



India - Australia ECTA

This editorial is based on [“To Reach Full Potential of Trade Pacts, Accept Investment Protection”](#) which was published in Indian Express on 06/04/2022. It talks about the significance of the Economic Cooperation and Trade Agreement (ECTA) signed recently between India and Australia.

For Prelims: Economic Cooperation and Trade Agreement, Free Trade Agreement, CECA, RCEP, CPTPP, Indo-Pacific, Asia-Pacific Economic Cooperation (APEC).

For Mains: India-Australia Relations, INDAUS ECTA - Significance, Issues, Economic Cooperation and Trade Agreement, Free Trade Agreement and its Significance.

India and Australia have signed a historic interim [Economic Cooperation And Trade Agreement \(INDAUS ECTA\)](#), which will give a fillip to India's exports in the textiles, leather, gems, and jewellery sector Down Under.

For India, the ECTA with Australia is the **first agreement with a large 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 \(FTA\)](#).

The two sides will be negotiating for a full-fledged [Comprehensive Economic Cooperation Agreement \(CECA\)](#).

What is the India-Australia ECTA?

- It **covers almost all the tariff lines** dealt in by India and Australia respectively.
 - India will benefit from **preferential market access** provided by Australia on **100% of its tariff lines**.
 - India will be offering preferential access to Australia on **over 70% of its tariff lines**.
- Under the agreement, Indian graduates from [STEM \(Science, Technology, Engineering and Mathematics\)](#) will be granted **extended post-study work visas**.
- It will provide **zero-duty access to 96% of India's exports** to Australia and will give about **85% of Australia's exports zero-duty access** to the Indian market
- It will boost bilateral trade in goods and services to USD 45-50 billion over five years, up from around USD 27 billion, and generate over one million jobs in India, according to a government estimate.

What is Its Significance?

- **Enhanced Exports:** Currently, **Indian exports face a tariff disadvantage of 4-5%** in many labour-intensive sectors vis-à-vis competitors in the Australian market such as China, Thailand, Vietnam, South Korea, Japan, Indonesia and Malaysia.

- Removing these barriers under the ECTA can **enhance India's merchandise exports significantly.**
- **Cheaper Raw Materials:** Australian exports to India are more concentrated in raw materials and intermediate products. Due to zero-duty access to 85% of Australian products, **many industries in India will get cheaper raw materials** and thus **become more competitive**, particularly in sectors like steel, aluminium, power, engineering and so on.
- **Change in Perceptions for India:** The recent trade agreement will also **assist in changing perceptions in the developed world** which has always typecast **India as 'protectionist'** and address scepticism around India's openness to do business with the world.
- **Stronger Indo-Pacific:** Strong Australia India economic ties will also **pave the way for a stronger Indo-Pacific economic architecture**, that's not just based on flows of physical goods, money and people, but on the basis of building capacity led connections, complementarities, sustainable commitments and mutual dependence across countries and sub-regions.

Where do the Two Countries Stand on Investment Protection?

- While ECTA makes references to investment as part of the trade in services, it **lacks provisions on investment protection such as providing foreign investment** to most favoured nation and national treatment, protection from expropriation, assurance to provide fair and equitable treatment to foreign investment, recognising foreign investor's right to bring claims against the State for alleged treaty breaches.
- Article 14.5 of ECTA, which includes a list of topics on which negotiations will take place to transform the interim ECTA into a comprehensive **CECA, also does not talk of a chapter on investment protection.**
- It needs to be noted that Australia has signed comprehensive economic agreements with Peru, Indonesia, and Hong Kong which include a chapter on investment protection.
 - On the other hand, [India's recent CECA with the United Arab Emirates \(UAE\)](#) as well as **Mauritius** (signed in 2021) does not include an investment chapter.
 - The pattern that seems to be emerging is that **India is not too keen to include an investment protection** chapter in CECAs.

How Excluding Investment would Impact India?

- India's rationale for signing a comprehensive economic agreement with these countries is to be part of the **global value chains (GVCs)**, both, trade and foreign investment are central to GVCs.
 - Therefore, **decoupling trade from investment in these CECAs defies economic sagacity.**
 - Many recent mega economic treaties such as the [RCEP Agreement](#) and the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#) include chapters on investment protection.

What can be the Way Forward?

- **Investment Protection:** India's overly defensive stand on investment protection under international law is a consequence of several international claims under BITs.
 - India should **come out of its shell and accept investment protection** as part of its broader economic commitments under international law. This will enable **India to realise the full potential of these CECAs.**
- **Adding Investment Chapters:** If investment protection is made a part of such CECAs, India will have a **better bargaining position** to negotiate balanced investment chapters in comparison to a standalone investment treaty.
 - When several related issues are part of the same deal, there is a greater **likelihood of "give and take" and reaching a win-win compromise.**
- **Improving Competitiveness:** While the Government of India has successfully negotiated an excellent trade deal for businesses, it is important to realise that **accessing the Australian market wouldn't be a cakewalk** given the fact that **Australia has currently 16 FTAs** under operation.
 - We would still have to work on improving our competitiveness, as in most trade sectors,

India would be competing with the likes of China, ASEAN, Chile, Japan, Korea and New Zealand, which have already-functional FTAs with Australia.

- **APEC Partnership:** Time is also **opportune for India's [Asia-Pacific Economic Cooperation \(APEC\) membership](#)**, the goal of a free and open Indo-Pacific is incomplete without the presence of the world's fastest growing major economy in APEC.
 - It would further **enhance India's role in global governance**, encouraging **greater economic reforms** with improved **domestic competitiveness**, and economic integration with the region as a whole.
 - Also, with the deepening of Australia India bilateral ties, **Australia can explore initiating a support lobby within APEC for India's membership.**

Drishti Mains Question

Discuss the significance of the India-Australia Economic Cooperation and Trade Agreement (ECTA) from the perspective of the Indo-Pacific region.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Consider the following countries: (2018)

1. Australia
2. Canada
3. China
4. India
5. Japan
6. USA

Which of the above are among the 'free-trade partners' of ASEAN?

- (a) 1, 2, 4 and 5
- (b) 3, 4, 5 and 6
- (c) 1, 3, 4 and 5
- (d) 2, 3, 4 and 6

Ans: (c)