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Chancellor

Mr Peter N Varghese AO
BA(Hons), Hon DLitt Qld

The Hon Malcolm Turnbull MP
Prime Minister

The Hon Steven Ciobo MP
Minister for Trade, Investment and Tourism

**India Economic Strategy
Letter of Transmission**

Dear Prime Minister and Minister

On 4 May 2017 you asked me to lead the development of an independent report to the Australian Government on an India Economic Strategy.

I have the honour formally to submit to you my report: *An India Economic Strategy to 2035. Navigating from potential to delivery.*

In commissioning the strategy you sought a report which would help transform Australia's relationship with India, elevate our understanding of India's trajectory out to 2035 and take our economic partnership to a new level.

India is already the world's fastest growing large economy and the third largest contributor to global growth. Over the next twenty years it will need many of the goods and services which Australia is well positioned to supply. But over that time India will also become a much more crowded and competitive marketplace. Australia must prepare for that through a strategic investment in the relationship and a long term and ambitious strategy led at the highest levels of government.

There is no market over the next twenty years which offers more growth opportunities for Australian business than India. Getting our India strategy right will both enhance the prosperity and security of Australians and help realise the aspirations of the 1.3 billion Indians who sense their time has come and a better life is within their grasp.

Yours sincerely



Mr Peter N Varghese AO
Chancellor

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The membership of these two reference groups is listed at Appendix 2. They are people of deep experience who provided insightful comments on the key judgements. Any flaws in the judgements of the report are mine alone.

As we developed the report I had the benefit of advice from a Steering Committee of Commonwealth Agencies which provided expert perspectives on the sectoral papers. I am grateful to them for their wise contributions and for their forbearance as I finalised the recommendations. As an independent report to government, the recommendations are of course mine alone.

The report also draws on an extensive program of consultations in Australia and India and discussions with stakeholders in government, private sector, non-profit organisations and economic analysis provided by McKinsey & Company. To the McKinsey team in Australia and India, led by Tarandeep Ahuja and Sahil Shekhar, I express my thanks for their professionalism and support.

In addition I visited Singapore, Japan, Germany, United Kingdom, United States and Canada to learn about how other countries were approaching India.

Taken together these consultations enabled me to draw out the views and perspectives of a wide range of people from the business community, state governments, industry groups, non-government organisations and the Indian diaspora in Australia.

In all we conducted 232 consultations in Australia and received 20 submissions. A full list of those consulted and those who made submissions is at Appendix 3.

I want to thank the many people in the Department of Foreign Affairs and Trade (DFAT), the team at the Australian High Commission in New Delhi led by High Commissioner Harinder Sidhu, the Consulates-General in Mumbai and Chennai and the Austrade network in India, all of whom made valuable contributions to the report.

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Introduction

Timing has always been a challenge in Australia's relationship with India.

In the past substance often lagged enthusiasm. Today the risk is that we are not moving fast enough and Australia might fall behind as other countries accord India a higher priority. This is already happening in some areas.

Momentum is important to relationships. We cannot afford to lose momentum or to assume that the logic of complementary interests will be enough to take the economic relationship to the level it needs to rise.

To counter this, Australia needs an ambitious India strategy. This report recommends that we should strive by 2035 to lift India into our top three export markets, to make India the third largest destination in Asia for Australian outward investment, and to bring India into the inner circle of Australia's strategic partnerships, and with people to people ties as close as any in Asia.

Australia has long seen India as an important country in its own right and one with which Australia should have a relationship of substance anchored in shared interests and shared values. But finding that alignment has proven difficult over time.

Australia has never been in the first rank of India's international priorities. India's focus has understandably been on its neighbourhood and after that on the major powers.

Outside of areas such as resources, education, mining and, in a different sense, sport India does not naturally look to Australia as a first order partner. That perception needs to change if the relationship is to find the traction to take it to the next level.

From when it first became independent in 1947 until relatively recently, India and Australia also saw the world very differently. Our hard interests, strategic and economic, rarely intersected.

India's economy went down the path of self-sufficiency, not global trade. During the Cold War we inhabited different strategic universes. Our communities had little to do with each other.

Today however we are as close as we have ever been to getting the timing right and finding the content to underpin the relationship.

Our thinking on the merits of an open economy is closer. We are building common ground on the geopolitics of the Indo-Pacific. And our communities are getting to know each other better, not least through the rapid increase in the Indian diaspora in Australia, now 700,000 strong.

The Australia India relationship has had false starts in the past but that must not distract us from the opportunities of the future.

This report seeks comprehensively to set out those opportunities. It is the most detailed analysis so far of the complementarities of our two economies over the next two decades. It is designed to give the Australian business community something they can touch and feel; to translate the headline story about India's potential into a road map of where the opportunities lie and how best to pursue them. In short, to move the relationship with India from potential to delivery.

As a report to government I have sought to emphasise the importance of a strategic investment in the relationship with India led at the highest levels of the Australian Government. A strategic investment means a clear signalling of the priority the government attaches to the relationship, a willingness to devote focus and resources to it, and a commitment to work closely with Australian State Governments, Australian business and community groups in delivering an integrated strategy.

STRUCTURE OF THE REPORT

Central to this report are judgements about why India matters to Australia. India is already the fastest growing large economy in the world. It will have the world's largest population well before 2035. Beyond scale and complementary economies, India also offers us an opportunity to spread our trade and investment risk in Asia.

In the Overview chapter I have summarised the core of the strategy the report recommends ('sectors and states'), how things in India are changing for the better, the challenges that remain and the importance of locating our economic strategy within a broader relationship with India, of which a growing geopolitical congruence and people to people ties are the other two pillars.

The report contains detailed chapters on each of the 10 sectors identified as areas where Australia has a measure of competitive advantage.

The chapter on Indian states is designed to answer the question: where should Australia focus and

where do you start in a market as large and diverse as India?

Throughout the report I have sought to provide a balanced perspective of both the challenges and opportunities in the Indian marketplace. The scale of India and the rhetorical flair of its leaders can at times gloss over the challenges on the ground or the way in which India can test the patience of even the most committed. I have sought to put the challenges in perspective and to acknowledge the significant changes and reforms which are taking place, concluding that the balance sheet overwhelmingly favours opportunities over constraints.

Indian policy makers know what needs to be done. They do not need tutorials on the policy options. But they also know that managing a country as big and diverse as India with a robust democracy and a vocal media will inevitably mean compromises, delays and less than ideal policy approaches. In this India is not unique.

RECOMMENDATIONS

The report contains 90 recommendations. They are summarised and prioritised within the Prioritising Recommendations section and each sectoral chapter contains detailed recommendations relevant to that sector.

The recommendations span the short, medium and long term. Not all the recommendations can be implemented straight away and some will have to wait until more resources are available. But taken together they form a body of practical steps, some to be taken now and others to which governments and business can return at the appropriate time.

Ultimately a strategy is only as good as the commitment which backs it and the resources and priorities which drive it. Taking the relationship with India to the level it deserves is a long haul journey. It will take leadership, time, effort and consistent focus.

No strategy goes exactly to plan. All strategies have to be nimble enough to adapt to the unforeseen. But the logic of a strategic investment by Australia in the relationship with India is compelling.

Overview

WHY INDIA AND WHY NOW?

Australian business has long put India in the 'too hard' basket. There are three overriding reasons why this must change: scale, complementary economies and spreading risk.

For Australian companies with a global focus the key question is whether they can afford not to be in what is already the fastest growing large economy in the world.

India's scale is extraordinary. By 2025, one-fifth of the world's working age population will be Indian. By 2030 there will be over 850 million internet users in India. By 2035 India's five largest cities will have economies of comparable size to middle income countries today.

There is no market over the next 20 years which offers more growth opportunities for Australian business than India. The targets set out in this report would see Australian exports to India grow from \$14.9 billion in 2017 to around \$45 billion measured in today's dollars, and outward Australian investment to India rise from \$10.3 billion to over the \$100 billion mark, reflecting a transformational expansion of the relationship. That is the size of the opportunity and the key lesson for Australia of India's scale, the momentum which is already built into its growth trajectory and the underlying complementarity between our two economies.

The opportunities however will not fall into our lap. They require a sharper national focus on India by government, an unambiguous commitment by Australian business and a deeper understanding by both government and business of the magnitude of what is unfolding in an Indian market place which will only get more crowded. They will also require an approach to the investment relationship with India that markedly differs from the trajectory of Australian investment in most other Asian markets.

This report has a simple message. The transformation of the Indian economy is underway. Its progress will be uneven but the direction is clear and irreversible. To realise the opportunities this opens up, we need as a country to make a strategic investment in India which is backed up with an ambitious, long term and multidimensional Australian strategy driven at the highest levels of the Australian Government.

Australia should set itself the goal by 2035 to lift India into its top three export markets, to make it the third largest destination in Asia for Australian outward investment, and to bring it into the inner circle of Australia's strategic partnerships and with people to people ties as close as any in Asia.

THE LONG VIEW: PATIENCE, PERSPECTIVE AND PREPARATION

What follows is a deliberately long term perspective about Australia and India: out to 2035.

A strategy with this time horizon has to try and capture not just how India will change over the next 20 years but also shifts in the Australian economy. We are today poised globally at the edge of a revolution in technology. Artificial

intelligence, big data, machine learning and other innovations will likely change the nature of work and the productivity of both the Australian and Indian economies. So looking out to 2035 means plotting the points of intersection of two moving parts.

A long view is important for any strategy. For India it is essential. India is a market which requires patience, perspective and preparation. Change in India is often invisible to the naked eye. That is one reason why perceptions of India in the Australian business community are caught in a time warp: largely unaware of the significant positive changes taking place in India and shaped by a 'once bitten twice shy' perspective.

The opening up of the Indian economy is a good example. Australian business still tends to think of the Indian economy as relatively closed. Yet the Indian economy of today is very different to the days of the license raj. And the Indian economy of 2035 will be different again.

India's average applied tariff is today one-tenth what it was in 1990. In 1990, total trade as a proportion of Indian gross domestic product (GDP) was around 13 per cent. Today it is 40 per cent. India's two way foreign direct investment (FDI) to GDP ratio at just under 20 per cent is still low by global averages. But the stock of inward FDI has

grown by 19 per cent a year over each of the last 20 years.

None of this is to suggest that doing business in and with India will not have its challenges. India is too complicated for its growth story to be linear. Its economic progress will be uneven and incremental, constrained by the political compromises demanded by a diverse democratic federation, held back by thinly resourced institutions, burdened by a bureaucracy too susceptible to arbitrary interference, dented by endemic corruption and shaped by a political tradition which puts much greater faith in government intervention than the efficiency of markets.

There is no point lamenting these constraints. They are wired into the Indian experience. We need to understand them but also acknowledge that they are changing and look beyond them to grasp the significance of the opportunities created by a growing Indian economy.

INDIA MARCHES TO ITS OWN TUNE – IT IS NOT THE NEXT CHINA

India needs to be understood on its own terms. It will always march to its own tune. It is the only country with the scale to match China but it will not be the next China. Indeed comparisons with China only get in the way of understanding the nature of the opportunities in the Indian market.

No Indian Government will be able to direct the economy in the way China does. Nor will it ever have the control over the allocation of resources which has been intrinsic to China's economic success. China has a discipline to its economic planning which flows from its one party political system and the competence of its state institutions. Also for all its diversity, China has a strong Han Chinese core which has no counterpart in the linguistic and cultural diversity of India.

India's economy will be big but not as big as China's (which is currently five times its size). China's economy would have to crash and India's

grow at over 10 per cent a year for several decades for India to catch up. Neither is likely.

Nor will India's economic model mirror that of East Asia's. Its growth will be driven by consumption and services, not exports. It has demographics on its side, a long entrepreneurial tradition, an expanding consumer class, significant headroom for productivity improvements and the confidence that comes from a strong sense of its civilisational pedigree and destiny.

The drivers of Indian growth are deeply structural which suggests they are also sustainable. They include the urbanisation of the world's largest rural population, the gradual movement of the informal economy, currently comprising 90 per cent of India's workers, into the formal economy, a young demographic with a mean age of 27, considerable investment in infrastructure, and the beginnings of an ambitious program to upskill 400 million Indians.

These structural drivers will likely keep India on a relatively strong growth path. I have deliberately taken a moderate view of the rate of growth out to 2035, assuming that it will be in the order of 6–8 per cent each year over the next 20 years. This assumes incremental rather than radical structural reforms. But for what is already the world's fastest growing large economy to grow by 6–8 per cent each year for the next two decades will still be transformative for India itself, its region and its economic partners.

Most of all India has scale. It will by 2035 overtake China as the world's most populous country. This means a deep domestic market which will likely make India the world's third largest economy by 2035 after China and the United States measured by market exchange rates. It is already the third largest economy measured by purchasing power parity.

Scale encourages ambition but it is the structural complementarity between the Indian and Australian economies which is the key to translating ambition into opportunities. Put simply, a growing Indian economy will need more of the things Australia is well placed to provide from education services to resources and energy; from food to health care; from tourist destinations

to expertise in water and environmental management. Indeed services are likely to be the fastest growing segment of our future economic relationship with India.

Beyond scale and complementary economies there is a third important reason to bring India into the first tier of our economic relationships: spreading risk.

Exports and attracting foreign investment are key elements in the strength of the Australian economy and our ability to maintain a rising standard of living. In a global economy, it pays to hedge against volatility by diversifying. If we can count India in our top three export destinations and if we can tap more two way investment between our countries, Australia's exposure to global risk is reduced. A strong economic relationship with India strengthens Australia's economic resilience. That is important for a country where 40 per cent of our exports currently go to just two markets with ageing populations. India – a large and young population – adds balance and spreads risk in Australia's economic relationships. A partnership with India in science and innovation can also help drive domestic productivity and create Australian jobs in sectors we are yet to imagine.

A THREE PILLAR STRATEGY: ECONOMICS, GEOPOLITICS AND PEOPLE

The focus of this report is on building a sustainable long term India economic strategy. But an economic strategy works best within a much broader and deeper relationship with India.

Our economic strategy should be seen as one of three pillars on which the bilateral relationship should rest, the other two being geopolitical congruence and people to people ties.

Geopolitical convergence

Our geopolitical congruence flows from three core factors.

First, as partners in the Indo-Pacific we are each grappling with the implications of the fading of the US strategic predominance and the sharpening

ambition of China to become the predominant power in the region.

Second, both Australia and India support a rules based international order. That order, the product of decades of United States-led investment in global institutions and public goods, is under increasing threat. Its defenders are shrinking and its challengers growing. Since Australia can neither buy nor bully its way in the world, a system based on rules not might is important.

Third, India is a partner in seeking to forge regional institutions in the Indo-Pacific which are inclusive, promote further economic integration and can help at the margins to manage the tensions which inevitably flow as economic growth across the region shifts strategic weight and

relativities. That is why India should be brought into the Asia-Pacific Economic Cooperation (APEC). Moreover, both Australia and India see China as an important part of inclusive regional institutions, especially the East Asia Summit (EAS). And both countries attach a high priority to our relations with the Association of Southeast Asian Nations (ASEAN) and the individual countries of Southeast Asia.

So while India will always march to its own strategic tune and cherish its strategic autonomy, the scope for us to work together on the broader challenges of the Indo-Pacific is growing as is India's willingness to work with the United States, Japan and Australia in ways which capture the growing strategic convergence of these four democracies.

From Australia's perspective it is India's liberal democratic and secular character which provides a foundation for this evolving strategic congruence. Some worry that this defining and tested feature of India is under strain. That seems an exaggerated fear at this time. But anything which materially weakens India's democratic credentials or its commitment to a secular liberal society would not only be a tragedy for India but also call into question the very basis of our strategic partnership.

People to people ties

The third pillar of the relationship – our growing people to people links – may over time prove to be the most significant asset of all.

TEN SECTORS AND TEN STATES: THE CORE OF THE STRATEGY

Economics, geopolitics and people form the three core pillars of the relationship we must build with India. But Australian business needs something beyond this macro framework; a mapping of the terrain of opportunity; an entry point into how best to think about the Indian market; how to make sense of its size and diversity and where to begin.

The core of the economic strategy set out in this report is 'sectors and states'.

India is currently our largest source of skilled migrants, our second largest source of international students and a substantial proportion of those who come to Australia under temporary visas to fill skilled positions that Australians cannot.

In the last decade we have seen a very large increase in the size of the Indian diaspora in Australia, now 700,000 strong and the fastest growing large diaspora in Australia. To reach this size in a little over a decade is remarkable.

This diaspora will have a big role to play in the partnership of the future. They can go into the nooks and crannies of a relationship where governments cannot. They can shape perceptions in a way governments cannot. And they create personal links, in business, the arts, education, and civil society which can help anchor the relationship.

Chapter 18 provides a detailed analysis of the Indian diaspora in Australia and its potential role in building the business relationship with India. It points to the likely growing political influence of the Indian diaspora, something which is already evident in state politics. As they have in Canada, the Indian diaspora may prove over the next two decades to be the most politically active of any migrant group in Australian history since the Irish. This will have implications for the priority our political leaders will place on the relationship with India.

Sectors

This report identifies 10 sectors in an evolving Indian market where Australia has competitive advantages. These in turn are divided into a flagship sector (education), three lead sectors (agribusiness, resources and tourism) and six promising sectors (energy, health, financial services, infrastructure, sport, science and innovation). I have not included defence and security among the priority sectors but, in

light of the government's broader priority on defence exports I have included a chapter on the opportunities in this area.

Identifying sectors is not choosing winners: only pointing to the areas which hold promise for Australian trade and investment in a growing market where there will be large gaps between what India needs and what it can provide from domestic resources.

The sectoral analysis is forward looking but it cannot escape extrapolations from the current situation. I recognise at the outset that the future may in some areas be quite different to extrapolations. Indeed over a 20 year period there may well be opportunities which no one can clearly see today.

Education is identified as the flagship sector of the future because of a combination of Australian expertise, the scale of India's education deficit and the way in which an education and training demand weaves its way through virtually every sector of the Indian economy.

Education is so much more than increasing the number of Indian students coming to Australia. It also signals engagement, collaboration, a responsiveness to the priorities of India and a bridge between our two communities. Australia's education relationship with India needs to focus on a message of quality, on postgraduate and research collaboration, on science and innovation, on forging partnerships to deliver cost effective vocational education in India and partnering with India in the digital delivery of education. The last will be crucial if India is to meet its ambitious target of upskilling 400 million Indians.

The three lead sectors are chosen because they are areas where Australia is well positioned to become a top five partner of India. The six promising sectors represent areas where Australia can position itself as a niche provider in a large market.

In the chapters that follow we delve deeply into each of these 10 sectors: providing an analysis of its trajectory out to 2035, the drivers of growth including which Indian states to focus on, the constraints, and the opportunities for Australian exports and two way investment in the short, medium and long term.

States

The focus on states reflects a number of judgements. First, India is best seen not as a single economy but as an aggregation of very different state economies, each growing at different rates, driven by different strengths, led in different ways and likely to continue to be uneven in their progress.

Second, competitive federalism is becoming a larger part of the underlying dynamic of the Indian economy. It is encouraged by the centre and is being enthusiastically embraced by the states, especially those five states which produce 70 per cent of India's exports.

Third, many of the hardest structural reforms holding back the Indian economy, such as land access and labour market regulation, are more likely to be progressed by state governments rather than centrally.

Fourth, as barriers to trade across state borders reduce, and the introduction in 2017 of a Goods and Services Tax (GST) was the single biggest step in this direction, labour and capital will gravitate towards those states which offer the best conditions and prospects for business.

The Central Government will always be important for doing business in India. It sets the macroeconomic policy framework, especially in terms of foreign investment policy. Constitutionally powers are both divided and shared between the centre and the states. But the centre has a reach which often goes well beyond the black letter of the constitution.

However it is states which practically control many of the things which make the day to day life of a foreign business in India easy or difficult: access to land, regulation of labour, provision of infrastructure, the application and interpretation of regulation and so on.

For all these reasons, the strategy recommends that a focus on sectors be matched with a focus on states. Ten states are selected: Maharashtra, Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, West Bengal, Punjab, the National Capital Region of Delhi and Uttar Pradesh. Other states may also present opportunities but the weight of effort should be in these 10 states.

The choice of states reflects a combination of their economic heft, their commitment to reform, their relevance to the sectors where Australia has competitive advantages, the ease of doing business there, their investment in the social and physical infrastructure which drives growth and their economic potential in the future.

A focus on states includes an important role for Australian states, each of which are keen to do more in India and are especially important in promoting Indian investment in Australia.

INVESTMENT

Chapter 2: The Investment Story looks at the broader investment outlook in India. Each of the sectoral chapters also includes a section on the two way investment opportunities and how trade and investment can reinforce each other.

Today, the Australia India investment relationship is small. Yet we are both countries dependent on foreign investment to lift our growth and standard of living.

In virtually all of Australia's relationships in Asia, direct investment lags trade by a wide margin. India holds out the prospect of being different. It has a relatively open foreign investment regime, more open than its approach to trade. It has the rule of law although long delays (it takes an average of four years for courts to resolve a commercial case) considerably erode this advantage. Its institutions are familiar to Australians, both derived from British models, and English is widely spoken – a very significant asset. Automation, artificial intelligence and India's own services sector moving up the value chain means investing in India is no longer about offshoring labour-intensive tasks.

THE ROLE OF GOVERNMENT

In an ideal world an economic strategy would rest on the business to business relationship with a light touch from government. It is business on both sides which should drive the trade and investment relationship. India however is a market where government cannot be left out of the equation. Indeed governments on both sides have

The matrix formed by the intersection of these 10 sectors and 10 states is at the heart of the strategy recommended in this report. It is a strategy designed to play to Australia's economic strengths, make planning for entry into the Indian market more manageable, respond to India's priorities, identify where the future growth is, and plug into the benefits of competitive federalism in India.

In short, we may have a better chance with India to secure more balance between our trade and investment relationship than we have with any other major Asian economy. Indeed we should set ourselves the ambition by 2035 for India to be the third largest destination in Asia for outward Australian investment.

This is a big target given our low starting point. But attracting foreign investment is a key element in the Indian economic model and over 20 years India's policy framework on foreign investment will become more and more open. India also offers big opportunities in the long term for Australian pension funds and Australian expertise on infrastructure finance is well suited to a country where addressing the infrastructure deficit is essential to economic growth. As the business environment in India improves Australian investors will hopefully pay much closer attention to investment opportunities and the way in which investment and trade come together in the Indian market.

an important role to play in bringing a successful economic strategy to fruition.

A number of countries that are currently doing well in India adopt a national strategy which puts government coordination and leadership at

the forefront of their India strategy. Japan and Singapore are two good examples.

At one level an 'Australia Inc' approach to India also makes conceptual sense. The government plays an important role in the Indian economy. Public enterprises still constitute a significant part of India's corporate structure, especially in the banking sector and in resource extraction. The government set policy and regulatory framework is key to many of the sectors which this report identifies as areas of opportunity for Australia in India. Also, the rule of market forces is less strong in India's political culture than it is in Australia.

The Australian experience however does not lend itself so easily to an Australia Inc approach. Australian Governments have neither the capacity nor the inclination to direct business much less expend substantial resources to assist Australian companies enter and thrive in the Indian market.

We have to find our own settling point for the role of government in an India economic strategy: one that reflects the Australian system and experience where business is done by companies not governments.

But this does not mean a hands off approach by government. This is a report to the Australian Government with a natural focus on what the government should do. It starts with the premise that the government has an important role to play in facilitating trade and investment with India.

This report identifies six areas where the Australian Government should play an active role.

First, applying sustained high level attention to the bilateral relationship with India led at the highest levels of the Australian Government and including a regular pattern of prime ministerial and ministerial visits. Each of the 10 sectors identified in this report should have a ministerial champion at the federal level, reinforced by the work of the Commonwealth Public Service and Australian state governments.

Second, government has a role in raising awareness of the opportunities in the Indian market. This does not mean boosterism. We need to navigate between the hype that India is the next China and the outdated pessimism that India is just too hard.

Third, government, and particularly agencies such as DFAT and Austrade, have an important role in helping Australian firms understand the complexities of the Indian market place and India's business culture, including how to go about finding the right Indian partner and understanding the broader political economy of India.

Fourth, the government should invest the resources to ensure we have an adequate diplomatic and trade footprint in India. This is particularly important for a strategy that focuses on Indian states and cities. Australia starts in a strong position. We have one of the most extensive networks of diplomatic and especially trade offices in India, now numbering 11 offices. But we need to do more including opening new Consulates-General in Kolkata and Bengaluru.

Fifth, government is the only player that can lead a policy dialogue with India that looks at our respective experiences in policy reforms and regulatory controls. Virtually all of the sectors identified in this report are highly dependent on the right policy and regulatory framework. The economic opportunities in both directions will depend on the economic policy settings of each government. This underlines the need for a deeper policy dialogue between Australia and India which also brings in the private sector to ensure that policy changes reflect commercial realities and priorities and facilitates business engagement. A deeper policy dialogue with India will help us better understand the drivers of Indian economic policy and the role of the state in India's political culture, just as it might help India better understand the limits that government can play in the Australian context.

Sixth, government has a unique role to play in enhancing the understanding of Australia in India. The truth is – that at a community level – neither of us know much about the other. The Indian elite has traditionally not looked to Australia. That is beginning to change, but only slowly. And for the broader Indian community, images of Australia tend to be sketchy, shaped by cricket, historical connections and sporadic coverage in the Indian media.

Similarly, in Australia, there is very little understanding of contemporary India in the wider community. Australians, for the most part, have only a partial glimpse of India's diversity, its sophistication and of the scale of its prospects.

If our partnership is to reach its full potential we must modernise our perceptions of each other. It is in our interests to do away with misconceived notions of what the other stands for.

THE ROLE OF BUSINESS

Just as government has a large role to play in an enhanced India economic strategy, so also do we need stronger business to business relationships.

The current structures which underpin the business to business relationship are not strong enough to support a larger trade and investment relationship. The Australia-India CEO Forum is a useful vehicle but it needs an agenda beyond its meetings which themselves should be brought into a regular annual cycle.

Similarly the Australia India Business Council (AIBC) needs more clout. It should include the big corporates who do business in India as well as the small and medium enterprise (SME) membership which is its current focus. The AIBC also needs to broaden much further beyond the diaspora community and in the process be less susceptible to the factionalism which too often plagues diaspora groups.

A more active role by the Business Council of Australia (BCA) would be one means of strengthening the business to business relationship. The BCA would make a good secretariat for the CEO Forum, giving it some business heft and aligning it more closely with Australia's business priorities.

There should also be a much closer relationship between the BCA and AIBC and the Indian industry groups such as the Confederation of Indian Industries (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Association of Chambers of Commerce which play such a key role in promoting India's business links with its major trading partners.

What we achieve together in coming decades will have little to do with a shared imperial past. It will have not much to do with the English language, although that will greatly help. And it will have to be a tighter bond than anything forged on a cricket field. Rather, it will turn on gaining a real understanding of each other, of where we differ but also what brings us together including shared interests and the strength of our diversity.

The current business to business architecture struggles to keep up with the existing relationship let alone pave the way for the larger relationship to come. Its leadership is dedicated and eager to do more but it is constrained by limited resources and a volunteer base. This must change and the government should do what it can to facilitate that change.

The strategy outlined in this report goes to how Australia positions itself to build a long term and sustainable partnership with India. It is for the most part a strategy about Australia in India. For the partnership to be complete however there also needs to be a strategy for India in Australia and I hope that is something the Indian Government will consider. A unilateral strategy can only partially succeed. A partnership, on the other hand, rests on that most enduring of foundations: mutual interests.

India is already in the first tier of Australia's diplomatic relations. It has been a high foreign policy priority for at least two decades. But the economic relationship is stuck in the second tier. This report is about how we can change that and place the economic relationship at the centre of our partnership with India.

Prioritising Recommendations

The intersection of 10 sectors and 10 states is at the heart of the strategy recommended in this report. It focuses on aligning Australia’s economic strengths, makes planning for entry into the Indian market more manageable, identifies where the future growth is, and works with the grain of competitive federalism in India.

To reach the 2035 targets of India becoming our third largest export market and third largest destination in Asia for Australian outward investment, the strategy outlined in this report has five underlying drivers: grow the Australia India knowledge partnership; make the most of the complementarities between our economies; improve the ability of our markets to operate with each other; develop well-informed understanding of each other; and build relationships which will sustain themselves for the long term.

Within these drivers, the strategy identifies 90 specific recommendations. This report proposes many be implemented now, but recognises that some will have to wait until more resources are available or India’s domestic reform agenda is more advanced. I have highlighted the top 10

recommendations for immediate implementation and the top 10 recommendations that could make the biggest difference.

As a report to the Australian Government, these recommendations are primarily for government to act on and lead. But collaboration with the private sector and Australian state governments is essential to their success. The recommendations also serve to inform businesses of where government is best placed to put its resources.

Two fundamental factors define our approach. First, a long term commitment to India is essential. Second, Australia must keep improving its international competitiveness to succeed in India’s increasingly crowded landscape. This of course applies not just to success in the Indian market.

The recommendations of this report form a body of practical steps that can serve the relationship for years to come. Developments in both economies will affect when the timing is right for individual recommendations.

While each of the recommendations presents a strategic opportunity, some will have a greater impact than others.

FIGURE 1: THE ORGANISING PRINCIPLES OF THE INDIA ECONOMIC STRATEGY



PRIORITY RECOMMENDATIONS TO BE IMPLEMENTED NOW

6.1.2 Reposition 'Brand Australia' to improve the perception in India of the quality of Australian education

- A 'Study in Australia' education hub should be established in New Delhi based in commercial offices rather than in our diplomatic mission
 - India is big enough to accommodate all Australian providers, which need to stop seeing each other as competition and instead to collaborate in a coordinated manner
 - this hub would be responsible for the international marketing and promotion of Australian education and training, and be led by an upgraded Austrade presence with on the ground support from the Department of Education and Training and Universities Australia
 - the hub would work directly with industry, peak bodies, and local providers to build a 'Study in Australia' brand which highlights the quality of Australian education
 - universities that have a presence in India could consider co-locating in the hub.

15.3 Universities Australia should explore options for a consortium of Australian universities to be the lead partner in the establishment of one of India's six new proposed Indian Institutes of Technology (IITs)

- The Indian Government plans to open six new IITs by 2020. An Australian consortium should be the lead partner with one of these six.
- Andhra Pradesh or Karnataka would be good locations for such a joint venture.

29.1 Work with the Indian Government to put in place mechanisms to provide better forecasting and greater visibility of fluctuations in Indian demand for agricultural commodities imported for Australia

- Australia could provide globally-competitive forecasting services directly to India's Directorate General of Foreign Trade to help ensure earlier advice on policy decisions such as tariff increases
 - including through deeper relationships between the Australian Bureau of Agricultural Resource Economics (ABARES), the Bureau of Meteorology (BOM) and the Indian Meteorological Department.

- Import tariffs and trade restrictions are often applied in response to changes in domestic production driven by seasonal conditions or due to specific Indian Government schemes.
- Improved weather and monsoon forecasting, and monitoring of Indian Government schemes, could add an element of predictability that could assist India to know earlier its likely harvest levels.
- Understanding and managing climatic variability is an area of Australian strength and working with India could also support the provision of timely information to the Australian side.

37. Promote increased direct air services between Australia and India

- Though air service arrangements are not inhibiting aviation capacity in the short term, no Australian carrier currently flies directly to India.
- The Australian Government should encourage Australian and Indian carriers to increase direct air services between the two countries.
- Australian airports should explore options to increase incentives for Indian airlines to use Australian airports, or for third country airlines if they are connecting directly from India.
- The Australian Government should consider increasing aviation access to additional regional Indian tier two cities under air service negotiations, with a mind to opportunities evolving out to 2035.

55.1 Convene an Australia-India Infrastructure Council as a forum for collaboration between government and the private sector from both countries, including at the state level

- A platform for the exchange of expertise in infrastructure financing and guidance on how companies identify opportunities, mitigate risks, and develop appropriate entry and exit strategies to investing in India.
- A mechanism for sharing regulatory expertise, potentially through the joint development of a policy roadmap. This could include sharing Australian expertise in infrastructure financing, value capture and user charges, in issuing municipal bonds or green bonds, and in toll-operate-transfer and 'Build-Operate-Transfer' models.
- Support for state government engagement, given a large proportion of the expertise in regulation, implementation and management of transport infrastructure sits at the state level in both Australia and India.
- Share Australian Governments' asset recycling and privatisation experiences. This represents a practical way to respond to India's infrastructure priorities and potentially open up opportunities for Australian funds seeking brownfield infrastructure investment opportunities.

67. Scale up the Australia-India Strategic Research Fund (AISRF)

- Double the current total funding for the AISRF, remove funding from the Australian aid program, and make funding ongoing (that is, make Australia's contribution \$10 million per annum).
- Consider three possible revisions to the AISRF:
 - larger projects along the lines of the 'Grand Challenge Fund' which have been conducted in the past
 - more direct funding to ensure all PhDs on projects spend time in the other country; this forms lifelong networks that build on and exceed the valuable institutional networks that AISRF collaboration already brings
 - while maintaining a necessary focus on industry partnerships and commercialisation, increase investment in priority areas of fundamental science, for example, joint activities in gravity waves or quantum computing which could deliver long term benefits.

74.1 Upgrade the small Austrade presence in Kolkata into a full Consulate-General

- Focusing on economic diplomacy in mining and resources in India's eastern mineral-rich states of West Bengal, Chhattisgarh, Jharkhand and Odisha.
- A mission in Kolkata would represent a strategic investment in Australia's ability to access opportunities in India's resource-rich eastern states and the emerging north-eastern states.
- This could build closer relationships with state governments, including on shared policy experiences and advocacy for reforms in the Indian mining sector and to service the expanding mining equipment, technology and services (METS) sector in Kolkata, other mining-related activity and attract inward investment.

78.2 Australia should take the lead in working with other countries to bring India into APEC

- India is interested in joining the APEC but only if there is a consensus to admit it. Taking the lead on this would serve the bilateral relationship well and would be consistent with Australia's Indo-Pacific Strategy.
- It would bring India into the circle of APEC's important trade facilitation work.
- It would also ensure that if APEC were eventually to negotiate an APEC wide Free Trade Agreement (FTA), India would be a party to it.

82.1 Establish a Strategic Economic Dialogue with India to facilitate a broader and deeper discussion of the economic relationship and reform priorities

- It should convene every two years with the Australian Treasurer, Trade Minister and the chair of the Productivity Commission alongside the Indian Ministers for Finance and Commerce and the Deputy Chair of the National Institute for Transforming India (NITI Aayog).
- This would take the place of the Joint Ministerial Commission.
- The dialogue could include Australian state representatives when meeting in Australia and Indian state representatives when meeting in India.

84. Strengthen the Australia-India CEO Forum

- The BCA should take on the secretariat duties of the CEO Forum. In doing so, it should work closely with the relevant Indian chamber to convene participation on the Indian side.
- The BCA should also draw on guidance from its members and advice from Government to take forward an intersessional policy agenda for the CEO Forum.

PRIORITY RECOMMENDATIONS TO BE IMPLEMENTED OVER THE MEDIUM AND LONG TERM

16. Increase financial support for Indian and Australian doctoral students by introducing a Joint Research Fund

- The availability of financial support is a major 'pull' factor for Indian students considering undertaking PhD programs overseas.
- Australia should increase the availability of funding for Indian and Australian PhD students by establishing a Joint Research Fund with strong links between industry and academia
 - the inclusion of PhD students from both countries would be a compulsory requirement of some or all applications for funding
 - short term mobility for PhD students from both countries should be a subset of this fund.
- A Joint Research Fund would be separate from and broader than the AISRF because the AISRF does not fund doctoral students at present. This fund would also not be limited to research in the sciences.

18. Australian universities should partner with business to promote India literacy in Australia through the expansion of Indian studies, including language studies, in Australian universities

- Large Australian and Indian corporates with commercial interests in both countries should sponsor new faculties and courses on Indian studies in Australian universities
 - a small number of Chairs of Indian studies in major universities should be established
 - the study of Indian languages should be expanded
 - » six universities in Australia taught an Indian language in 1996, now only two do, while over a dozen universities offer courses in Mandarin and Japanese.
- Another way to increase the credibility of Australian education in India is for Australian universities to boost research and teaching on issues of high priority to India
 - we need to make our education offerings more relevant to Indian students as well as increase the India literacy of Australian students.

27.1 Increase financial and political support for the Australia-India Mining Partnership at the Indian School of Mines Dhanbad (IIT-ISM) to ensure it continues to grow out to 2035

- Use the partnership with the IIT-ISM to showcase Australian expertise.
- The framework for engagement under this partnership is established. Modest funding of activities is essential for it to deliver outcomes in the short to medium term. Support could be directed to:
 - executive training programs, with a focus on Australian standards and systems and advanced technology applications
 - joint research projects on extractive and refining technologies
 - facilitating student and faculty exchange between the IIT-ISM and Australian institutions
 - promoting further linkages between Australian industry and the IIT-ISM in the fields of clean coal and mine safety
 - making the Austrade-managed Business Development Manager embedded in the IIT-ISM a permanent role in addition to the Austrade presence in Kolkata.
- Such activities could build further institutional and branding support for Australian universities to develop and deliver management training courses and study tours in partnership with the IIT-ISM.
- Develop a communications and marketing strategy for the partnership at IIT-ISM.

32.3 Establish an Australia-India Food Partnership, including an International Agricultural Services Hub to package Australian policy, implementation and services expertise

- The Food Partnership would provide a framework for:
 - strengthening engagement between Australian and Indian agriculture and food industries
 - strengthen Australia's reputation as a longstanding reliable partner in agriculture
 - work with Indian policy makers to assist in the design and implementation of effective agricultural legislation, regulation and policy making.
- The Hub could offer:
 - a one-stop shop of advice across university, industry and public sectors
 - blended financing, including in-kind contributions from the private sector
 - a unique Australian brand
 - bespoke services available through fee for service
 - if successful in India the concept could be extended to other developing markets.

41.1 Develop 'India ready' training programs aimed at raising awareness of cultural tastes, preferences and expectations of Indian leisure and business tourists

- This could be undertaken through a tender process allowing for a consortium of commercial stakeholders (VET providers and Indian partners) to put forward innovative proposals.
- The Australia India Tourism & Travel Council has industry-wide links and should act as an advisory body.

51.1 Establish an industry body to package Australian health sector offerings specifically for India

- Similar to the Water Industry Alliance or the Australian Water Partnership, perhaps affiliated with an existing health sector peak body.
- This initiative would support public and private partnerships for sharing Australia's health sector expertise with India, open opportunities for Australia to learn from India's approaches and seek co-investment collaborations.
- It would likely require seed funding.

68.1 Explore the option of collaborating with India through its Global Innovation Technology Alliance (GITA)

- The 2+2 model for funding industrial research encourages greater industry buy-in and has a focus on commercialisation.
- Before such a program is conceived, the Australian Government should make a medium to long term commitment to engage with the market, test appetites and build partnerships. Lessons could be learnt from India's experience with GITA in the next two to three years.

69.1 Put India in the top tier of target countries for each of Australia's six industry Growth Centres

- The industry Growth Centres seek to boost sector productivity by:
 - increasing collaboration and commercialisation
 - improving access to global supply chains and international opportunities
 - enhancing management and workforce skills
 - optimising the regulatory environment.
- As part of their focus on international opportunities, engagement with India should be given priority.

74.2 When resources permit, establish a Consulate-General in Bengaluru to focus on economic diplomacy in technology and innovation

- A post in Bengaluru would represent a strategic investment in Australia's ability to access opportunities in the world's fourth-largest, and second fastest growing, technology cluster.

78.1 Establish an Australia-India Standards Trade Enabling Program, to facilitate and promote standards harmonisation, technical alignment and regulatory coherence

- This should be a multi-year initiative to promote common standardisation and would build on Standards Australia's existing relationship with the Bureau of Indian Standards.
- In the first instance, the government should commission Standards Australia to produce a Standards Market Potential Report to inform the development of this program. This would identify the opportunities, technical gaps and challenges for further Australia-India collaboration on a sector-by-sector basis, including digital trade.

IMPLEMENTATION OF THE INDIA ECONOMIC STRATEGY

- Assign a cabinet level ministerial champion for each of the 10 priority sectors identified in this report.
- The Minister for Trade, Investment and Tourism to chair a Ministerial Committee to oversee implementation of the recommendations in this report and to ensure that the India Economic Strategy receives high level political leadership and focus.
- This Ministerial Committee be supported by a committee of senior officials, chaired by a Deputy Secretary of DFAT, and comprising senior officials from the federal departments and agencies most directly involved in the Australia India economic relationship
 - with state government officials invited to participate as appropriate.

