

Introduction: The Australia-India Relationship

Conduct of the inquiry

- 1.1 On Thursday 2 March 2006 the Minister for Foreign Affairs, the Hon. Alexander Downer MP, referred to the Committee an inquiry into Australia's relationship with India as an emerging world power.
- 1.2 The Committee advertised the inquiry in *The Australian* on 5, April 2006. The Committee sought submissions from government departments, relevant organisations and individuals.
- 1.3 The Committee received 38 submissions (listed at Appendix A) and took evidence at public hearings in Sydney on 20 September 2006 and in Canberra on 13 October and 3 November 2006 (listed at Appendix B).
- 1.4 The Committee was unable to finalise its report before the House of Representatives was dissolved on 17 October 2007. On 27 August 2008 the Committee formed in the 42nd Parliament resolved to re-adopt the inquiry and to call for updated submissions from those who had made submissions to the former Committee's inquiry, including the Department of Foreign Affairs and Trade. An additional 12 submissions

or supplementary submissions were received during 2008 and the evidence was incorporated in this report.

The context of the present inquiry

- 1.5 The terms of reference for this inquiry are wider than those set for the Committee's last inquiry into Australia's Trade Relationship with India, in 1998. This reflects the Committee's acknowledgement that the Australia-India relationship has evolved to include defence cooperation and a more widely internationally focused India. Since the last report the Australia-India relationship has improved, yet there remains room for much growth. The Indian economy has continued to reform and expand in the last ten years to the point where many around the world are anticipating its arrival as a "world power." India must continue its economic reform and development agendas in order to achieve that status and Australia must look to actively engage India during this process.
- 1.6 Since 1998, relations between the two countries have ranged from strained, when India tested a nuclear weapon (in 1998), to a friendly, yet limited relationship still predominantly based on historic cultural links such as the English language, commonwealth membership and cricket. This is now changing.
- 1.7 India's rapidly developing economy and the vast market potential of its growing middle class has generated a lot of interest throughout the world. Australia has taken the opportunity, and is continuing to actively engage Indian government and business.
- 1.8 The JSCFADT expects that this report will assist in maintaining Australia's focus on India. It examines the current status of our trade relations and opportunities for future trade growth, as well as consider Australia's government and defence relations with India.

Structure of the report

- 1.9 The Introduction continues in this Chapter with a summary of the fundamentals shaping Australia's relationship with India before moving on to a survey of the current Indian business environment.
- 1.10 Chapter 2 of the Report contains a discussion of Indian-Australian relations between various levels of government. The chapter outlines recent high-level government exchange and the work of Australian agencies such as Austrade, AusAID and the CSIRO. It includes a discussion on the current status of the Australia-India defence relationship and its future development.
- 1.11 Chapter 3 covers the economic relationship, noting established and emerging areas of trade with particular focus on business engagement in the energy, resources and agricultural sectors. Chapter 4 addresses business engagement in the services sector and Chapter 5 discusses key trade opportunities.
- 1.12 The report concludes in Chapter 6 with a discussion on the strategies for doing business in India and some of the challenges facing the trade relationship.

India as an emerging world power – 2007

Becoming a world power

- 1.13 There is no question that India is a rising world power with a growing economy, an outward looking foreign policy and an increasing military capability. India, however, faces some serious challenges as it moves towards "world power" status.
- 1.14 India's economic reform to date has been gradual. However, some commentators have contended that this reform process needs to increase in size and scope. A 2004 Lowy Institute Paper titled *India: The Next Economic Giant* notes that:

Economic reform [in India] in the years since 1991 has been partial, gradual, and at times, faltering. There remains much

to be done. Significant constraints to the country's growth potential, including fiscal fragility, infrastructure bottlenecks, the continued burden of excessive regulation and bureaucracy, shortcomings in the financial and agricultural sectors, and the pressures associated with growing inter- and intra-regional inequality, will all need to be overcome.¹

1.15 In evidence to the Committee, Dr Brent Davis of the Australian Chamber of Commerce and Industry commented on some of the economic challenges facing India including the need to consolidate fiscally and reform the tax system.² Knights Restructuring Services cited high rates of non performing loans in India and stressed continuing infrastructure problems, particularly in the electricity sector, as impediments to further economic performance.³

1.16 Large scale poverty, political unrest in some regions and corruption are further challenges for India. Dr Vicziany from Monash University compared the vast disparities that are inherent in modern day India noting the revitalisation of Bombay compared with insurgency movements in north eastern India and a growing Maoist insurgency in the centre of India's IT revolution:

[There] are areas of India where it is not inaccurate to speak of feudalism, where we have enormous disparities, a very tough caste system and landlord armies designed to protect landlords from government policy. There are government policies to pay minimum wages, but we are not aware of anyone paying minimum wages even though they were set in the sixties.⁴

1.17 Political unrest in India is fuelled in part by the persistent problem of mass poverty especially in rural regions. The exact level of poverty in India is debated but the Committee was advised that "possibly 35 per cent of Indian people live in extreme poverty."⁵

1 Mark Thirlwell, Lowy Institute Paper, *India: The Next Economic Giant*, 2004, p. viii.

2 Dr Brent Davis, ACCI, *Transcript 20 September 2006*, p. 39.

3 Knights Restructuring Services, *Submission No. 7, Sub. Vol. 1*, p. 54.

4 Dr Marika Vicziany, *Transcript 20 September 2006*, p. 10.

5 Dr Marika Vicziany, *Transcript 20 September 2006*, p. 11.

- 1.18 AusAID took a more nuanced approach noting that a lot of social development indicators have continued to improve in India but “there are still pockets of extreme poverty and challenges, including education and HIV-AIDS.”⁶ AusAID’s role in the Australia-India relationship and the issue of HIV-AIDS in India will be discussed later in the report but it is important to note the range of social issues India continues to address.

Engaging with an emerging world power

- 1.19 Australia must recognise and overcome a different set of challenges, in order to engage effectively with India. Australia is a relatively small country, in terms of population, and to gain India’s attention, it must work hard on a number of fronts.
- 1.20 On several occasions during the inquiry, the need for Australia to keep itself on India’s “radar screen” was brought to the attention of the Committee. In addition, the benefits of overcoming the strong focus on the resource trade and breaking down previous stereotypes were noted.
- 1.21 The Committee observed that:
- [in submissions] both of government agencies and corporate players of the two nations, it seems...that there is a lot of feeling of standing on the edge of enormous opportunity but not quite taking the next step⁷
- 1.22 Mr Darren Gribble, Chairman of the Australia-India Council noted in response:
- If you look at the Australian interest, part of it is generated by the fact that there is an enormous amount of trade that takes place, though a large amount of that has been in the area of commodities. The challenge is to generate more activity in what I would call the non-commodity sector. There is a willingness to get involved, but while the opportunity is large it should not be assumed that it is necessarily an easy place to do business.⁸

6 Mr Murray Proctor, *Transcript 3 November 2006*, p. 48.

7 The Committee, *Transcript, 13 October 2006*, p.14.

8 Mr Darren Gribble, *Transcript, 13 October 2006*, p. 14.

- 1.23 Raj Sharma of Pentaq Pty Ltd. reflected that the lack of an Indian Prime Ministerial visit to Australia in almost 20 years might highlight the fact that “Australia may not be on India’s radar screens other than as a supplier of resources.”⁹
- 1.24 Other witnesses to the inquiry reiterated Mr Sharma’s concern that Australia was not a focus of Indian attention. Mr Roach from the Australia-India Business Council (AIBC) commented on both the strong resource focus and India’s sometimes lack of interest in Australia:
- ... in India I am continually pushing the line that they have got to do a lot more to build a relationship. The resources thing is a no-brainer; everyone knows that we have got it and it is easy to sell and they need it, and fortunately there are no restrictions on it. But we have much more to offer. All these other things perhaps are an absence of priority and will [on the part of India].
- 1.25 As an emerging world power, Australia should expect that India will often have its focus elsewhere. It is Australia’s job to continue to stress the advantages of an expanded relationship. The Department of Foreign Affairs and Trade (DFAT) recognises this. It advised the Committee at its 2006 public hearing that the then Prime Minister Howard’s 2006 visit to India, in addition to a variety of recently signed MoUs, represents a forward momentum in the relationship which must be maintained. DFAT believes that the maintenance of such momentum represents a key challenge to Australia “particularly as Australia is not alone in recognising India’s growing importance.”¹⁰
- 1.26 Additional evidence received from DFAT in its 2008 Supplementary Submission No 21a, discusses a number of visits and meetings undertaken by the present government which build on these earlier initiatives. These are dealt with in greater detail in the following chapters.
- 1.27 In summary, the DFAT Supplementary Submission 21a makes the following assessment of the strategic significance of India to Australia and the region:

9 Mr Raj Sharma, *Transcript 20 September 2006*, p. 41.

10 Ms Deborah Stokes, *Transcript 3 November 2006*, p. 16.

Australia values India's increasing strategic importance in our region and its important role in contributing to stability in the Indian Ocean and South and Central Asia. India shares common concerns with Australia, both as a democratic nation with interests in maritime security in the Indian Ocean, as well as combating regional and global terrorism.¹¹

Current Indian Economic Profiles

- 1.28 In a position paper put before the Committee, which analysed the Indian business environment, the Australian Chamber of Commerce and Industry (ACCI) was cautiously optimistic about India's trade position:
- Gross trade flows (exports plus imports) almost tripled from \$US 57 billion in 1991/2 to \$156 billion a decade later...largely on the back of surging exports of manufactures (up 145 per cent) and services (up...275 per cent) over the decade.¹²
- 1.29 However prospects for continuing improvements in the Indian economy are impeded by the lack of investment in key infrastructure – roads, rail, sea and air ports, electricity and telecoms – where required investment over the coming decade is estimated to be \$US 420 billion.¹³
- 1.30 The electricity sector is particularly problematic with low quality, high cost and unreliable power supplies. In addressing these issues key reforms are required involving the 'rationalisation of power charges, the de-politicisation of power-tariff setting and the elimination of cross-subsidies that undermine the competitiveness of Indian commerce and industry.'¹⁴
- 1.31 Without a commitment to continuing micro-economic reform and infrastructure investment the ACCI survey finds that

11 DFAT *Submission* No. 21a, p. 10

12 ACCI Position Paper, August 2006, *Riding the Indian Elephant: Opportunities and challenges. for Australia and the World*, p.14.

13 ACCI, *Riding the Indian Elephant*, p.18.

14 ACCI, *Riding the Indian Elephant*, p.18.

'India's economic growth rate is likely to slow, its business investment rate decline and fiscal deficit... increase.'¹⁵

- 1.32 This assessment makes realistic allowance for the difficulty in maintaining the political momentum for continued micro-economic reform in the complex Indian democratic environment. On the other hand, the ACCI analysis records an optimistic outlook for the continuing growth of the Indian services sector:

During the 1990's, India's services sector grew at an average rate of 9 per cent per annum, accounting for almost 60 per cent of the overall growth in the Indian economy over that period. At the same time, India's exports of services grew at an annual average rate of almost 17 per cent, one of the fastest rates in the world.¹⁶

- 1.33 The Indian services sector however displays two distinct profiles. On the one hand there are; 'the traded services (such as computer software, finance, management and consultancy) – up a phenomenal 330 per cent between 1996 and 2000', together with the specific area of business process outsourcing such as data entry, insurance claims, call centres and database services which 'grew at an extraordinary 100 per cent per annum in the five years to 2004.

- 1.34 On the other hand are the heavily regulated and protected domestic service sub-sectors such as retail trade and distribution, road and rail transport and professional services such as accountancy and law. These sectors would benefit from 'deregulation and similar reform initiatives', according to the World Bank.¹⁷

- 1.35 In summary, external pressure;

most notably the benchmarking of India against China, has kept the liberalisation program moving forward, albeit modestly and in the face of domestic resistance both from vested interests and political opponents of reform.¹⁸

15 ACCI, *Riding the Indian Elephant*, p.19.

16 ACCI, *Riding the Indian Elephant*, p. 21.

17 ACCI, *Riding the Indian Elephant*, p. 22.

18 ACCI, *Riding the Indian Elephant*, p. 27

- 1.36 As a result of the 2008 Global Financial Crisis, the Indian economy has significantly contracted reducing growth and leading to high inflation and depletion of foreign investor liquidity. When combined with a credit squeeze and an already weak currency, the crisis has severely hurt various sectors of the Indian economy, most notably banking, export and IT.

