

The India-Australia relationship – our strategic opportunity

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Good afternoon and thank you for the warm welcome.

Let me also thank the Australia India Business Council for giving me the opportunity to talk to you today. This obviously has added significance for ANZ having recently joined as a Gold Sponsor of the Council.

I want to start by giving you a recent example from motor sport which really brings to life some themes from my talk today.

For those of you know me, it's probably no surprise that I've picked something to do with cars.

On the 29th of August, Giancarlo Fisichella took pole position for the Belgian Grand Prix. He was driving for the Force India team which of course is co-owned by the Chairman of United Breweries, Dr Vijay Mallya.

Force India went on to take second place in the race, one tenth of a second behind Ferrari but well ahead of Renault, BMW and McLaren.

Formula One is one of the most technically complex and advanced sports in the world and, to my mind, this was a vivid demonstration of the unique development path India has taken.

Rather than focus heavily on low-cost labor to manufacture goods for the West, India has also used the strengths of its education system, its entrepreneurial spirit and its global outlook to become a leader in innovation, in technology and in services.

Geoff Hiscock, the Australian journalist and author put this neatly saying: "India's seven secrets of success are its market size, its science, its diaspora, its cultural history, its English literacy, its strategic weight and its switch to a globalisation mindset."

Today, I want to explore a few of these "secrets", how they are relevant to us here in Australia and to talk briefly about ANZ's strategy for being part of India's success.

From 1980, the India economy has been one of the world's best performing economies. And of course no one here today, doubts India's potential.

But to help you think more about the future, let me share with you a few thoughts about where India is heading.

First, India's economic growth potential has been steadily rising driven by demographics, economic reforms and the creation of new opportunities as a result of globalization.

Last year, India was the world's 12th largest economy just behind Spain and Canada, and the third largest in Asia.

And with economic growth expected to average 6% over the next 40 years, by 2050 India is forecast to be the world second largest economy behind China.

Driving this is India's population, which is projected to increase by around 310 million people in the 20 years from the start of this century through until 2020 - about the same size as the US population today.

In that time, India will create the equivalent of the combined working population of France, Germany, Italy and the United Kingdom.

After decades of reluctance, India is also coming to terms with the fact that cities are both inevitable and necessary for its economic development.

According to Goldman Sachs, 140 million people will move to cities by 2020 and much of India's urbanization will occur through the development of new cities and the growth of smaller metropolitan areas.

By 2020, it's expected there will be 10 cities of more than 5 million people, almost 70 with over a million people, and around 120 with more than half a million people.

The significance of this is that cities are centres of economic activity and wealth generation and already contribute around two thirds of India's output.

India has accepted the need to overhaul infrastructure to do this and the development of these cities is creating significant opportunities in construction, resources, transport and capital goods.

To understand the importance of this when coupled with India's education system and its global mindset, think about a city like Bangalore which has transformed itself into a leading hub for the world's IT sector.

Finally, over the past 20 years India has moved over one per cent of the country's poor out of poverty every year, created a middle class of 250 million people and more than doubled per capita income.

The impact and opportunity is already dramatic. For example, there were only four million mobile phones in India in 2000 – there are expected to be almost 750 million by 2015 with a staggering 10 million new users currently signing up each month.

In contrast, Australia's total number of mobile phones is just over 22 million – around two months growth in India.

But as economic growth and globalization increasingly change the lives of India's 1.14 billion people, recent times have been testing for India.

In his recent book "Imagining India", the co-founder of Infosys, Nandan Nilekani, said that despite the optimism from outside India "at home the opportunity seems more fragile".

He went on to say that: "here, it is clear that many things are holding us back pessimism about what (has been) achieved so far, and a resistance to the ideas we need to implement in order to resolve our remaining challenges".

It's a bold move for an outsider to comment on priorities for India's future but there's no question that the country is at an important juncture with the recent re-election of the Congress-led United Progressive Alliance and Prime Minister Manmohan Singh.

Indeed, it's a historic opportunity, with Mr Singh the first prime minister since the 1960s to be re-elected after completing a full term.

This provides a wonderful opportunity to boost the welfare of the next generation of Indian people and to tackle the state of public finances by pushing ahead with reforms that were previously not possible.

These include opportunities to bring a measure of liberalisation to foreign direct investment in areas such as financial services and education and to find innovative

ways of providing for investment in infrastructure, especially in the power sector and in roads.

But what does this all mean here in Melbourne, some 10,000 kilometers from Delhi?

Today, two profound transformations are remaking the global economy establishing India and China at the centre of global economic growth.

The first, as I have already outlined, has been a gradual process associated with India's growth over the past three decades.

The second has been a sudden and more dramatic shock that's played out in a fraction of that time.

Over the past 18 months, the global financial crisis has reduced the influence of some economies and has elevated others.

As the world begins its journey back to growth, India's economy looks to be significantly better placed than most other major economies and this will automatically enhance its global position.

In the second quarter of 2009, India achieved year-on-year GDP growth of around 6 per cent. While this represented a slowing from the growth enjoyed the previous year, it nevertheless reflects that India's economy continues to grow faster than almost anywhere else in the world.

By way of comparison, the US economy is expected to contract by 2.5 per cent in 2009 and the Euro-zone to contract by 4.1 per cent.

This all sounds a little unreal here in Australia where we've avoided the worst of the downturn.

The National Accounts released last week show that real GDP expanded by 0.6 per cent in the June quarter, up from 0.4 per cent growth the March quarter.

Given all this, I think it's worth reflecting briefly on why, in this cycle, we really have been the lucky country.

One significant factor is the fact that Australia's key trading partners in Asia have rebounded to record strong growth in recent months.

What's now clear when you look at recent data is that Asia is at a economic turning point – and increasingly Asia, our region, is decoupling from the US and Europe.

So Asia – lead by India and China – is emerging as a winner from the global financial crisis and this is bringing huge benefits to us here in Australia.

While much attention is focused on China, the India-Australia relationship is quietly growing.

India now ranks as Australia's fourth-largest export market with exports totaling over \$15 billion last year. Importantly, it's also Australia's fastest-growing export market – up over 60% in the last year.

Last month, Australia has secured its first long-term liquefied natural gas supply deal with India, with Petronet signing a 20-year agreement to take gas from the Gorgon project in Western Australia.

And as recently as last week, Coal India was in Australia to explore investment opportunities to support an estimated 200 million tonne gap which will open up between coal demand and supply in India in the coming years.

These growing links are also cultural.

Australia is already the leading destination for the education of a new generation of Indian people with around 100,000 Indian students enrolled to study in here.

Having said that, I do want to acknowledge that everyone here today is deeply concerned at recent cases of violence against Indian students in Australia.

While Australia is overwhelmingly a safe and welcoming country, it is completely unacceptable that small pockets of this kind of attitude appear to remain in any society. It's pleasing that so many community leaders in Australia have spoken out against this type of behaviour and that clear measures have been taken by government and universities to address the issue.

In Australia we have a rich diversity of cultures living and working side by side. Multi-culturalism is part of the modern Australia and part of what makes it a great country to live in, to study in and to work in.

That diversity is reflected through Asian immigration to Australia which accounts for over 40 per cent of new migrants.

And India represents the third largest source of new migrants to Australia and our largest source of general skilled migrants.

At ANZ, we're also incredibly multi-cultural. Among our top ten surnames, two are Indian names - although I'm pleased to say that Smith still tops the list.

In services, the availability of a highly educated workforce with the right skills and a strong work ethic has created a highly productive work force by global standards.

It's this unique combination which is leading companies like ANZ to look to India to create centres of excellence. Today, ANZ employs around 4,000 people in Bangalore delivering IT and back office operations support to our business in 32 countries.

This is part of a long term commitment to India which dates back over 20 years to 1989 when we established operations in Bangalore.

I'll take a moment here to reflect on ANZ's involvement in banking in India and our super regional strategy.

In 1984, we bought Grindlays Bank which had a wonderful history in the Middle East, South Asia and India where was among the leading foreign banks in the country. We sold Grindlays in 2000. As a relatively new chief executive, it's difficult to second guess decisions made almost a decade ago, suffice to say I wish we still had Grindlays presence in India as part of ANZ.

Today, we have a clear long term strategy to build ANZ into a super regional bank and we've established a strong management team with international and emerging market experience to deliver on that.

India is one of our priority markets and we've applied for a banking license to build on the long-term commitment we've demonstrated through the growth of our technology and back office support centre in Bangalore.

Of course, many of you will know that we didn't bid on the RBS banking assets which are for sale in India. It was a disappointment, but without a banking license, I felt it was just a bridge too far for ANZ.

Nevertheless, our super regional strategy reflects our view that Asia - lead by India and China - will be an engine for global growth, and for growth in Australia, for many decades to come.

And given the trade and investment flows between Australia and New Zealand and Asia, greater engagement with Asia is an essential part of Australia's long-term growth and for the growth of Australian businesses.

It's pleasing to see the Australian Government understands India's importance with visits in recent weeks by the Deputy Prime Minister, the Treasurer and the Minister for Trade, and with the possible visit by Prime Minister Rudd later this year.

It was equally pleasing to see the announcement this week that Neville Roach, the past-Chairman of the Australia India Business Council, has been appointed as a member of the Prime Minister of India's Global Advisory Council of Overseas Indians.

This is not only significant as personal recognition for Neville but it's the first time someone from Australia has been appointed to the Council.

The bottom line in all this is that Australia, because of the good fortune of its geographic position, is part of Asia's growth and it will be part of India's growth.

But to remain the lucky country we need to embrace Asia and pursue open engagement with the region if we wish to benefit from its growth and the prosperity that it brings.

That's why it is so critically important that we position ourselves now as a nation, and as business people, to be able to capitalise on the opportunities in Asia – including India.

I said recently when talking about Asia that there are always moments in history when the door opens to let the future in. This is also such a moment for Australia. We must not let it slip past.

Many thanks for listening to me this afternoon and I'm happy to take some questions.