

# Beyond the Financial Crisis

## Austrade Market Monitor November 2009: INDIA



### Introduction

The global financial crisis has had a substantial impact on trade and foreign direct investment (FDI), presenting Australian businesses with both challenges and opportunities. Austrade's global network has the expertise to monitor international business conditions and provide advice to business. The Beyond the Financial Crisis – India brief is one tool to help businesses understand the trade and investment environment and leverage the opportunities that are emerging in India.

### The Indian economy

The slowdown in the Indian economy was less severe than elsewhere. India's relatively low export exposure, at 20% of GDP, has meant that growth has been based more on domestic factors than on conditions in global markets. Inward foreign direct investment has been an important source of India's growth. In addition, India's services sector helped cushion the effect of the global financial crisis.

The IMF predicts that India's economy will grow by 5.4% in 2009–10, rising to 6.5% in 2010. Companies are responding to growth in the domestic market and the decline in interest rates. India's industrial production index rose by 10.4% yoy August, confirming that a recovery in domestic demand has started.

Over 50% of India's approximately 1.2b population is under 25. The rising consumer demands of this young population and increased urbanisation and development will further drive domestic spending. Both manufacturing and services are expected to increase their contribution to GDP over the coming decade, with access to a large pool of labour from the agricultural sector. This will provide one of the key drivers for India's future growth.

India has been undergoing steady reform through deregulation, liberalisation of foreign investment rules, tax reform and reductions in tariffs and subsidies. While there are some issues with red tape, India has been undergoing steady reform.

Major new infrastructure projects are proposed in the Indian Government's 11<sup>th</sup> Five Year Plan (2007–12). These projects, estimated at US\$500b, include roads, airports, rail, ports and Commonwealth Games building projects. However, India's rising budget and current account deficits remain a source of vulnerability and limit the scope for further fiscal stimulus and infrastructure spending.

China is now India's largest trading partner, providing further support for India's growth prospects. Engagement with ASEAN, one of India's major markets, is also rising, with the signing of the ASEAN–India FTA in August 2009.

### How trade and investment are changing

- Continued commitment to economic reform in India, leading to a more open business environment.
- Increased outward investment from India and deepening trade and investment ties with China and ASEAN.
- Growing ties between India and Australia, including through a proposed free trade agreement (FTA), expansion of Australia's diplomatic presence in New Delhi, Mumbai and Chennai, and expansion of Austrade's network across a number of regional cities.

### Trade and investment with India

According to the Australian Bureau of Statistics, over 2,000 Australian businesses export goods to India. Australia's Minister for Trade, the Hon Simon Crean MP, believes India's growing middle class and increasing urbanisation are creating real potential for further trade growth.



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Trade between the two countries remained strong in 2008–09, despite the global financial crisis. India is Australia's fourth largest merchandise export market, up from sixth last year, and has been Australia's fastest growing export market. Total exports to India have grown by around 25% annually for the past five years. Bilateral merchandise trade totalled \$17.5b, in 2008–09. Key Australian exports to India include coal, gold, copper ores and concentrates and fertilisers.

Bilateral trade in services totalled \$4.2b in 2008–09. Services trade with India has been rising, including in education, finance, legal, entertainment, sports, tourism and business management services. Australia is a preferred destination for overseas students. Education exports to India were more than \$2.8b in 2007–08, and there were around 113,000 Indian student enrolments in Australian institutions in the nine months to September 2009. The Australian Government is putting in place reforms to international education in Australia to place the industry on a more secure footing for sustainable future growth. Australian foreign investment in India is around \$2.0b, including the manufacturing, telecommunications, hotels, minerals processing, food processing, oil and gas, and automotive sectors.

### Opportunities for Australian businesses

- Education, finance, legal, entertainment, sports, tourism and business management services.
- Building, construction and infrastructure, including Commonwealth Games projects and green building.
- Advanced manufacturing including aviation, automotive and defence technologies.
- Food, beverages, agribusiness and consumer products.
- Mining, resources and energy, including clean energy.

Opportunities in the building, construction and infrastructure sector are growing, including for design and engineering expertise, with emphasis being placed on green building. Building contracts totalling \$45m have already been awarded to Australian companies in the lead-up to the 2010 Delhi Commonwealth Games.

Other opportunities are in the food, beverages, agribusiness and consumer sectors where a growing number of five-star hotels and gourmet food outlets are leading to Australian food and wine becoming increasingly popular with consumers. In February 2009, the Indian Government announced that it would re-open its dairy market to Australian products, following the approval of a new health certificate. This year's lower than normal monsoon rainfall is likely to result in increased demand for imports of grains, sugar and fruit and vegetables.

India requires a doubling of power generation assets over the next five years to meet current and increasing demand through the establishment and development of both large and medium-sized power plants, all of which will require supply chain linkages through port development, transport and materials handling. These developments offer major opportunities for Australian companies.

India's demand for renewable energy will continue to grow. There are extensive opportunities, especially in regional areas, for Australian providers of sustainable and clean energy technology and capabilities.

### Tips for business success

- Research the market, culture and the region.
- Check credentials, conduct due diligence and have patience.
- Increase business ties, eg by encouraging Indian business partners to visit Australia.

### For further information

Austrade's network of six offices in India is able to assist Australian businesses in accessing export and investment opportunities in this vast and highly diverse market.

For further information contact Austrade on 132878 (Australia only) or email [info@austrade.gov.au](mailto:info@austrade.gov.au).

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