

CHAPTER 8

REGIONAL ENGAGEMENT

Developments in the Indian Ocean are also gaining momentum. It is a region of great potential and growing links. Australia is keen to work with India on advancing Indian Ocean Regional Cooperation - which we hope to see expand in years to come.¹

India - A Regional Player

8.1 Since major economic reforms post-1991, India's involvement in the Indian Ocean Region has steadily increased. Australia, too, has benefited from an increasingly close bilateral trade relationship with India and other countries in the Indian Ocean region. The establishment and growth of regional institutions have promoted and strengthened India's multilateral trade relations with regional nations, with India becoming a focal point for regional trade. This is in part due to India's 'Look East' policies, developed after a realisation that India should maximise the potential opportunities of economic involvement in the region, opportunities largely ignored through its focus on the NAM.

India's International Relations - An Overview

8.2 Following independence in 1947, India maintained a mainly pacifist foreign policy stance, emphasised by non-alignment and peaceful coexistence. After the exposure of its military weakness in a short border war with China in 1962, India relied heavily on the then USSR for the supply of military hardware, while at the same time forging ahead with a program of defence self-sufficiency. This program included the development of short-medium range ballistic missiles and the commencement of a nuclear program, with the first nuclear test explosion in 1974. Gorbachev's policy of perestroika from around 1987 prompted a debate about the relevance of maintaining an autarchic economy and policies of anti-West, pro-Soviet non-alignment. Prime Minister Rajiv Gandhi softened the anti-Western tone in foreign policy, and the later government of Prime Minister Narasimha Rao continued economic reform.

8.3 The Congress Government led by Prime Minister Rao embarked on a 'Look East' policy, which recognised the growing importance of economic diplomacy. In late 1995, India was granted full dialogue partner status by ASEAN and was admitted as a member of the ASEAN Regional Forum in July 1996. There is a marked willingness, also, to improve relations with the United States, which were damaged by India's non-aligned and anti-Western sentiments during the Cold War. The United States is currently India's largest foreign investor and trading partner. The United Front Government committed itself to developing relations with ASEAN member countries, East Asia, and other potential sources of large-scale investment inflows. The 'Look East' policy was continued by the Gowda Government.

1 *Australia India New Horizons: Towards the New Millennium*, speech by the Deputy Prime Minister & Minister for Trade, the Hon Tim Fischer MP, to launch the *New Horizons* Business Forum, New Delhi, 4 November 1996.

8.4 Relations with Russia have not been abandoned despite India's change to a more open and pragmatic foreign policy outlook. In 1993, India and Russia signed a new Treaty of Peace and Friendship, which omitted a mutual security clause but guaranteed a supply of weapons and spare parts. There was also an agreement made to follow a five-year plan to strengthen bilateral defence cooperation. According to DFAT, 'adjustments take time, economic diplomacy is still being integrated into India's foreign policy and old relationships are hard to re-orientate'.²

8.5 Despite the development and expansion of linkages with India through business, government and academic institutions and organisations, there is still much to be done. As the Committee was told, 'investment by Australian firms in South Asia is still at an early stage, particularly in India where few firms have managed to survive the decades of virtual economic isolation and discouragement of foreign investors'.³ The bilateral links between Australia and India were discussed in Chapter 4.

India's Nuclear Program

8.6 The Committee received much information during the course of the Inquiry on India's nuclear capability, which at the time reflected the new consideration India was giving to its strategic policy. This strategic reconsideration of the role of its nuclear capability was affected by factors such as India's realignment and revaluation of economic and social policies forced by the decline of Eastern European economies and the end of the Cold War. Concerns about the status of India's nuclear program which were voiced to the Committee have proved valid now that the GOI has conducted five nuclear underground tests in May 1998. In the light of India's policy of non-alignment (which continues today despite a more open-looking economy), and its geography (surrounded by potential or actual hostile neighbours), this resumption of a nuclear testing program, following the election of the BJP Government on a pro-nuclear platform, is of major strategic concern to India's trading partners.⁴

8.7 The Committee has several concerns regarding India's nuclear testing. The impact of the resumption of testing on an already fraught relationship with Pakistan is yet to be fully realised. The United States has imposed sanctions which will impact on the Indian economy, and the future of critical infrastructure funding will be jeopardised the longer the sanctions are in place unless the US Congress agrees to lift them. India's actions have been widely condemned, and it is the immediate concern of the Committee that the gradually improving relationships between India and the Indian Ocean Region will be irreparably damaged.⁵

2 DFAT Submission, p. S 770.

3 ASARC Submission, pp. S 103 & S 147.

4 See particularly DFAT Submission, pp. S 769-771 and IOC Transcript, p. 489. Concerns about Indian and Pakistani nuclear programs have also been reported in several Australian newspapers (*The Australian*, *Melbourne Age* 23 March 1998, *West Australian* 8 April 1998, *The Australian Financial Review*, 16 April 1998). *The Far Eastern Economic Review* (23 April 1998, pp. 21-22) suggests that the fact that neither India nor Pakistan has signed the Nuclear Non-Proliferation Treaty or the Comprehensive Test Ban Treaty 'adds to the sense of regional insecurity'.

5 See comments reported in *AAP News Service*, 12 May 1998, of United States President Clinton, New Zealand Prime Minister Shipley, Australian Minister for Foreign Affairs Downer, United Nations Secretary General Annan, Japanese Prime Minister Hashimoto and Pakistani Foreign Minister Gohar Ayub Khan.

8.8 It has been long considered by defence and strategic analysts that both India and Pakistan had nuclear capabilities and could assemble weapons fairly quickly, but it seems that the restraint that both nations have shown is now threatened, with the United States, among others, suggesting that an arms race will be provoked in the region. This is a distinct possibility given that neither India nor Pakistan are signatories to the 1996 Comprehensive Test Ban Treaty.

8.9 The Australian Prime Minister, the Hon John Howard MP, at a Press Conference in Canberra on 14 May 1998 roundly condemned India for carrying out the nuclear tests, saying:

We deplore and condemn absolutely what India has done. It is an irresponsible genuflection to transient domestic political popularity. And what the Indian Government has done is to play fast and loose with international safety and security in the interests of a short-term domestic political game. India's behaviour, of course, has gravely compromised her previous claims to exercise the role of an international moral policeman. And I want to say that we are very distressed. We are very concerned at the implications of what India has done.

We are very, very deeply concerned about the possibility of a nuclear arms race. Most of the world would have hoped and prayed and thought that after the signing of the Comprehensive Test Ban Treaty that what has happened on the Indian sub-continent in recent days, and what may be in prospect further in future days, would not have been in contemplation.⁶

8.10 In response to the tests, Australia has suspended all defence contacts with India, which means the withdrawal of the Australian defence attache, withdrawal of Australian Defence Force officers training in India and Indian officers training in Australia, and cancellation of all proposed defence related visits including ship and aircraft visits. Furthermore all non-humanitarian aid is to be suspended as are Ministerial and Senior Official visits. Australia, the Prime Minister said, will take all appropriate opportunities and international forums, including the United Nations and the Conference on Disarmament, to register its very strong opposition to India's nuclear tests.

8.11 The Leader of the Opposition, the Hon Kim Beazley MP, said:

This is a very foolish move by India which will increase instability in the region, which will encourage its neighbours to undertake copycat activity. It will not enhance Indian security. It will detract from Indian security. India's growing influence in the world was built on the back of sensible diplomacy combined with a strong economy. An economy that made it a desirable trading partner. What it has done

6 Excerpts from press conference transcript of the Prime Minister, the Hon John Howard MP, Parliament House, Canberra, 14 May 1998.

will put all that at risk. It's a very old fashioned view of what power is made up of in the world today.⁷

8.12 The move by India to resume nuclear testing has serious implications for issues such as development cooperation funds to India, with Japan being one of several countries reportedly considering withdrawing or reducing its aid program. India's Commerce Minister, in response to the worldwide threat of sanctions, said that any economic sanctions against India would reinforce the country's determination to become more self-reliant.⁸

8.13 The attention of the region is now drawn to other regional neighbours, such as China, which at the time of writing has strongly condemned the resumption by India of nuclear testing some twenty-four years after its last test. Following the five underground tests, India claims that its testing program has been completed and that the 1996 accord which was signed to boost Sino-Indian relations will not be affected.⁹ This provides little assurance for nations such as China and Pakistan.

8.14 On 28 May 1998 Pakistan retaliated with the detonation of five nuclear devices.

Participation in APEC and ASEM

8.15 As part of its reorientation of its interests through economic and foreign policy reforms, India attaches considerable importance to its participation in APEC. It also wishes to be included in the Asia-Europe Meeting (ASEM), the summit process which had its inaugural meeting in Bangkok in March 1996. According to DFAT, India believes it is eligible for membership of APEC because of its geographical location within the Asia-Pacific region, the extent of trade and investment flows between India and the APEC economies, the size of India and its economy, and its ability to contribute to the prosperity and development of the Asia-Pacific region.¹⁰

8.16 The Committee understands that the Australian Government recognises and understands India's strong interest in joining APEC, and has supported India's requests to participate in several APEC Working Groups.¹¹ However the recent moratorium on membership, announced after the conclusion of the Vancouver meeting in November 1997, will ensure that India is not admitted to APEC before 2007.¹² The Committee considers that this is a retrograde and punitive step for a nation that is considered to be of economic importance to Australia. The Committee suggests that Australia-India relations would be bolstered by India's participation in this significant regional forum.

7 Excerpt from doorstep interview transcript of the Leader of the Opposition, the Hon Kim Beazley MP, Parliament House, Canberra, 14 May 1998.

8 AAP, sourced from Reuters, New Delhi, 23 May 1998, 'India for talks with Pakistan, China after N-Tests', 24 May 1998.

9 AAP, sourced from AFP, 23 May 1998, 'N-Tests will not hit China ties', 24 May 1998. The accord referred to is the *Agreement between the Government of the Republic of India and the Government of the People's Republic of China on Confidence Building Measures in the Military Field Along the Line of Actual Control in the India-China Border Areas*, made in New Delhi on 29 November 1996.

10 DFAT Submission, p. S 771.

11 *ibid.*

12 Announced during a press conference by Australian Prime Minister, Hon John Howard MP, on 25 November 1997. Reported in *The Australian Financial Review*, 'Russian win leaves Australia red-faced' by Eric Ellis, 27 November 1997 and *The Australian*, 'Resilience required in trade' by Florence Chong, 23 January 1998.

8.17 Professor Vicziany suggests that, given political factors, it is remarkable that India has been excluded from ASEAN and APEC, but when India's poor economic performance is considered, such an exclusion may not be so surprising.¹³ Professor Vicziany expressed a further concern that despite wanting to be included in APEC, India has made very little attempt to get involved in any analysis of the institution itself:

Thus it sometimes appears to an outside observer that India wants to be 'in' APEC but doesn't really know why. It simply doesn't want to be 'out' of APEC.¹⁴

8.18 Professor Vicziany suggests that this is an unusual attitude, considering India's Minister for Finance stating, during the Business Forum of Australia's trade promotion in New Delhi in November 1996, that 'APEC without India is like playing Hamlet without the Prince of Denmark'.¹⁵

8.19 India's admission to ASEM rests on many similar premises to Australia's bid for inclusion, according to DFAT. It is the opinion of DFAT that 'ASEM may well develop as a major forum for the discussion and development of critical trade and investment issues between the two regions' and that 'Australia and India have a mutual interest in ensuring that the option for expansion is kept alive'.¹⁶ In DFAT's view, the ASEM process, which includes Leaders' Summits, meetings of Finance and Trade Ministers, business forums and associated meetings, offers unique opportunities for the development of business networks between CEOs and government leaders from Asia and Europe.

8.20 The Committee understands that at the Foreign Ministers Meeting in Singapore in February 1997, Malaysia favoured a deepening of the ASEM process before expansion, but also spoke in favour of a 'measured expansion' of ASEM restricted to the new members of ASEAN.¹⁷ During a visit to India in January 1997, the then British Prime Minister John Major gave strong public support to India's inclusion in ASEM.

South Asian Association for Regional Cooperation and South Asian Preferential Trading Arrangement

8.21 ASARC informed the Committee that the idea of regional cooperation in South Asia was first raised in 1980. Foreign Ministers formally launched an Integrated Program of Action (IPA) in 1983, but it was not until 1985 that a Charter for the establishment of a South Asian Association for Regional Cooperation (SAARC) was adopted. The seven member nations of the SAARC are India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives. The SAARC aims to improve the economies of member states by collaboration in

13 Professor Vicziany, 'Regionalism, Sub-Regionalism and APEC: The Case of India,' p. 8. This document was included in the records of the inquiry as an attachment to NCSAS Submission No. 17.

14 *ibid.* p. 15.

15 *ibid.* p. 16. Mr Chidambaram's comment was also cited by Professor Vicziany in Submission, p. S 264.

16 DFAT Submission, p. S 772.

17 *ibid.*

trade and development, and to commence implementation of a free trade area (SAFTA) by 2001.¹⁸

8.22 The South Asian Preferential Trading Arrangement (SAPTA) exists between member countries of the SAARC, and comprises a framework for negotiating concessions (tariff and non-tariff measures) between members. The framework of the SAPTA agreement was drafted by the Inter-Governmental Group (IGG: established in 1991 with the approval of the SAARC Heads of State). It was signed in 1993 and came into force in December 1995. In 1996, Commerce Ministers reiterated a commitment to accelerate the SAPTA and to the realisation of the South Asian Free Trade Area (SAFTA) as the goal. The IGG met twice in 1996 to facilitate the launching of the Second Round and a third time to finalise the National Schedule of Concessions (NSC) under the Second Round. The IGG concluded the NSC and decided that the Schedules should enter into force by 1 March 1997.¹⁹

8.23 The first round of arrangements (SAPTA-I) was regarded as little more than symbolic, with some 226 products offered concessions, of which 100 were in favour of least developed countries (LDCs).²⁰ The Committee understands that the greatest weakness in SAPTA-I was that many goods offered concessions by SAARC countries were not on the import list of these countries. Further, these products were likely to be subject to non-tariff measures and export controls, which were not addressed under the Agreement.²¹ ASARC expects that the second round of SAPTA-II is to be more substantive, with concessions being offered on as many as 2013 products, of which 764 exclusively favour LDCs.

8.24 Despite the goals of the SAFTA, the Committee has opinions from several organisations and individuals that there is little chance of the Association making a difference because of the degree of instability in region and the slow pace of change thus far.²² The Committee is aware of media and other reports that suggest that the 2001 deadline for the implementation of the SAFTA is not feasible. In March 1998 the SAARC Chamber of Commerce and Industry (SCCI) President, Kani Kumar Poddar, was reported as saying that chamber members were very concerned at the slow pace of tariff reform.²³ According to ASARC:

... the SAARC and SAPTA as yet have not fulfilled their aspirations for close economic cooperation through trade liberalisation and therefore to date have added little in a regional sense to South Asia's emerging economic significance for Australia.²⁴

8.25 The Committee notes that, regardless of the accuracy of these analyses, it is the policy of the Australian Government to see the SAARC develop as an open region in a similar fashion to APEC, as Australia is already feeling the effects of preferential trade

18 This objective was decided at the Ninth Summit, held in the Maldives in May 1997.

19 Information on SAPTA/SAFTA rounds supplied in ASARC Submission, pp. S 148-149.

20 ASARC Submission, p. S 149.

21 *ibid.*

22 Instability in the region refers to Indian/Pakistani discord over Kashmir and ongoing civil chaos in Sri Lanka. Referred to by Professor Vicziany in 'Regionalism, Sub-Regionalism and APEC: The Case of India'. p. 12.

23 AAP, 'Warning on threats to South Asian Free Trade Area', 23 March 1998.

24 ASARC Submission, p. S 150.

arrangements.²⁵ For example, Australian fruit exporters into Sri Lanka face a tariff of 35 percent whereas imports from SAARC members are only charged a ten percent tariff.²⁶ TOOS 98 suggests that there is scope for regional trade liberalisation to be pursued through fora such as the IOR-ARC and other South Asian Regional Trade Associations such as the SAARC, the SAFTA and the SAPTA.

Indian Ocean Rim - Association for Regional Cooperation

8.26 It was proposed that, given the degree of regionalisation and trade areas being established, an organisation should be formed to promote the economic interests of Indian Ocean littoral and island states including Australia. It was intended that the IOR-ARC be a forum for economic dialogue and cooperation, with member states committed to global trade liberalisation consistent with the WTO principle of non-discrimination. Mauritius convened an inter-governmental meeting of experts in March 1995 and with a group of seven countries²⁷ established a Working Group, which met in August 1995. This meeting decided to double the size of the group to include Indonesia, Madagascar, Malaysia, Mozambique, Sri Lanka, Tanzania and Yemen. The Second Working Group meeting was held in May 1996, and agreed on the draft text of the Charter as well as a draft Work Program. The third Working Group meeting was held in September 1996 and coincided with the second Inter-Governmental Meeting (IGM) of all fourteen members. The second IGM endorsed a draft charter which was accepted at the Ministerial Meeting in Mauritius in March 1997.

8.27 The IOR-ARC is widely considered to have the potential to improve trade and investment between member states. The Committee has heard evidence from several organisations which concur with the perceived role of the IOR-ARC, including the Northern Territory Government, which sees the IOR-ARC as playing an essential role in the development and/or improvement of networks at the government and business levels. According to the Australian Chamber of Commerce and Industry (ACCI), the key characteristics of the IOR-ARC are that it will:

... act as an outward looking forum for economic cooperation and dialogue; not constitute a preferential trading bloc; not require the negotiation of a formal treaty for its establishment; and, adopt an inclusive approach to membership.²⁸

8.28 The annual meeting of the Committee of Senior Officials (CSO) of the IOR-ARC was held in Mauritius on 30 and 31 March 1998. Delegates from all IOR-ARC member states were in attendance. In conjunction with this meeting, parallel meetings of the Indian Ocean Rim Business Forum (IORBF) and the Indian Ocean Rim Academic Group (IORAG) also took place. Several issues were discussed at the CSO meeting, including the work program of the IOR-ARC, new projects proposed by the IORBF and the IORAG, the issue of membership to the IOR-ARC, and other procedural, administrative and financial matters.

25 DFAT Submission, p. S 776.

26 For further information on tariff barriers and effects on Australian businesses dealing in South Asia, see DFAT Submission, p. S 776, and TOOS 1998, pp. 107-113.

27 This 'M-7' group consisted of representatives from Australia, India, Mauritius, Oman, Singapore and South Africa.

28 ACCI Submission, p. S 707.

8.29 The major achievement of the Mauritius meeting, from Australia's perspective, was the commitment of the member countries to begin to develop a dialogue on trade and investment policy, which was an objective envisioned by Australia from the outset. In the light of that objective, the ACCI had undertaken within the Indian Ocean Rim Business Forum a project which examines ways in which trade and investment policy issues may take place within IOR-ARC. As a result of CSO discussions on the paper presented by ACCI, Australia anticipates hosting an informal meeting of trade policy officials from IOR-ARC countries later in the year to advance the trade policy dialogue.

8.30 Membership of IOR-ARC is open to all sovereign states of the Indian Ocean Rim, however it has been considered pragmatic to move progressively with regard to membership so that the organisation remains cohesive and efficient.²⁹ The Committee is aware of concerns from some quarters that there are vagaries with regard to what constitutes the 'Indian Ocean Region', which countries should and should not be included and that other forums may have more clearly delineated goals and functions.³⁰ Although the Committee recognises the significant value of the IOR-ARC to Australian business and trade in the region, the Committee considers that from India's perspective, APEC and ASEAN are still primary targets of Indian efforts to associate itself with regions of economic influence.

8.31 **Recommendation 31**

The Committee recommends that:

The Australian Government build on its level of support for the IOR-ARC through a specific allocation of funds for research and development of the trade and investment potential of the organisation.

IOR-ARC - Beyond India?

8.32 DFAT recognises that the IOR-ARC will promote the development and expansion of trade relations between countries in the region.³¹ South Asia as an investment area represents significant potential for Australian businesses, a potential that has only recently been realised. Although the markets of South East Asia (Singapore, Malaysia and Indonesia) are better known and more accessible to Australian companies, Pakistan, Bangladesh, South Africa and Sri Lanka should also be regarded as offering substantial economic opportunities for Australia. TOOS 98 also notes Mauritius as an emerging market and suggests that in the case of all these nations, their success and strength as markets will depend on the capacity of the governments to maintain vigorous economic liberalisation programs, which will attract much-needed foreign investment into infrastructure development and the manufacturing sectors.³²

29 Government of India Information website: <<http://www.meadev.gov.in/foreign/ior.htm>>

30 See Professor Vicziány, 'Regionalism, Sub-Regionalism and APEC: The Case of India, op. cit. p. 14.

31 DFAT Submission, p. S 774.

32 TOOS 1998, p. 107.

8.33 Australia's two-way trade with Sri Lanka has more than doubled in the past three years, reaching \$248 million in 1995-96. Although the protracted and unresolved ethnic conflict in the north and east remains an ongoing disincentive,³³ DFAT suggests that there is a perception in Australian business that Sri Lanka has considerable trade and investment potential.³⁴ This opinion is confirmed in TOOS 98, which observes that Sri Lanka has a GDP of US\$14.4 billion (1996) and is one of the most liberal markets in South Asia. TOOS 98 notes that the economy is currently growing steadily (3.8 percent in 1996) and that Sri Lanka's leaders are committed to further economic and trade liberalisation. Australian exports to Sri Lanka have more than doubled in the past few years. TOOS 98 considers that while government decision making is slow and uncertain, particularly on infrastructure projects, there are good prospects for infrastructure development.³⁵ The Committee accepts that Sri Lanka is an 'important test case' for Australian businesses wishing to invest in South Asia. ASARC points out that:

... Australian firms have taken advantage of the early shift in policy towards encouragement of foreign capital and established themselves for the most part successfully. The majority of Australian firms in Sri Lanka are fully export-oriented and use Sri Lanka as a low-cost production base to penetrate world markets.³⁶

8.34 The Committee understands that due to rapid structural transformation and increased trade orientation, the potential complementarity in trade between Australia and Sri Lanka has been enhanced. Athukorala notes that:

Sri Lanka's labour intensive manufacturing industries have the potential to penetrate the growing Australian markets in a range of product lines. ... However, these potential trade complementarities are not yet reflected in actual bilateral trade between the two nations. It requires a conscious reappraisal on the part of both governments and business community to reap the benefits of structural transformation in both countries through trade.³⁷

8.35 TOOS 98 advises that:

Sri Lanka's Board of Investment gives priority to investment in a number of sectors: infrastructure; electronics and new technologies; light engineering; tourism; agriculture, dairy and livestock projects; mining; computer software; rubber products; gems and textiles. The Government favours foreign involvement in large infrastructure projects (eg. Colombo Port), export-oriented manufacturing, and enterprises involving sophisticated technology.³⁸

33 This opinion was confirmed by several individuals and organisations who presented evidence to the Committee including P Athukorala (Exhibit No. 92), p. 29, and in TOOS 1998.

34 DFAT Submission, p. S 774.

35 TOOS 1998, p. 108.

36 ASARC Submission, p. S 103.

37 Exhibit No. 92.

38 TOOS 1998, p. 111.

8.36 In the same way that Australian businesses are arranging priorities to consider the potential of India and Sri Lanka as emerging markets in South Asia, the Committee considers that a similar degree of potential exists in establishing and strengthening trade relations with other South Asian nations such as Pakistan and Bangladesh. The Committee considers that the information and experience gained from Australian dealings with India and Sri Lanka could be used as a stepping stone in the promotion and expansion of trade and other linkages with South Asian and other nations around the Indian Ocean Rim. Furthermore, according to TOOS 98:

... some investors are considering Sri Lanka and Bangladesh as bases to penetrate the Indian market. The Mauritius offshore sector offers an attractive option for Australians wishing to invest in India and take advantage of favourable double taxation arrangements between India and Mauritius.³⁹

8.37 Pakistan is the largest of the emerging markets in South Asia, with an official GDP of US\$65 billion in 1996. Pakistan offers several foreign investors several sweeteners to attract trade and investment such as tax holidays and exemptions from income and indirect taxes. One hundred percent foreign ownership is permitted in almost all sectors, as well as full repatriation of profits and capital. On 21 November 1997, Pakistan's Prime Minister announced a new investment policy which opens the way for foreign investment in sectors including infrastructure, housing and real estate, wholesale and retail trade, agriculture, and health and education services. The policy incorporates both industry specific measures and general improvements to the business environment. Australian companies enjoy attractive packages particularly in the power generation and transmission sectors.⁴⁰

8.38 ASARC suggests that Pakistan's capacity to achieve and sustain a high growth path will depend heavily on its success in attracting new foreign investment in areas such as the successful exploration of the country's natural resource base with modern technology, particularly in the petroleum and mining sectors.⁴¹ The Committee understands that this will require high levels of foreign investment in the development and the necessary supporting investment to expand and modernise the infrastructure of the economy. The Committee understands that the acquisition of such capital will depend on long term political stability, which will only be achieved after the implementation of several major reforms.

8.39 While Australia has a relatively strong investment presence in Sri Lanka and Pakistan, investment in Bangladesh has been very limited. Bangladesh is ranked as a LDC and its per capita income is among the lowest in the region (US\$300 in 1996). On the positive side, Bangladesh has sustained a positive growth rate since 1990 of five to six percent annually, and major opportunities for foreign investors exist in the massive development needs of the country. These areas include oil and gas, telecommunications, power, industrial machinery, grains and oils, food products, defence supplies, infrastructure (roads and ports) and services. Significant progress has been made in liberalising its trade

39 *ibid.* p. 109.

40 *ibid.* p. 111.

41 ASARC Submission, p. S 169.

regime, with tariffs compressed to between 2.5 and 45 percent, but the arbitrary application of customs duties can be frustrating to importers.⁴²

8.40 TOOS 98 advises that Bangladesh:

... offers a range of investment incentives, including 100 per cent foreign ownership in most sectors, tax holidays, reduced import duties on capital equipment, duty-free inputs for exports, and tax exemptions on foreign loans and capital gains. Other attractive features are access to plentiful cheap labour and fairly simple registration procedures with the Board of Investment. The Export Processing Zones in Chittagong and Dhaka receive priority electricity, gas and water services. The government has identified oil and gas exploration and infrastructure development (energy, telecommunications, ports, roads and bridges) as key priorities for foreign investment.⁴³

8.41 It is now being recognised that trade potential lies in the IOR-ARC region. Furthermore, the success of programs such as *New Horizons* in India have inspired the development of similar projects for other areas in the region with similar investment potential and trade opportunities as India. It has even been suggested to the Committee that Australia's recent focus on trade relations with India has been to the detriment of developing trade relations with other South Asian nations.⁴⁴ Moreover the Committee considers that the continually developing relationship with India could be used as a basis for developing trade relations with other developing global markets of the Indian Ocean region. By looking further than even India, Pakistan and Bangladesh, and applying the experiences gained in trading with those regions, the Committee considers that new areas such as the Middle East could prove to be as beneficial to Australian businesses:

42 TOOS 1998, p. 108.

43 *ibid.* p. 111.

44 Vicziány Submission, p. S 263.

Australia's LinkWest Middle East seminars in mid-1997 informed about 600 Australian business people of strong opportunities in the Middle East for food and beverages, infrastructure and building equipment and medical and hospital equipment. The LinkWest program in 1998 will again highlight opportunities in the Middle East, with further seminars in major capital cities and workshops in regional Australia. Iran will be included in 1998.⁴⁵

8.42 The Committee understands that there is the potential for a 100 percent increase in Australian exports to the Middle East (worth about \$3 billion) over the next five years.⁴⁶ Egypt, Israel, Jordan, Lebanon and Iran are prospective markets because of growing populations, ongoing market deregulation and increasing capital inflows.⁴⁷ Deregulation and privatisation are creating many new opportunities, as is infrastructure development. With the exception of Israel, bilateral investment between Australia and the Middle East is minimal. TOOS 98 suggests that the main reasons for this are a lack of knowledge of the market and political and economic uncertainties.⁴⁸

A Regional Outlook for Australian Business

8.43 The above outline of the growing importance of the Indian Ocean Region and Australian involvement in bilateral trade relations prompts a discussion of the need for Australian businesses to gain or enhance their regional focus to better achieve trade objectives and economic success.

Role of the Western Australian Government

8.44 The Western Australian Government is a significant player in the Indian Ocean region, and the Committee considers that the experience and expertise exhibited by the Western Australian Government in its forays into the Indian Ocean Rim provide an excellent example of efficient and effective practice for other Australian states to follow. The work of the Western Australian Government, both within its own Department of Commerce and Trade, and in assisting the Indian Ocean Centre, has produced a thorough and practical understanding of current and potential bilateral and multilateral trade in the region.

8.45 The Western Australian Government has been broadening its approach to trade and investment strategies in the Indian Ocean Region since 1993. By undertaking a preliminary study of the region and giving priority to eleven industry groups, the Western Australian Government has been able to further industrial growth, make closer links with its neighbouring countries and decide where to concentrate promotional activities. The study involved comparing several factors in target countries in the region. These factors included economic size, estimates (current and potential) of economic growth, purchasing power and existing and potential trade.

8.46 The Western Australian Government believes that the best potential for overseas trade, investment, the establishment of regional headquarters in Perth, or the development of

45 TOOS 1998, p. 121.

46 Mr John Yeudall, Austrade Senior Trade Commissioner, Dubai, reported in *The Australian Financial Review*, 'Sales could double over next five years' by Steve Jones, 5 May 1998.

47 TOOS 1998, p. 119.

48 *ibid.* p. 120.

production facilities is offered by the following eleven industry sectors: building and construction equipment and services; defence and aerospace; education and training services; environmental management services and equipment; health and medical services; information technology and telecommunications; marine industry; mining equipment and services; oil and gas services; processed food; and professional services.

8.47 The Committee considers that the approach of the Western Australian Government in identifying market opportunities is indicative of the need and emerging trend by Australian business to better focus its products to specific markets. The establishment of a representative state office in India has assisted the operation of Western Australian businesses and helped to promote Australian trade in India on a continuing basis. The Western Australian Trade Office (WATO) is located in Mumbai. WATO advisers are also located in Chennai and Calcutta to service the needs of Australian businesses in the Southern and Eastern regions of India.⁴⁹

8.48 The Committee considers that the successful operations of the Western Australian Government in tailoring its services to the needs of Western Australian businesses are based on a strong organisation that is proactive, focused, able to clearly identify markets and practically support businesses operating in-country. The Committee considers that other Australian State Governments would benefit from adopting a similar model to that of the Western Australian Government.

Improving Awareness of the Region

8.49 Popularly India is perceived as a disunited country whose stability is always in question, whose economy is poorly managed, whose suppliers are unreliable in consistency in quality and timeliness, which has a mind-set which continues to give government a major role and considerable control over the economy, and which pretends to unique and superior moral and ethical standards.⁵⁰

8.50 The Committee is aware that despite the excellent reception and response to such promotions as *New Horizons*, there is generally a lack of education and awareness among Australian firms who wish to operate in South Asia. These perceptions cannot be changed instantly. The Committee also heard evidence to suggest that although awareness by Australian businesses of India may have improved, there is still a long way to go to improve awareness of other potential trade areas in South Asia. Vicziany notes that:

... while India has definitely emerged in the consciousness of Australian firms during the last five years, the same is not true of the rest of South Asia. In the case of Pakistan and Bangladesh one of the biggest hurdles is the stereotypes Australians have of Islamic cultures.⁵¹

49 WA Government Submission, p. S 831.

50 IOC Submission, p. S 226.

51 Vicziany Submission, p. S 263.

8.51 To overcome likely stereotypes held by Australian firms the Committee considers that it is of great importance that there be ongoing efforts to educate the wider Australian public as well as business. The Committee understands that there is a similar lack of awareness of Australia and Australian business by potential trading partners in South Asia, therefore this general education and cultural awareness should occur reciprocally where possible.

8.52 **Recommendation 32**

The Committee recommends that:

The Australian Government assess the potential for reciprocal arrangements between bilateral organisations and academic institutions to promote a general level of cultural awareness between Australia and countries of the South Asian region.

Regional Intellectual-Cultural Engagement

8.53 The NCSAS provided thorough evidence to the Committee on the importance of close intellectual-cultural engagement with South Asia. The NCSAS points out that there are rapidly changing social and political scenarios in South Asia, and a rise of new elite classes from low caste, non-English speaking areas. The Committee recognises that academic specialists on South Asia play an extremely important role in coming to grips with the rapidly shifting social and political scenarios in India. The NCSAS suggests that Australia should better utilise its South Asian academic experts to monitor and analyse change and the impact on India-Australia relations because:

... the expertise on the economies can help to inform judgements about the possible areas of business to the advantage of all countries concerned.⁵²

8.54 ASARC lists some of the current academic linkages between India and Canada and the United States to demonstrate the value of developing collaborative programs. An example is the major initiative taken by USAID where grants are given to many Indian institutions to undertake economic analysis of a number of specific subjects with further implications for liberalisation and economic reforms in India. Similarly in Canada, the CIDA (Canadian International Development Agency) has been funding a number of collaborative research projects between important Canadian and Indian research institutions. The Committee considers that there is great value in having a sustained program of collaborative research to aid the growth and dissemination of information concerning the economic policies of India and other South Asian countries.

8.55 ASARC suggests that a further linkage program of short term Visiting Fellowships should be established to complement the institutional research linkage program.⁵³ ASARC has just announced the establishment of a Rajiv Gandhi Chair in South Asian Economics at the Australian National University, in an agreement with the Rajiv Gandhi Foundation in New Delhi and with the support of a number of corporate sponsors. As noted in Chapter 4, the financial health of these research centres cannot be fully supported

52 ASARC Submission, p. S 106.

53 *ibid.* p. S 107.

by the tertiary institutions themselves. Unless government provides sufficient funding to ensure the continued viability of specialised research centres that focus on India, South Asia and the Indian Ocean region, valuable academic linkages, which are vital to the success of economic linkages, will be threatened.

8.56 The Committee reaffirms the significance of educational links and their potential impact for developing and improving business and trade relations. It is of crucial importance that these educational arenas be supported by government to support better the formation and strengthening of business and trade relations. The Committee considers that a stronger regional focus can be supported and promoted through the support of effective academic links.

Availability and Suitability of Regional Information

8.57 It was suggested to the Committee that while the material about India which is prepared by Austrade for the information of Australian businesses is extremely valuable, Austrade could provide more information on Indian and South Asian culture. One of the responsibilities of Asian research centres in Australia is the provision of training assistance to Australian companies wishing to do business abroad, and that if such services included briefings on India, that may be a better training source than Austrade.⁵⁴ While Austrade is providing valuable information as part of its *Link West* seminars, only limited cultural information is provided. The Committee considers that it would be of benefit if the expertise of external institutions could be utilised.

8.58 Recommendation 33

The Committee recommends that:

Austrade evaluate the possibility of arranging cultural briefings for Australian businesses in collaboration with existing Asian research centres within Australian universities as an adjunct to its *Link West* seminars for business.

8.59 The Committee considers that because of the declining amount of resources for research available to government departments, the possibility of outsourcing research work to existing research centres should be considered. With the Government's strategy of strengthening Australia's trade and investment performance with India and South Asia the Committee maintains that a higher priority should be given to research on India and South Asia. These areas cannot be adequately covered by the available departmental resources.

54 Stokes Transcript, p. 523.

8.60 **Recommendation 34**

The Committee recommends that:

The Australian Government provide sustained support for existing South Asia and Indian Ocean focused research centres by outsourcing research requirements to them in order to meet the Government's objective to strengthen Australia's trade and investment performance with India and South Asia.

Senator David MacGibbon
Chairman