



Submission No 23

Inquiry into Australia's relationship with India as an emerging world power

Organisation: Resolution Group Australia



Inquiry by the Joint Standing Committee on
Foreign Affairs, Defence and Trade.

Inquiry into Australia's relationship with India as
an emerging world power.

A submission from Resolution Group Australia

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Terms of Reference

The full committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine and report on Australia's relationship with India as an emerging world power with particular reference to:

- Trade and tourism including investment opportunities
- The defence relationship

The strategic possibilities for both nations resulting from increasing globalisation and regional imperatives

Submission to Inquiry

Overview

The economic effect of Australia's strengthening relationship with China is a significant pointer to the possibilities that exist for developing Australian/Indian trade opportunities.

During the most recent decades, social evolution within China has fuelled a dramatic expansion in consumerism.

By stimulating a gigantic workforce potential (791.4m est. at 2006), the Chinese government has transformed the economy to increase wealth and services to its citizens and expand support for domestic manufacturing. In turn, this has moved the demand for overseas commodities away from manufactured goods and towards raw materials. China's excess of exports over imports (\$752.2b vs \$631.8b) is a reflection of this. Consequently, growth in the manufacturing sector has accelerated concurrently.

However, Australia's commercial activity with Chinese enterprises is not one-dimensional. There is a growing level of involvement with Chinese companies by mid-level Australian enterprises, who either seek Chinese goods and services, or intellectual property to enhance their domestic position, or who seek to provide similar products to Chinese consumers.

That the Chinese expansion has directly affected the Australian economy is readily apparent. The resources boom, stock market acceleration, recent budget measures, tax benefits, Government debt reduction and expansion of major public works projects, are all beneficiaries of this recent growth. However, the extent of this growth may have moved the domestic economy closer to a state of dependency rather than a simple consequential but healthy exploitation of the opportunity.

It is therefore important to actively pursue opportunities with countries that have the potential to match the China effect and ameliorate the risks associated with such polarised prosperity.

Apart from India's geographic proximity to Australia, it's demographics support an optimistic view for future growth and development.

Once again, turning to the Chinese precedent as a comparator, India is the only country that even approaches China as a population centre:

	Population est. July 2006	Percentage
The World	6,525,170,264	
China	1,313,973,713	20.14%
India	1,095,351,995	16.79%
European Union	456,953,258	7.00%

Source: CIA World Factbook

The vast size of India's population has the effect of minimising potential negative aspects of the demographics. For example, the labour force of 496.4m in India is split as follows:

Agriculture	60%
Industry	17%
Services	23%

But even the smallest category of Indian labour amounts to over 84m people, more than 4 times the entire Australian population.

Other key and contrasting indicators, illustrated here for comparison alongside the equivalent Australian data, will impact on the way that Australian business approaches the Indian market:

	INDIA	AUSTRALIA
Unemployment	9.9%	5.2%
Population living below the poverty line	25%	N/A
Inflation	4.6%	2.7%
Budget Revenue	\$111.2b	\$249.8b
Budget Expenditure	\$135.8b	\$240.2b
Public Debt (% of GDP)	82%	16.2%
Industrial Production Growth Rate	8.2%	1.6%
Exports	\$76.23b	\$103b
Imports	\$113.1b	\$119.6b

Note: all dollar amounts are expressed on an exchange rate basis in \$US.

Source: CIA World Factbook

Australia's workforce spread of 3.6% in Agriculture, 21.2% in Industry and 75.2% in Services is a reflection of several factors, not the least of which is an advanced and heavily automated rural and manufacturing sector.

It would seem clear that Australian enterprise can offer adapted products and expertise to Indian commerce that will accelerate the development of the

business sector, building revenue for both industry, shareholders and the Revenue.

Apart from the mutual benefits of closer business ties, there is an undoubted opportunity for Australian business to more effectively connect with one of the largest markets in the World, right on our doorstep. The flow-on benefits to domestic small to medium enterprise of greater production volumes and potentially lower unit cost is attractive for local manufacturers and consumers alike.

Submission

This submission focuses on the first part of the Inquiry Terms of Reference, namely, "Trade and tourism including investment opportunities".

There are already a number of entities that assist Australian Business in expansion and development overseas. However, the potential that is available in the Indian market would appear to be significantly greater than the ability of existing resources to manage and advise.

The social, cultural, language and religious backgrounds of the Indian people span a wide variety of cultures, traditions and history. There can be little doubt that reliable, on-ground assistance is a valued commodity to business visitors.

This assistance to business can include a wide-range of needs such as:

- Planning phase market information.
- Expediting travel, accommodation and on-ground activity.
- Providing temporary office facilities including telecoms support.
- Partnering during initial visits, including translation services and preliminary PR.
- Direct marketing for introductory meetings or displays.
- Sourcing of meeting/conference/seminar rooms for presentations.
- Relationship introductions with local business groups, government officials and departments.
- Office establishment assistance.

- Assistance with local legal, accounting and statutory requirements and sourcing of specialist advice.

During the planning and start-up of a business in the Australian marketplace, a crucial factor for success is the quality of information that is available about local market conditions and the State/Local Government policy issues that impact on business practices.

No less is true for a venture into India. However, the effectiveness of that information is significantly enhanced if it is accompanied by experienced professional assistance with knowledge of both Australian and Indian practices and cultural differences.

Trade and Investment

In preparing this submission Resolution Group has been visiting India to obtain a first hand view of at least some of the obvious issues that may face Australian business ventures.

In Bangalore, Resolution Group met with Mr R.C. Purohit the Senior Vice-President (and President from July) of the Federation of Karnataka Chambers of Commerce to discuss the potential interest of Indian enterprises in conducting business with Australia and was assured that Australia is highly regarded and there is great interest in Australia by the business community. However, countries such as the United Kingdom (UK), United States of America (USA), Germany etc. appear to have done more to market themselves and interact with the Indian business community and therefore are the main overseas participants in the current market.

India has a massive involvement in the Information Technology (IT) and Business Processing Organisation (BPO) markets. On Wednesday June 7 2006 the Times of India reported that the CEO of IBM Mr Palmisano addressed a gathering in Bangalore, estimated at over 10,000, to announce that IBM will triple their investments by injecting a further \$6 Billion into IBM in Bangalore, India. The Times reported that "The new investment in India is expected to go into development of new technologies, innovation, research activities, infrastructure building, high-quality talent development and educational initiatives." The Times also reported that IBM has shown phenomenal growth and employees in India have increased from 3000 in 2003 to over 43000 in 2006. The President of India APJ Abdul Kalam visited Bangalore for the IBM announcement and also addressed the gathering.

One of the concerns expressed by some of the IT organizations is related to potential terrorism. These organizations are concerned that the next large scale terrorist attack will be on the IT systems of a country rather than a landmark building such as the 9/11 destruction of the World Trade Centre. Countries such

as the USA and UK are seen as high risk, whereas, Australia is seen as a safe country both for business activity and for graduate and post-graduate education.

Also, reported in the Times of India, Bangalore, Wednesday 7 June 2006, was an announcement by the British High Commissioner Michael Arthur that the UK had entered into a new partnership with India in the biotech sector and that a 17 member UK delegation was in Bangalore to showcase the R&D capabilities of the UK's biotech sector at Bangalore BIO 2006.

Despite Australia being held in high esteem by India as a safe country and a leader and favourite in cricket, it seems that Australian business and trade delegations are less visible.

One of the personal annoyances encountered in this visit to India, was while conducting historical research at the National Archives in Delhi. Apparently, the protocol between Australia and India is such that Australian citizens are required by Australia to obtain a letter of authorisation from the Australian Consulate to the National Archives. This is both a cost and time-consuming exercise because the Consulate imposes a fee for the letter. It seems clear that these barriers should be removed so that Australian citizens can conduct their legitimate activities in India without additional costs being imposed by Australia.

On the issue of disincentives imposed by Australia, under current Tax Law, Goods and Services Tax paid on overseas airfares is not deductible to Australian businesses. This means that an Australian business that wishes to explore or conduct business in India or any overseas destination is at a disadvantage in comparison to conducting the business within Australia. While the cost may be comparatively small, when first establishing a business, the extent of travel and investment in the overseas venture is generally higher and a ten per cent disadvantage on travel costs can make the difference between pursuing a venture or not.

It is requested that the Committee consider the removal of disincentives and making available incentives for Australian businesses doing business with India.

Although there are great business opportunities in India, the infrastructure in India is inadequate. Roads are in extremely bad condition, traffic is congested because of road conditions and lack of road discipline, electricity and water are in short supply and services are generally third rate. The demand for education especially English language schools is high.

Australian businesses that can provide the expertise and services that are lacking in India will find a voracious demand.

In relation to trade issues however, it may be that there should be some form of Memorandum of Understanding between Australia and India similar to the

Double Tax Agreement between the countries whereby Australian businesses investing in India have a level of agreed protocols and the Committee are requested to consider this possibility.

Tourism

Australia is recognised in India as a desirable tourist destination. The Barrier Reef, Gold Coast, Sydney, Melbourne, Ayres Rock etc. are well known and recognised. However, Resolution Group did not see or become aware of any marketing in India of Australia as a tourist destination. In addition, Qantas as the main Australian Airline provides a very poor service to India. Flights are few and only to Mumbai and Delhi. Singapore Airlines on the other hand has numerous services including direct flights to cities such as Bangalore and these flights appear to always be full.

The Indian consumer is now widely travelled and as disposable income is rising, tourism to destinations such as Australia will be taken advantage of, if the effort is made to market and cater to the potential demand. The cost and availability of tourist visas (including time to process visa applications) is a factor that would impact upon potential tourists to Australia.

Conclusion

It is considered that the Committee or at least some Members should consider visiting India as part of the Inquiry and prior to finalising a Report. Resolution Group has established a number of contacts within the business community in India and also in the Indian National Congress Party and would be extremely pleased to assist the Committee in any arrangements for or during a visit to India.

Resolution Group would suggest that any visit should include at the very least Delhi as the Capital and Bangalore, because of its position as the IT centre in India.

Resolution Group Australia