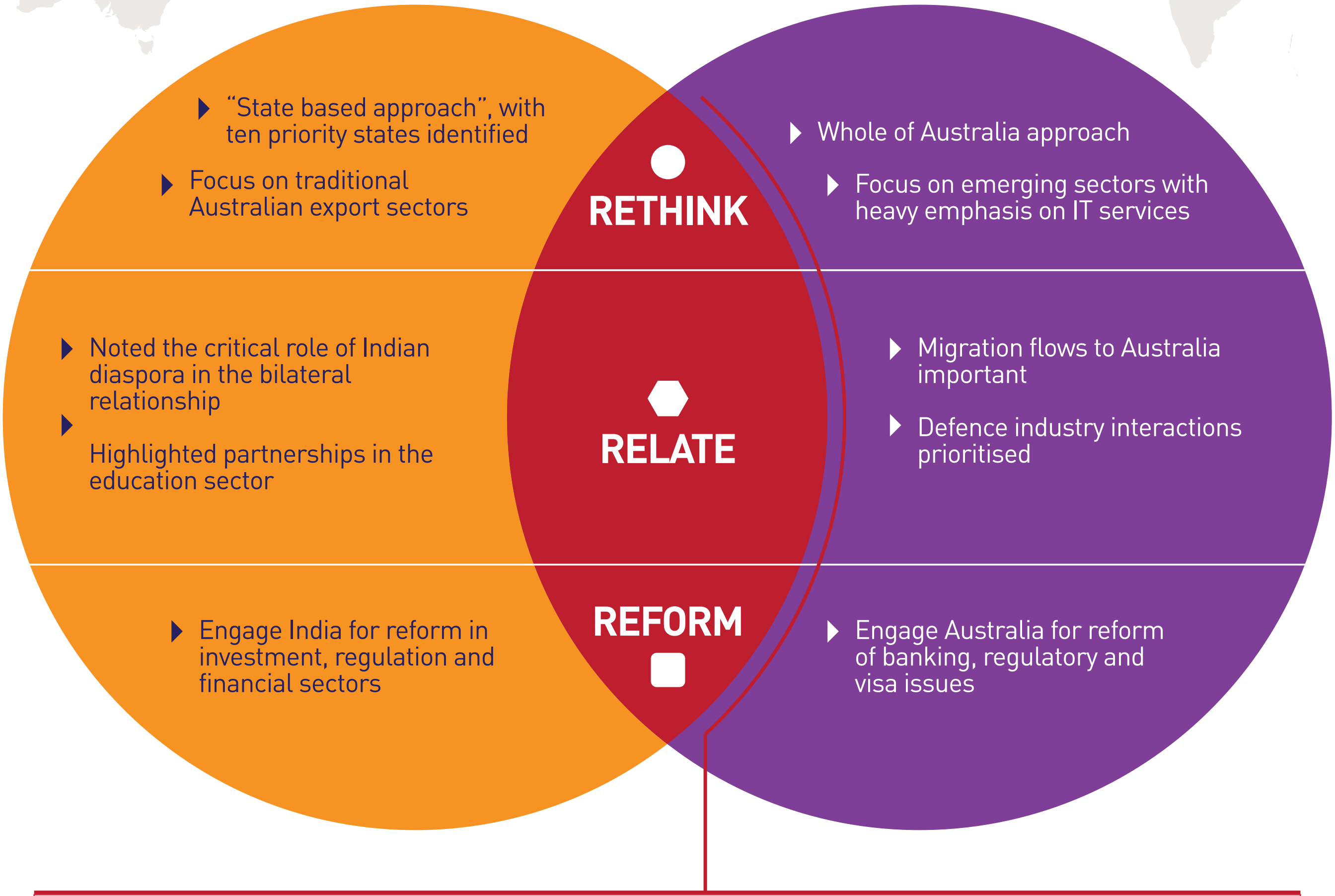
The need to adapt the playbook for the Indian context was the driving force behind the formulation of Australia's *India Economic Strategy* (IES) in 2018.[3] It identifies education as the flagship sector, followed by three 'lead' and six further 'promising' sectors. Education is identified as the flagship sector because of Australian expertise, the scale of India's education deficit, and the way in which education demand appears across many sectors of the economy. Tourism, agribusiness and resources are identified as lead sectors which can follow from education, while promising opportunities are also available energy, health, financial services, infrastructure, sport, science and innovation.

In December 2020, India launched its reciprocal *Australia Economic Strategy* (AES).[4] Significantly, the AES is the only country-specific strategy ever produced by the Indian government, reflecting the political priority it accords economic engagement with Australia. Like the IES before it, the AES sets out the opportunities across focus and emerging sectors and highlights the key opportunities for Indian foreign direct investment into Australia. It is based on three pillars of resources, technology and services and research & innovation. There is considerable overlap between the twelve focus sectors in the AES and the ten sectors identified in the IES.

FIGURE 1 COMMON THEMES OF INDIA AND AUSTRALIA'S BILATERAL ECONOMIC STRATEGIES

Australia's India strategy

India's Australia strategy



- An investment-first approach
- R & D partnership focused
- Developing corporate Australia's interest in India's growth story

- Ministerial-level leadership crucial
- Need for an inter-governmental coordination mechanism
- Expanding diplomatic presence
- Called for connectivity and direct flights

- Revive talks for trade and investment agreements
- Review domestic tax and regulatory settings

HOWEVER, THE COVID-19 PANDEMIC HAS CHANGED THE GLOBAL CONTEXT

Half of the identified lead sectors in Australia's IES have been impacted by border policies made in response to COVID. This is especially the case for its flagship sector, education. Around 2500 Indian students began studying at Australian universities between July and November 2020 — a decline of 83 per cent compared with the same period in 2019.[5] In contrast, new commencements from Chinese university students declined by just over 8 per cent to around 8600 students over the same period. Though borders have reopened it may take many years to reach the pre-pandemic levels of Indian students studying in Australia.[6]

Beginning in the late 1990s, India began a process of economic liberalisation, lowering barriers to international trade and investment.[7] The continuation of this trend is an assumption built into Australia's economic approach to India. However, India's withdrawal from negotiations for the Regional Comprehensive Economic Agreement (RCEP) in 2019, and its renegotiation into FTAs with Korea, Japan and ASEAN, signal a recalibration to India's economic engagement with the world. In 2020 Prime Minister Modi unveiled an ambitious AtmaNirbhar Bharat ("Self-reliant India") campaign, which some experts fear will compound India's protectionist tendencies constraining India's capacity to engage in international trade.[8]

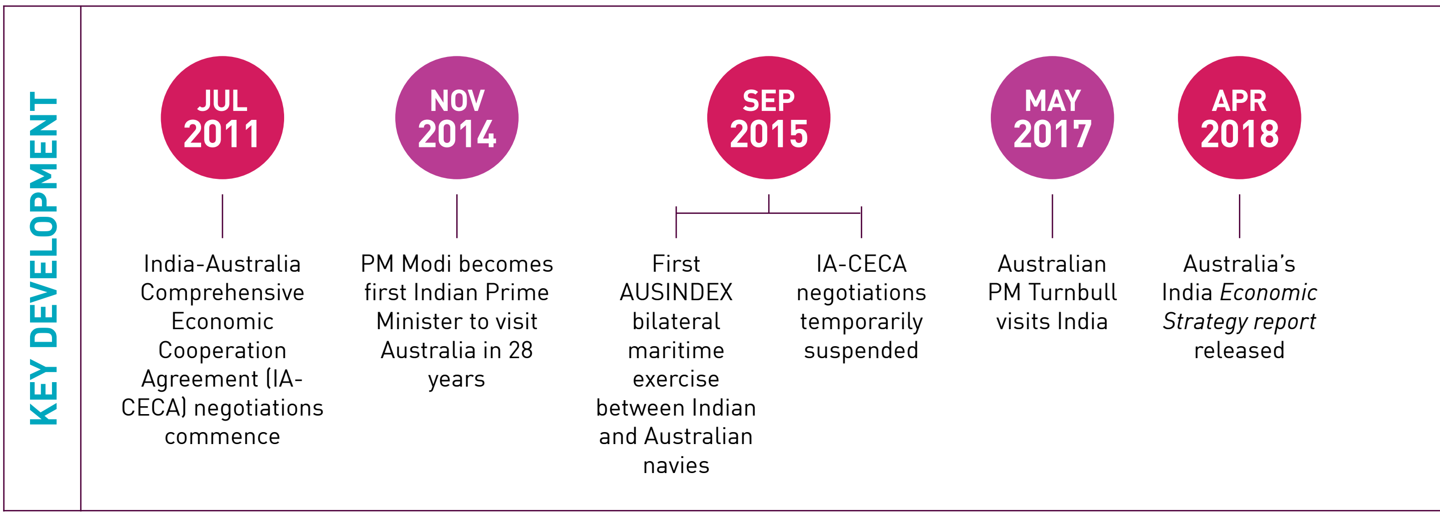
The economic fallout from COVID-19's effect on India raises questions about the country's short-term economic resilience. The World Bank slashed India's gross domestic product growth projection for the fiscal year 2022 to 8.3 per cent.[9] The projection is based on optimistic assumptions about India's vaccination program and warns that 'the outlook could be weaker if vaccination does not proceed as rapidly as expected'.[10] The significant losses of life and productivity among India's working adults may also act as a drag on growth for some years. While India's long term economic trajectory – driven by underlying demographic fundamentals – remains strong, in the near-term it will need to navigate the economic dislocations imposed by the pandemic.

STRATEGIES FOR AUSTRALIA-INDIA ECONOMIC ENGAGEMENT MUST BE RECALIBRATED

Strategies for Australia-India economic engagement must be recalibrated for the post-COVID context. On the Australian side, this requires moving away from a strategy reliant on the education sector, which is unlikely to play a flagship role until well after COVID-related barriers abate. On the Indian side, it requires adapting strategies that are compatible with the pressing need to address its immediate economic challenges. While the IES and AES strategies may provide effective long-term maps for the relationship, in the near-term efforts need to be refocused on shared issues of today.

There is a new mood of optimism around the revival of Australia-India Comprehensive Economic Cooperation Agreement (IA-CECA) negotiations. While political and strategic imperatives for a free trade agreement have changed since it was last attempted in 2013, the economic and policy challenges have not. India has struggled to conclude free-trade agreements with other partners due to sensitivities surrounding agricultural imports.[11] This trend calls into question the ability of IA-CECA to deliver a strong market access result for Australia. Agriculture market access is Australia's highest priority in the negotiations, but India has been unwilling to make concessions that could result in disruptions of a sector which accounts for about 40 per cent of India's employment.[12]

FIGURE 3 TIMELINE OF KEY DEVELOPMENTS IN THE AUSTRALIA-INDIA RELATIONSHIP



GIVEN STRATEGIC DYNAMICS, THERE IS AN IMPERATIVE TO REINVIGORATE THE ECONOMIC RELATIONSHIP

In the last 18 months Australia's strategic relationship with India has gone from strength to strength. From the official announcement of the elevation of the relationship to a Comprehensive Strategic Partnership, a series of QUAD leader's meetings and increasing defence cooperation.[13] This focus on the broader relationship can be explained by shared Australian and Indian concerns of US-China rivalry in the region. However shared strategic concerns, and a growth in defence and security partnership, will not automatically drive growth in the economic relationship.

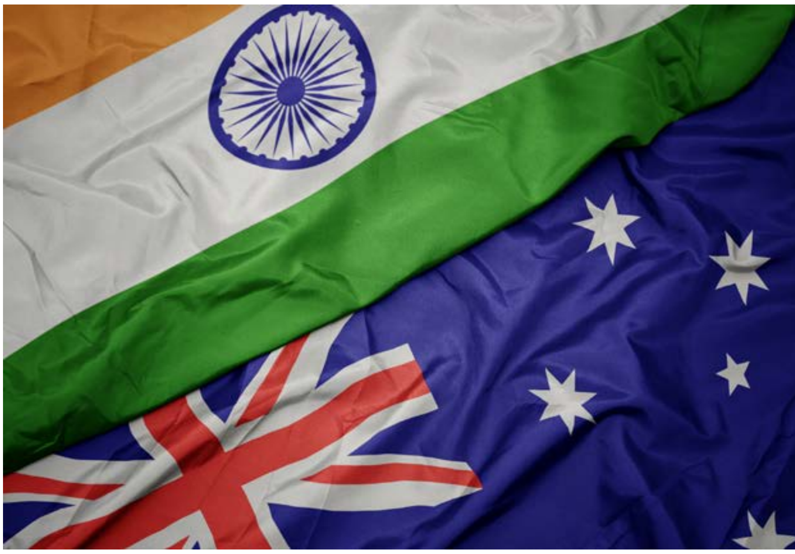
Australia must adopt new, COVID-adjusted strategies if it is to realise its ambition to economically engage with India. But Australian policy makers do not need to start from a blank page to do so. There is a tendency in the policy community to see Australia's economic integration with India as sui generis. However, in recent decades other advanced economies have succeeded in India while Australia has not. Analysing the strategies of peers from the OECD that have successfully engaged India is a useful starting point for updating Australia's playbook.

PEERS WITH STRONG INDIA ECONOMIC RELATIONSHIPS PROVIDE AUSTRALIA A MODEL

Numerous factors determine the trajectory of a country's economic engagement with India. But Australia can nonetheless draw some broad lessons from the Japanese, British and German examples. These three countries have larger trading relationships with India, and are steadily building their investment ties as well.[14]

Commonalities in the economic approach of these countries to India include:

- Expanding foreign direct investment and business linkages
- Facilitating joint ventures that result in technical cooperation and skills transfers
- Supporting India's strategic goals through technical assistance



Source: Raveendran/AFP via Getty Images

JUN 2020 — Comprehensive Strategic Partnership established

OCT 2020 — Australia rejoins India-US-Japan Malabar naval exercises

DEC 2020 — India's Australian *Economic Strategy report* released

MAR 2021 — Inaugural Quad Leaders meeting attended by Australian and India Prime Ministers

SEP 2021 — Inaugural India-Australia "2+2" Defence and Foreign Ministers' Dialogue; IA-CECA negotiations recommence

DIRECT INVESTMENT HELPS GROW THE BILATERAL ECONOMIC RELATIONSHIP

Direct investment can build trust, establish networks, and strengthen business ties between countries. Although international trade and investment are often thought of as two separate dimensions of economic engagement, the relationship is complex. Importantly, investment facilitates trade that allows goods and services to be moved to where they are needed.[15] International investment also helps domestic economies to grow, both directly by giving local firms the means to expand in home and export markets, as well as indirectly through access to the investors' expertise, experience and networks.[16]

In addition to having large trading relationships, Germany, Japan and the United Kingdom feature in the top ten of foreign direct investors into India. This suggests a relationship between foreign direct investment and the broader trade relationship.

AN INVESTMENT-LED APPROACH CAN ALSO SUPPORT TRADE NEGOTIATIONS.

By offering a country access to desired capital, technology and embedded skills, there is a greater incentive to upgrade or compromise in trade policy negotiations. Countries are likely to have more success in their offensive goods and services requests if they can credibly offer investment opportunities to Indian counterparts.

A recent example of this approach was the UK's $1.2 bn package for public and private investment in India's green and renewable energy projects.

The package comprises a $1 billion investment from the Commonwealth Development Cooperation (CDC) – the UK's development finance institution – in green projects

FIGURE 5 TOP-10 FOREIGN INVESTORS IN INDIA 2000-2021

COUNTRY	RANKING	($US MILLION) FDI EQUITY INFLOWS FROM APRIL 2000 TO MARCH 2021
Mauritius	1	148,350
Singapore	2	115,089
Netherlands	3	43,602
Japan	**5**	36,641
United Kingdom	**6**	35,449
Germany	**7**	12,863
UAE	8	11,193
Cyprus	9	11,134
Cayman Islands	10	10,335
	TOTAL	**529,755**

Source: Fact Sheet on Foreign Direct Investment from April 2000 to March 2021[17] in India and joint investments by both governments to support companies working on innovative green tech solutions.[18] In announcing the package, the UK Finance Minister Rishi Sunak made explicit reference to the treatment of services sector chapters in the upcoming UK-India trade negotiations.[19] In response, the Indian Finance Minister, Nirmala Sitharaman, agreed that both parties would be ambitious in the FTA negotiations on this front.[20]

This package is also an example of how the UK has mobilised private sector investment to grow the economic bilateral with India. Through the Climate Finance Leadership Initiative (CFLI) British private and multilateral investment are contributing $200 million to a joint 'Green Growth Equity Fund', which invests in Indian renewable energy.

ALL THREE COUNTRIES USE DEVELOPMENT BANKS TO DIRECT PUBLIC AND PRIVATE INVESTMENTS INTO INDIA.

The use of development banks to direct investments into India is common to the approach of Japan, Germany and the UK. This not only enables governments to direct public investment but also has a mobilsing effect on private sector investment, as demonstrated by the CFLI example.

- **Commonwealth Development Corporation (CDC):** The CDC provides funding in the form of direct equity, intermediated equity, debt, and guarantees. In 2020 its portfolio was valued at US$7.1 billion. More than 25% of the CDC Group's portfolio is committed to India, supporting 482 companies and 75 funds in a wide range of industries. The companies financed by the CDC group in India employed 544,934 people in 2020.[21]

- **Japan International Cooperation Agency (JICA):** JICA was founded in its current form in 2003, as a merger between the former JICA (founded in 1974) and a division of the Japan Bank for International Cooperation (JBIC) which previously managed Japan's concessional loans program to developing countries.[22] Their work with India is extensive, including major projects such the Delhi-Mumbai Industrial Corridor (DMIC), the development of the North Eastern Region (NER) of India.[23]

- **Deutsche Investitions- und Entwicklungsgesellschaft (DEG):** The DEG was founded in 1962 and provides long term investments into the private sectors of developing nations.[24] Their services include equity capital, long term loans, guarantees, and business support. The DEG has 13 representative offices around the world, with one of those being in New Delhi. Its investment highlights in India includes supporting greentech start-up Biolutions, and tech-based SME financier LivFin.[25]

ALL THREE COUNTRIES HAVE BESPOKE MECHANISMS TO SUPPORT THEIR INVESTMENTS IN INDIA.

Direct investment in India is challenging due to its business environment and regulatory unpredictability. Many of the permits and approvals required for investment are in the hands of state and local authorities, where delays and setbacks remain common. In recognition of this Germany, Japan and the UK governments have institutionalised specialised support for their private sector in India to encourage investment.

The Indo-German Fast-track Mechanism aims to expedite resolution of issues faced by German companies in India. Invest India acts as the facilitation agency for this mechanism. Since its formal institution in March 2016, it has successfully facilitated the resolution of over 70% of the issues that are a part of the mechanism, worked closely with corporations, the German Embassy, central government ministries, state governments, regulatory bodies and industry associations.[26] This, along with the ease of doing business, has further built the trust shown by German companies in the Indian economy, leading to many companies expanding their presence in India.

In addition to a tailored 'Fast Track Mechanism' for dispute resolution with India, the UK has also established an 'Access India Programme', which is a market entry support program launched to assist businesses access the 'Make In India' initiative of the Indian government.[27] The program focuses on providing support to small and medium UK enterprises establish their presence in India.

Japan has established 'Japan Plus', a strategic bilateral initiative with India to promote, facilitate and retain investments in India. It consists of officials from the Indian government and the Ministry of Economy, Trade and Industry in Japan. The desk provides information on investment opportunities across sectors, in specific projects and in industrial corridors. It also plays a role in actively identifying prospective Japanese enterprises, including SMEs, and encouraging them to invest in India.[28]

The figure below illustrates that states leading the ease of doing business rankings do not correspond with the leading foreign direct investment destinations. This suggests that ease of doing business is not the only factor considered by foreign investors when choosing where to invest. It also lends support to the idea that mobilising investment is an easier way to achieve economic integration than encouraging Australian businesses to be on the ground in India.

Australian business often put India in the 'too hard' basket due to the perceived difficulty of doing business there. An investment led strategy can provide an alternative approach to risk averse Australian businesses that would otherwise be deterred.[31]

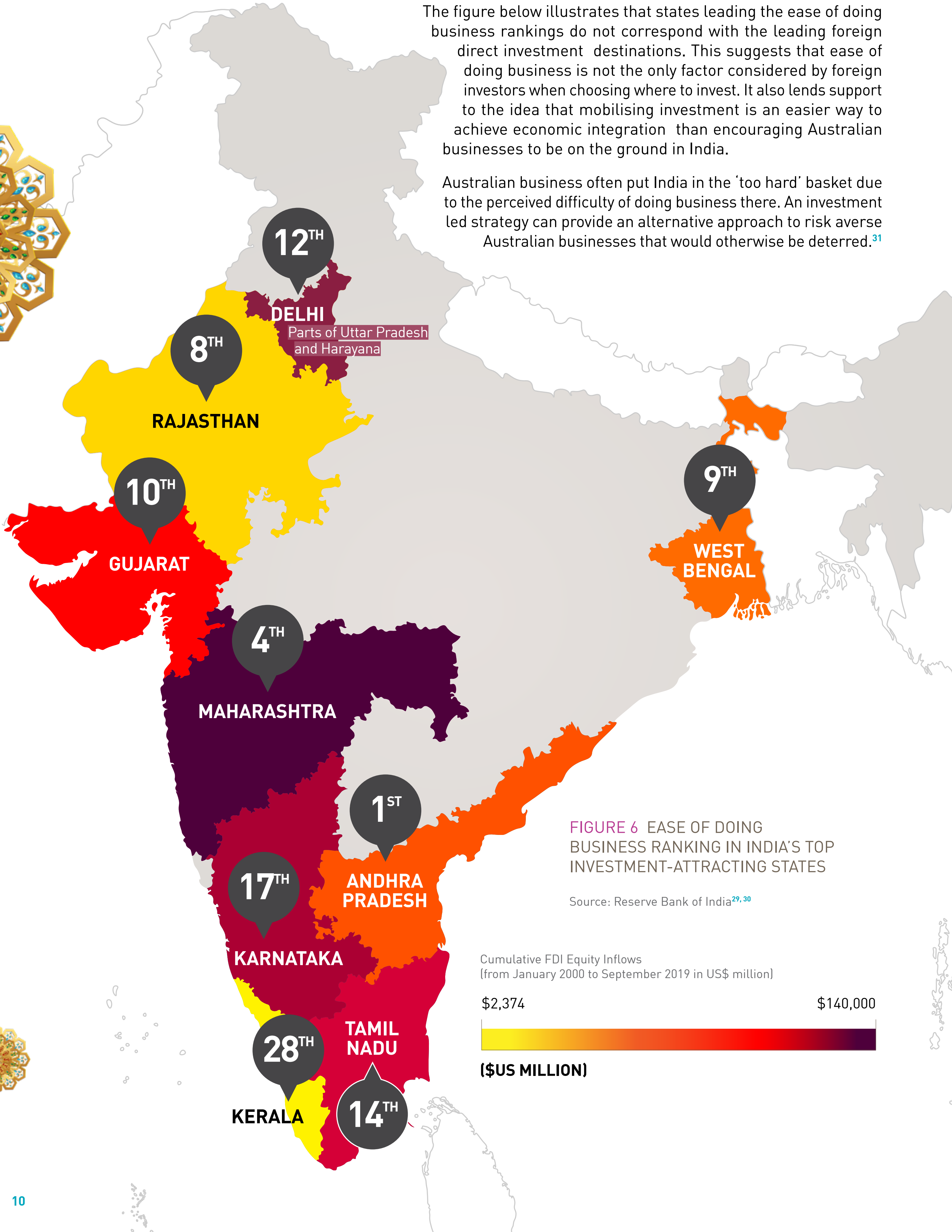


FIGURE 6 EASE OF DOING BUSINESS RANKING IN INDIA'S TOP INVESTMENT-ATTRACTING STATES

Source: Reserve Bank of India[29, 30]

JOINT VENTURES RESULTING IN TECHNOLOGY AND SKILLS TRANSFERS

Joint ventures that involve knowledge and technology transfers are a commonality in the approach of the peer countries that succeed in India. In joint ventures it is not just the additional capital that is of value, but also the resulting technology and skills transfers. The establishment of joint ventures and public private partnerships are important methods through which knowledge and technology partnerships are formed without the formal use of a technology transfer agreements or FTAs.

For example, the Mumbai subway network, the hugely successful Delhi metro project and the Mumbai–Ahmadabad high-speed railway corridor were all built with JICA loans. However, they also involved collaboration with the Japan Railway Technical Service. In the case of the latter, the involvement of the Japan Railway Technical Service not only contributed to the successful implementation of this project through the application of Japanese technology, but also had significant capacity building benefits for India's National High Speed Rail Corporation Limited.[32]

Germany is an important partner for India in technology transfer. Noted German firms such as Bosch, Volkswagen, Basf, Bayer, Braun, and Adidas are firmly established in the Indian market. Many of these brands either manufacture their products in-country, or provide services in the technology and engineering sectors through joint ventures. Mittelstand companies (Germany's small and medium businesses) predominantly operate through joint ventures in India, and there are over 500 such ventures at present.[33]

Technology cooperation is one of India's key requests in multinational economic fora; and along with investment is its main interest in bilateral economic agreements. As India's economy becomes increasingly reliant on advanced manufacturing and the digital economy, bilateral skills transfers and technology cooperation rise in importance. Both G-to-G cooperation and B-to-B intergovernmental joint ventures are an important avenue for growing the economic relationship with India. For Australian companies there are numerous advantages in the joint venture model. FDI is restricted in certain sectors and Indian shareholder requirements can be overcome by a joint venture, in addition to tax advantages offered to joint ventures.

AUSTRALIA COULD REPLICATE THIS TECHNOLOGY-FOCUSED MODEL IN THE AGRICULTURE SECTOR

Though India is a major agricultural producer, the sector can be highly inefficient and volatile. Approximately 60 percent of the Indian population works in the industry, contributing about 18 percent to India's GDP.[34] Indian policy makers understand what is needed but political constraints make change difficult. The farmer's protests in response to the proposed biggest agricultural reforms in India's recent history are a case in point.

Enhancing agricultural productivity, and competitiveness is a strategic priority for the Indian government and Australia is uniquely placed to be a trusted partner in productivity improvements through mechanisms like joint ventures. Australia has world class expertise in agri-services and land resource management. This was recognised in the joint statement in the Comprehensive Strategic Partnership signed in June 2020. The statement included a provision to explore the development of a partnership on grains management and logistics. Now dubbed the India-Australia Grains Partnership, the Partnership aims to use Australia's expertise in post-harvest management to strengthen rural grain storage and supply chains to reduce losses and wastage.[35]

SUPPORTING INDIA'S STRATEGIC GOALS THROUGH TECHNICAL DEVELOPMENT

Another commonality in the approach of the three countries is their use of development diplomacy to support India's economic goals. Development diplomacy is a specific form of public diplomacy that builds bilateral relations through activities that promote the development and wellbeing of developing countries.[36] However, development diplomacy isn't a purely altruistic endeavour. It also has the potential for 'hard' economic or strategic benefits for the donor country.

For India, the value of development diplomacy is not only the influx of capital, but increasingly it is a way to lay down the foundation for long term local manufacturing and employment generation. For example, there is a move away from direct poverty reduction towards a public-private investment strategy, focused on infrastructure or productive sectors where loans can be easily serviced. Donors usually channel this investment through their development finance institutions, with growth in public-private investment one of the fastest growing components of bilateral official development assistance (ODA) budgets.

Donor countries like Japan seek to use development diplomacy to cultivate a powerful strategic ally in India. Japan's ODA to India, spanning 60 years, has been driven as much by Japanese self interest as in the interest of Indian development. India helps open the way for Japan to extend political and economic leverage in the region. The nature of Japan's ODA projects considered in this context makes their strategic edge clear.[37] JICA's loans have built desalination plants in Chennai, sewerage networks in Bangalore and Bhubaneswar, and much larger infrastructure projects like high-speed railways, freight corridors and urban transportation networks.

" ODA has been the most important part of our relationship that started in the late 50's until today, it is the ballast of the India Japan relationship. The most consistent part of the relationship. We were the first country in the world to accept Japanese ODA. Today Japan has ODA projects in all but two states of India."

Deepa Wadhwa, former Indian Ambassador to Japan[38]

Germany is India's second largest development partner, with at present a total volume of almost EUR 10 billion and about 170 programmes running.[39] Indo-German development cooperation begun in the 1950s, development cooperation with India grew so rapidly that in a short time it became the largest recipient of German development assistance. The construction of the Rourkela Steel Plant in Orissa was a hallmark of this intensive cooperation in the early 1960s.[40] Later, both countries set up one of India's premier educational institutions – the Indian Institute of Technology in Madras.

Today, the Indo-German development cooperation programme has a sectoral focus on energy, environment and the management of natural resources and sustainable urban development.[41] A sectoral approach allows donors like Germany to showcase their unique brand and reputation in the Indian market, especially in the areas of high-end technology, quality infrastructure and financial management.

India has long been one of the largest recipients of UK ODA, which has traditionally had a state-based focus.[42] In India, the UK's Department for International Development focused its efforts on large-scale poverty reduction schemes in poorer states such as Bihar and Odisha.[43] This state focused approached to ODA neutralised – or might even be seen to have (deliberately) run counter to – the use of ODA for diplomatic purposes. This was important to strengthening the UK India relationship, which is shaped by the shared colonial history resulting in sensitives around ODA from the UK.

FIGURE 7 TOP 10 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%
United States	5	94.52	2.9%
Switzerland	6	18.89	0.6%
Italy	7	18.34	0.6%
Norway	8	16.43	0.5%
Denmark	9	10.29	0.3%
Poland	10	7.57	0.2%
Australia	11	6.7	0.2%
	Total all donors	3256.9	

Source: OECD Stat Database.[44]

COMPARING ECONOMIC INITIATIVES WITH INDIA

All four countries reviewed have elevated their bilateral relationship with India to the strategic level. Germany in 2000, Japan in 2017, Australia in 2020 and the UK in 2021.

The table below contains an overview of the specific commitments, announcements or mechanisms contained in the relevant joint statements that aim to further financial cooperation, investment business and economic ties between the country and India.

Key takeaways from this analysis are that Australia and India, in their joint statement supporting the comprehensive strategic partnership, made no specific commitments to establish new dialogues,

	JAPAN-INDIA **SPECIAL STRATEGIC AND GLOBAL PARTNERSHIP**[45]	GERMANY-INDIA **PARTNERSHIP IN THE 21ST CENTURY**[46] **AND** EU-INDIA **STRATEGIC PARTNERSHIP**[47]
FINANCIAL COOPERATION	▶ Bilateral Dialogue on Financial Issues	▶ Indo-German Finance Ministries Senior Officials' Meeting ▶ German Indian Startup Exchange Program ▶ Regulatory Dialogue on Public Procurement
INVESTMENT	▶ Japan Plus ▶ Japan-India Investment Promotion Partnership	▶ Investment Facilitation Mechanism (IFM) for EU Investments in India
BUSINESS	▶ Japan-India Make- in-India Special Finance Facility ▶ Protocol for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion	▶ Make in India Mittelstand (MIIM) Programme

protocols or programmes to further financial cooperation and investment. This is in contrast to the importance accorded to these categories in the German, Japanese and UK joint statements.

Aside from sector specific memorandums of understanding in cyber and critical technology, defence and mining (which focused on research activities and government to government cooperation) only two new economic initiatives were detailed in the joint statement. Encouragingly, in 2021, the Australian government signaled their intention to establish the Australia India Infrastructure Forum (AIIF) to enhance the business relationship between the two countries.

UK-INDIA **ROADMAP TO 2030**[48]	AUSTRALIA-INDIA **COMPREHENSIVE STRATEGIC PARTNERSHIP**[49]	
▶ India-UK Financial Markets Dialogue ▶ UK-India Sustainable Finance Forum ▶ UK-India Fintech Dialogue ▶ Fast Track Start-Up Fund ▶ UK-India Global Innovation Partnership		FINANCIAL COOPERATION
▶ UK-India Development Capital Partnerships ▶ Green Growth Equity Fund ▶ India-UK strategic collaboration on Gujarat ▶ International Finance Tech City		INVESTMENT
▶ UK-India Ease of Doing Business MoU ▶ Joint Working Group on Trade towards removing market access barriers	▶ Australia India Business Exchange program ▶ India-Australia Double Taxation Avoidance Agreement	BUSINESS

ADAPTING PEER INSIGHTS FOR AUSTRALIA'S INDIA STRATEGY

Australian policy makers increasingly realise that they cannot rely on their traditional approach as a foundation for broader economic ties with India. While the India Economic Strategy identified sectors and recommendations of importance, the COVID-19 pandemic and shifting geopolitical currents require a reprioritising and adaption of these strategies. To this end, inspiration can be taken from the Japanese, German and UK experience of economic engagement with India.

The overarching theme of the analysis is the need for an investment-led approach to India, whether in the form of direct investments, encouraging joint ventures and/or strategically deploying overseas development assistance. This requires paying specific attention to adapting these priorities to an Australian context.

DIALOGUE IS NEEDED TO ADDRESS THE INTEROPERABILITY OF INVESTMENT AND FINANCE MARKETS

The Indian government has prioritised attracting foreign investment into India. Arguably the combination of slow growth prior to the pandemic and the impact of the pandemic on the domestic economy has resulted in Indian policy makers pursing foreign direct investment led growth over export led growth. In the financial year 2020-21 the country recorded a total FDI inflow for the first ten months, rising to $72.12 billion during April to January, 2021, 15 per cent higher as compared to the first ten months of 2019-20.[50] In addition to recent reforms to enable foreign direct investment, India's infrastructure agenda and asset recycling policy has caught the eye of global investors.

On the Australian side institutional investors are increasingly looking to diversify their assets in Asia. As geopolitical tensions with China change the risk calculus for investors, they naturally turn to the Indian market as it is closest in scale. Both Indian and Australian governments have recognised the strategic benefits of Australian funds becoming institutional investors in India. Despite some notable exceptions, such as Australian Super and Macquarie Group, the strategic ambitions of policy makers are yet to become a commercial reality.

Australia's investment relationship with India continues to be under-developed. Regulatory difficulties and low interoperability between financial markets are frequently cited as the principal barrier to greater bilateral investment. There remains a lack of familiarity on the Australian side of the legislative landscape, resulting in an over estimation of risk. On the Indian side there are difficulties in aligning with operating realities, such as the low-risk appetite of Australian investors. More broadly there remain issues of interoperability between the financial sectors of the two countries, which is crucial to growing an investment relationship.

The Australian Government can play an important role in bridging knowledge and expectations gaps and encouraging reform. Since the signing of the Comprehensive Strategic Partnership there has been a marked increase in the level of ministerial engagement on trade. However now that engagement must be solidified at a dialogue level with a special focus on the investment and finance relationship.

> **"While Australian investors will make their own commercial decisions, increasing Australian investment stocks in India deepens our economic integration. The Australian High Commission is happy to support knowledge and network building among investors,"**
>
> **Barry O'Farrell**, Australian High Commissioner to India[51]

The recently instituted Financial Markets Dialogue between India and the UK provides inspiration[52]. The Dialogue saw government-to-government discussions to strengthen cooperation on key themes including banking and payments, insurance, and capital markets. It was led by senior officials from the UK Treasury and the Indian Ministry of Finance, with participation from independent British and Indian regulatory agencies. The express purpose of the Financial Markets Dialogue to strengthen financial services cooperation and address regulatory barriers for UK and Indian firms.[53]

COMMERCIAL DIPLOMACY SHOULD BE RE-ORIENTATED TO FACILITATING JOINT VENTURES AND INVESTMENT

Companies participate in joint ventures to access scale, new markets, unique technology or to share risks. Technical cooperation through joint ventures can aid the trade relationships too. Given that India and Australia do not share a highly complementary trade structure, technology and skills transfers through joint ventures helps share the benefits of a trade relationship. Current commercial diplomacy to promote mineral and agricultural exports would therefore be complemented by efforts facilitating joint ventures in these sectors.

Focusing on joint ventures between Indian and Australian companies helps move the framing of the relationship beyond a buyer-seller mould. This is a fundamental shift in thinking for Australia: it requires measuring the success of a growing economic relationship not by exports but instead by flow of investment and the number and quality of joint ventures.

> **“Australia will need to look at India as a partner first, and a market later.”**
>
> **Natasha Jha Baskar**[54]

Indian initiatives such as 'Invest India' and 'Make In India' are deliberately designed to facilitate joint ventures and options for investment. But Australian commercial diplomacy efforts often prioritise export facilitation and attraction of tourist and students, with facilitating joint ventures an incidental objective.[55] One of the core functions of Austrade as per its enabling legislation is to support both inward and outbound exports investment where it supports Australia's trade interests.[56] Australian policy makers must embrace an active role in facilitating Australian Indian joint ventures and investment in India.

AUSTRALIA SHOULD BECOME A TRUSTED DEVELOPMENT PARTNER THROUGH TECHNICAL COOPERATION

In an era of geoeconomics there will be a preference for economic cooperation with trusted partners. To grow the economic bilateral Australia must demonstrate to India that it is a trusted partner through cooperation in areas of shared strategic and economic significance. In this regard, the lesson to be learnt from the cross jurisdictional analysis is the need to strategically direct government investment in India.

While progress made under the Comprehensive Strategic Partnership is welcome, it is only a first step. To truly establish Australia as a trusted development partner this program should be expanded beyond industry collaboration to include a developmental technical assistance program in agriculture. Australia regularly uses technical assistance as a part of its aid outreach however this has yet to extend to India.

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:

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:

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

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

- 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.

- 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.

- 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.

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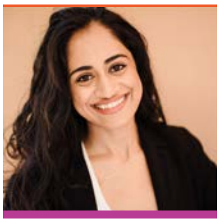

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The Perth USAsia Centre located at The University of Western Australia is a non-partisan, not-for-profit institution strengthening relationships and strategic thinking between Australia, the Indo-Pacific and the USA. The Centre is a leading think tank focusing on geopolitical issues, policy development and building a strategic affairs community across government, business and academia. Since the Centre's inception in 2013, we have collaborated with over forty partners to convene more than four hundred programs across sixteen cities in eight countries, engaging a world-class community of over 10,000 strategic thinkers and policy leaders.

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