



SUBMISSION TO THE FOREIGN AFFAIRS, DEFENCE AND TRADE SELECT COMMITTEE

NEW ZEALAND'S RELATIONSHIP WITH INDIA

JUNE 2011

“The trade potentials have hardly been realised, as there is still insufficient (albeit growing) awareness in New Zealand of the ‘new’ India emerging as an economic giant. (There is) immense potential of the Indian market despite its low per capita GDP (but) New Zealand has only been a small player in the Indian market. While Australia is India’s fifth largest source of imports, New Zealand is forty-ninth”

- Sekhar Bandyopadhyay in India in New Zealand 2010¹

Introduction

This submission is made on behalf of the New Zealand International Business Forum (NZIBF). The NZIBF (www.nzibf.co.nz) was established in 2007 with the aim of ensuring New Zealand enterprises are fully integrated and engaged in the global economy and New Zealand’s global competitive position is maximised. To enable New Zealand business to exploit new opportunities in international markets, NZIBF provides leadership, works with businesses and affiliated business organisations to implement key projects, and articulates the needs and priorities of New Zealand’s international business leaders as well as the importance of open markets to both the New Zealand Government and stakeholders.

2 The NZIBF Board is chaired by Sir Graeme Harrison and brings together leaders from amongst New Zealand’s largest internationally oriented companies and peak business organisations (refer Annex A). It works closely with other business organisations and the Government to implement its strategic plan. It is funded by business. Project funding has also been received from the Government for NZIBF projects in Japan, Korea and the European Union. The NZIBF has identified India as a key focus for its activities and has developed a

¹ “India in New Zealand – local identities, global relations” edited by Sekhar Bandyopadhyay, Otago University Press 2010

project aimed at supporting government efforts to strengthen and deepen New Zealand's relationship with India.

Summary

3 NZIBF believes that a stronger relationship with India should be a key foreign and trade policy goal for the New Zealand Government. While New Zealand's existing relationship with India has few if any areas of real sensitivity, the relationship lacks depth. Links founded on the Commonwealth, the English language, a love of cricket and the profile of Sir Edmund Hilary have served us very well in the past. But those links are insufficient to secure and advance New Zealand's trade and investment links as India continues to grow in economic and geo-strategic importance.

4 NZIBF welcomes the development of the Government's "**NZ Inc Strategy for India**" but believes more needs to be done, and done quickly, to ensure New Zealand's interests are not left behind as the world's economic power houses set their sights on the Indian market. NZIBF urges the Government to increase diplomatic representation in India and ensure it is sufficient to support an accelerated rate of engagement.² It also encourages the Government to support private sector efforts, including by the NZIBF and the India New Zealand Business Council, to build and maintain deeper links at the strategic level between New Zealand and Indian business leaders and thought leaders. A strong relationship capable of delivering real benefits for New Zealand must be broader than direct government to government links particularly in a country like India where the influence of business leaders, key officials and wider thought leaders cannot be underestimated.

Context

5 **India is emerging as a key market for New Zealand.** It has an expanding economy that has emerged strongly from the global recession, an increased openness to the rest of the world and ever increasing geo-strategic importance. India's GDP growth has been predicted to remain higher than 8% until 2020 and India is predicted to become the world's 2nd largest economy by 2050.³ With a population of more than 1.1 billion, India is the world's largest democracy and its second most populous nation, after China, and Asia's third largest economy (after Japan and China). Commentators, such as Michael Wesley of the Lowy Institute, are already talking about the "Indo Pacific century."⁴

²The New Zealand High Commission in New Delhi has eight seconded staff members (including MFAT, NZTE, Tourism NZ and Education). The High Commission is also cross-accredited to Sri Lanka, Bangladesh and Nepal. In May 2010 New Zealand opened a Consulate-General in Mumbai.

³Goldman Sachs (2007), *BRICS and Beyond*, (<http://www2.goldmansachs.com/ideas/brics/BRICs-and-Beyond.html>)

⁴ See Michael Wesley, "There goes the neighbourhood- Australia and the rise of Asia", UNSW, May 2011

6 Running alongside high levels of economic growth are increasing concerns about **food security** in India⁵. Rapid growth has led to a significant reduction in poverty yet over 237 million Indians remain undernourished. Food wastage is a particular problem. Per capita gross national income of about \$730 leaves India ranked among the world's low-income countries. Annual population growth rate declined from 2.2 percent in the 1980s to 1.7 percent during 1990-2005, and is projected at 1.3 percent during 2005-15. But India is still expected to overtake China as the world's most populous country in the coming decades. Although 71 percent of India's population remains rural and 58 percent of the population relies primarily on agriculture for income and employment, the urban population is growing at about 2.5 percent annually. Middle-class households, accounting for about 200 million consumers, are the fastest growing segment of the population and are having an increasing impact on the growth and diversification of food demand. With about 55 percent of household expenditures, on average, devoted to food, consumer demand is highly responsive to both rising incomes and changing relative prices. This has very real political, social and economic implications for the Indian Government.⁶

7 **The potential in the Indian market for a food-exporting and natural resource-based economy like New Zealand is clear.** This potential is recognised by many of the organisations represented on the NZIBF Board including Beef + Lamb NZ, Fonterra, PF Olsen, Sealord Solid Energy and Zespri. It is also supported by trade statistics that reveal New Zealand's exports to India have nearly doubled over the past two years.⁷ In their recent meeting in New Zealand Trade Ministers Groser and Sharma said *"it should be possible to ramp up our existing bilateral trade of one billion dollars to 3 billion a year by 2014."*⁸ NZIBF supports this objective. Going forward, New Zealand companies will need the certainty about future tariff rates and a more secure non-tariff regime if they are to meet this demand. India's average tariff overall is 11.9% but this varies markedly across sectors. High tariffs remain on agricultural and value-added

⁵A good overview of Indian agriculture including its relationship with Indian trade is available on the USDA website at: <http://www.ers.usda.gov/Briefing/India/Basicinformation.htm>

⁶ Material drawn from USDA fact sheet on India and FAO's report on "The State of Food Insecurity in the World" available at: <http://www.fao.org/publications/sofi/en/>

⁷Two-way goods trade is now valued at over NZ\$1.2 billion (up from NZ\$869 million two years ago). Exports for the year ending January 2011 were worth NZ\$902.3 million making India New Zealand's 10th largest export market for the 2010 year. Preliminary first quarter statistics for 2011 show a continued strengthening in export figures. Main export items are commodities with coal leading the increase in trade followed by dairy products, fruit, logs and wood pulp, along with hides and skins used in the manufacture of leather goods. Wool, as an input into Indian carpets, has traditionally been an important export to India, but is declining.⁷ **Imports from India** to New Zealand were valued at NZ\$366.0 million for the year ending January 2011 with leading exports including medicines, precious stones/metals, electrical machinery, textiles and clothing. A table of major exports and imports is attached as Annex B.

⁸ Joint Statement by Ministers Groser and Sharma: New Zealand and India identify ways to realise potential in trade and investment relationship, 10 May 2011
<http://www.national.org.nz/Article.aspx?articleId=35926>

products including processed wood products⁹. In recent years India's average applied tariff rate has reduced in line with its tariff policy and WTO commitments. India's non-tariff barriers particularly sanitary and phyto-sanitary (quarantine) barriers and poorly applied and discriminatory regulations continue to restrict New Zealand exports. NZIBF recommends that government agencies make the necessary technical resources available to address these non tariff barriers. The combined effect of these restrictions has been to prevent the development of exports in those areas where New Zealand enjoys significant competitive advantage¹⁰.

8 NZIBF strongly supports the free trade negotiations currently underway between the two countries¹¹. These negotiations were launched after the release of findings of a joint study concluded that the two economies were largely complementary and an FTA would deliver an outcome of genuine mutual benefit.¹² A well-negotiated and implemented free trade agreement could also help address the many behind-the-border regulatory impediments that make trade with India particularly difficult. NZIBF believes that the goal of the FTA should be a comprehensive agreement with a commitment to eliminate all barriers in all goods and services sectors by an agreed deadline. NZIBF believes there should be no *a priori* sectoral exclusions from the ambit of the negotiations. Major companies should be encouraged to brief trade negotiators on relevant technical issues and negotiators should be encouraged to seek detailed information on the trading environment from New Zealand companies already exporting to or otherwise investing in or with Indian interests. The expected future growth in India's population and average disposable incomes, and an increased demand for improved food quality are all factors which make the Indian market a potentially attractive export destination for New Zealand exports. However, the highly fragmented and inefficient retailing system in India is also another barrier to overcome once access is obtained.

9 New Zealand's services trade with India has also experienced steady

⁹ Other non tariff barriers in the wood sector include the requirement for 100% methyl bromide fumigation whereas Korea requires none and China accepts (much lower cost and more environmentally acceptable) the use of phosphine in the hold

¹⁰ India maintains high applied and bound tariffs on a number of key export items including dairy products (20-60 percent), chilled and frozen beef and chilled sheepmeat (30 percent with a binding at 100 percent), frozen sheepmeat (30 percent with bound rates ranging from 35 percent to 100 percent), kiwifruit (30 percent, with a binding at 100 percent) as well processed wood products which could be targeted for elimination in the FTA. Due to current stringent Indian sanitary and phytosanitary (SPS) requirements, there is no trade in sheepmeat, beef, goatmeat or offals between New Zealand and India. Problems have been encountered also with the implementation of India's SPS regime for kiwifruit. Indian authorities currently do not accept the use of phosphine as a treatment for logs despite its widely accepted use in other markets and superior performance. Tariff escalation prevents the export of more value-added wood products.

¹¹ Further information is available in NZIBF's submission to the Ministry of Foreign Affairs and Trade, March 2010 - <http://www.nzibf.co.nz/files/indiafta.pdf>

¹² Joint Feasibility Report available at: <http://www.mfat.govt.nz/downloads/trade-agreement/india/nz-india-joint-study-report.pdf>

growth, most notably in tourism and education with opportunities for growth in investment and other services sectors including professional and business services, environmental services, engineering and construction services, and services incidental to agriculture and forestry¹³. India is now New Zealand's fourth largest provider of international fee-paying students (after China, South Korea, and Japan) and New Zealand's 10th largest source of visitors with over 28,000 Indian tourists visiting in the year to September 2010, spending some NZ\$50.6 million (up from 16,000 in 2004). Links with the New Zealand film production industry have helped stimulate tourism particularly in the Queenstown region. Negotiations are underway for a bilateral Film Co-Production Agreement. The **investment** relationship with India is under-developed - total two-way investment was only NZ\$234 million in 2010.

10 NZIBF believes that government to government links will not of themselves ensure New Zealand's economic interests in India are maximised. As well as a comprehensive FTA **New Zealand needs a constituency within India of thought leaders and business leaders who can advocate in support of New Zealand interests in a powerful and effective way**. At present no such constituency exists. We are fortunate that with the exception of a degree of Indian sensitivity arising from New Zealand broadcaster, Paul Henry's unfortunate statements about the ethnicity of New Zealand's Fijian-Indian born Governor General, there appear to be no major areas of sensitivity in New Zealand's broader political relationship with India. But people-to-people links (New Zealand's Indian community numbers over 100,000), the English language, similar legal systems, cricket, Sir Edmund Hilary, and Commonwealth membership will not be sufficient as major economies around the world including the European Union, United States, Asian economies and Australia focus their resources on building a stronger relationship with India. In particular NZIBF believes that the Government should increase the size of New Zealand's diplomatic representation in India to reflect the growing importance and potential of the relationship. This should be accompanied by an active programme of relationship building including funded visits in both directions by academics, business people and journalists.

11 It is worth noting that when Australian Trade Minister Emerson announced the launch of Australia India free trade negotiations in May he also announced that Mr Lindsay Fox AC would co-chair an **Australia-India CEO Forum** which would provide guidance and advice to the Governments of Australia and India as they negotiated the FTA. The first Australia India CEO Forum will convene later this year. There is clear recognition in Australia of the value of such business/government initiatives. NZIBF believes New Zealand needs something similar and has developed a project which aims to bring together business and government agencies to foster a high level constituency for New Zealand in India

¹³ See especially the findings of a Victoria University/Ministry of Science and Innovation study "Service Success in Asia" – www.international-services-research.vuw.ac.nz

and to increase awareness in New Zealand of the potential value of an improved economic, trade and investment relationship with India.

12 The NZIBF project draws on experience gained by the NZIBF and NZ US Council in respect of New Zealand's relationship with Japan, Korea, and the United States, in particular through programmes of high level business advocacy and major networking events such as the Japan NZ Partnership Forum, Korea NZ Business Round Table, and US NZ Partnership Forum. These events, each in different formats, bring together government and business leaders, and form part of a wider strategy of business and public advocacy of the relationship. The NZIBF project on India would help fulfil a priority action step for 2010-11 identified in the Government's NZ Inc strategy namely:

“Develop and fund a programme of engagement (jointly with business) with key business lobbies in India to increase FTA constituency.”

Recommendations

13 NZIBF recommends that the Foreign Affairs, Defence and Trade Committee:

- a. **agree** that a stronger relationship with India should be articulated as a key foreign and trade policy and trade goal for the New Zealand
- b. **agree** that the goal of the free trade negotiations currently underway should be a comprehensive high quality agreement which eliminates all barriers in all goods and services sectors by an agreed deadline and addresses regulatory and other non tariff impediments
- c. **agree** that the appropriate level of technical resources should be made available by government agencies to address sanitary and phyto-sanitary and other regulatory issues in the Indian market in association with the private sector
- d. **agree** that New Zealand's diplomatic representation in India should be increased and be of a sufficient level and with supporting activities and programmes to ensure that New Zealand's economic interests in India are maximised
- e. **agree** that the development of an NZ Inc strategy for India is a positive development and concrete steps need to be taken quickly to ensure New Zealand's interests are met
- f. **agree** that New Zealand needs to build a constituency within India of thought and business leaders who can advocate in support of New Zealand interests in a powerful and effective way

- g. **note** that NZIBF has developed a project to build such a constituency drawing on experience gained in respect of New Zealand's relationship with other major relationships including the United States, Japan and Korea.

14 NZIBF thanks the Committee for the opportunity to present these views and would welcome an opportunity to be heard in support of this submission.

For further information please contact:

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ANNEX A**NEW ZEALAND INTERNATIONAL BUSINESS FORUM****BOARD MEMBERS**

Sir Graeme Harrison Chairman, Anzco Foods, (*Chair*)
Michael Barnett, Chief Executive, Auckland Regional Chamber of Commerce
(representing NZ Chambers)
Dr Rod Carr, Vice Chancellor, University of Canterbury
Peter Clark, Chief Executive, PF Olsen Ltd
Don Elder, Chief Executive, Solid Energy Ltd
Robin Hapi, Chairman, Sealord Group Ltd
Gary Judd QC, Chairman, ASB Bank Ltd
John Loughlin, Chairman, Zespri International Ltd
Phil O'Reilly, Chief Executive, BusinessNZ
Mike Petersen, Chairman, Beef+Lamb NZ
Sir Henry van der Heyden, Chairman, Fonterra Co-operative Group Ltd (Malcolm
Bailey, Board member, Fonterra – alternate director)

ANNEX B

India New Zealand Trade

Source: Statistics NZ (for the 12 months to October 2010).

NZ Exports	NZ\$902.3 million
Main Exports	Coal - NZ\$307.9m (34.1%)
	Wood - NZ\$166.2m (18.4%)
	Dairy products - NZ\$154.7m (17.1%)
	Machinery - NZ\$82.6m (9.2%)
	Fabrics - NZ\$45.0m (5.0%)
	Hides and skins - NZ\$30.8m (3.4%)
	Iron and steel - NZ\$16.5m (1.8%)
	Aluminium - NZ\$15.7m (1.7%)
	Wood pulp - NZ\$13.5m (1.5%)
	Fruit and nuts - NZ\$11.0m (1.2%)
NZ Imports	NZ\$366.0 million
Imports	Medicines - NZ\$48.0m (13.1%)
	Precious stones/metals - NZ\$39.1m (10.7%)
	Electrical machinery - NZ\$18.9m (5.2%)
	Misc textiles- NZ\$18.2m (5.0%)
	Clothing- NZ\$16.0m (4.4%)
	Machinery - NZ\$12.0m (3.2%)
	Confidential items - \$NZ11.2m (3.1%)
	Plastic - NZ\$11.1m (3.0%)
	Leather - NZ\$10.3m (2.7%)
	Chemicals - NZ\$9.1m (2.5%)

