

India: The Next Economic Giant
Business Luncheon



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PricewaterhouseCoopers
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Introduction

I am very pleased to be here today for the Victorian launch of the latest publication by the Lowy Institute, Mark Thirlwell's *India- The Next Economic Giant*.

I congratulate Mark, and The Lowy Institute, on producing such a thoroughly researched, thoughtful and extremely timely study.

It raises very important issues, not just about the future of India but about the changing nature of the global economy itself – a change that is being driven by a new generation of economic superpowers and trading blocs.

This has profound implications for Australia, and for Victoria, which is what I will discuss today.

But let me begin with Mark's concluding point that historically, Australia's economic prospects have repeatedly benefited from the rise of Asian powers.

Changing global economy

Probably the single most important trend in the post war global economy has been the growth of world trade – especially as a driver of world and regional GDP.

This trend has accelerated significantly in the last two decades. Between 1983 to 2003 world output or real GDP grew by 3.0% annually.

Over the same period, world trade grew at double that pace: 6% annually to be worth over US\$16,000 billion by 2003 – making it the world's single biggest business growth sector.

And this trend has been most pronounced in Asia, which has been at the forefront of this growth. During 1983-2003, Asia's average GDP growth was 6% or double the world average and its annual average trade growth was 10%.

India presents a striking example of how trade drives GDP growth, with its trade share as a percentage of GDP almost doubling from nearly 16% in 1990 to over 31% in 2002.

Much of Australia's growth though over the past decades was driven by Asia's growth, particularly through trade and FDI – first with Japan and then South Korea and now China.

It is important to emphasise that these economic partnerships were largely goods driven - by us exporting commodities and in turn importing consumer products.

The globalisation of the world's economy - driven by the ICT reevolution, new trading blocs and organisations and increasingly standardised Transport, Distribution and Logistics systems – has caused a fundamental shift in our relationship with Asia and dramatically transformed how we do business, where we do business and who we do business with.

Less than fifty years ago the global economy was equally balanced between agriculture, manufacturing and services. Today over two-thirds of the wealth generated in the world is based on knowledge and services-based industries.

At the same time, competition for capital and markets has become increasing fluid and mobile, following and creating new global supply chains.

For example, I may be sitting at home, accessing the internet through a computer assembled in Taiwan, using Irish-built processors and running software developed in the US, to buy a product designed in Italy and manufactured in China.

My credit card will be processed in India, the product shipped from a warehouse in Singapore on a Norwegian freighter, tracked by an Australian TDL company and delivered to my door by a van assembled by the Korean subsidiary of a German-American automotive company.

Even a few decades ago, such a scenario would have been almost impossible to imagine, let alone work as a business model.

New World Order

On the other hand, this shift is also driving the growth of a new generation of economic superpowers and regional economies that will transform the world economic and geopolitical landscape.

For example, a forecast by the financial house Goldman Sachs suggests that in less than 40 years, the emerging BRIC (Brazil, Russia, India and China) economies could be collectively larger than the G6 (minus Canada) economies in

US dollar (2003 dollars) terms.

And in the Middle East we are also seeing a fast growing new regional economy, focused around the Gulf States, who are rapidly growing as trade and service industry centres.

As Mark points in out his book – this could well lead to an Asian Economic Community to counter the USA and the EEC - and that a G20 would be a better forum than the G7 to deal with world economic affairs.

So this raises the question of how should Australia, and Victoria, position ourselves in this new world?

India overview

I think the opportunities presented by India's future growth offer a very interesting model here.

Currently it is the world's 11th largest economy – roughly equivalent in size to Brazil or Mexico (although with a much better cricket team), and according to DFAT, India's population grows by the size of Australia every year!

Annual GDP growth has averaged around 6% since 1991 building to 8.2% last financial year, making it the world's second fastest growing economy.

It is also the world's largest democracy, the second most populous country and the 8th largest by land mass, just under half the size of Australia.

Strengths

India also has many other strengths, including:

- a diverse sectoral base with a particularly strong services sector accounting for 50% of GDP). Information and Communications Technology (ICT) is a standout sector in growth terms.
- a strong potential export base driven by ICT, chemicals and pharmaceuticals;
- a democratic political system and well developed property rights and institutions and a strong commitment to education
- a large and growing middle class of up to 300 million people:
and
- a vast Indian high-skilled diaspora. One striking example here is that 34% of all Microsoft employees worldwide are Indian.

These strengths provide the foundation for continued strong GDP growth, with the Indian Government's own Vision 2020 document, prepared by the Planning Commission, targeting GDP growth rates of 8.5 to 9% in real terms over the next

20 years.

For those of you with an interest in compounding, it is worth noting that even with a real growth rate of around 5%, India's GDP could well be larger than Japan's within thirty years – making it the world's third largest economy, behind only the US and China.

But its demographics rather than mathematics which is the key determining characteristic for India. Economic growth will be driven by India's younger population – with over half of India's total population currently under 25 years of age.

And if current trends continue, this means that in twenty years time, India will be home to around 500 million people under 25 – more than the entire population of the US or EU now. This will translate into substantial increases in the size of the workforce and demand for goods and services – both in India and globally.

Challenges

However, there are significant challenges confronting India which Mark Thirlwell explores in detail. Briefly, they include:

- the need to continue economic reform;
- upgrading the quality of infrastructure;
- addressing environmental and sustainable energy supply problems;
- fiscal fragility and financial management issues;
- an inefficient agricultural sector; and
- addressing the growing income divide between States.

Opportunities for Victoria

So what we are looking at is a country with a rapidly growing demand for the products and services sought by a big and increasing middle class but with significant structural challenges related to managing its rapid growth.

Similar issues can also be found to varying degrees in the other BRIC nations and the Middle East.

At the same time Victoria is also evolving from our heavy reliance on manufacturing 20 years ago, to a state that is focused on more innovative service-based and diversified industry sectors.

The knowledge industries and services sector now play an increasingly vital role in our State's growth – in areas such as ICT and biotech, creative media, tourism, higher education, healthcare, environmental technologies, advanced manufacturing and financial, professional, and technical services.

So clearly we have real opportunities to position Victoria with India, and other

changing economies:

- as a strategic partner in transforming and enabling sectors such as biotechnology and medical research, environmental technologies, ICT, financial professional and technical services, education and healthcare; and,
- as a supplier of high value added consumer goods and services where we have unique and competitive advantages, such as wine, clean, safe and high quality food products, tourism and entertainment;
- and as a sophisticated investment destination and gateway to other regional economies across the Pacific, Asia and South America.

In the case of India, we have some other key advantages as well such as a growing trade and investment relationship. For example:

- Australia's exports to India increased from \$632 million in 1990 to \$4.8 billion in 2003-04 - an increase of around 660% - making it our 7th biggest export market; and
- Australia is India's 8th largest overseas investor, with over \$1 billion approved for around 140 joint ventures – while Indian investment here is also worth around \$1 billion.

There are also many cultural and personal connections as well, including a shared language and political and legal systems – and Commonwealth and other sporting links.

And today around 156,000 Australians of Indian descent live in Australia – of whom over 30,700 or 32% live in Victoria. And the Indian-born population in Victoria increased by 26% from 1996-2001.

This figure is still growing with ABS data showing Victoria gained 2068 settlers from India in 2002-03 - making it our second biggest source of new migrants, after New Zealand and outstripping Britain.

Victorian opportunities in India by sector

I would now like to provide a brief overview of some of the sectors I mentioned earlier which are now becoming key economic drivers for Victoria - and where we can add value as a strategic economic partner with India.

ICT

ICT is of course a major success story for India in recent years, especially as the global “back office”. However India is looking to move increasingly into higher value ICT goods and services where Victoria has distinct strengths, such as in:

- banking products (risk management and internet banking) smart cards and eftpos;

- broadband equipment and software;
- e-governance projects; and
- long distance inter-active technologies for education and medicine.

Attracting regional headquarters here to capitalise on our R&D skills and access to Asia-pacific markets is another opportunity for Victoria - with Indian companies like Infosys' already exploring through its Global Development Centre in Melbourne.

Healthcare

Healthcare is another major opportunity. The Indian health care market was worth around \$34 billion in 2002, and is expected to grow by 15% per annum over the next few years.

Again a growing and increasingly middle class population offers opportunities here for Victoria's world-class cluster of medical, biotech and healthcare research bodies and services.

This could include medical electronics, collaborative R&D in the area of pharmaceutical biotech and IT enabled applications such as telemedicine and remote diagnostics.

And we also have strengths in training and consulting services for nursing paramedic staff and patient care and hospital planning and management.

Entertainment

An intriguing new opportunity for Victoria is in India's booming entertainment industry.

While Bollywood is a global film hub, it is looking more and more for leading edge production and post production facilities, and unique locations – which of course we can offer through the Docklands film and TV studios and Victoria's compact yet highly varied landscape.

Since 1998, 40 Indian films have been shot in Australia and there is room for more expansion here, and for software and post production services.

Education

Education has long been a Victorian export strength, and is attracting more Indians – as we are seen as offering internationally certified qualifications whilst also being cost competitive, with a flexible timetable which coincides with the Indian end-of-year break.

Last year, the number of Indian students studying in Victoria jumped by almost 26 per cent. In 2003 - there were 7,170 Indian students enrolled in Victorian education institutions representing a 50% share of the total number of Indian students studying in Australia.

Eight Victorian Universities already have arrangements with 10 Indian Universities. And there are more opportunities, especially in specialised courses to meet the demands of a growing economy, such as:

- business studies and MBAs, engineering, information technology, health and sciences: and
- vocational training, especially in the areas of; agriculture, tourism and hospitality management, fashion technology, and small business.

Tourism

It is estimated that over 60,000 Indians will visit Australia in 2005, with over 40% visiting Victoria. It is predicted that 61,000 Indian visitors will come to visit Victoria by 2013.

However, this represents only around 1% of Indian tourists – so there is great scope for increasing this share.

It is expected that more tourists will visit Australia because of greater availability of flights to Australia. Since September 2004, Qantas has had three direct flights to Mumbai weekly via Sydney - and many other Asian carriers have flights to India with connections to Australia.

Commonwealth Games

India represents a surprising tourism opportunity for the Melbourne Games. Sporting successes at Manchester and the recent announcement that Delhi will host the 2010 Games sets the scene for unprecedented interest in the Melbourne Games.

This will also generate brand marketing and business networking opportunities for Victoria in India.

And the Games will showcase Victorian event management, construction and sports technology products and services for the Delhi Games and the Indian market in general.

Environmental technologies

Aging infrastructure, combined with industrialisation and demographic changes brought about by rapid economic development, are leading to increasing environmental pressures such as pollution and population congestion in India.

Victoria's extensive expertise in the areas of environmental technology, water conservation, waste treatment and recycling and forest management offers many opportunities here for mutually beneficial partnerships.

Financial and professional and technical services

The liberalisation of the Indian Economy is also opening up opportunities for the provision of services and training in banking, insurance and superannuation and in infrastructure and urban development.

Again these are areas where Victoria can develop new partnerships with India, offering opportunities for Victorian expertise in architecture, economic consulting, design and urban planning construction and project management.

Wine

One final area close to many of our hearts is in the area of wine. In India, the market is way behind a country like France where the annual per capita consumption of wine is 42 litres of annum. While China's per capita consumption is 375 ml, India's per capita is just 4.5ml!

It would be an understatement to say that the Indians have a long way to go before they catch up to France, but I've no doubt that once they get a taste for Victoria's fine wines, there will be enormous demand in this area.

Victorian Government support for doing business with India

The Victorian Government's *Opening Doors to Export Plan* released in 2004 identified India as a potential future market for Victoria and announced that a Special Trade Envoy to India will be appointed to further promote trade with India.

The Special Trade Envoy will represent the Victorian government and business in an official in-market capacity, particularly during trade fairs and ministerial missions and industry capability missions. The Envoy will also provide advice to firms preparing to enter the Indian market.

Through the Export Plan, we are already supporting industry missions to India covering areas such as food, aviation and aerospace and an upcoming ICT mission.

In fact, Minister Holding just recently got back from the India Aerospace Mission in Mumbai, Chennai, and New Delhi, and Minister Thomson will be visiting India next week, leading a big ICT mission to the Bangalore ICT Trade Fair.

And we are now developing an India Strategy that will:

- outline the Victorian Government's vision for Victoria's trade and investment relationship with India;
- identify priorities and emerging opportunities to leverage mutually beneficial business relationships between India and Victoria; and
- capture and optimise opportunities in India on a Whole-of-Victorian-Government basis.

We will be making a more detailed announcement about this shortly.

Conclusion

These sector opportunities I have outlined today provide enormous potential for Victoria - building on our competitive advantages such as our geographic location, our strong skills base and our diverse economy.

In addition, we also have the unique advantage of an inclusive multicultural society and we have a special relationship with India through Victoria's large Indian born population and community, and also through the ongoing relationships with the Indian students studying here.

This also provides a good model for positioning Victoria, and Australia as a strategic trade and investment partner within the changing world economic and geopolitical order.

So by working with India, China and the other new economic powerhouses of the 21st century, we will be able to position Victoria as:

- engaged and politically, socially and economically safe and stable base from which regional and international operations can manage and capitalise on waves of change in the region;
- a major university town and healthcare centre for the region;
- as a key driver of new industries like biotech, nanotechnology and photonics, developing, exporting and licensing knowledge and skills to regional manufacturing centres; and as a key regional provider of professional and technical services in finance, design, planning and entertainment.

In doing so, we will ensure a sustainable and prosperous place for Victoria in the emerging new geopolitical landscape - while also playing a significant and mutually beneficial role in the development of our neighbouring regional economies.

And thanks to this new book, "*India- The Next Economic Giant* ", we now have a very comprehensive, and timely overview of what looks set to become one of our most important partners in the region.

It will certainly be studied closely and provide much food for thought -here in Victoria, in Australia and in India and internationally. I congratulate Mark Thirlwell on this great effort - and I thank the Lowy Institute for commissioning and publishing this important work which further consolidates its position as one of Australia's leading international policy think tanks.

I am now very pleased to officially launch “India - The Next Economic Giant.”

Thank you.