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DEFENCE AND TRADE

Reference: Australia's relationship with India as an emerging world power

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**JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Wednesday, 20 September 2006

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators Bartlett, Crossin, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowden, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Kirk, Moore and Payne and Mr Jull, Mr Bruce Scott and Mr Wakelin

Terms of reference for the inquiry:

To inquire into and report on:

Australia's relationship with India as an emerging world power with particular reference to:

- Trade and tourism including investment opportunities
- The defence relationship
- The strategic possibilities for both nations resulting from increasing globalisation and regional imperatives

WITNESSES

DAVIS, Dr Brent, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry	31
DRAKE-BROCKMAN, Ms Jane Elizabeth, Executive Director, Australian Services Roundtable.....	49
JHA, Professor Raghendra, Executive Director, Australia South Asia Research Centre, Australian National University	2
KOTLOWITZ, Mr Danny M, Solicitor, Regulatory Legal Group, Telstra Corporation Ltd	49
LAL, Mr Sunil, Partner, Hunt and Hunt Lawyers	20
LEE, Mr Russell John, Director, Cox Group Pty Ltd	49
MAJUMDAR, Dr Som, Director, Asia, Hunt and Hunt Lawyers	20
NEIL, Barry, Director, Property, Woolworths Ltd	60
SHARMA, Mr Raj, Managing Director, PENTAQ Technology Pty Ltd.....	41
VICZIANY, Professor Marika, Private capacity	9

Committee met at 9.30 am

ACTING CHAIR (Mr Jull)—I declare open this public hearing into Australia's relationship with India as an emerging world power. This is the first public hearing of the inquiry, which is being conducted by the Joint Standing Committee on Foreign Affairs, Defence and Trade. Our focus in this inquiry is on building upon a bilateral relationship that is positive and mutually beneficial. As part of this review we will be considering trade and tourism opportunities, our defence relationship and any strategic possibilities for both nations resulting from increasing globalisation and regional imperatives.

India's importance in the world and our region is growing. Many submissions received by the committee have noted the potential that a strengthened Australia-India relationship presents. India's economic and military power is on the rise and Australia is well situated to help meet India's needs in areas such as the resource sector, infrastructure development and the services sector. The committee believes there is scope to improve this trading relationship and will be keen to canvass witnesses on how this might be done.

Today the committee will be talking to a variety of representatives from the Australian business community and Australian academics specialising in India. This morning we will be hearing from Professor Raghendra Jha, the Executive Director of the Australia South Asia Research Centre, Research School of Pacific and Asian Studies at the ANU; Professor Marika Vicziany, Director of the Monash Asia Institute, National Centre for South Asian Studies at Monash University; Dr Som Majumdar and Mr Sunil Lal of Hunt and Hunt Lawyers; and Dr Brent Davis of the Australian Chamber of Commerce and Industry.

I must advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence is given in public but, should you at any stage wish to give any evidence in private, you may ask to do so and the committee will give consideration to your request.

[9.32 am]

JHA, Professor Raghendra, Executive Director, Australia South Asia Research Centre, Australian National University

ACTING CHAIR—I now invite you to make a brief opening statement, after which we will proceed to questions and discussions.

Prof. Jha—Thanks again for inviting me to make some comments to this committee. The subject that this parliamentary committee is addressing is an extremely important one. The emergence of India as a major economic powerhouse is one of the most significant developments in the early years of the 21st century. Australia-India relations have been improving of late, as reflected in the numbers and the growth of bilateral trade and investment flows, student and tourist numbers from India and steady progress across the breadth of the strategic partnership. However, this relationship has the potential to grow by quantum leaps. It is my belief that such growth would be of considerable benefit to both countries and be a force for good in the region.

I want to make two basic points before I answer any questions that the committee may have. First, it is widely acknowledged that India is becoming a manufacturing powerhouse, especially for higher value-added manufacturing. Growth in the sector in recent years has been of the order of almost nine per cent a year, close to the 10 per cent figure for services. US manufacturing sector imports from India are currently rising at a faster rate than manufacturing imports from China. As Australia seeks to reinvigorate its own manufacturing sector, India can be a very significant partner in this process.

Second, one of India's greatest challenges at the current time is in assuring supplies of clean energy to fuel its accelerating economic growth. Australia can play a very significant role in this by ensuring that China and India are treated on a par when exporting Australian energy resources. I have made some comments on that in my submission in respect of liquefied natural gas as well. Let me stop there and I will be happy to answer any questions that you may have.

ACTING CHAIR—Thank you very much indeed. Professor, you have already said in a recent article that India has made the first move, inasmuch as it is casting its eyes towards Australia and the Asia-Pacific generally. Could you expand briefly on that? And what should be the Australian reaction to that?

Prof. Jha—The Australian reaction to that I think should be based on recognition of its own interests, and its own interests lie in the strong complementarities that exist between the Indian and Australian economies. I have indicated some of those complementarities in my submission. There are vast opportunities for Australia to welcome the Indian presence in the Far East and in the Asia-Pacific generally, and there are also opportunities for Australian businesses, academics and others to take advantage of this. I think Australia and India can also play a very significant role in maintaining peace and security in the region.

ACTING CHAIR—In terms of academics—and you have just mentioned that there is opportunity for Australian academics to be involved—we do have quite a number of Indian students in Australia now. How is Australia’s education system regarded? Is it still regarded as probably being a little way down the list, away from the traditional areas such as the UK and the US?

Prof. Jha—Do you mean, ‘How is it regarded in India?’

ACTING CHAIR—Yes.

Prof. Jha—Initially, in the immediate post-independence years, I think the UK was the biggest destination, the hottest destination, for Indian students. That changed sometime in the seventies to the US, and the US remains, I think, by far the most attractive destination for Indian students who want to study abroad. Having said that, however, I must say that—and that is a stock figure, the one that you mentioned; that is history—at the margin, as things stand, I think Australia is being increasingly viewed as an attractive destination for Indian students. And that is not just in the area of standard courses, like management, engineering and some other areas, but also in high-tech areas. Australian research is highly valued in India and I would expect that, over the years, there will be increased interest in Australian education among Indian students.

ACTING CHAIR—Do we promote ourselves well enough in India?

Prof. Jha—I think we promote ourselves quite well, but I think we could go one step further. I think we promote the fact that a reasonably good international education is available in many Australian universities for Indian students. What is less, and should be more, on display is the fact that we do such high-quality research in Australian universities, which the most inquisitive of Indian students would like to take part in and benefit from, and spread the benefits to Australia as well.

I think the US universities and the US multinational corporations with their research divisions and so on have spent a lot of effort in cultivating the Indian market for very bright students. Australian universities, given that they are doing quality research, according to international standards, should be doing a little bit more of that, in my view.

Senator KIRK—Thank you for your submission. I want to talk to you a bit more about collaborative efforts between Australian universities and Indian institutes and the like. I note that in your submission you make some reference to that, but I wonder whether you can elaborate a bit more on how you see the potential that there might be between these types of collaborations.

Prof. Jha—I will give you an example. The Indian Institute of Science in Bangalore is a rarity in India, because when it started out it was not basically in the public sector. It started out as a private sector enterprise, as far as I know, and developed into a really important scientific centre. Because of its proximity to the Indian Space Research Organisation, ISRO, and, given the high synergies that obtain among these institutions in Bangalore and some other centres, I think that the CSIRO, for example, would benefit greatly by collaborating with them—and vice versa, of course; there is a lot we can bring to the table for them. It would be a very interesting collaboration. You might know that the IBM Corporation, for example, have opened up a very important research centre in the Indian Institute of Technology, IIT, Delhi, where they are

funding and carrying on major innovative research, especially in information technology. That is another area where I think Australia and India can collaborate very well, given that some major Indian IT companies already have a presence in Australia, particularly in Melbourne. I think there is evidence that a fair bit can be done.

Let me tell you about what I know. As far as I know, the Indian academic establishment, at least in economics, is quite well disposed towards Australia and would welcome Australian collaboration. As to what I know in other areas, I have had visitors to my centre from among the best space scientists in India and so on. They have had extremely good interactions with space organisations, Australian research organisations, Geoscience Australia and several other organisations as well.

Senator KIRK—You have said that there is a lot of potential there, but it seems that, really, very little has actually been realised. What do you think are the obstacles in the way? How can governments encourage the parties to come together and form these collaborative endeavours?

Prof. Jha—You are absolutely right. The potential has been there for a while and is, I think, brighter now than it was a few years ago. I think that a greater effort has to be made to bring Indian and Australian scientists together, not just for conferences. Of course, they attend many conferences in Australia and in India, and in third countries. They are there together and they interact with each other, but they need to be brought together in the sense of the two groups being able to identify a common research project that would be of interest. For example, if you take economics and business administration, the entire opening up of India's agricultural sector, which I have mentioned in my submission, is something on which not just Australian business interests but Australian academic interests—the agricultural scientists of Australia, the agricultural marketers of Australia, the food technologists of Australia—can really collaborate with India. At the end of the day, there would be not just academic outputs but real, tangible economic gains.

We should identify the areas in which India is doing particularly well and which have considerable potential in the medium term and designate them as niche areas, and facilitate scientific and academic interaction between people from both countries on those on a sustained basis. If we do that this will flower. It may need a government push in the beginning, but then the industry dynamics will take over and I think good results should be expected.

ACTING CHAIR—I notice in the CSIRO submission that they have just done a commercial arrangement with the Indian company United Phosphorus Ltd, whereby they will be developing portable phosphene fumigators for grain storage. So it looks as though that interaction might be starting to happen anyway.

Mr BRUCE SCOTT—Thank you for your submission. I want to tease out that part of your submission which you just started to touch on—that is, the agricultural export boom and the potential that has to address one of the problems that you suggest India has in regard to rural poverty. You started to talk about collaboration through the academic fields to help with the development of scientific food technology. Do you see that as producing more food for India or do you see it as a way of becoming a major exporter into the region?

Prof. Jha—At the current point in time, as I have mentioned in my submission, a fair bit of this effort is concentrated on developing markets for exports. ITC and some other companies are concentrated on developing markets for exports. The Indian food product market, large as it is, is getting a bit saturated in the urban areas. But the rural markets, not just for food but for almost every other product, have to be opened. I have worked on this and I can tell you that the greatest innovation that the new agricultural marketing techniques are fostering is the culture of circumventing the local markets in the rural sector. The rural markets and the district agricultural markets in India are extremely complex and still have a lot of laws which prevent completely free trade within the country. This has been improving but there is a long way to go. The government of India in 2002 made a serious effort to change some of these laws. Once these agricultural marketing techniques are put in place and the revisions to these laws start biting so that the markets within the country itself open up, you will have a very large market for them in India.

It is for that reason that multinationals like Wal-Mart and others are very interested in doing processed foods in India. And it is for that reason that Indian companies like ITC and so on have really entered this area in a very big way, buying hundreds of thousands of tonnes of grain and thousands of litres of milk every day for processing. It would be my estimate that, currently, the cutting edge of the market is essentially for exports. However, over time, as these rural markets grow, the rural market will become increasingly attractive, not just to Indian companies but to Australian companies, American companies, British companies and so on. You might expect to see a great benefit for Australian companies for the marketing of processed agricultural goods to the rural sector.

Ultimately, after a considerable lag, we will see a pick-up of the export market. I am suggesting, in summary, that the movement of this market will be somewhat cyclical in nature. In the beginning you have a greater emphasis on export markets, then you have a greater development of the Indian rural market, and then finally you come back to export markets. That is the way I see the markets developing.

Mr BRUCE SCOTT—You said a moment ago that the markets are fairly regulated. Does that mean there would be local marketing boards or statutory boards in place, or is it just a regional thing to enable rural communities to produce enough food for themselves? In other words, do they have statutory marketing authorities, or is it regulated such that it prevents the free flow of food products across India and the Indian market?

Prof. Jha—Yes, they have a number of regulations. I have a paper on this topic—it is not in the submission. For example, something called the ESMA, the Essential Services Maintenance Act, exists in India. Assuming that there is a local scarcity of some commodity, for whatever reason, then the government—the local government, the state government—can declare it as a scarce commodity under ESMA and prevent its free export to other parts. That kind of regulation exists. As I said, many of these regulations started to be drawn down in 2002. So now there is a much better, or at least—let me qualify that—an improved flow of goods and services. So you might expect rural markets to start picking up fairly soon in India.

Senator MOORE—If I had more time I would ask more about the innovations you have listed there because some of them sound particularly interesting. Are you prepared to go a little further into the statement you have made in your submission about the potential risk of a

pipeline? You talked a bit about LNG and the fact that with innovation we would be able to look in the future at perhaps a pipeline for the gas between Australia and India, which is a huge image just to think about that. In your submission you say that there is a potential risk there as well. You mention extending that process to China. Would you like to elaborate on how you see that risk?

Prof. Jha—I mentioned a Harvard University study in my submission which says that India and Japan are the only two countries which are forecast to have their share of LNG, total gas consumption, going up in the intermediate term. That is a very significant conclusion. I think other countries are going to switch to other sources of energy much faster. India is contemplating getting LNG from a number of sources, as you would know. With LNG from Australia, I have no idea what the diplomatic manoeuvres are on that front, but LNG imports into India, purely from a policy perspective, would be particularly attractive to India, assuming it became feasible. Feasibility is the main thing. They are distant, but who knows what kinds of technologies might exist a few years down the line, especially from the west coast of Australia, to go to India? The other possibility is that large quantities of LNG could be shipped, even at present, in order to cultivate markets and then develop these markets into the future.

There is that risk which has been mentioned in the literature—that is not my view, that is from the literature—which is that a pipeline from Australia to India has the potential of being diverted to China. I am not in a position to quantify how big that risk is, but I think that would depend significantly on how much warming of relations between China and India occurs. There is good movement on that, but it is by no means a settled issue. We do not know how that is going to go, so I would not venture to put a number on that. But it is definitely a risk, I think.

Mr WAKELIN—Professor, as you would know, there is a meeting at Cairns today of the Cairns Group, and India is mentioned within the WTO context as being very concerned with the European approach and that type of thing. Are you able to make any comments about where the WTO is headed, where India sees the trading direction and the fears within India if there were to be greater liberation of trade, particularly agricultural trade?

Prof. Jha—I will give you my reading of the situation. The Indian response to the WTO negotiations has not been an undifferentiated commodity. It is nuanced and it is quite sectoral in its approach. The average level of Indian tariffs has come down quite significantly. I think it is just over 12 per cent now—12.5 per cent. In the manufacturing sector, particularly, India is quite keen to have tariff reductions. Indeed, Indian manufacturing sector companies see great benefits in lowering tariffs, because then they can effectively raise protection and become more efficient. They are trying to make a presence in the international scene, as you might know. However, the position changes when it comes to agriculture.

Why the position changes when it comes to agriculture is essentially twofold, in my view. The first reason is that the bulk of farmers in India are basically peasant farmers—not a majority, but quite a significant number are still subsistence farmers. It is important to note that we talk a lot about agricultural subsidies in Europe and we talk a lot about agricultural subsidies in America and how they are driving down the price of milk and so on in the international market, but one should be cognisant of the fact that it is not just subsidies on inputs and outputs in agricultural operations where the Indian peasant farmer is disadvantaged. It is also in crucial areas like credit. In Australia, Europe or America, the farming unit has access to formal credit on a routine

basis; it is nothing out of the ordinary. It is straightforward and simple to access credit on given terms and so on. However, it is important to note, for example, that the 2003 national samples survey, which is a large survey of about 400,000 Indian households, found that only 49 per cent—and I know this figure, actually—of Indian farming households had access to credit and only about 27 per cent had access to formal credit. More than half the rural—

Mr BRUCE SCOTT—Have or didn't have?

Prof. Jha—Have access to credit—to one form of credit, whether it is formal or informal. Fifty-one per cent of rural households have access to no credit at all, except from their family or relatives. But the relatives of poor people are also poor, right! They are mostly quite poor so they are not able to lend them very much. So if you open up trade and there are vast shifts in the terms of trade for agriculture, these farmers in the economy who are already quite vulnerable, given that they do not have access to credit, will become even more vulnerable—and that situation is something that the Indian government dreads.

Mr WAKELIN—That is very important to understand.

Prof. Jha—Yes, it is very important to understand that. What you are talking about is still 61 per cent of the population. That is more than 610 million people, and more than half of them have no access to credit at all. Credit is one of the areas which is used as a consumption smoothing device: if there is a drought, you give loans on cheap terms and so on, and that helps to tide farmers over a drought, as we have here. Nothing like that can be practised in India in any meaningful manner, at least until now, so any sharp changes in the terms of trade of agriculture would mean a drastic increase in the vulnerability of poor households. No democratic government—and you know India is a democracy—would be willing to countenance that.

Mr WAKELIN—In your submission, where you refer to the enormous and rapidly growing Indian market, the statistics talk of remarkable increases in the time span of 1995-96 to 2009-10. I would be interested to know whether the outcome is ending up somewhere near those figures, from the National Council of Applied Economic Research, and what is the projection now that we are so close to 2009-10.

Prof. Jha—I do not know the exact answer in terms of a breakdown of the commodities and services which are mentioned in the submission. What I can tell you is that India has something called the Five Year Plan—India still have some remnants of centralised planning, but it is mostly indicative planning now; there is no longer an investment agency—and the 2002-07 Five Year Plan's growth forecasts have been exceeded so far. So, taking it from there, we would say that, at least until now, by and large these figures would have been attained or maybe even surpassed in some instances.

Senator PAYNE—Professor, your submission and a significant number of other submissions that the committee has received identify what I would describe as the potential for the growth in the relationship between Australia and India across a whole range of areas: education, which we have talked about; agriculture, which you have been talking about; trade more broadly; tourism from India to Australia; the arts; legal engagement; defence; biotechnology and so on. From your experience what would you identify, beyond the potential, as the biggest challenges and barriers to actually making that engagement grow?

Prof. Jha—On 1 September—I forget the exact date—Prime Minister Howard gave a speech in Sydney on Australia-India relations. You might remember a remark that he made. He was quoting the Indian Prime Minister, Manmohan Singh. Manmohan Singh asked Mr Howard: ‘Australia and India have so much in common. Why do we have so little to do with each other?’ I think that is the most important thing. It is a very succinct observation. We have a lot in common, and it is not just in terms of a trade relationship, cricket or the common use of English language for official purposes and so on. Just as Australian universities have not been able to advertise their research potential, India has not been able to advertise its great achievement—that is, that such a poor country in 1947 when it got independence has come so far using democratic means. That is something we should sit back and reflect upon. It is a tremendous commitment to a very basic value that Australia and India share, that of democracy and the rule of law, which is missing in so many countries with which Australia has very good trade relations and engagement. There is nothing to prevent us—both of us; I think India also has had until recently a tendency to look west rather than east—from coming together and enriching this relationship except our own reluctance, whatever that may arise from. I do not know.

Senator PAYNE—Do you characterise it as reluctance or perhaps a lack of will because I think there is a difference?

Prof. Jha—Of course. I think there is a bit of inertia.

Senator PAYNE—That is a good word.

Prof. Jha—We have been this way for a while. Inertia takes a little while to shed. I think the will will be there—that is my reading—once one starts looking at the opportunities and seeing there is so much scope for expansion of the relationship. I think the will will be forthcoming, and we shall get around it. Things are looking up. I mentioned two areas in my initial comments, which look immediately to be of great interest—one for Australia; one for India—Australian engagement with India in the manufacturing sector; and Australian reciprocity in terms of assuring LNG or a gas supply to India on a sustained basis or liquefied coal, whatever it is that India needs for its energy needs to grow at this rapid rate or maybe even faster, as some commentators have remarked. I think it is possible, but it will need a little getting used to.

One not very well thought out response is that we are so used to each other. We have been together in the same kinds of situations, especially since the end of the Cold War, that India says, ‘Australia is there,’ and Australia says, ‘India is there.’ We do not really look at each other carefully enough and say, ‘Listen. What can we do together, not just among ourselves but in a third market or other areas?’ Given that Prime Minister Howard has shown his commitment and the government is moving in this direction, I think we will see changes. At least I am very hopeful of that; I would like to see changes.

ACTING CHAIR—As there are no further questions, I thank you very much indeed, Professor, for your attendance and your participation in the public hearing today. It was marvellous.

[10.12 am]

VICZIANY, Professor Marika, Private capacity

ACTING CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Prof. Vicziany—I am the Director of the Monash Asia Institute at Monash University and I am also the Director of the National Centre for South Asian Studies, but I am here in my private capacity as a scholar on India. It is important that I say that I do not represent the university, because only the vice-chancellor can really speak for the university.

ACTING CHAIR—Thank you. I must advise you that the hearings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers all evidence to be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the committee will give consideration to your request.

Professor, we have copies of some of your articles of recent times. I note your emphasis on just how far India has come in the last couple of decades. While the most recent article is only a few months old, I wonder if you could give us an update on how you see the state of the market now. Is the liberalisation proceeding as planned or are there still bottlenecks in it? Is the black economy—and corruption—still a problem or is the situation starting to get to a point where it is being overcome?

Prof. Vicziany—The fundamental characteristics of the Indian economy that have really been with us since independence have not really changed that much. The main change has been in the growth rate. We used to talk about the Hindu rate of growth of between three and four per cent up until about the mid-seventies, then the green revolution took off and then there was some rural prosperity and, as you know, in the last 10 decades we have had accelerated economic growth.

But that economic growth happens in pockets in particular sectors and in particular regions of India. I always suggest that it is a good thing to think about India as a collection of, say, seven Italys—seven highly productive agriculture areas, highly productive industry areas and highly productive services sectors. But, unfortunately, that does not change the other half of the picture. In a special issue of the *International Journal—South Asia* that we published last year, I have an introductory chapter that tries to grapple with this contradiction. Some people talk about India's economies being schizophrenic. By international comparison, we only have to look to the US to see that it is perhaps not as schizophrenic as we think. It is possible to have enormous wealth, great innovation, success and brilliant people while simultaneously tolerating pockets of extreme poverty and desperation. So, unfortunately, to some extent we think that India may be headed very much towards the US model of tolerating that poverty.

ACTING CHAIR—That is interesting, because I always thought that it was this young generation who were really blowing the systems apart—demanding reform and demanding deregulation. Is that not still happening?

Prof. Vicziany—It is very much happening. We are dealing with almost 1.2 billion people and enormous regional disparities. What you say is quite accurate. If you go to the heart of Bombay city, you can see the refurbishment of the city and the new shops and the malls that have come up. I was able to buy some very elegant clothes for my daughter from Mango, which is a very fashionable Spanish boutique. You see plenty of dynamic young people who are employed in all the new industries. They are very demanding and very outward looking. They are really globalised and very ambitious. But, unfortunately, this is not typical of the whole of India. On the other side of the Indian subcontinent in Bihar, many parts of Bengal, Uttar Pradesh, Andhra Pradesh and even Karnataka—the so-called centre of India's IT revolution—we now have a serious Maoist movement.

I personally did not know how seriously to take this new red revolution, so during my recent visit in February and March I made a special effort to speak to people who knew about what was really happening in the rural sector. These are areas of India where it is not inaccurate to speak of feudalism, where we have enormous disparities, a very tough caste system and landlord armies designed to protect landlords from government policy. There are government policies to pay minimum wages, but we are not aware of anyone paying minimum wages even though they were set in the sixties. There is a real concern that eastern India may indeed be facing turmoil. I was speaking to an academic from Pennsylvania University who also works on security. She was saying that they were very worried about how this global economic giant can play the strategic role we are hoping for, given the changing security architecture, if its military force, its paramilitary, is going to be tied up with domestic insurgency. But that is only half of the problem. Just beyond those areas, we have the whole of northern eastern India, the minority states of tribal areas where we also have a different kind of insurgency movement to do with ethnic and religious demands.

Bombay is almost my second home. There is no denying that in the affluent parts of Bombay there is an enormous shift in attitudes, a new flexibility, a global outlook and a demand for efficiency. But that does not reflect the total picture.

Senator PAYNE—I would like to go back to the brief observation in relation to, for example, the activities of the Maoists which you made in your remarks and in a sentence or so in this document. We have seen the impact the Maoists have had in neighbouring Nepal and on the democratic processes, such as they were, in Nepal. How seriously do you contemplate their impact might be in India?

Prof. Vicziany—I do not expect it to become quite as serious as in Nepal because, thank goodness, we do not have a monarchy in India. There may be people who think they are little monarchs, but they are not really. There are none of the deep divisions and bifurcation that is typical of Nepal. At the same time, I would not want to minimise it. I have spoken to quite a few Indian academics who are monitoring the situation and they point out that there is a whole swathe from Andhra Pradesh north and east where, for the first time, separate Maoist groups are talking to each other, communicating. A lot of people are panicking and saying, 'Oh my God! They're going to link up and there's going to be some connection to Nepal.' I do not think this is

going to happen. I do not see this as a homogenous, coherent, unified movement. But I think it is true to say that India is in for instability. The only solution to that instability is to undertake the economic policies that the current Congress-led government is currently undertaking: greater sympathy towards minimum needs and greater engagement with human rights. Unfortunately, it also means a go-slow on economic reform.

Senator PAYNE—When you refer to a greater engagement with human rights, how do you mean that the government is manifesting that now? How should they enhance that as far as India's approach is concerned?

Prof. Vicziany—There has been a considerable shift with the new Congress government. We are not sure whether it is due to them or whether it is just a timing factor. But, for the first time, the Supreme Court of India has now taken up the issue of the Muslims who were killed in those anti-Muslim pogroms in the Gujarat in 2002. No compensation has yet been offered. I believe that many of the people who lost their homes remain without homes. Some of them feel they cannot go back, either, to their ancestral places. But at least the current government seems to be aware of it and is beginning to act. The previous regime, under the right-wing fundamentalist Hindu government of the BJP, was far less inclined to do anything. This government's approach, combined with a greater stress on minimum wages, some guaranteed employment—even if it is only one out of three days in the year—some new concern for pensions and putting back onto the national agenda the question of minimum rights and social safety nets begins to make a difference.

I do not see how India has any choice but to address the huge backlog of mass poverty. The official figures will tell you that about 25 per cent of the Indian population lives in great poverty, on under \$US1 a day—enormous poverty. But that poverty estimate has been rejected by a lot of people who are exercised with this issue. They point out that the basket of commodities on which the estimate is based has not been changed since the sixties. All they have done is added 10 per cent or whatever for inflation. A more realistic estimate, according to some people, is that possibly 35 per cent of Indian people live in extreme poverty. Unfortunately, most of it is hidden. It is not in the cities, on the streets or in the slums; it is in rural India, which makes it so hard to predict the Indian elections. As you know, at the last election all the predictions were one way and the results were quite unexpected.

Senator PAYNE—Turning from domestic Indian policy to the question of Australia's engagement, towards the end of the document that you have provided you note that Australia's understanding is too focused on the rise of India as an economic giant. I understand the point that you make. You say quite clearly that we need a long-term view here, not an immediate, easy view. It is quite hard for us, when we examine these issues—it does not matter whether it is in committee inquiries we have done before on relations with Indonesia, Korea or a number of other countries in our region—to envisage how governments can take charge of this as a process and make it work better. Do you agree that it needs to be a partnership of quite heightened enthusiasm, if you like, shifting that inertia that our previous witness was referring to? How do we go about making that work better?

Prof. Vicziany—It is a very good question. I represent a group of academics who have been very much lobbying to take India more seriously for 15 years. In fact this is my third appearance at a parliamentary inquiry on India. I have to congratulate everyone here as this is the first

inquiry that actually acknowledges that India is an emerging giant. None of us dispute that. It is definitely an emerging giant, because even if only half of the Indian population is middle class, that is 600 million people. We cannot ignore this. It is extraordinary. On the other hand, there are always these countervailing factors and risks. But I agree entirely with what you are saying. We have to have partnerships: government, companies, cultural organisations, academic organisations and the universities.

I must admit I am pretty optimistic because, for the first time in, say, the last five years, we are finding a high level of activity right across the board in all of those areas. India, which was always regarded as secondary to China, or even Indonesia, has certainly emerged on everyone's agenda—Austrade, predictably, but also AusAID. AusAID is working closely with academics to get better insights into policies. We have had the Prime Minister himself go to India twice. This is terribly important. This is a highly structured society where our best top representatives must go.

On the educational side, it is extraordinary how seriously the universities are taking India, not so much just to recruit people but developing collaborative relationships. There has been delegation after delegation from UNSW, University of Queensland and Melbourne university. They have been extremely active. At the risk of sounding a bit self-serving, I have to say that the Monash strategy for India, which was developed by a special committee consisting of South Asia specialists at the university, has come up with a very innovative model that may well serve all of us into the future. India is not going to tolerate acting as a second-class country relative to Australia, not even in the field of education. They have a strong sense of themselves, the quality of their own system and their own educational system, of course, at the highest levels.

Monash University—and I apologise if I am repeating familiar information—has signed a letter of intent with the Indian Institute of Technology in Bombay to set up a postgraduate research centre. This means that the best Indian students in the sciences, biotechnology, agriculture, engineering and IT do not have to come to Australia. The idea is to have doctoral programs in Bombay. They will be Monash University degrees but taught in conjunction with IIT Bombay. IIT Bombay is one of six IITs, but apparently it gets about 50 per cent of all the funding that all the IITs get. The IITs, as you know, are the elite institutions for science and technology. What is especially important about this forthcoming centre are precisely the partnerships that you mentioned. We have the two academic institutions collaborating, with high-level support. Mr Howard set up a strategic research initiative, which of course will be competitive; it is not a Monash thing. There is \$20 million for research collaborations on a competitive basis.

The Indian government has indicated that it will support this initiative, as has the local government, and finally Australian and Indian companies are interested in this. We are hoping that they will become involved in developing real research in commercially viable areas so that that linkage between business and pure research is established at the beginning rather than as an afterthought—you know, you have done your PhD and 'Oh my, now what will I do with it?' which typically happens. I actually feel that Australia has turned a corner, but I have suggested in my very brief submission here that we have to make sure that we move quickly. We are new innovators in some of these areas. We have to consolidate. And we do have a reputation in India of being slow.

Mr BRUCE SCOTT—At the beginning of your answers you had me rather depressed, and again in that last answer to Senator Payne’s question. That is where I was going to start—with the partnership and the modernisation of the economy. Would you like to draw any comparisons for us here between the way that China has opened up its economy—although I guess we might not fully understand the transparency internally—and compare it with what is happening in India? If we are to have partnerships we have to have transparency and accountability. To me the other fundamentals are democracy and the rule of law and all those sorts of things. What China has is starkly different in a way, because it has been a centrally planned economy. You spoke about that absolute rural poverty. How do you deal with that as part of this modernisation to be able to a successful trading partner with India? I have drawn the comparison with China.

Prof. Vicziany—China first and then how to help poor rural India?

Mr BRUCE SCOTT—Yes.

Prof. Vicziany—China is indeed a very interesting and complicated comparison. For one thing, the definitions of what constitutes the private sector in India, China and Australia do not match, as you know. The so-called private sector in China would not be our idea of the private sector. They are basically state owned enterprises that have now been deregulated or, in rural areas, turned into cooperatives, with very powerful linkages to the state sector—in particular, to the banking system of China which, as we all know, is totally broke. So to some extent China’s capitalist revolution, while certainly it is very complex, is misleading in the sense that you never quite know who the identity really is behind a particular operation.

That does not detract from China’s achievements of enormous growth and dynamism. Partly, of course, they have been doing it longer than India. India liberalised 10 years after Deng Xiaoping’s wonderful statements. But the other reason is that the liberalisation of the Chinese economy has been particularly interesting and different from liberalisation in India in one significant way that I have only recently come to appreciate: it began in agriculture. All the new greenfields enterprises that I have looked at that have come up in China began with some base in rural production, such as quail eggs that produced quail droppings that then produced inputs into pig feed et cetera. The impressive thing about modern China is that you can actually see the legacy of the Maoist revolution. It sounds a bit corny to say that, but it is a more egalitarian society. It understood at the beginning, despite the Great Leap Forward and the terrible mistakes and tragedies, that the success of China would have to build on the rural sector. Okay, they have not sorted it out and there are terrible problems.

Switching to India, they started later and their concept of economic liberalisation is more or less limited to tariffs and industry; it does not really penetrate the rural sector. That has been a terrible limitation. Like you, I am very optimistic about India, because it is warts and all—what you see is what you get.

Mr BRUCE SCOTT—Yes. There is that degree of transparency, in other words?

Prof. Vicziany—Yes, there is, despite the corruption, which is also pretty transparent actually. But on your second question on rural India, one of the things I think we can do is support India’s requirement that the WTO and other international organisations actually do what they promised to do, and have not done, which is set up a level playing field in agriculture. That is the purpose

of all of this, yet, through farm subsidies and non-tariff barriers, we have anything but a level playing field. Professor Ashok Gulati in Delhi wrote a very interesting paper. He built a model trying to predict what would happen to global rice production and the international rice trade if one got rid of the EU and US farm subsidies. His conclusion was that India and Vietnam would emerge as the world's biggest producers and exporters of rice, which may not be so good for our northern region.

I think the Indians are pretty frank about this too. When the minister for trade came and spoke to the Asia Society about 15 months ago, he actually warned us. He said, 'Australia had better watch the rise of India as an agricultural producer, because we will beat you in the market.' I said to him afterwards, 'Don't you think that was an unwise thing to say because at the moment we have a common interest in working together to deal with this problem of farm subsidies?' But he was being very honest at that particular point in time.

No government program can create minimum standards of living. No government can design a program that makes any sense. You can only do it through market systems that will create employment. So somehow the global economy has to link up and take the Indian and Chinese farm sectors seriously.

Senator MOORE—You began to answer the kinds of issues that were troubling me earlier, with a sense of optimism in terms of the interest with which this area is finally being considered. You have been working in this field for a long time. I am interested in the interest of Australian students in the area—the attraction to our kids to study this area and get involved. Then, if true partnerships can be developed, it is in not just having Indian students here to learn but also encouraging knowledge and awareness amongst our own students. Have you noticed any changes in that area, and what do we do to make people interested in this area with that whole smorgasbord of interest which we are drawing our students towards?

Prof. Vicziany—Enormous change has happened, and it is so important because they are the future. It is those relationships that will carry us all into the next five or so decades. They say that the Indian economy is now going to have six to eight per cent annual growth rates for 50 years, and actually it has to, because if it does not grow at that rate it cannot deliver anything to anyone. There has been a great sea change in all the colleges that I am aware of. Just as a way of testing this out, two years ago I conducted an inventory of the number of undergraduate courses just at Monash University that now included India in their teaching agendas, whether it was to do with agriculture, industry, medicine, law or education. For the Faculty of Business and Economics alone, I counted 87 undergraduate courses which had a strong India component of at least 20 per cent, up to 75 per cent—that was the course that I taught.

The other interesting index is the number of students who come to any of our events to do with India, whether it is a Monash event, one on which we have collaborated with La Trobe or whatever. A third index is the number of students from some other part of the university who send me emails. They are doing essays on Indian law, the Indian IT industry or HIV-AIDS in India and they want a bit of help. This is unprecedented.

Finally, I think this is the eighth year in which the Monash Asia Institute is sending a small group of Indian undergraduate economics students to Bombay university. There has been an annual economics debate. It is called the Undergraduate Economics Convention, and the patron

of it is actually the Prime Minister. But he was not the Prime Minister when they set it up 10 years ago. In the beginning it was such a struggle to find five or six students who were willing to go to Bombay, do the extra research and produce a research paper. For the last three years I have been turning people away. It is fully funded, so off they go to Bombay and they can spend the whole summer there if they choose to. The actual atmosphere amongst young people is that they are very much aware of what is happening in India.

Partly it is driven by the fact that on all the campuses now we have a lot of Indian students. In Western Australia, Perth has a bit of a problem here. It is one of the few areas in which there are not that many Indian students. But in Melbourne and Sydney the Indian student population is huge, so relationships are developing between our kids and their kids. And these Indian kids—imagine—they come from Bollywood. Well, our kids only want to know about what is happening in film city. So there has been a great shift.

Senator MOORE—And a degree of excitement?

Prof. Vicziany—Yes, a degree of excitement, and students going via India to Britain or China. And some students—I am talking now about very advanced honours or masters students—actually go to both China and India. So they are doing what we are doing; always looking at the two and comparing them, trying to figure out who has got the edge over whom, and where and why. They are addressing all these questions.

Mr WAKELIN—On the issue of rice and the challenge, all I can say is that many of us would live the opportunity to try. Can I go to the issue that we have been discussing, the diversity of this incredible country. I am looking at some comments about India's economic potential that say that if the black economy was able to be challenged more, then 44 per cent of the GDP would increase the economic spin-offs in a very dramatic way. I wonder if you would comment on that, accepting that it sits there and that it all works in together, and Bombay with its dynamism and all of that. Can you also go to the geographic spread—I understand the rural areas and the poverty and that type of thing, but I am interested in the relationship between stronger economic performance and challenging a lot of other things in terms of the transfer of the Bombay approach, if you like, across the country. There is the issue of the black economy and what it does or might do in the future, and this issue about the transfer across India for—

Prof. Vicziany—How can we make Bombay kind of growth happen in Bihar?

Mr WAKELIN—Yes.

Mr BRUCE SCOTT—Address the rural poverty issue—share the wealth.

Mr WAKELIN—And how hard is that?

Prof. Vicziany—At the risk of sounding cynical, of course, the black economy is generic throughout India so you cannot explain regional disparities through corruption. Perhaps Bombay is the most corrupt city in India because it is where all the business happens. It is the commercial capital, everyone goes there, it has got a huge international population et cetera. On the question, however, of corruption, I think there is a real demand, and people—NGOs, lawyers' cooperatives—have really taken up this issue. Within the universities also there have been

anticorruption committees, where people have started to implement new standards of appointments and transparency. Some of my colleagues argue: ‘Marika, if we can’t be transparent in a university; if we don’t do things through advertising with proper committees and with women sitting there for equal opportunities, we can’t even have this debate because we have no credibility.’

So I think there is an enormous groundswell of popular resistance to corruption. And that coincides with the highest levels of government because, as you know, corruption also feeds money laundering which, in the worst-case scenario, makes a lot of money available for other things like the buying and selling of small arms and terrorism. In the city of Bombay there are linkages between Bollywood, the massive corruption in the real estate business, arms running and terrorism. I do not believe that Bombay’s violence is caused by any of these things. I think it is much deeper than that—it is to do with the marginalisation of Indian Muslims who feel besieged—but corruption does not help.

And it is enormously costly for everyone. A friend of mine runs a women’s magazine in Delhi. When her phone crashed a few years ago she was without a telephone for eight months because she refused to pay all the right people to have it connected. So I said to her, ‘Well, why don’t you just get yourself a mobile?’ You see, that is what is happening. People have suddenly discovered that the mobile phone revolution is a technological answer. You cut right across any of that through these new means of communication.

But that figure that you quoted on corruption, incidentally, is an underestimate. Arun Kumar, who has done the best work on this, has emphasised that in his estimate of corruption he only looked at the things that affected the production side. So when one person gives another person some money that gets transferred—all those multiple transactions that are deeply corrosive—none of those transactions are counted in his estimate. He tried to give a minimal estimate of the degree of corruption. So it is a pretty bad, depressing scenario, but we are getting a reaction to it.

Senator KIRK—I was going to explore more with you the question of corruption, which you have detailed quite a lot. You talked about the anti-corruption reform campaign or the campaign against corruption. The way that you have described it, it is still quite endemic. Is anything being driven from the government end to try to address this corruption, which is clearly such a problem? How do you go about doing that?

Prof. Vicziany—There are some inquiries and commissions now and you can report this, and they are publishing on the web the names of people have been identified as being particularly corrupt. But Indian democracy is such a complicated beast. Mr NN Vohra, who headed up the first corruption commission inquiry, also reminded me: ‘Marika, 10 years ago 35 per cent of our parliamentarians in the Lok Sabha had criminal records—and it is rising.’ So it is hard, in these conditions, to push through reform.

It is also very hard because if you have a problem it is an easy solution just to pay someone a bit extra to have it fixed. I do not think corruption in India is going to disappear any day soon, but I would like to stress that I do not think India’s basic problems are to do with corruption in the general sense that we understand. The real problem is in the rural sector and the power of landlords—who have private armies to deal with those that demand minimum wages—and the power of land ownership, even if it is fragmented. I am not necessarily talking about high castes.

Even people further down in the caste system who may only have a small parcel of land hold onto that. They may be employing untouchable or tribal labour.

So, unfortunately, conflict is not always between the richest and highest and those right at the bottom. It is often between the poorest at the bottom and the next layer up—people who have just recently achieved a bit of upward mobility and are fighting very hard to hang onto it. This is where our technology can help to make that bit of land more productive. Irrigation of some kind, dry-farm agriculture or some of our South Australian technology to help with desalination would go a long way to reducing the kinds of economic pressures that manifest themselves in social violence.

Senator KIRK—It seems, from what I have been reading here, that it was the absence of government restrictions that allowed the IT industry to flourish. I hope that is accurate. I am wondering whether or not government has learnt—if that is the right word—from that industry and is seeking to implement that in other growth industries in India.

Prof. Vicziany—I think so, although now they have got a ministry for IT. It has been said that the reason India always won the Miss World competition was that there was never a ministry for Miss World! But unfortunately for the Indian economy, the planning system that was established in the early days of independence, based on the Soviet model, was very comprehensive and they had the commanding heights of the economy, which they continue to control.

As we all know, one of the great opportunities between us and India is the coal sector. The government of India has even declared that exploitation of coal is going to be even more critical in the medium to short term than it has been in the past. At the moment it already accounts for the generation of about 60 per cent of the Indian electricity supply, yet the greatest producer of coal is Coal India, which is a government enterprise. But when you go down to the coalmines of eastern India you discover that the real people who control the coalmines are not necessarily civil servants; it is rife with mafia elements and there are enormous labour problems, labour exploitation and so on.

Yet we did have a very important project called the Piparwar project. In the late 1980s, AusAID funded, with White Industries, the most ambitious and most expensive aid project ever in India. We were able to showcase Australian open-cut coalmining technology in a way that has never happened before. I have suggested in one of my points in that short list I gave you that it would be lovely if someone could do a follow-up study as to what lessons we learnt from that. I know there were enormous difficulties, and I have written about them, but what happened to that fabulous project, which of course had to engage with Coal India?

I do know that White Industries did deliver, as the contract required, a state-of-the-art open-cut coalmine in this terribly difficult area rife with tribal difficulties and so on. Your committee could perhaps make suggestions to the right group that we need to reflect on what we have actually been doing well and where we have been performing poorly in the last 15 years. Can we learn from things we have already done in the past? I find there is a lot of historical amnesia here that limits our capacity to design really appropriate and targeted policies.

Senator PAYNE—I think that the point you make, about Piparwar in particular, is a good one and it is something the committee can pursue with the appropriate agencies to try to follow up

some of the questions that you raise. But I want go to the point that you make about academic specialists and where the quite substantial strata of academic appreciation and engagement we had with India has actually gone. You make the point that it has diminished. It is reasonably obvious that it has certainly reduced in depth and number. I wonder what you think is the cause of that and how we can redress the problem.

Prof. Vicziany—The cause of it is we are all getting older—I used to be one of the youngest, which clearly I no longer am—and we have not been replaced. Many of my colleagues have either died or have now been in retirement for many years, so we are coming to the very end of that old generation of India enthusiasts. It is paradoxical because, as I said, in the universities across Australia people are studying and learning about India—it is wonderful. There are a lot of Indian studies and they are out of all the traditional areas. It is no longer just history or languages or religion; it is everything. But when these students are doing research essays or when they are looking at the social and political context in which that technology or that project has to operate, they start ringing us.

The reason we have not replenished our supply of academics is, frankly, that the universities have been under enormous pressure. One of the difficulties we have had is cutbacks to educational funding to the universities relative to what we should be doing. So, again, I make a plea for placing greater stress on funding research for real specialists. By definition, they would be people who do fieldwork, who go beyond the big cities, who go to the villages and small towns—people who can contextualise India, who can talk about the politics, the culture and the religion and link that up with the business environment. We have think tanks and young, new academics who are technical specialists, and they may know a hell of a lot about how a company operates in Bangalore or how to build a particular highway, but they may not have that wider context that we need to assess the medium- and long-term scenarios. We need old-fashioned specialists, and for that you basically need funding. The idea has to be planted.

My colleague Professor Robin Jeffrey—and I do not know if he has given evidence to this inquiry—has developed, with colleagues, a report called *Maximising Australia's Asia knowledge*, which also documents a decline in expertise. He also documents a lack of interest in Asia. I suppose we do not agree on everything, but the thing we all agree on is this: expertise has become seriously corroded, and not only expertise on India. Our expertise on Indonesia has also become corroded, but the reason for that is different. The best people got recruited into the US when the US decided it had to know about Jemaah Islamiah in Indonesia.

Senator PAYNE—Or, in some people's cases, into parliament, like Professor Trood.

Prof. Vicziany—That is a very good thing, though; that is spreading ourselves out.

Senator PAYNE—Yes, we are very pleased about that.

Prof. Vicziany—Meredith Borthwick, also, when she was still alive, was one of our best exports into the East Asia Analytical Unit within DFAT. But we have so little of the kind of expertise that you find in the US. Take someone like, say, Professor Stephen Cohen. He teaches at Georgetown University. He is at the Brookings Institution, which is an extremely well-funded think tank. And you have that connection between the academics, the politicians and the policymakers in India and in the US. We still have not got that because we have not yet thought

of a way of properly funding these independent think tanks, and the Americans provide some wonderful examples.

ACTING CHAIR—Professor, thank you very much indeed for your attendance here today and for participating in the public hearing.

Prof. Vicziany—Thank you so much.

ACTING CHAIR—We have received a submission from the professor. I move that the committee receives as evidence and authorises for publication submission No. 31 to the inquiry, the submission from Professor Marika Vicziany. There being no objection, it is so ordered.

Prof. Vicziany—Mr Chairman, could I ask you a very quick technical question? As I said, this is the third inquiry I have appeared at, and I came today to get a better understanding of what sorts of issues your members were really interested in. Now that I have a better knowledge of that, I might make another, fuller submission on some of the things that came up, especially agriculture.

ACTING CHAIR—We would be delighted to receive it. Thank you.

Prof. Vicziany—Thank you so much.

Proceedings suspended from 10.59 am to 11.13 am

LAL, Mr Sunil, Partner, Hunt and Hunt Lawyers

MAJUMDAR, Dr Som, Director, Asia, Hunt and Hunt Lawyers

ACTING CHAIR—I must advise you that the proceedings today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence is given in public, but should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request. Would you like to make an opening statement, and then we can proceed to questions?

Dr Majumdar—Thank you, Mr Acting Chairman and distinguished ladies and gentlemen. I feel very enthusiastic and very committed. I have been travelling to India, and I have been associated with India, for the last 15 years in my different capacities. As an Australian citizen, I believe strongly that there is immense scope and potential for Australian industries in this increased bilateral relationship.

There has been a paradigm shift in economic reforms. The first reform was in 1991. India's foreign exchange reserve was \$1 billion. Today it is \$152 billion. Prime Minister Mr John Howard made the very beautiful statement in a recent luncheon lecture series that today's prosperity is a product of yesterday's reform. How true that is. India has 300 million middle-income people; it is the sixth-largest Australian trade partner; it has the fourth-largest economy in terms of purchasing power parity; and it is the second-largest source for international students for Australia. India is vibrant. Fifty-four per cent of the Indian population is under 25—there is no one-child policy like China's—so there is a huge flow of working populations. That opens up consumerism and the market.

Having said that, I would like to comment briefly on how Australia could benefit, especially from the industry point of view, in these sectors: tourism, education, biotechnology and defence. On 7 September 2006 there was a media release by the Minister for Small Business and Tourism: Australia has a \$75 billion tourism industry, employing 500,000 people, and it is growing by 10 per cent every year. How much is India's share? Only one per cent—that is reported by Tourism Australia. During 2004, 54,800 people from India visited Australia, and 50 per cent were repeat visits. India ranks highest amongst the travelling people. They spend 10 to 12 nights on every trip overseas. But how much is Australia getting? Why should we be complacent, when there is enough opportunity? The New South Wales government has made a very great initiative by enticing Indian honeymooners—there are so many cities.

One area is Bollywood film. Recently there was a Bollywood film with Melbourne as the backdrop. That has enticed huge interest in Australia. We have received a request from an eminent film personality from the Bollywood film industry to organise their Filmfare Award in Sydney. I did the research. It could produce 20,000 room nights in the span of three days. It is being held in 2007 in Yorkshire with the blessing of Tony Blair's government. This is one of the greatest sources of revenue, and this increased bilateral relationship can augment it.

The second is education. I am a lecturer; I have an interaction with an increased number of students, day in and day out. I believe Australia is driven by knowledge power. It is a knowledge nation. Australia's top education facilities, with quality research, have enticed Indian students tremendously, although their preferred destination is the USA—but lately it has shifted. Education has a classic flow-on relationship with tourism. IDP prepared a report and showed that, between 2003 and 2005, there was a 35 per cent growth in numbers of Indian students. As at 2004, there were 38,200 students studying in Australia. With a 12 per cent growth rate, I calculate that in 2007 that will reach 50,000 students. They are studying two-year graduate courses, with an average cost of \$25,000 per year. Multiplied by two, that is \$50,000. Multiply that by 50,000 and it is \$2.5 billion. On top of that there are visits by their family and relatives to the students. That gives a flow-on effect of tourism, and it is growing. We should not be complacent. The IDP report at the Queensland resort conference also stated that the UK is considering increasing its student intake from 12,613 in 2003 to 60,864 by 2010. Australia should not lag behind. There is an opportunity, and Indian students are coming in numbers. We should cash in on this sentiment, and with respect to this increased bilateral relationship, the joint standing committee can play a tremendous role.

The final sectors are biotechnology and defence. The global biotech industry is worth \$US150 billion. Australia is full of talent, and scientists are instrumental in this regard. Stem cell research and stem cell therapy are key issues. According to a US National Institutes of Health report, stem cell line research—in stem cell therapy the embryonic stem cells are known as cell lines—is making tremendous efforts to discover medicines for adrenal disease, diabetes, cancer and so on. The tremendous success in stem cell research in India results from the absence of any religious and political opposition. I strongly feel that the Australian scientific pool can join with India in a cooperative program. Another program is the cord cell blood program. India is engaged with an eminent stem cell research company from South Korea called Histostem to establish the largest cord blood bank in Asia. Australia has immense resources for providing the scientific technology. I strongly believe that this committee can play a pivotal role in augmenting that sphere.

Finally, I humbly state that, in the different installations, the three key areas which I believe have tremendous potential are: joint military exercises, training and the Indian Ocean rim ARC. The Indian Ocean rim association was established in Mauritius in 1997. It comprises 18 members. Australia is a key player. This centre provides a mechanism for Australia's increased trade interest as a business link around the Indian Ocean rim countries. It is intended to serve as a base to expand interregional trade. The partnership program can be extended to geostatic satellite launching. India has reportedly had tremendous success at launching satellites into orbit. They have launched 21 from their home ground. Out of those only five have failed. The rest have all succeeded. I believe the partnership in this area may augment the scope of the pooling of research capabilities, such as joint strategies and the joint sharing of intelligence in controlling terrorism, sea piracy and so on.

I feel very enthusiastic about and I am committed to Australia's engagement with this bilateral arrangement. I believe strongly that Australian industries can reap a harvest, because they have got the resources to deliver and India is there to receive those resources. There only needs to be a link established. This is a great avenue for that to be achieved.

ACTING CHAIR—Thank you very much, Doctor. It has been mentioned that your firm undertakes showcasing of Australia in India. Could you give us an indication of some of the areas that you work in?

Dr Majumdar—Our firm has done some work in the facilitation of Australian enterprises to go to India. We have also done some work with Griffith University, for a partnership program with NALSAR University in Hyderabad in the research of law and other issues. We have made a lot of submissions to India; we have conducted a lot of seminars, enticing or encouraging Australian companies to consider India as their future business destination.

Mr Lal—We have also looked at the IT sector and at pharmaceuticals. There are some emerging companies that are likely to come and house themselves in Australia in the not-too-distant future, and we are in discussions with them. That will create employment and so forth here.

ACTING CHAIR—Mr Lal, do you want to make any further statement?

Mr Lal—All I would like to add is from the trade side. I am sure you have been inundated with figures prior to this morning's hearing, but one thing we need to understand is that the Indian economy is the second fastest growing economy in the world, with GDP at eight per cent and likely to grow to 10 per cent by 2010. The trade between Australia and India is in excess of \$7 billion as of 2004-05, which is a 22 per cent increase over the preceding year. Hopefully, that is going to escalate.

Regarding annual incomes in India, the number of people earning more than \$US5,000 in 2004 was estimated to be about 100 million. By 2020 it is anticipated that that figure will blow out to 650 million. By the same time, in comparison, from the figures we have received, China is likely to have 320 million. So we see a huge growth in spending power in the coming decade. India is likely to surpass Japan as the third largest economy in the not-too-distant future. Some are saying that that is going to happen within 12 months. Others are saying it is going to take a bit longer than that. There are 83,000 individual millionaires in India, which excludes those holding residential property and consumables. The percentage increase from 2005 to 2006 is the second highest, behind South Korea.

Of interest in the retail area, just to highlight what is happening over there, by 2003 there were 25 shopping malls. By the end of this year there will be 220. In telecommunications, the number of additional subscribers per month is two million. By 2007 the number of people subscribing to mobile phones will surpass 200 million. In the retail sector, out of the 30 emerging countries in terms of an attractive market for mass merchants and food retailers, India ranks No. 1. Twenty-two per cent of its population state that they visit a shopping mall once a week as something to do. Again, there is an avenue for Australia. There is a lot of interest in the retail area from Australia, and that is something that we need to explore and encourage, because of the opportunities available. There are various areas of trade that one should consider. As we discussed before, that is something we can elaborate on. I thought I might raise some of the salient features with you so that you can understand what is likely to happen. People say that India is about 10 years behind China, as far as growth is concerned, so there are huge opportunities available. It is a matter of us taking advantage from where we are today.

ACTING CHAIR—I would like to go back to the beginning of the good doctor's statement. I should declare an interest. I represent the northern area of the Gold Coast and obviously have an interest in the development of the tourist industry. I also have Warner Brothers Movie World in my constituency. Bollywood has been through. You may be aware that there are some discussions going on about utilising some of those facilities. But let us talk about tourism. We are starting to see a few Indian tourists coming to the Gold Coast now. The real difficulty is that there are no real air rights. Qantas are putting a couple of services a week up there and that is about it. How the devil are you going to not only develop a tourist industry but also get people-to-people links and contacts without it?

Mr Lal—That is precisely correct. That is a major issue. To my knowledge, Qantas flies from Sydney to Mumbai only. That is the only destination. Two weeks ago they announced a link-up with JetAir. We did some advisory work for Qantas. If you are in Delhi you have to catch a domestic flight to Mumbai then change to Qantas. It really is not workable. They have to rely on other airlines.

ACTING CHAIR—I understand that there have been discussions on the air agreements and there are another three or four cities to come in on the Qantas thing. But there is no evidence that anything is going to fly there.

Mr Lal—That is right.

ACTING CHAIR—I suppose I will ask you to wave a magic wand: how do you get the demand up that forces the airlines to come along, or do you just ask Emirates to do it?

Mr Lal—Via Dubai, so all the rupees are spent in Dubai and what do they have to spend when they come here? The inbound tourism potential for Australia is huge. New South Wales has lagged behind there and has lost the tourism dollar over the last 12 months. I think some report that has come out has stated that New South Wales has gone backwards since the Olympics. We hold a world record for that, as I understand it. But with regard to tourism as a whole, there is more awareness in India about Australia—going back five years even. If you asked Indians in India: 'What holiday destination would you like to go to?' Australia would not rank at the top. It would be the US, the UK or Singapore, for example. But in recent years Australia has become a popular destination. Our information is that people fly into New South Wales but spend a lot more time on the Gold Coast than they do in Sydney or in New South Wales in general. There is no doubt about that. The Sydney Harbour Bridge and the Opera House are attractions, but I think we need to spend more on advertising in India with respect to Australia. I do not know whether my colleague has anything to add.

Dr Majumdar—What you say is true. I strongly believe that tourism and education are invisible trades. That is where Australia excels, and that is where we should cash in. Because the opportunity is lying at our doorstep, it is the time to grab it. The technology, the way and the mindset have to be in that direction, and I strongly believe it could be done. Another source in the same area is knowledge process outsourcing. We have a skills shortage. Can we not address those skills which are short over here by collecting that market intelligence which otherwise could be done by spending thousands of millions of dollars through human resources? These are not traditional areas, but I strongly feel we should move in that direction to augment Australian industries.

Mr BRUCE SCOTT—Could you expand on your work in India and give us some other examples of your collaborative effort in India?

Dr Majumdar—I worked with GIO for the last 10 years as an insurance underwriter. I have been actively involved in Indian industrial circles—because insurance is a keystone for the development of industries—and I have had an opportunity to meet grassroots people, people in the top echelon of the society and people in the ministerial sector et cetera. Since I have joined Hunt and Hunt as a director of their Asia division, my brief is to encourage Australian companies to consider India as a future business destination. To that extent, I conducted a lot of due diligence in certain areas. One was into education, and my colleague and I have investigated health insurance and pharmaceuticals—all these sectors. Insurance has opened up, and I prepared two working papers on health insurance. Health insurance is nonexistent in India. Australia is strong in health insurance, it has had a huge amount of experience, but as yet no initiative has been taken to grab that market. There could be \$5 billion in health insurance premiums alone, and no company such as MBF or HCF is working in that market. My point of view is that Australian talent, Australian knowledge and the Australian psyche could be exported to India to grab these sectors. We have the experience and the knowledge to do that, and I am prepared to be committed to do that if the opportunity arises.

Mr BRUCE SCOTT—How would government facilitate and encourage that growth?

Dr Majumdar—That is a beautiful question.

Mr BRUCE SCOTT—You have put on some showcases up there, haven't you, linked with ministerial visits?

Mr Lal—No. Our showcases have been with private education, and we have chosen a particular institution because of its board members—they have included High Court and Supreme Court judges, so the credibility is there. We have done it in that area. We are looking into pharmaceutical areas, as Dr Majumdar has mentioned, trying to bring a link to that area. One of the frustrations or limitations we have had in the education area is the nonacceptance of nurses coming from India to Australia.

Mr BRUCE SCOTT—Is that on work skills?

Mr Lal—That is right. The Indian nurses are going to the US and the UK, but they cannot come to Australia because the Nursing Board does not accept the qualifications.

Senator MOORE—That is their skills accreditation?

Mr Lal—Yes, skills accreditation. We are crying out for nurses here. There are thousands and thousands of good-quality nurses in India. They go through various nursing schools associated with leading Indian hospitals. We have to be aware of the institutions and so forth; I accept that. But if it is good for the UK I am sure it is pretty good for us as well. There are a number of restrictions there.

In relation to education providers, a university from Australia, for example—I will not name it—is considering a joint venture with a particular business in India. The business they are in

discussions with is into sanitary ware. I cannot see how there is a link with education there. We have to be very cautious about how businesses enter the market, because they get overwhelmed by the hospitality and they try to do it alone. If they do it alone they feel they have the right partner after one visit, that they have found the needle in the haystack, but they come back only to find that the story sours. So they do not venture into that region again, and that is a lost opportunity. Also, the feedback they give in the marketplace is that that region is not a safe one to enter financially.

So there needs to be government encouragement and there needs to be growing awareness. There need to be ministerial visits from both sides, and possibly at the highest level. Our PM certainly has had a flying trip to India; and I would like to see the Indian Prime Minister come here. And we need the media involved in all of this to grow that awareness. There have been times a state minister has visited Australia and we who practise in the area do not even hear about it until after the event. There are a number of issues out there.

ACTING CHAIR—How easy is it to do business in India? You have mentioned things like health insurance. Are there rules and regulations that are almost impossible to get around or is it basically fairly easy?

Mr Lal—A few years ago it would have been very difficult, but as India opens up more and more there are always opportunities. For instance, health insurance is an area that could pose some difficulty in the short term but with discussions at the right levels, and showing the benefits of opening that area, it can be done. I do not believe there is anything that cannot be done, given the right way of going about it—and that is the catch. Unfortunately, with a number of businesses there is a great strain to deliver financially. It is the same with us—when we go to India we are there for a week or two. Businesses cannot absorb somebody going out there at our level for three, four or five weeks. But if you are going to enter into that market you need to understand the market and you need to explore it. You need to go in there and be there for a while in order to understand what is needed, not go in there and say, ‘We are here; we will fix it all for you,’ because the way they will receive that will be to say, ‘There is nothing to fix.’

Dr Majumdar—This morning I was going through the report of Prime Minister Dr Manmohan Singh’s interview with American journalist Charlie Rose, which occurred just before the American President’s visit on the nuclear deal. I will read a sentence stated by Dr Manmohan Singh in that interview. He said, ‘I would like government to have greater concern as a facilitator rather than as a regulator.’ As we just said, how do you do business when there is so much regulation? Gradually those things will be reduced to a great extent because the Prime Minister of India is himself feeling that government should act as a facilitator—so it speaks for itself. Therefore, I believe the time is gradually coming when all those regulations will go and the environment will be much more conducive to increased industrialisation and so on.

Senator KIRK—Thank you very much, gentlemen, for your submission. I am interested in the matter of attracting Indian students to Australia. Looking at the table you provided in your submission, I see that New South Wales and Victoria are attracting large numbers of students. I come from South Australia—I know there are also some Queenslanders and another South Australian here. When we look at those figures, we see that between Queensland and South Australia there are just 500 students, which is really next to nothing compared to the large numbers in the other two states. I wonder if you could give the committee some idea of how it is,

from a New South Wales perspective, that the government and the institutions have managed to attract Indian students. Can you give us some guidance as to where South Australia and Queensland appear to be going wrong?

Dr Majumdar—Can I quote an example, although I cannot produce the evidence, about South Australia. One student came to me—he happens to be my sister’s cousin from India; he is a botanist, a horticulturist—and he wanted to study. I told him to go to South Australia, that that is the wine producing state. He said, ‘Uncle, when I was interviewed by IDP, they encouraged me to come to New South Wales to take an accountancy course.’ I said, ‘You are a botanist. You ought to go to South Australia.’ He then wrote to the South Australian university or institute about doing that course.

You asked why they are not coming. My feeling is that IDP in India, which is spearheading Australian education to the students by conducting seminars et cetera, should be encouraged to check the student’s interest, their curriculum of study and then channel them to an appropriate institute, not just to places in New South Wales and Victoria. Students do not know anything about Australian universities. One of his friends was studying at UTS and he wrote and said, ‘Come to UTS. I’ll be there to look after you.’ That is the reason. It is a question of how to communicate. The communication link has to be more pragmatic, more scientific. It should not be geared on a commission basis: the greater number of students they bring, the larger amount of compensation they get. That is just one of the aspects. Therefore, I believe that, to address that issue, individual universities should conduct a symposium or seminar to explain where they stand and what their strengths are, and ask the students to speak. This definitely should be done. A lot of students would come to South Australia and to Queensland. Why is it only New South Wales and Victoria? Because the students do not know anything about the institutions.

Mr Lal—I think that is right. There is a greater awareness of New South Wales, or of universities in Sydney and in Melbourne. Generally speaking, there is a greater awareness of Queensland now, especially of the Gold Coast area and the opportunities that arise from there. So I would not be surprised if these numbers changed dramatically in favour of Queensland, going forward. As for South Australia, it is a bit like migration there. You look at people and say, ‘You know, the South Australian government does encourage immigrants to the state,’ but people in India have not heard of South Australia: ‘What’s there?’ Okay, you have got the wines and so forth, for example, but that is nothing; there is no awareness of South Australia as a destination, and I think it comes down to, as Som mentioned, tourism and education. It could all work hand-in-hand. If there were a better partnering of those two sectors, both sectors would benefit quite quickly and Australia would benefit as a consequence. So I think you need an advertising campaign—

Senator KIRK—From both ends.

Mr Lal—From both ends—that is right. It goes hand-in-hand.

Senator KIRK—It is interesting because South Australian universities manage to attract a lot of Malaysian students and, increasingly, Chinese students, but obviously there is a gap there.

Mr Lal—If they are doing that, they could quite easily go on and include India. There is no doubt about it.

Senator KIRK—Could I also ask you about a notice. You did not make any mention of this, and perhaps there is not any potential for Australian law to be taught in India by Australian lawyers, but I would have thought that, with the commonalities of the legal systems, there would be some potential there.

Mr Lal—Being a signatory to the WTO, India was committed to opening its doors and, probably about two years ago, the deadline came and went. The Indian legal system is such that it consists of many small family firms, so that a father has a firm and the son and the daughter will eventually join, and so forth; it is a two- or three-partner firm, if that. Under the rules in India, you cannot have a firm larger than 20 partners.

The profession in India, generally, is very threatened by opening its doors, and there has been major resistance to opening doors. I think there are probably 20,000 or 30,000 law firms in the country, give or take a few—I do not have the precise figures. Whilst there has been a recent delegation to try and encourage closer ties and working together in the legal profession, with the resistance there is, I see that as being some time off; I cannot see that happening, because they are very threatened with industrialisation. Again, they have seen the benefits of industrialisation and globalisation and of what they mean to the country and, hence, they are more receptive to looking at opening doors because they see that there is a benefit.

In the legal fraternity, they have to see that happening. Again, with some hard work and pressure and working together, I can see that that will happen. It should happen and has to happen. It will certainly encourage our Australian business to venture into that region more because, yes, it is an English-speaking country with a British based legal system. There is a lot of commonality there and there should not be any deterrent, really.

Senator KIRK—What about the teaching of Australian law within Indian universities? That is perhaps more what I was getting to.

Mr Lal—I am sorry.

Senator KIRK—No, I think what you talked about was interesting too. But then there would be greater understanding of how our legal system works and perhaps then that would facilitate business transactions more.

Mr Lal—I believe that is actually occurring through the exchange programs that we have put in place with Griffith University and NALSAR University in Hyderabad. We brought those two institutions together, about four years ago. The whole aim was to have an exchange of students, lecturers and so forth. I am not aware of how that is progressing today, but the initial signs were quite encouraging and, again, it shows that it can be done. I believe a lot of issues that are being raised this morning are valid issues, but why it has not been happening is, I believe, that there has not been a real focus on that region from both sides.

Senator PAYNE—Thank you, gentlemen, for your submission and for your appearance this morning. Dr Majumdar, you made a point about engagement in the defence relationship, in particular, and I must say that I think the committee has received a particularly good submission to this inquiry from the Department of Defence. I am not sure whether you have had an opportunity to have a look at that, but it is a very considered, well thought out submission that

goes into some detail about the resumption of ties post 2000 and where that may be going. In the context of what you were saying, you might find it of some interest. I think it is a useful submission.

The question I want to pursue with you is one I have asked other people who have appeared this morning. In some ways it is related to the sort of line Senator Kirk was taking—that is, your submission and a number of other submissions talk about enormous potential and thresholds, and that everyone is almost teetering on the edge, holding their breath and waiting for some cataclysmic event to make this all work so much better. Given that there appear to be very positive attitudes on both sides, and that some submissions say that that has taken a while to develop—and I acknowledge that—what would be the challenges or barriers to the event occurring which would make things shift into top gear between Australia and India?

Dr Majumdar—I would say a communication link. Assuming that I am an Australian industry or Australian entrepreneur and I want to do business in India in one particular sector, what should I do and whom should I approach? Firstly, I must do my home research and say: ‘This is my product. Does it have a market in India? Which sector? Who can help me to gauge the market and to analyse the depth of the market and the consumers? Who are the consumers?’ Secondly, I would ask, ‘Who should I go to and who should be my partner?’ Otherwise it is a maze. As you rightly said, it can be done, provided it is not done on a hotchpotch basis. It should be done with a very scientific, logical and systematic approach, and a strong communication link would have to be established. To that extent, a legal framework is vitally important, because, if I speak with X and X speaks with Y, there will be a corruption, a misunderstanding and everything will go here and there. Ultimately, if I do not have a complete knowledge of the country, the fear of the unknown will take place. Therefore, it cannot be done single-handedly; it needs to be a team effort.

ACTING CHAIR—Are you saying that Austrade does not do the job?

Dr Majumdar—They do. Austrade is supposed to do that job, and I believe they are doing it very well, but I have not had much interaction with Austrade in that capacity. I will give you a concrete case showing what happens when I receive a brief. Recently we were approached by an eminent film personality to explore the Australian market. He wondered whether he could do a certain show here, which would have huge potential. Dubai did it this year and Yorkshire will do it next year; they are all clamouring to do it. It will produce more than \$20 million of benefits, apart from huge propaganda and publicity for Australia. As for me, I do not need to go to any other institute; I know my home turf very well. I spoke to them and then gradually prepared my market research. I prepared a brief report and asked: what are the steps, one by one? I conducted it accordingly. I am making this submission to this august inquiry so that it can reach an appropriate stage, because very soon we will be approaching the ministry of tourism or a government to see what they think.

Mr Lal—Coming back to your question, Mr Chairman, I believe that in the past Austrade have had some limitations on them as to how to assist businesses. I believe that the Austrade of today is very different from that of, say, three or four years ago. There is a lot of energy there and their hands are not tied as much as they were, perhaps. I do not know what goes on behind the scenes, but most certainly in discussions with Austrade in more recent months we have found some very positive feedback. I think Austrade can certainly assist.

As to why things are not happening, there is a combination of reasons. At the highest level, we need interaction from people like you. We also need the media on side, we need more publications about India and what is going on and, as Som mentioned, we need communication. If we are going to start this, we need to wipe the slate clean and say, 'How do we take it further?' My belief is that they are key essentials in moving forward and the rest will follow.

There is no use businesses venturing into a region if the support is not there from the top. I am not suggesting for one minute that there is no support from the top levels—I am sure all government levels are very keenly looking at India—but the growth in China has really blown us away as businesses. When I talk to businesses, they say, 'We've got enough work happening with China; we're not interested in India.' We are going to capacity in a number of areas and, with some slow-down in the economy, we need to start venturing into other areas.

Senator PAYNE—I think that probably covers the area I was concerned about. Is Hunt and Hunt unique amongst Australia's leading law firms in this particular approach to India or is it a competition amongst the more competitive of your colleagues?

Mr Lal—I believe we were the first to venture into India. A couple of other top-tier firms have certainly ventured in there, but their idea of venturing into India is to employ a junior solicitor. I am a partner and owner of the firm. I do not think there is this level of interest in any other firm. However, in recent times, with the growing awareness about possibilities of business in India, other top-tier firms have started to take an interest in the region.

Senator MOORE—An *Australian Financial Review* article I read talked about the Australia India Business Council. I would have thought that an organisation such as that would be active in the kinds of discussions you are mentioning. That article is quite worrying in that it portrays that in India there is still a lingering fear and distrust of Australia and that there are still elements of insecurity. Are you aware of that article?

Mr Lal—No.

Senator MOORE—The article talks about the Australia India Business Council and quotes Mr Roche. In the article, Mr Roche is quoted as saying:

Unfortunately, the memory of the White Australia policy (which operated until only 40 years ago) still lingers with some Indians, who ask, "How will we be treated? Will we be made to feel welcome? Will we face any prejudice or subtle discrimination?"

I know that is a personal view, but I am wondering whether you believe that that kind of feeling is being expressed by Indian businesses.

Mr Lal—In my opinion, no. I do not believe that is an issue. We often get asked whether there is any discrimination in Australia, to which we proudly respond that there is not. Certainly the migrants I have spoken to who have come to Australia in recent years do not feel there is any in Australia. I do not think the old White Australia policy is in any way a hindrance to Indian businesses, tourism or migration into Australia.

Senator MOORE—That is very positive.

Mr Lal—Yes, it is very positive.

Senator MOORE—Would you like to make any comment on the Australia India Business Council and their role in the kinds of things you mentioned earlier—for example, communication and matching businesses? Certainly other international business councils that have given evidence have talked about the role of the business councils in linking companies with certain interests and saying, ‘Hey, you guys should talk.’ In your experience, has that happened?

Mr Lal—I am a former board member of the Australia India Business Council. I was a member at a time when probably there was not the awareness of India that there is now. I believe Mr Roach has worked very, very hard over the years to get the organisation to where it is today. It is doing a fine job and I am sure he will not mind me saying that any funding that can come to that organisation from your level would certainly assist in doing all that. There have been quite a number of limitations from the funding side as to what that organisation could do. But, as the member numbers swell, that does give the ability to host the functions and so forth.

There has been nothing better than having the Australian Prime Minister attend a function recently. That attracted a lot of interest and I believe about 550 people attended from various sectors. The days of having a seminar and finding a room full of Indians there are days of the past. It is nice to see a wide range of faces and businesses attending and looking at India with great interest. I think we just need to get an ambassador. Coming back to AIBC, I believe they are doing quite a sterling job.

Senator MOORE—It is a useful process.

Mr Lal—Very much so.

ACTING CHAIR—We are miles over time, so could I thank you both very much indeed for your attendance here today.

Mr Lal—Thank you very much indeed.

Dr Majumdar—Thank you.

[12.02 pm]

DAVIS, Dr Brent, Director, Trade and International Affairs, Australian Chamber of Commerce and Industry

ACTING CHAIR—I must advise you that proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. Deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence is given in public but, should you at any stage wish to give any evidence in private, you may ask to do so and the committee will give consideration to your request. Would you like to make an opening statement?

Dr Davis—Thank you, Chairman. One of the joys of my job has been the opportunity to meet with this committee over a great many years—with you, I think, for probably longer than most others, who may be newer to the committee. As a brief introduction for those who do not know us that well, we have a constituency of about 350,000 firms, overwhelmingly small firms. One in five of those firms is actively involved in trade and international affairs, so that is 70,000 firms. If the international group were broken out, we would still be one of the largest business associations in Australia.

We have extensive international linkages. I will not go through them exhaustively, except to touch on those relevant to this committee, which is on the Indian relationship. We have three sister national chambers in India: FICCI, the Federation of Indian Chambers of Commerce and Industry, which is overwhelmingly a policy group; ASSOCHAM, the Associated Chambers of Commerce and Industry of India, which is part policy group, part trade-matching group; and the Confederation of Indian Industry, which is overwhelmingly a trade facilitation, trade-matching promotion group. So we have that bridge there.

We also have strong engagement with our Indian business colleagues through the Confederation of Asia-Pacific Chambers of Commerce and Industry. We have both been members of that group for 40-odd years. We also participate in a very little known creature called the Indian Ocean Rim Association for Regional Cooperation—I guess an Indian Ocean format of APEC. We are forming an APEC chambers of commerce network but, as members would know, India is not a member of APEC, so it will not be eligible to join that group.

In our submission we gave you what we call innovative indicators of our trade performance with India. The positive feature is that all the graphs point upwards. We are doing better than we would expect, based on trade complementarity; our market share is better than would normally be expected, based on ordinary indicators; and there is a propensity to look towards India. So all the directions are positive.

The committee would be well aware that the two governments signed a trade and economic framework agreement earlier this year. It is a platform, but of course the question always is: where next after a platform? In our submission we talk about a potential bilateral free trade

agreement. We are not going to propose that to the committee as a near-term objective for two reasons. Mr Vaile says our dance card is full. I think a few dances have fallen off recently, but I still think there is a heavy agenda there. I will talk about that separately, if you wish. I think it is worth considering as a medium- to long- term objective, but I think it is more a case of capacity building in India.

I had the opportunity to hear the previous discussion. I was impressed regarding immigration, which also falls under my portfolio of interests. We know India is the third largest source of long-term migrants to Australia, accounting for about one in nine of all of those who come here to settle in the long term. We have been working on that matter. The Department of Immigration and Multicultural Affairs has been running these expos around the world aimed at bringing in skilled labour to fill our chronic skill shortages. We were at the Mumbai expo, as well call it. There is another planned, and we will be back there again. It really was a bit like going to a shopping centre: how much can you carry out? The supply was incredibly good, so that will go a long way. The problem was, as you heard in the previous discussion, skills recognition. It just does not line up. We know that another committee of the parliament has looked at the performance of Trades Recognition Australia, and we think that committee has given us good guidance on where to go forward.

In terms of what to do next in the relationship, I think we probably need to look at the nature of our aid relationship with India. I was impressed by the press release that the Treasurer, Mr Costello, put out a little while ago—for the benefit of *Hansard*, it is No. 098, entitled ‘South Africa-Australia Joint Economic Research’—outlining a very interesting way of reorientating our aid vote. We can look at the potential of India as a market, but I think the major challenge for India in the next five to seven years is getting the policy settings right. If you look at India’s performance, they drifted along under a curious mixture of Nehruvian socialism, disdain for the market economy and semi-hostility to their old colonial masters. In 1991—and this committee is probably well informed—they were pushed into reform. My assessment is that India will continue to reform as long as they are pushed. I do not think that is the long-term solution for India.

I would encourage the committee to look at the initiative that Mr Costello has proposed where they in fact give what they call capacity development assistance. Don’t keep giving them money; they do not need money. As previous people have no doubt told you, they have thumping great foreign reserves so money does not really solve the problem. I think it is a matter of getting some policy mixes right and bringing over some people to look at what we do and how we do it. Their main challenges are their fiscal imbalance, so bring them over and let them look at how our federal system works. Their tax system is a shambles at best, and I think some constructive training for senior officials over here would do them the world of good rather than the marginal million dollars here or there. In a population of well over one billion people, yes, digging wells and building roads and medical facilities is good, but as I was walking through the Sydney airport this morning I was reminded of the saying: ‘Give a man a fish and you’ll feed for him for a day; teach him to fish and he’ll be able to feed himself forever.’ I think that is the case with our relationship with India. In that regard, it has to be about capacity building.

I encourage the committee to think about reorienting our aid vote over there so we can help them build capacities. I think they know what they need to do. I think it just needs a breakthrough, and I do not know that India has the luxury of sitting around and waiting for

another sort of 1991 heave-ho. Having said that, it is an impressive country. I have been there quite a few times. In our submission we do remark that India has a distinct gold medal for the largest organised event in human history—an Indian general election, where they get 700 million people out to vote. That is a very impressive achievement by any stretch. We know that getting 11 million people to the ballot box is a challenge; getting 700 million out to vote is even more difficult. So it is a relationship of great potential—although I am taken by what one of my colleagues said: ‘Yes, and it always will be.’

ACTING CHAIR—How much hope do you give the place in terms of the younger generation, who seem to be driving most things these days?

Dr Davis—It is still in a stage of transition. Those who were around at Independence are now moving on. There is a cultural change still. The rise of the younger generation is probably more pervasive than, say, in Japan, although I guess there is still that problem where what you might call the new guard and the new thinking are coming through at the centre in Delhi but the old guard and older thinking are still holding sway out in the states, especially out in the north-eastern states. Bihar, for example, is not going to let go of CPI—Communist Party of India—Marxist thinking, and that is the way it will be forever. So I think you will see a multiple of India. To say that India is one homogeneous creature would be a mistake. I think there are several different Indias within it—the sort of western Maharashtra-Karnataka bits are probably going to go great guns, and then there are the north-eastern states, which I think are going to be the lag. It is just not a homogeneous creature.

ACTING CHAIR—That is why I was interested in your comments about the free trade agreement.

Dr Davis—The main advantage of that is that the bridge between where we are now and where we were then is that behind-the-border capacity building and getting them up to speed. If you look at the way we have been doing the China FTA, which I know is outside the remit of this committee, a lot of that has been capacity building, getting them up to speed, helping them to help themselves. And that is the bridge between where we are now, in a TEF, and an FTA. That bridge is that capacity building to get them to get labour market laws in the right way, tax laws, competition law and investment law. The rule of law is quite good—it tends to operate in a bit of a ramshackle manner, but again it is a longer term objective. I am not proposing to the committee that the two governments sit down from 1 January next year. I think that would be far and away too ambitious.

Mr BRUCE SCOTT—Is it compulsory or voluntary voting?

Dr Davis—In India? I cannot answer that off the top of my head. I presume that with 700 million people in the poll it would probably have to be compulsory.

Mr BRUCE SCOTT—This notion of having to push India along is one of the things that we are going to have to deal with if we want to have a—

Dr Davis—It is voluntary.

Mr BRUCE SCOTT—Thank you.

ACTING CHAIR—Someone must have googled behind us very quickly!

Mr BRUCE SCOTT—On the subject of having to push them along to get economic reform: you do not think that, with China becoming so powerful, India is just going to have to do it anyway because it is going to miss the boat?

Dr Davis—I think India is well aware of the competition from China, but it knows it has several differences. It has competitive advantages of its own. The most obvious competitive advantage is the English legal system and the rule of law. India has good intellectual property laws, which it enforces. Intellectual property law in China is Russian roulette: you might win; you might lose too. I think also, though, India is now positioning itself—and, if it is not, it should be—to, if you like, exploit a strategic opportunity: that is, for many businesspeople, their exposure to China is about as much as they want.

If you look at where India has commercial advantage in manufacturing, you will see that China is terrific at the low-end stuff, old technologies that people are willing to export—and, hey, if it gets ripped off, it is not an enormous cost. I think higher technology with a higher IP would probably go to India before it would go to China because of China's intellectual property problems. China has very good black-letter IP law but shocking enforcement. India has very good black-letter law and reasonably good enforcement. I have members who say, as a manufacturer: 'Yes, I'll go into the bottom end in China, and if it gets ripped off it's not a huge loss. It is three- or four-generation-old technology; it's not a huge issue.' The best stuff goes somewhere else. The high-end technology goes to India, although we are seeing some other countries, like those in eastern Europe, now starting to push into that market for high-end technology manufacture as well.

But, equally, I think a lot of people will start to hedge their bets in China. To use a financial markets term, we are fully loaded on China. There are a lot of people starting to believe that China will hit the wall in 2009 or 2010, so they are going to look for offsets and spread their risk around, which is a very logical decision.

Mr BRUCE SCOTT—From your perspective, how do you see India strategically as an economic powerbase in terms of where it is located—close to the Middle East and some of the Islamic countries that surround it?

Dr Davis—I do not really have any capacities in that area. Military strategic issues are outside of my range of competency, although I guess we would subscribe to the view that India is rising. The old confederations put in place in the immediate post-war period really just do not reflect current realities and where we are going in the future. It is rather hard to make forecasts. If we were sitting here 30 years ago, 1976, and we were doing a 30-year projection and saying, 'This is what's going to happen in China,' I would have got a pat on the head, been laughed at and sent out of the room. There is no way that in 1976 we would have seen China where it is at the moment. I think we will see India rise. I think it will be a slower trajectory than China's, but I think we are seeing global shifts all over the place in terms of the centre of economic power. I think the trends we have seen will continue, barring the classic unforeseen event. Like everybody else, I think the big issue in the future will be energy and the movement of natural people. They will be the drivers of economic power in the next 20 years.

ACTING CHAIR—That still points towards Asia-Pacific, doesn't it?

Dr Davis—As demanders of power?

ACTING CHAIR—Yes.

Dr Davis—Yes, for suppliers of power—but, of course, who has the power in that supply-demand relationship? Demand is going to continue to exceed supply. Australia is well positioned, not so much in the general oil sector but in oil and gas generally, coal and as a supplier of uranium, leaving aside the policy debate that goes there. That is a competitive market. We are reasonably well positioned. We are aware that China—sorry to keep harping on about China—bought \$US25 billion worth of gas. They want another \$US25 billion, and we understand they want another \$US25 billion again. We cannot get it out of the ground fast enough.

If India and China took off at the same time, and both were down here, you would have some beautiful pipelines running across north-western Australia. We can ride that in terms of a trade boom for a long time, but it does require some big resource issues. I do not know that either of them will stay heavily reliant on gas, coal and oil for a long time. They will have to start looking at the option of nuclear. I think both of them have embraced it in principle and in practice. Again, there are some other issues which are really outside my range of competency.

Mr WAKELIN—What are the export opportunities for agribusiness? For the corporate and commodity sectors, what is there in terms of service?

Dr Davis—Not a large portion of our constituency is in the agribusiness area so I would defer to others. The main message I get from our people is that there is opportunity in the niche market area. Clean green serves us quite well. I know agricultural protectionism and the mindset of self-sufficiency are still strong issues over there. We are detecting that in a few countries—and Japan is moving faster than others—which have been advocating this sort of agricultural self-sufficiency view. Self-sufficiency does not mean feeding ourselves, because we cannot do that if we are closed to the world. Self-sufficiency means moving to a process of reliability of supply. So we can do quite well. India is very dependent on the monsoons. If the monsoons go well, agriculture does well; if the monsoons do not come or do not do what they need, then they have a problem. The other issue for India of course, like everybody else, is the water problem. Many of their industries are heavily water dependent. With a growing population, depleting water supply and a bad monsoon year, they have to make some decisions about whether it is water for people and animals or crops. In those periods it is a matter of opportunity. We have the advantage of clean green and it is a matter of just being quick off the mark for where we see those opportunities.

Mr WAKELIN—So it is an opportunity thing which will vary quite significantly.

Dr Davis—It will. Indeed, I was taken with one of the earlier discussions when Senator Payne asked about India. We are setting up a change in attitude, and Mr Wakelin's question reawakened the thought in my mind, which is: do companies trade with countries, or do they sell products and sectors? We have a member, whom I see often enough, who says, 'The country comes second; selling my product comes first.' He sells a very unglamorous product, mechanical

sewage pumps. That is about as unglamorous as one could find. It is very important, but rather unglamorous. He says, 'Who will buy my product?' and which country comes second. So in that respect Mr Wakelin's question is rather interesting, which is: what is it we do that has good market match with India? In that respect I think there are some opportunity niches, and I think Austrade has got a good finger on the pulse for those. But we are going to be more of a small niche supplier than a megasupplier.

Mr WAKELIN—I have a constituent who is into the flower and grape business. I was somewhat amazed that he has been at it for a number of years now, persisting. I was surprised at his optimism and, in a small way, with how they are doing it. But it seems to be growing. There seems to be—

Dr Davis—You need the right joint venture partner on the ground in a place like India; someone who really knows the niche and can get into a good thing. A contract over there has status and value; it is not an optional thing that you can come and go with that you may see in some other parts of Asia. If you have got a good JV partner then they know the market quite well and my advice would be for the Australian to look at R&D, innovation and reliability of supply, and then just make sure it is a good, well-structured joint venture partnership with your Indian counterpart and let them do the hard work on the ground because they know the ground far better than you will—fly in, fly out.

Senator PAYNE—Dr Davis, thank you very much for appearing today. I have been having a look at *Riding the Indian elephant: opportunities and challenges for Australia and the world*. I should also take the opportunity to thank you for your regular emails to members and senators, updating us on ACCI's work; they are much appreciated.

I am kind of intrigued by *Riding the Indian elephant*, in its own way, and I take the point that other colleagues of mine have made about a slightly depressing overtone to some of the discussion. For example, if you look at the components about the 10th plan and, whether the 10th plan itself goes forward as is or is arced up—or value added, depending on what terminology you want to use—how far things will actually go, you do not have a crystal ball and neither do I, but what capacity do you think there is to actually do what the 10th plan is saying for starters, let alone ramping it up?

Dr Davis—The classic is always one of political will and leadership. Manmohan Singh was critically involved in the 1991 exercise; regrettably his colleague Chidambaram—and my apologies to the Indians if I have mispronounced that—is no longer there. The hand of the Congress Party tends, probably, to adopt more conservatism. I think the main political message one would have derived from the last general election in India was that the BJP was kicked out. Why? Because they lost sight of the rural poor. So the rural poor reminded it: 'Hey, we may not be right there in the policy elite group, but we still count. We are going to be heard.'

In terms of reaching the objectives of the 10 plan, the positives are that they know what has got to be done. The fiscal deficits are simply unsustainable. The balance of foreign reserves are good and healthy. They need to move more on labour market reform. The organised sector is just too predominant, and they know they need to look at the tax system. There are still forces that pull in both directions on trade liberalisation, so I think you will see tensions that pull in both directions. Manmohan Singh and the other fundamental pro-reform group will go, and go

forward, slowly. But I think you might see more conservative members who saw the message from the BJP's routing in the last election, which is, 'Whatever we do we have to bring the rural poor along with us, or it is political suicide.'

So they have got to deliver to two constituencies at the same time. Some say politics is the art of walking both sides of the fence at the one time without getting scratched. I think it is even more of a challenge in that country because I think you have got a rural poor that really do not want to be ignored and will not be ignored. But I think you have a policy elite that knows where they have got to go. That is the tension.

Senator PAYNE—You have brought the discussion to a point I want to pursue with you. I know that you are the Australian Chamber of Commerce and Industry, and I know that this sort of document is your core business, but it seems to me that, given the importance of the rural poor and the issues of their basic status in life, human rights and everything else, in not incorporating that perhaps a little more in a document like this, it leaves out a really important part of the story.

Dr Davis—There are many perspectives on human rights, and I let my lawyers head off, but I would suspect that the most fundamental of all human rights is to get out of poverty. There is no human right about being left in poverty. India has come a long way in getting a lot of people out of poverty—well over 100 million people. I would have thought the critical human right for everybody is to be lifted from that languid state into a better standard of living. We can engage in human rights through treaties and laws and instruments, but to me one of the absolute critical human rights is a life above poverty. What we have proposed in this document is a bunch of commercial, business and economic policy settings that will get them further along that way. They have come a long way since 1991 and the thrust, hopefully, we try to impart in the 'Elephant', as we call it, is to step up and go further, and with more people out of poverty.

Senator PAYNE—I understand that, and I do not think there is anyone around this table who would disagree with you. There may be some disagreement from other witnesses as to the ratio of people living in abject poverty in 2006. Professor Jha this morning was talking about 35 per cent on more recent numbers—

Dr Davis—There are several different ways of measuring poverty.

Senator PAYNE—That is right; he adverted to that. I do not think there is anyone around the table who would disagree with you, but the concept of the importance of stability in the Indian nation and bringing the people with the government—as you say, BJP paid the price for that—is a very important aspect of this discussion. You are right—you teach someone to fish, you look after them for life; you give them fish, you look after them for lunch. I understand that concept and the point you make, but it seems to me that the struggle in bringing the people along with the reform process is a very, very significant one that is not clearly adverted to in this document. That is just an observation I made myself as I was reading it.

Dr Davis—It is. Bringing anybody along with reform is always a challenge. We saw that in this country in the eighties. Others have gone forward. We have talked with many other committees of the parliament and many other ambassadors from countries who have come to see how we have done it in Australia. Bringing along people with change is terribly difficult. You either have to persuade them that it is beneficial to them or pray that you can persuade the

majority and that the majority is large enough to offset the consequences of the minority who lose. The future, however, is not really becoming concerned with the pain of change and the losses of change—it is the gain and making sure that some of those benefits spill back. That is not a debate unknown in this country. But in bringing them along you have to show them the better long-term outcome, and it does require some people to think longer term. As we saw in 1991, there is no alternative. We have to go forward. We do not have an option to stand still or go backward. I said in my opening remarks that in some respects India does benefit from that heave-ho push. I am not hoping for them to get another crisis, by any stretch, but that sort of external pressure works. Again, it is not unique. Japan went through external pressure to force it to take some modest steps—not bold, but modest. Reform is always a case, as we all know, of the losers speak loudly and often the winners tend not to be as vociferous.

Senator PAYNE—Could you comment on the stability question. One of the observations the professor made this morning, I think before you arrived, was about stability issues with groups in certain states and so on. You say that those who lose in the reform process often have the loudest voice but I am not sure that is always right because sometimes they do not have a voice at all, and that is the fundamental problem. Trying to address that challenge in stability for India, notwithstanding the external stability questions in terms of relationships with Pakistan and other parts of the region, is very important as well.

Dr Davis—If you are looking at political stability, for a country of its size, its literacy and its status of economic development, the fact that it has persisted as a democracy for almost 60 years is an outstanding achievement. I think Hu Jintao told Manmohan Singh: ‘I’ll always be able to do better than you because I do not have to worry about an electorate.’ There are any number of World Bank studies which will show you in econometric terms that there is a price to be paid for democracy. That is the choice the Indians have made.

You are right: stability is an issue. As I said, it is a far from homogeneous country. They have affluence down the west coast and pockets along there, and grinding poverty over on the east and up in the north-east areas. It is the classic juggling act: how fast can I go; how fast do I need to go; what are the pulls and what are the drags?

It is a fine judgement, but our assessment is that they really need to sustain growth rates of seven or eight per cent to absorb their growing labour force—that is simple demography. That is the imperative. This is what the Chinese well know: they need 10 per cent growth to avoid social upheaval. That is the minimum rate of growth. You can argue on one hand that you have an imperative of political stability, but what are the threats to political stability if you do not get the requisite level of economic growth and have high unemployment? Those more attuned to politics than I would know that high employment is one of the great causes of social and political stability. Therefore, Manmohan Singh and his team are in that bind. They need a minimal level of growth, but they need to inflict economic pain to get there. Absent that, they get the problem. They are travelling in a narrow band of growth not less than seven or eight per cent and, at the absolute worst, about five per cent. Yet to achieve that requires pain. That is the art of politics.

Senator PAYNE—Thank you very much.

Senator KIRK—Thank you very much for your submission, Dr Davis. Could you elaborate for us on the point you make in the report about the Australian government enhancing its program of technical assistance to India in order to increase its capacity building? I think that is something we might want to look at.

Dr Davis—I just take you back to Mr Costello's press release No. 98 of 11 September. We do have a generous aid program to India. It is a classic discussion. We appeared before this committee before, in the Simons review, as it was called many years ago, when Mr Sinclair was in the chair on that matter and we had much to say there. It is very hard to say where you should focus your aid to India to get an impact. It is easy to write a cheque and say, 'We give X million dollars.' My organisation's view is that it is about delivering outcomes of tangible benefit to the recipient.

We were taken by the South Africa-Australia joint economic research initiative that came out of the Treasury which was ostensibly training some of their officials to have a look at how it is done in some other countries. To our thinking they have several key challenges in front of them. I will leave aside the political one, which I just discussed with Senator Payne. Obviously fiscal consolidation is important. They need to deal with their spending. They cannot run a deficit of eight or nine per cent of GDP. The centre is doing its bit, but the states are not. We would see merit in some of the aid vote being used to bring out senior officials to see how we have handled fiscal consolidation. We have gone from sizeable deficits and we are now into sustainable surpluses. They could look at how we handle a federalist system. We could say we are blessed with only having six states compared with their roughly 30. Again, there are some issues there. There is their tax system. They have got to look at the spending side. They cannot keep laying out the subsidies that they have been. That is not sustainable.

The tax system is ramshackle at best. There are exemptions all over the place. Insofar as they have a broad based consumption tax, it leaks like a sieve. We can do something there like bringing over tax officials. Not that I am advocating that the world needs more tax officials but, insofar as one need them, they should operate as best practice in efficiency. They have got to look at labour market reform. They could usefully have a look at how we have managed the transition from a regulated to a mixed model and to a deregulated model, because I think they have to look at the special quarantining arrangements that apply there. With regard to trade liberalisation, they have gone as far as they want to. There is a need to take more of them towards some of the benefits of just pushing out the boundaries further. There are probably some officials who would like to go further. Some members of the political class probably would like to go further too, but they have their eyes over their shoulders.

It is about capacity building. Maybe we could revisit how we spend our aid vote in India. We could bring out senior officials, even some of the rising stars of the political class, to have a look at how we do it here and spend some considerable time with those who have been through it. I am sure Mr Keating would have a message that could be imparted, because he drove some of it. Mr Howard has been possessed by different dimensions. There are lessons to be learnt from both sides of Australian politics: we floated the Australian dollar, we started down the labour market reform track, we started the tax debate under Mr Keating and we have progressed these things under Mr Howard. So there are lessons on both sides of Australian politics; it does not have to be a partisan matter.

Senator KIRK—How would that be received in India? Is that something that they would welcome?

Dr Davis—I think they would see the long-term benefit of it. Many of their talented people are educated abroad, in the West. If you look at their fundamental policy—I cannot remember the date it was introduced but it was called ‘Look East’—you can see there is a mindset that says, ‘We have to look around and see what others have done.’ We have much in common with them and we can share those policy experiences.

Senator KIRK—Are there any other governments which are doing anything similar to what you have just described?

Dr Davis—I do not know the answer to that.

Senator KIRK—It sounds like a great idea. I just wonder whether or not it would be well received. There is a fair degree of intervention that you are describing.

Dr Davis—It is not an intervention as such. It is really just offering an opportunity to come here and have a look around and to stay more than five to seven days. It would be a six- to eight-week program. While it is not very high profile, a similar program exists with, of all places, North Korea. We actually fund officials from that country to come down and see how a market economy functions.

ACTING CHAIR—Thank you very much indeed, Dr Davis, for giving your evidence today. I formally move that the document ‘Riding the Indian elephant: opportunities and challenges for Australia and the world’ be incorporated in the committee’s records as an exhibit. There being no objection, that is so ordered.

[12.38 pm]

SHARMA, Mr Raj, Managing Director, PENTAQ Technology Pty Ltd

ACTING CHAIR—Welcome. I advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the committee will give consideration to your request. Do you have any comment to make on the capacity in which you appear?

Mr Sharma—PENTAQ Technology is based in Sydney. It is a company I established in 1992 after moving from Hong Kong to Australia.

ACTING CHAIR—Would you like to make an opening statement?

Mr Sharma—Yes, I would. Please bear with me—I have actually written it down and will read it through. You are welcome to stop me as I go along. I would like to take the opportunity to thank the committee for inviting us here today. We had made a submission back in 1997, I believe, to the original hearing, and I guess this is a follow-up from that. I feel that my experience, and sometimes frustration, in promoting opportunities in India to Australian business is summarised by the topic of this hearing. The topic is: ‘Inquiry into Australia’s relationship with India as an emerging world power.’ I, like many others, strongly maintain that India emerged as a world power many years ago. If we fail to acknowledge this fact today, the struggle to get the recognition as worthy partners with India in trade, tourism and defence will always be elusive.

In previous submissions we have offered a lot of statistics and figures, supporting the size and quantum of business already taking place in India. I cannot see India stopping to accommodate Australia while it marches ahead with GDP growth rates of eight per cent per annum, year after year. However, it is for us to present ourselves as providing the necessary value-add to India given our historical similarities, which also have been exhaustively expressed by all contributors to these hearings since 1997. I hope it is not too offensive, but that has been my impression in listening to a lot of the rhetoric over the last 10 years. In other words, India does not really need us, but Australia needs to be on India’s radar screens in terms of trade, tourism and defence.

It is important to acknowledge that our Prime Minister has made several visits to India, previous Prime Ministers included. However, over the past 20 years there have been no Indian prime ministerial visits to Australia. I think the last was Rajiv Gandhi back in 1983-84. This again highlights the fact that Australia may not be on India’s radar screens other than as a supplier of resources.

PENTAQ and its directors have participated in the New Horizons trade promotions organised by Austrade in 1996 and the follow-up visits in 2000. During the past 10 years we have pursued

several opportunities in India, both with commercial parties and newly created state governments. I have listed some of the organisations that we have directly been involved with in bilateral trade between the two countries. They are the ARN media group in Australia; Jane studios in India; the Uttaranchal state government, which is one of the newly created state governments; Bartercard Australia; and First Pacific Group out of Hong Kong—and the list goes on; there are about 20 different companies. I can touch on them more a little later.

One of the most recent things I did was at the beginning of this year when I was involved with the inception of the motor sports federation of India. We are the founding members and we are trying currently to get sanctions from the ministry of sports to form an association, like the Cairns Group that we run in Australia. I have an interest in motor racing. I have been racing cars in Australia and this has been a natural progress as I have gone along.

We identified specific opportunities with all the companies we worked with, and during our visits, that exist in the newly created states in India. For the record, India now has 29 states and five union territories. These were increased from the original 26 states that were created in 1947 to allow for development of special areas like Uttaranchal, with its natural mountains and religious significant areas like Rishikesh and Haridwar. PENTAQ was invited to visit the newly created state of Uttaranchal by the then minister of tourism, trade and technology after our 2000 visit. We have since followed up with numerous visits to Uttaranchal along with the representatives from other organisations from Australia.

PENTAQ was instrumental in the Uttaranchal government securing support and funding from the central government of India and the ministry of science in Delhi for the establishment of their first technology park back in 2002. That is still operating as a successful technology park, I believe. In December 2005, PENTAQ and its representatives were invited by the chief minister of Chhattisgarh—the newest of the old states, I believe—Dr Rahman Singh, with a view to developing and establishing an IT park within the new city of Raipur. They were basically creating a Canberra within the state of Chhattisgarh on an empty piece of land. The idea was: ‘Please come and visit. Let’s see whether we can create a city out of this.’ One of the first things we did was obviously to propose an information and biotechnology park within the new city. We have secured 60 acres of land in that new area with a proposal to put a complete and functioning IT park there. Hopefully, we will invite relevant companies internationally, including from Australia and New Zealand, to use the facilities and operations.

The state of Chhattisgarh was created to allow for the growth of cities like Raipur and Bhilai, which are the two main cities, which offer rich mineral reserves and steel production. It is one of the few states in India with a budget surplus, and it is planning its growth from revenues without subsidies or borrowings, which is again unique, because most states tend to be cash-strapped when they first start off. PENTAQ has proposed to operate a fully integrated ID configuration centre, systems integration centre and software development and training centre, and plans to employ several hundred locally trained staff when it is fully operational.

India offers one of the largest potential markets for IT systems integration in the world today. Most of the businesses and state owned enterprises are not handicapped by old, expensive, legacy based technology like those in Australia and the rest of the world. You may see some contradiction here, and I am happy to elaborate on this. Based on our experience with small to medium enterprises and multinationals in Australian and New Zealand markets, new platforms

and technologies are harder to introduce to users of older technologies, as platform change is deemed too risky by management teams, even if offered at substantially lower cost. The mentality is: 'If it ain't broke, don't try and fix it.' Unfortunately, we strike this very commonly in our market today in Australia.

During a visit in 2000, John Chambers, who was then the president of Cisco in the US, made an observation about the level of sales of wireless telephony and communications equipment in India being potentially the highest in the world, as a large number of consumers were not yet connected to old copper wires. Ninety per cent of the population did not have telephone or any wiring systems into their homes, so it was easy to sell them wireless. Currently, I think the sales of mobile phones are two million per month and increasing at a rapid rate.

Most of the successful Indian IT companies are focused on back-end software development for US and European customers and are not catering for the growing demand domestically. Infosys, a \$25 billion Indian software services company, generates about 90 per cent of its revenues from offshore markets and does not have any products that cater for the requirements of Indian business today. During our visit, when one of the people was telling me how great a business Infosys was, I said, 'Please go to the market and buy me something they make.' There wasn't anything. It is basically a back-end software services company.

Australian companies with foresight and perseverance are ideally positioned to enter this market by offering our expertise with complete commercial systems integration, e-governance, and overall project management in the SME sector. As an example, our local and state governments have extensive information technology expertise for e-governance, which can easily be transferred to counterparts in India.

Unlike the US or European businesses, most of the small to medium enterprises in India are closely held businesses run by individual leaders who are able to make dynamic decisions. These leaders usually like to deal with the same level of management. This is rarely possible with a majority of businesses represented in India, and it is something that can be addressed quite easily. What I am reflecting is that BHP usually sends a reasonably junior person to go and negotiate with the owners of companies which probably have existed for 150 years. That tends to be a cultural difference, because at senior level the discussions take place at different levels from that of a worker who says, 'I'll make a phone call and get an answer to you.' It usually takes a long time to establish relationships, and a lot of patience is required. Culturally, the business model for a lot of organisations in Australia and other countries measures success on a quarterly and yearly basis. This mindset will not be beneficial when entering the Indian market. I think that is pretty obvious.

The general market in all business sectors in Australia is segmented into just a few major levels. There is a top end, medium level and low end, with a few variations in between. This segmentation applies to retail, IT, automotive and advertising, to name a few. India has many more layers in all areas of business, and this is a challenge for all entrants into the market. An easy way to demonstrate this would be to analyse the challenges faced by companies selling tea in India. We use this example over and over again. Statistics show that over 800 million cups of tea are served in India every day. That is 365 days a year. The price starts from about 10c a cup, all the way up to \$10 a cup. Ninety per cent of the market is sold at below \$1 a cup—and these are Australian dollars. However, if we take 50c a cup as an average sale of that 90 per cent of the

revenue, this equates to about \$A350 million of the tea sold in India every day, 365 days a year, which makes it an annual turnover of about \$A100 billion just selling one commodity. Now, if you compare this to our local domestic market, if you take all of your resource production, I think it is less than \$100 billion a year—and this is one commodity consumed in the market. So there are some challenges there.

The Australian government has had high-level visits and there have been promotions by Austrade over the years especially designed to cater for a small segment of the overall Indian market, and this is where all the other international players are playing very effectively as well. So we have to compete with these other countries at extremely high levels and with large amounts of resources. Over recent years PENTAQ have ventured deeper into markets outside the main city centres of Mumbai, Delhi, Bangalore and others. We identified these areas as potentially offering the best returns for the future. However, it is difficult for privately held companies like PENTAQ to sustain activities in India over several years without actual returns while still maintaining viable businesses in Australia.

During the past 12 years, we have not been able to use any subsidies for the marketing and promotions activities around our entry here. Our entire EMDF claim in 1998 was disallowed by DFAT auditors at the final stage of the claim process as they were not satisfied with the returns received by PENTAQ during the first two years of our promotions. We feel that assistance programs currently available to Australian businesses from government and the banking sector are more for the larger organisations and not really of any use to companies like us. We have looked, and there is basically no assistance. We pretty much do this off our own bat.

I would like to see a more relevant and useful form of assistance offered during the early stages of initial promotional activities to facilitate success in what will become the largest consumer market in our lifetime. I welcome the initiatives of this committee and look forward to seeing more assistance offered to all players equally. Once again, I thank the panel for inviting me along.

ACTING CHAIR—Thank you very much. In your business over the last five years or so, since you have had the software contracts and the rest of it, what frustrations have you had?

Mr Sharma—I think we probably look at the whole market as being too small. We are not aiming high enough. Our capacity to deliver at the higher levels required to enter that market has been a challenge. The software we initially did actually started off with a tea business, for example. The company was Jain Studios. It ran a facility called Video on Wheels. What I did not say in my presentation was that there are 110,000 villages in India, and those villages range in size from 100 people all the way up to 100,000 or 500,000 people. Dr Jain, who was the founder of the company, came up with a plan back in the late eighties to put in videos on wheels: he had a satellite disk and would drive into these little remote areas and play a movie or TV serial, and in between that he would inject ads for the tea companies. These people did not live in cities. The cities only had 20 per cent of the population. Eighty per cent of the consumers were outside the cities, so there was no other way to sell soap, detergents or whatever you wanted to get out to the massed population. So he had his vans. I believe there were 110 in 1990. These guys would go around different cities running little cinema shows, and every time they turned up to a village there was a carnival and there was advertising. That level of advertising is probably rare down the bottom, but there was a business opportunity if you look at the numbers. He ran his entire

business in there. As a side issue, the same sort of concept was used very successfully by a political party at a later stage.

ACTING CHAIR—Regarding intellectual property rights, there have been other people who have been involved in the export of software who have said that it is a disaster in India. Do you have those difficulties? Is that a fair comment?

Mr Sharma—I believe it is a common problem to every part of the world. The company that has been fined the most for software piracy in the world is Microsoft. In the last challenge they had I think they were fined \$150 million, which they appealed. After the 10th time, the fine was increased. So, if you look at the quantum of it, it is a problem worldwide. India does have its problems. A lot of software is generated in India as well. It has not been a problem for us, because it is a relationship that goes in. If you are selling your service and the people are making money, it is not a problem. If a product is offered and is perceived to be of less value than what is being charged for it then you are encouraging people to do that. We do not sell a software product; we sell a solution. We sell a preinstalled and ready-to-go product. So we are out there marketing an off-the-shelf software product. Yes, IP is a problem worldwide, but I still believe that, to date, American companies have been fined the most as far as software piracy has been concerned.

Senator KIRK—Thank you very much for your submission, Mr Sharma. I notice that you had a joint venture partner in India when you established this software and got the contract, KPR Informatics Ltd. Just how important was it to have a local partner? Does a joint venture partner assist Australian businesses wanting to do business in India, and what sorts of obstacles would they face if they did not have that local connection?

Mr Sharma—It is almost a must. Without a strong local partner, it would be an impossible task to try to achieve any of these things. That probably is an issue for a lot of companies that have entered into the market. I can quote names: one of the companies is a very strong partner in a mobile phone business—Telstra. There were challenging times back in 1993-94 because the market was still tight and a partnership actually became like a marriage: we would go in there seeking the strengths that they would have; they would be leaning on us to seek the strengths that we had. Invariably, our strengths would be financial injection and capital injection; their strengths would be delivery and ongoing.

At some point in any relationship, in any marriage or partnership, you start questioning each other's motives. If they get questioned too early, there is the danger of partnerships breaking up. Historically, I think you will find that some companies have pulled out too early. My understanding is that some companies have mistakenly pulled out of India. The first thing I did when I arrived there in the 1990s was to go to ANZ Grindlays Bank and start a bank account. They had an ANZ here and I made sure they had an ANZ there so I could pay my staff and do a lot of things quite easily. To my shock and horror, ANZ pulled out about two years ago. I could not understand that decision.

Obviously somebody got paid a lot of money to make that decision, but history would show that they sold the entire operation for \$1.2 billion and reinvested their money in New Zealand and bought BNZ for \$3 billion. I would like to see that guy today and ask him to please buy back that business in India. He would have to sell his entire banking operation, because Standard

Chartered has become a huge bank in India. So there are those sorts of things. So if you went into partnerships there would be growing pains. I believe ANZ had a lot of growing pains for 10 years. After they went over there, they quickly dumped it and walked away. The time to enjoy the benefits was now, and I believe they missed out on that. It is not a state bank, is it?

ACTING CHAIR—No.

Senator PAYNE—I think you have covered most of the issues that were of particular interest to me. Thank you very much for coming to see us today.

Mr WAKELIN—You mentioned where Australia fits on the Indian radar screen. Maybe Steve Waugh is there now and again. Can you give us a bit more? Here is this little country of 20 million sitting in the general geographic area, but how does it resonate?

Mr Sharma—Personal relationships are extremely important. One of the best things Australia has going for it is the cricket connection. Steve Waugh—and I am not too sure whether he has filed his tax returns—is an absolute legend when it comes to advertising. He commands a lot of money. I think he would command more money in India than Hollywood actors for simple things like ads for suits and fashion items. He does not appear in any fashion magazines in Australia, but he certainly does in India. That is one of the things. And there is a great amount of respect, because I think Steve Waugh, in a long line of leaders, has been remarkable. He has done a lot of work back in India, and that has also been recognised.

Unfortunately, to turn it into a business is sometimes very difficult. You do not necessarily have the mindset of the guys in the main business arena, and short-term gains are looked for by everybody. Australia offers a very small market for a lot of the businesses in India, and that becomes a problem. We talked to mining supplies companies. For example, the distributor of Halliburton in India had never even considered buying any mining products from Australia—machinery or tools—purely because he thought it was just too difficult. He said that their consumption was so small and by the time they ordered from a US or an Australian company it was just too difficult. He said they just jumped on the plane, went to Utah and flew back with some machinery. That has been the mindset. Coming back to the radar screens—

Mr WAKELIN—It is a really good point to make, though, about how they see it.

Mr Sharma—It is difficult. When I talk about Australia, the first question is: ‘Why are you wasting time; why don’t you move to Australia? Move to India and start doing all this. What’s sitting in the marketplace for you?’ If it were not for bringing up young children and my love of motor racing and a few other things, I probably would have. The sad thing is that there are some deep-rooted scars within the Indian mindset, and they come out in social conversations. I am of Indian origin. My grandfather left India in 1892, I believe, so we tend to be more focused and we see India through rose-coloured glasses, as opposed to a person who has lived through the turmoil of the last 100 years.

I recently had—and this is probably a good example—a computer chain that came along and said: ‘Raj, we’d like to launch our franchising business in India. What can we do?’ The first question I asked was: ‘Have you been to India?’ He said: ‘No, but I don’t need to go there; I’ve already got a system in place. Find me a strong guy who’s got about \$400,000 and I’ll send him

my master franchise. We'll give him all the turnkey systems and he'll run it.' I said, 'Don't bother; it's not going to happen.' He said, 'Why? I've done this in New Zealand and the guys are very happy.' I said: 'The whole thing cannot work on that basis. The first thing I ask you to do is to jump on a plane, go there for a week, smell the air, get some roadside food and come back, and we can then decide what comes through.' We negotiated with him to see how we could get on.

The concept sounds easy. Franchising is very strong in Australia but it has not been in India, purely because it goes back to the market segmentation that I mentioned. McDonald's arriving in India—and if you had Woolworths and the Wal-Mart stores going to India—will not put the little guys out of business. As I said, there are some very strong operators as small businesses. These are your one- or two-man bands all the way up to the larger ones, but there is still one person who makes the decisions. The mentality is that they have been trading for thousands of years, but we have been doing it only for the last few years. If your business was set up 20 years ago, what are you going to teach them that they do not already know about trading? This is the sad part. We go to a restaurant in Delhi which the same family has been running since the 11th century. If McDonald's came and said, 'We know how to run a restaurant,' the guy would say, 'Great, go and do it.' It is just crazy. If you ever go to Delhi, I strongly recommend this restaurant, by the way. It is a very difficult thing to go through.

To go back to multinationals coming in, India's biggest fear was that if they opened the doors a lot of the larger companies would swallow up the little guys, but it has not happened. In fact, if anything, it has grown the businesses of the little guys. When we visit, I go to a particular guy who sells certain food on certain stalls on the roadside. I have been going there for the last 15 years or so. The fact that there is a McDonald's next to him does not really matter. He will survive. Our market overall is so small that a little shift like Coles Myer opening in Tasmania, which becomes a major issue for the local traders there, does not become a major issue because of market sizes.

Mr BRUCE SCOTT—Could you expand on the connection through cricket and whether we could use that as a greater key in our relationship, or is it just something that is recognised there?

Mr Sharma—I think it has been done but a lot has been done at charity level; they have not really been commercialised. I dare say that if a company were to use Steve Waugh as its representative in India they would be very successful. New Zealand did that in the early days with Edmund Hilary. Sir Edmund Hilary was very successful in a lot of political moves. I think he was a high commissioner in the early nineties. Coming back to the cricket side of things, I do not think there are any businesses where you can go and sell cricket bats or vice versa, but I think our businesses could use that more effectively. What Steve and his counterparts have done over the years is develop an understanding of the land because they have travelled to some remote parts of India. They have dealt with the public in a hands-on way, and that is valuable.

I had to go back and relearn because I did not grow up there. For the record, I grew up in New Zealand. It was very difficult when I first arrived there, in 1987, to try and comprehend that 'Oh my God, I'm Indian!' That was my first reaction; I could not believe it. I did not even think of that; it did not cross my mind that I was Indian. Suddenly I looked at all this and I said, 'Oh my God, this is something that I missed out on for a long time!' I have taken people there—friends, business connections, people from groups I represent—and the first thing I say to them is: 'Make

no decisions. Let's go along there, have a little trip and come back. When we come back we'll decide whether you still want to do this.' A lot of people have run away; some are still there and very focused.

ACTING CHAIR—As there are no further questions, thank you very much indeed, Mr Sharma. That has been most helpful.

Proceedings suspended from 1.05 pm to 2.07 pm

DRAKE-BROCKMAN, Ms Jane Elizabeth, Executive Director, Australian Services Roundtable**KOTLOWITZ, Mr Danny M, Solicitor, Regulatory Legal Group, Telstra Corporation Ltd****LEE, Mr Russell John, Director, Cox Group Pty Ltd**

ACTING CHAIR—Welcome. I must advise you the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the committee will give consideration to your request. I invite you to make an opening statement before we proceed to questions.

Ms Drake-Brockman—I want to talk about Australia's trading relationship with India which, as the committee knows, has grown very significantly in importance over recent years and is now in the No. 6 slot in terms of bilateral trade, with about \$7 billion worth of exports all up, of which just less than \$1 billion worth is accounted for by services exports, which are growing more rapidly than any other sector—in fact, by about 39 per cent per annum. Why does less than \$1 billion worth of services exports matter? Why is that significant for Australia? That is roughly what, for example, the state of South Australia would export globally per year in services. It is a sizeable chunk of Australia's services exports.

I think it is important to explain that the Australian Services Roundtable is the peak business body for all of the services industries in Australia. It is a very large and diverse sector. It employs eight out of 10 Australians, the bulk of who are not exporting. But export potential is very significant. In our view, there is not enough government focus currently on facilitating exports of services. Why? Partly because services themselves are invisible, are underestimated by the ABS and are difficult to measure. Trade in services is conceptually complex and difficult to understand. It is all about people movement, investment and the internet. It is not about tariffs and quotas at the border. The barriers to trade in services are equally difficult to detect. Again, they are not at the border but behind the border and mainly in the nature of regulatory barriers that affect who can do business and how they can do business.

For an Australian services exporter, India is a very tough market. The barriers are very real and they are regulatory in nature. We would like to see a more consistent government focus on dealing with those barriers we face in the Indian market. I will not go into all of the detail of the barriers on the telecommunications services side; I will leave that to Danny Kotlowitz, as he is here in this session. But I will say that no Australian telecommunications provider—not Telstra, not Macquarie Corporate Telecoms, not any Australian telecoms provider—can get a real slice of the telecoms action in India because it is really prohibitive to get an international long-distance licence. This means that, in a sense, Indian companies are monopolising that market and, consequently, charging associated prices, which impacts on all Australian services exporters into

the Indian market that are ICT enabled. What is an ICT enabled service export? It is to do with the way in which services providers export. In fact I might go into some of the history of this.

When the rules for trade and services were first devised in Geneva in the WTO, it was fairly readily understood that customers might travel to the provider. For example, international students, patients or tourists would travel from their home countries in which they were resident to wherever the service was provided; hence we have industries like tourism and education, which are our largest export earners in the services sector. It was also fairly readily understood that a services provider might get on a plane and travel to the customer, and that would cover a lot of what I generally will call consulting services, including things like environmental services and exports from Australia.

It was less well understood but critical to the conceptualising of services that services customers tend to like an interface with the provider. It is not like buying coal that arrives on a ship. You tend to want to interact with the human being providing the service. That means that services providers often need to establish a commercial presence in the market to which they are selling, and so they open an office. This is usually called investment, but in fact it is one and the same as a services export activity.

Right back at the beginning what was not well understood—it was thought conceptually possible but not understood—was how it might happen; that is that, maybe, trade in services could also happen in the traditional way, across a border. It took, probably, 20 years for the world trade policy community to figure out how that could happen, but today it is the fastest-growing part of trade in services—that is, services which are delivered via telecommunications links, services which are emailed by the provider to the customer. And that is now probably the most important aspect, for the future anyway, of services exporting from Australia.

I have explained that background to explain what an ICT-enabled service export might mean. It really means all those other services industries which use that telecommunications link to get to their customer. They include all the financial services—we have all heard of e-finance; e-medicine; long-distance education and logistics; all of those services are enabled and facilitated by modern ICT.

So we took an example. We did a case study, which we referred to in our submission, where we looked at just one of the professional services exporters, and that was the architectural services industry. That is a sector like most others but perhaps it is a bit easier to visualise how it might happen in architecture, which is increasingly dependent on computer-aided design, which is linked between PCs within an office, among offices and internationally, so that architects are working collaboratively, exchanging their material via telecommunications links.

Because Russell Lee is present with us, I will limit my remarks because I think he will cover them more competently. But the case study that we undertook showed that, in order to set up an office in India—compared with, say, setting up an architectural office in Hong Kong, which is a deregulated telecoms environment—for an architectural firm based in any of the capital cities in Australia, using their normal Australian telecoms provider and setting up the bandwidth they would need, it would be roughly four times the set-up cost and roughly double the monthly cost to go to India than to go to Hong Kong. And, down the track, where we envisage much deeper use of the latest technology, it is going to be more like three times the set-up cost and 2½ times

the monthly cost, with much higher dollar figures. We cannot talk about that because it is commercial-in-confidence, of course, but the dollar figures are such that it would just be prohibitive to set up those kinds of links for a small or medium sized Australian architectural firm going into India.

That story is typical right across all of what I have described as the ICT-enabled sectors. That is so for all of the professions—what I have said about architecture applies just as much to legal services, for example, and just as much to our accountants. So there are some real barriers to Australian exports right across the services sector as a result of a barrier which exists in the telecom sector.

I do want to emphasise that this matters; it matters politically and economically for Australia because, with eight out of 10 Australians already working in this sector, we know where all of our children are going to be working. If you look at the OECD data, over the last two decades there has not been a single net job created in any sector, in any OECD economy, other than in the services sector. And the professions are amongst the most critical subcategory in terms of Australian export potential.

We also drew the committee's attention in our submission to the barriers which exist to doing business in India in the financial services sector. In this case, the barrier relates to the cap on foreign equity, which is a classic constraint to establishing commercial presence: setting up an office in your client market. We focused particularly on insurance because there is a very big growth potential and there is a lot of Australian interest in that market, but the barrier is completely prohibitive, with a cap of 26 per cent on foreign ownership.

The ANZ Bank asked me to specifically mention today that it is even worse in banking, with a cap of 21 per cent. So there is no question that there are real barriers to services exports from Australia into the Indian market. Indian providers do not face those same barriers into the Australian market. Therefore, there is a disadvantage competitively for Australian services exporters. This is an issue which we feel strongly that government might take account of.

ACTING CHAIR—Mr Lee and Mr Kotlowitz, do either of you want to make any comment?

Mr Kotlowitz—I do have an opening statement for Telstra. Perhaps I should run through it quickly. We have provided a detailed submission, so I will run through the major points. Firstly, Telstra has a number of major IT services suppliers that are either India based companies or companies which have substantial operations in India. Examples are Satyam and Infosys, which are both very well-known Indian companies, as well as companies that are usually regarded as being Western companies, such as IBM, EDS, Accenture, Price Waterhouse. They all have significant Indian operations.

Secondly, we arrange supply of a significant volume of telecommunications services by Indian carriers like VSNL and Bharti. These are services which enable Telstra's corporate customers to link to their Indian offices. We have to arrange supply of these services from the Indian carriers because we ourselves are not currently permitted to provide these services in India. We explained in the submission the difficulty in obtaining the relevant licences. I think those two points tell you that Telstra is a significant customer for Indian suppliers and, in that respect, we are very similar to many other major Australian corporates.

Thirdly, Telstra supply communications and IT services across Asia-Pacific. We have a business unit called Telstra International, which provides services to multinational corporates. The types of services we provide are high bandwidth datalinks, managed services, corporate networks and so on. These networks link offices throughout Asia-Pacific—mining sites or whatever they are—and often throughout the world. It may come as a surprise to the committee, but Telstra is very good at this. In fact, according to Gartner, Telstra is the best IPVPN, or internet protocol virtual private network, supplier in Asia-Pacific. I have copies of that Gartner study, if you are interested.

These IPVPNs are the most advanced corporate networking services that money can buy, and our business in them is growing rapidly. We had just over 17 per cent growth in revenue in Telstra International's business in the financial year that ended in June. We have many customers with offices in India that want these services. Telstra's perspective is that we would like to be not only a customer for Indian suppliers but also a supplier to Indian customers.

Our submission detailed the onerous restrictions on foreign telecommunications service providers who want to enter the Indian market. There is an explanation of the so-called ILD licence—international long distance licence. I will not go into that in detail. The only update I can provide is that I think in the submission we noted that this saga had been going on since November last year. There was an indication it would be settled by June. There was a further delay and the Indian authorities have now undertaken to settle the licence terms by October. Already the Indian press is reporting that that will be put off until after Christmas.

So, as Jane has pointed out, we have a completely open market. We have 100 per cent foreign-owned carriers operating in our market. They are able to obtain licences from ACMA with very little administrative burden and at nominal cost. Carriage service providers, resellers, do not need a licence at all to enter the Australian telecommunications market, and it should therefore come as no surprise that most of Telstra's significant competitors in Australia are either foreign-owned or -controlled: SingTel, Optus, Vodafone, Hutchison-3, AAPT, Primus—you know most of the names.

So, just to be clear: this is not an argument for restricting the access of Indian suppliers to the Australian market. The economy obviously benefits from being an open one. Ultimately, Telstra benefits from having to face all of this competition in our own market. We would not have got good enough to be the best IPVPN supplier in the Asia-Pacific if we did not have to deal with this competition at home. And we support free access by Indian suppliers to the Australian market. We would like to ask the committee to note the extreme difficulty in entering the Indian market and also the knock-on effects for Australian services providers who, similarly, have difficulty in entering that market because of the higher expenses.

In terms of quality, obviously in an environment where you have a very small number of providers providing the connectivity to India, there is, as a consequence, a problem with the quality of the service levels being provided. When you are running a serious business and you have deadlines to meet, you cannot have your service providers going down for days on end, which is something which we experienced with a lot of connectivity into at least the more remote parts of India. Those are our major points and I have taken my five minutes so I will stop there.

Mr Lee—I have just a couple of points I would like to make. The Cox Group is an architectural practice. We also undertake interior design, and also urban design and masterplanning. We are probably one of the largest architectural practices in Australia. We employ around 350 people. Approximately one-third of our business is now obtained from offshore. Our practice generally is, as most practices in Australia are, one where the work is done here and our services are exported. As Jane has said, we rely very heavily on the internet to get the data that we are creating across to our customers.

We do have offices overseas. Currently, we are working in the Middle East in Dubai in the United Arab Emirates. We have, for example, a very large university project there at the moment which is worth around \$500 million. We are working primarily with Australian consultants as part of our team, as well as with some local consultants who are assisting us at that end. As a result of that, we actually have two offices in the UAE, at Abu Dhabi and Dubai, to help service our clients, but we employ no more than about 10 people in the UAE, and the majority of the work is actually done in Australia.

In China, which is the other hot construction market at the moment, in a similar way we have two offices, one in Shanghai and one in Beijing. We employ no more than seven people in those two offices in Shanghai and Beijing and the majority of the work is undertaken in Australia with Australians preparing the work.

In India at the moment we are pursuing work and, I must admit, the level of interest and activity in India has grown rapidly in the last 12 to 18 months. We have something like six applications in with various groups in India to undertake things such as residential projects. There are three major residential projects; one major stadium project, and that is a flow-on from the Delhi Commonwealth Games and, potentially, the Cricket World Cup in 2011; an aquatic centre, which is also associated with the Delhi Commonwealth Games; and we have put in a general expression of interest to do some airport masterplanning in that area.

What we find is that, particularly overseas, Australians have, often, a unique level of experience and expertise which people in those markets find highly desirable because they actually often do not have the experience and understanding necessary to complete these types of projects efficiently. So, over a period of time, we have developed what you might say is a unique position that gives us an edge over a number of our competitors.

It is a very hot market. We are competing against European as well as American architects in those areas, so costs et cetera are considerably important. At the moment our IT costs in Australia are around a third of our communication costs. Overseas we would effectively be facing four times the cost to set up. That would potentially cripple our opportunities to work in that region. As I said we are basically looking at doing the work here, so we are reliant on sending the information. Unfortunately it is not just a matter of sending the information across by our cable and then receiving it. We are also totally reliant on local service providers to assist us at that end to get the information across; hence the issues of latency, speed of communication and so forth—which we will go into in detail—become quite critical.

In terms of our architectural production, the software that we are using that helps us to do the drawings and create the data is changing. We are now doing virtual models of the buildings we are designing and documenting. In fact, that model then has to be shared between all of the

various people working on it. Unfortunately, because it is a model of the whole building, it tends to be a very large piece of data that needs to be accessed by all of the people working on the project. So, as we look to implement this software and apply it to our overseas projects, this raises considerably more pressures than we currently have on our IT requirements. I suspect that it will take us about five years before we move to fully utilising this 3-D modelling in the industry, but it is in train at the moment. Also, in these markets we are looking to operate in, they might lack expertise in certain building types and construction et cetera, but we are finding that local professionals are very well educated and have access to all of this latest software. So the clients are familiar with it and demanding that we utilise these services when available.

ACTING CHAIR—I suppose the question is: how do you tackle the problem? One of the propositions put forward this morning—and I do not think I am misquoting them—was that we should ultimately be looking at a free trade agreement with India down the track. That is not going to happen in a week—it will take many years—and that would be the excuse to start tackling some of the difficulties that we face. Allied to that, our aid programs should be aimed at encouraging reform of the Indian systems. I do not know how that proposition stacks up with you.

Ms Drake-Brockman—I will happily provide an answer and see what others might want to add to it. There is very strong business interest in the Indian market and there is growing support in the services sector for the idea of a free trade agreement. If the government were to announce that there were to be a free trade agreement, we would be very active consultation partners in the process of negotiations because we have very real interests. We currently have a services deficit with India and the prospect is for a growing deficit unless some regulatory change takes place in India. There is potential to turn it around, so an FTA is a potential vehicle. That said, India is not showing signs of preparedness to open up. There is more talk than action and there is a consequent high level of frustration with Indian positions in all of the trade policy arenas, including the WTO, which really remains our best bet for all the Australian services sectors reaching their full potential.

India has to take some of the blame for the current stalling in the WTO, for its position particularly on the manufacturing side. If you were to look at the kinds of problems ASEAN is having in its negotiation of a free trade agreement with India, it might give us some insight. We think our negotiation with ASEAN is going pretty awkwardly and slowly, but ASEAN's negotiation with India is going really very badly because India has identified a very large chunk of what you might call sensitive products that it does not want to open up in.

ASEAN countries are not prodding India on their services side—their focus is on manufacturing and agriculture—but I think that our submission makes it quite clear that, if we were to start talking services, we would be facing some very major obstacles in India, many of which remain politically sensitive in India. We did not get a good GATS offer from India in the Doha Round. We did not see their cards on a revised offer because it all stalled too soon, but India was playing pretty hard to get in the services negotiations.

So, yes, the Australian Services Roundtable membership would be supportive, ultimately, of government at least considering the possibility of an FTA, resources allowing. The Department of Foreign Affairs and Trade is very heavily committed. We would not see India as the next cab off the rank. I think there would be greater interest, for example, in Japan. We would see it as a

contender in the near future, but we would be pretty realistic about how long it might take and what we might get from it.

I think it is worth saying that a free trade agreement is dominantly actually about services issues. The first chapter is about goods, whether it is agriculture and manufacturing or whether they are separated out into two chapters, and then the next 13 or 15 chapters are all about cross-border trade in financial services; telecoms; investment; people movement; competition policy, which is deeply important for the services sector; government procurement; and IP. So we would see an FTA, if the government were to embark on one, as a major opportunity for us, but we would have very realistic expectations.

Senator PAYNE—I am not sure there is much more left to say about an FTA, but I am interested in how the Australian Services Roundtable constitutes itself. I see in your submission a list of ‘members’. You describe yourself as the peak business body for services industries, but how did you come about and how are you constituted?

Ms Drake-Brockman—We are a not-for-profit company limited by liability. We are nationwide, not a state based business association. We are five years old and we have a constitution, which you can see on our website. Our membership is drawn both from individual corporates and from subsectoral business associations themselves. We set out five years ago in order to be a genuine umbrella for the many services subsectors, not to threaten any existing subsectoral group, and we have had a lot of success in attracting membership from other business associations, which has increased our ability to communicate with the whole sector.

We have focused on those issues which the existing subsectoral bodies were less focused on. So, while each of them is very strongly focused on the domestic regulatory agenda, we are more focused on the international dimension to that and other broad issues which encompass all of them. We have a meeting this week, for example, on R&D for the services industries. So we have tried to focus our energy.

Why are we new? Why haven't we always existed? They are questions that are sometimes asked. One reason is that in all of the services industries you have public good issues, monopoly infrastructural issues, which have typically meant that government has played a very big role in ownership and regulation of the services industries. In addition you have public interest concerns to do with the ethics and public interest of service providers like doctors, lawyers and accountants. When I was a child, I went to the school that the government owned; over the road was the hospital that the government owned; the road was built by the government; the bus was owned by the government; the bank over the road was owned by the government; and when I went home and turned on the electricity and water and picked up the phone these were all in the realm of government. They all remain very heavily regulated, which is why all around the world the barriers to trade in services are all tied up with regulation. But, as governments have divested themselves, markets have been created in all of these sectors and new private industries have arisen. Of course, much of this process has happened while globalisation has been going on so you see a whole new growth of new services industries, not just in the local marketplace but in the global marketplace. What we have done in the last five years is try to mobilise to respond to that new reality.

Senator PAYNE—Thank you; that gives me a much deeper understanding of the roundtable. Have you had an opportunity to look at or examine any of the ACCI August report, *Riding the elephant: opportunities and challenges for Australia and the world*?

Ms Drake-Brockman—I wish now that I had read it; I have not. I noted Peter Hendy's comments recently. ACCI has now formally said that it would like to see an FTA with India.

Senator PAYNE—That is one of their recommendations. They also, as you do, comment favourably on the TEF in the context of that report. There is a small part of the report which they call 'Services: the silver lining'. If you have not had a chance to look at that specifically, would you take a question on notice for me? That is to have a look at that short part of the paper and to perhaps provide us with your comments. Towards the end of that section it talks about the liberalisation of the domestic services sector. It talks about some of the productive approaches which India could take in the services sector, both domestically and for international access. I would be interested in the comments of your organisation on that.

Ms Drake-Brockman—I am happy to take that on notice. I would just comment that there is quite a strong lobby now in Indian industry circles in favour of liberalisation in the services arena. Our submission mentions that NASSCOM has just joined the global services coalition. We see India having identified that it has some Mode 4 (People Movement) offensive interest in the services area, and we do have some common interests in that area. Yes, I will provide a response in writing.

Senator PAYNE—I appreciate that; there may be other aspects of the report that I have not referred to that you would also like to make comment on and send to the committee, and that might also be helpful.

Mr BRUCE SCOTT—Is India using the regulation that applies to the ITC area as a trade barrier to Australia and other countries moving in there and establishing themselves? Is there regulation preventing, for instance, Telstra setting up a call centre in India? I notice in today's paper that Westpac are going to move 100 jobs into India. It is obviously more competitive for some reason to go to India than to somewhere else.

Mr Kotlowitz—Telstra does not operate any call centres in India and we do not contract with anyone to provide call centre services to contact our customers in Australia. If you get a call just as you are about to sit down to dinner from Telstra trying to sell you services, you can rest assured that the call comes from somewhere in Australia. But that is not to say that other companies and other telecommunications carriers in Australia are not making use of Indian call centres. It is our choice to not use Indian call centres.

In terms of establishment, the basis upon which the restrictions are being imposed on international long-distance services is stated to be security concern over the carriage of telecommunications data, difficulty in enforcing legal wiretapping et cetera, tracking conversations and all that type of stuff. Many countries around the world face similar issues. The United States is one of them, yet they do not have such draconian restrictions on carriage of traffic, transfer of user data, accounting data offshore et cetera—all of the restrictions we have explained. We are able to provide these types of services in the United States; we hold what is

called a section 214 authorisation in the United States. We had to negotiate an agreement with the Department of Justice, the FBI and a cast of thousands, but we are able to do that.

We certainly do not want to be critical of the Indian authorities for being concerned about security issues. Those are very important issues. The question is whether the security issues are, in some respects, being used as a proxy for a trade barrier. The ostensible foreign investment limit was raised in November last year to 74 per cent. There was great cheering and happiness, and then we saw the licence conditions. It is that over which there has been an argument for the past 10 months. It is not only the Australian or the US companies wishing to enter the Indian market that cannot comply with these licence conditions; the Indian carriers themselves are unable to comply with these licence conditions.

The other aspect I want to mention is that the Department of Telecommunications in India is very active and very zealous in prosecuting any licence contraventions. I have in front of me a news report from 14 September which says that the Department of Telecommunications is pursuing BT, AT&T, MCI, which is Verizon now, Equant, which is part of France Telecom, Sprint, Cable & Wireless for alleged licence infractions, for setting up these structures to provide services to their customers doing business in India. We know that no corporation is a saint, but it seems implausible that all of these very well-known, highly respected international carriers could all have been contravening their licences simultaneously in India. It makes one very, very wary to even go and get a licence there, because who knows what happens next? This is the environment for foreigners coming in to operate telecommunications services—at least international long-distance telecommunications services—in India.

Senator MOORE—I want to touch on whether the situation in India is unique, whether the kinds of limitations you describe there only apply in India.

Mr Kotlowitz—The types of concerns are not unique—the concern that law enforcement authorities will not be able to track people of interest to them, as they euphemistically describe them. Those concerns are common across the world. Obviously India faces a particularly concerning security situation. However, there have been solutions adopted overseas in countries like Israel and the United States and they are far less draconian than the restrictions that have been proposed for these licences. I think it is a question of degree.

Senator MOORE—Is this extra cost, which has been identified in the submission, enough to preclude doing business with India, if you balance up everything? Is it enough disincentive to knock you out of the market—not you personally but a business?

Mr Lee—Potentially, one of the issues we face is that, with most of these international destinations where we are looking to do work, fees are generally lower. Our fees are usually set on construction costs. Construction costs in India are about 50 per cent to 25 per cent of our construction costs in Australia. So you are at a significant disadvantage just on fees before you even start. To then have additional costs added on to it, taxes or whatever, you really have to question very seriously whether it is worth getting into that market. Certainly at the moment for us one of the reasons why we have not ventured into India in any meaningful way is that we are very suspicious of whether we can actually work successfully there or not at the moment. There is a lot of interest in what opportunities there are, but they may just not pan out to be worth it.

Senator MOORE—You will not really know until you see.

Mr Lee—It would have to be very desirable for us to actually jump.

Mr WAKELIN—I have a question on the telecommunications industry—and this is not clear from the document. Is there a significant investment by other countries in the telecommunications industry in India?

Mr Kotlowitz—Yes, there is. In the mobile sector, in particular, there are a number of foreign companies which have significant stakes in mobile operators in India.

Mr WAKELIN—But I presume there would be hardly anyone in the old copper wire sector—is that right?

Mr Kotlowitz—There was a period in the mid-nineties when there was a string of investments in the old copper wire space, but most of those investors retreated.

Mr WAKELIN—Were they foreign investors?

Mr Kotlowitz—Yes. Telstra was not one of the fixed-line investors, but we did have a wireless business—a mobile business—in Calcutta. That was also an extremely difficult business for the first three or four years due to regulatory restrictions. They were actually floor-tariff set. You could not charge below a certain tariff. It made increasing your customer base very challenging.

Mr WAKELIN—You had to pick somewhere near the local product, I presume—is that right?

Mr Kotlowitz—That is right. You had to compete with the fixed-line product in order to persuade people to actually use mobile phones. Of course, India's growth over the past 10 years has been astonishing. People have become a lot wealthier. What has happened is that a whole layer of regulation has been removed—a whole layer of problems around interconnection. India used to have a receiving-party pays system for mobile calls—in other words, you paid to receive calls. This is the system in the United States as well. When your price is so high, you do not really want to give anyone your phone number if you are paying for them to call you! Telstra exited that investment, but about a year or two following that the regulation was sorted out. There has been a consolidation in the mobile industry with a consequence that there are a number of major foreign investors in the mobile industry. But that is where it is concentrated.

Mr WAKELIN—Therefore some of these international companies are finding their way through this difficult process and are making the judgement that it is in their long-term interest to back this incredible growth. For example, we heard a figure before lunch about two million mobiles a month being sold. That is a significant number of mobile phones. I just raise that. I accept the difficulty; I accept the figures here. But someone, somehow, is managing, for whatever reason. Therefore, it would be useful to understand it. Australia has its own difficulties and its own challenges.

Mr Kotlowitz—I think you need to distinguish between different parts of the telecommunications industry. Mobile is highly domestic. The types of services that we are talking about cross borders—

Mr WAKELIN—Those are the examples here.

Mr Kotlowitz—That is right. That is the specific sector where these issues arise, and it is specifically around access to the licence to provide those services. That happens to be a business that Telstra is in and would like to enter.

Mr WAKELIN—So the principle applies. Are there other international carriers that are not doing it? No-one is doing it. That is really important to understand.

Mr Kotlowitz—No international carrier at this stage, to the best of our knowledge. I say to the best of our knowledge because there are press reports that AT&T has applied and is about to be granted this licence.

Mr WAKELIN—I am glad I asked that. That is the key segment of the market.

Mr Kotlowitz—There is no international carrier at this stage which holds an ILD licence.

ACTING CHAIR—There being no further question I thank you all for being here today and participating in the public hearing. We will send you a copy of the transcript of your evidence to which you can make corrections of grammar or fact.

Proceedings suspended from 2.56 pm to 3.02 pm

NEIL, Barry, Director, Property, Woolworths Ltd

ACTING CHAIR—I call to the table Mr Barry Neil. I must advise you that the proceedings here today are legal proceedings of the parliament and warrant the same respect which proceedings in the respective houses of parliament demand. Although the committee does not require you to give evidence on oath, you should be aware that this does not alter the importance of the occasion. The deliberate misleading of the committee may be regarded as a contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the committee will give consideration to your request. Would you like to make any comment about the capacity in which you appear?

Mr Neil—I have had a deal of involvement with Woolworths' prospective and current activities in India.

ACTING CHAIR—Please proceed to your statement.

Mr Neil—As a retailer, Woolworths has carried out significant assessments of prospects for retail activities in India and holds a very positive view as to the prospects in a trading sense. In recognition of the existing statutory environment that exists in India—there is an embargo on foreign direct investment in retail—Woolworths has entered an arrangement with the Tata group of companies in relation to retailing activities in consumer electronics.

The statutory environment restricts our involvement to one of being a franchisor and a wholesaler. Obviously in the context of our skill, experience and intellectual property in Australia, we would certainly see significantly greater prospects of exposing our partner to our intellectual property but we are stopped from doing so by the embargo on FDI.

The retail marketplace in India is one which is probably aptly described by any number of adjectives from very large upwards, but it is very disorganised. I am not saying that in any derogatory sense. It is genuinely the classical example of small private enterprise. The marketplace at the moment is going through a process of rapid transformation with the arrival of any number of offshore entities probably with similar objectives to Woolworths but facing the same embargo that we are.

In general terms, I will swap to another position—that is, the prospect of Woolworths, as a retailer, purchasing goods for sale in India and importing them to Australia. Obviously that market is not in India specifically, but in China it has been significantly exploited in the past and, to a fairly rapidly growing extent, will be exploited in the future. We see a theoretical prospect as China's costs rise of there being greater opportunity to source out of India, but India is dragging a long way behind. The significance of mentioning this is that one of the saving graces to the Australian economy has been that CPI, as it is measured, has been benefited in some merchandise categories by quite significant price deflationary pressures—consumer electronics and even imported foods. Putting aside the issue that you good folks will be acutely interested in—and that is the political sensitivity of putting at risk Australian jobs—I genuinely believe that the Australian economy has benefited by the ability to access those consumer goods at lower

prices because, in the highly competitive Australian retail environment, that gets passed straight to the consumer and manifests itself in good numbers in CPI.

ACTING CHAIR—I have a question on the electronics companies. I think in your submission I read somewhere that it is basically Dick Smith Electronics. Do you go under that name?

Mr Neil—No. There is a name that is about to be announced—in fact, next week—which is effectively attached to the Tata name. In the Indian environment the Tata name is very highly respected, it being one of the big five conglomerates. But the retail model is very much akin to the Dick Smith PowerHouse model, which is generally a 2,000-square-metre offer of consumer electronics.

ACTING CHAIR—The advent of shopping malls has helped.

Mr Neil—Yes, you are getting on to my pet subject here. I have been in India three times in the last year, and I have been a property developer for 30-odd years of my life. I have never seen the sort of boom that is taking place in India at the moment. They are taking the risk of making some significant mistakes.

At the moment in Mumbai, for example, I think—and if you are there one day and not there the next you get your statistics wrong, because they change so quickly—there are in excess of 250 malls mooted or in existence or under construction and nowhere near sufficient skills and expertise and no understanding of what drives foot traffic and of what is necessary to generate consumer expenditure, as opposed to consumer visitation. So, yes, the advent of the malls has been of assistance, but one has to be extremely cautious as to the mall into which one is going because quite a number of them are going to require at best major reinvestment, because in my view, while they may generate foot traffic, they will not generate consumer expenditure.

ACTING CHAIR—Being a good place for going out to.

Mr Neil—It is very often the case that, air conditioning not being a common characteristic there, you see lots of people in the mall in the morning but they are not carrying much and they are still there in the afternoon and they are still not carrying much—but they are nice and cool.

Senator PAYNE—If you build them they will come but they might not buy.

Mr Neil—Yes.

ACTING CHAIR—How does the franchise arrangement operate? Do you actually manage them or is that done by the locals?

Mr Neil—The statutory environment very clearly requires that it be carried out by the locals. There have been various statements made by various people in government officialdom as to the prospect of there being an easing; that is, the capacity for foreigners to invest in retail ventures as opposed to wholesale ventures or as opposed to franchising their brand or their intellectual property. Against that there has been significant lobbying by Indian entities to effectively ensure

that there will not be foreign participation in what is doubtless ultimately going to be a significantly profitable commercial sector.

Senator PAYNE—I refer to the sort of involvement that Woolworths has in mind and to working with a group like Tata, with which I am not familiar so I accept your expertise on that matter. What capacity is there to find the sort of skilled staff that you need in that context?

Mr Neil—Difficult. You go to India and you seek out the experts in mall development and you get to see people who have been in the business for 18 months. In my experience, it is a truly unique sort of environment where there is this enormous growth taking place on a base of virtually no skill. That is why I say there is the risk of a number of these malls and a number of retail businesses coming across difficulties.

Maybe Australians are a little bit spoilt, having experienced a relatively low inflationary environment for some period of time. As with the rest of the Western world, retailing in Australia has actually got to a position of extremely high commercial efficiency. Retailers measure their success by sales and by another characteristic: cost of doing business, which is a percentage of sales. If you have a look at the major retailers in the US, the UK, Europe, Australia and New Zealand, they have all been pushing their CODB significantly downwards. Woolworths' has gone from 24.6 per cent to 20.4 per cent and—despite the fear of banging the corporate drum, as it were—a large part of that has gone back to the consumer because we trade in a very competitive environment.

But, in India, the costs are going in exactly the opposite direction. In the 12 months from the time I first went there to today rents have effectively doubled, land prices have probably trebled and construction costs are probably up by 70 or 80 per cent. There are a lot of apparent activities taking place, but I query whether, in such a short period of time, anyone has had the opportunity to actually have a really critical view of how profitable or otherwise it is.

Senator PAYNE—Faced with the picture you draw, plus the comments you made earlier on the legislative environment, in relation to both direct foreign investment and, for example, the status of employees and things like that, it is a significant undertaking for a major Australian company. What is the medium- or long-term end, in your view?

Mr Neil—In the end, where you have a population in excess of one billion people—and, if I have appeared critical of India, I do not wish to be—

Senator PAYNE—I regard it as a constructive discussion; I do not regard it in that way.

Mr Neil—I guess I am accused of being a passionate person but, in my visits there, I have seen the dedication of Indians to the education of their children. You see the changeover at school occurring at lunchtime, you see kids coming from or going to what, to us, are slums and you see that they are impeccably dressed—there are pleats in their tunics, the ribbons in their pigtailed have been ironed and their shoes are shiny. It is certainly the case, in my view, that it is an economy that will grow very strongly, because there is an enormous pool of potential workers who are being well educated and, therefore, there will be potential consumers. In that context—and I would say the world's retailers have come to this conclusion almost as one—eventually somebody will make some good money there.

Senator MOORE—With the first rung of investment that Woolworths have made—and, hopefully, it looks as though it is a step towards more—is there a capacity for Woolworths to be involved in specific training of people? I refer not only to training there and sending people over to help train people there but also to bringing potential workers to Australia to get management, retail and more development skills—all those kinds of things. Is there any plan for that kind of activity to continue or to develop?

Mr Neil—Yes, it exists already within Woolworths and, yes, it already exists in relation to, specifically, India. As with all business, a long time ago Woolworths recognised that a balance sheet and a brand name are essential but much more essential is the skills base of staff. Woolworths employs 175,000 people, so there is absolute dedication to training, to career development and to meeting competition. When one's unskilled workers are poached it is always wonderful to offer them the opportunity to move upwards and outwards in terms of geographic moves. Right now Woolworths is involved significantly in New Zealand, and there is a major interchange of personnel. We have recently opened a major buying office in Hong Kong which will be moving into China—likewise there and then likewise with India.

Senator MOORE—Do you have Indian trainees at the moment in your Australian enterprises?

Mr Neil—Yes. In fact, digressing, we have supply chain in retail for multiple stores. Woolworths have 2½ thousand stores. There is very sophisticated software that lies behind the removal of the product from the shelf, its scanning and the signal going back upstream to the manufacturer that he has to manufacture one more of those and be ready, recognising the delay in the supply chain, to get it back on the shelf. Worldwide, retailers have generally bought a pre-existing software package. Woolworths took a decision not to buy pre-existing but to develop its own. It used Tata Consultancy Services, which is one of the Tata conglomerate companies—it is an IT consulting company. The expenditure was—I do not have a precise recollection—about \$300 million or \$400 million, a large part of which was to Tata Consultancy Services. In that capacity, there were several hundred Indian IT workers—software programmers and others—who moved to Australia for a short period of time.

Senator MOORE—So that is now the product you are using in the company—the one that was developed in that way?

Mr Neil—Yes.

Senator MOORE—Is Woolworths a member of the Australia India Business Council?

Mr Neil—I am unable to answer that question. I do not know. I am sorry.

Senator MOORE—Can you let us know out of session? I am just interested in terms of the involvement of companies such as Woolworths and lots of others that are involved so actively in the commerce arrangement to see whether that is reflected in that other body.

Mr BRUCE SCOTT—Given Woolworths' experience, what lessons can we learn from the way you have dealt with the issue of trying to get partnerships in India that could help other companies? We have had other companies over there who have got out or who have tried to get

in and found it too hard—found the regulation just meant they were not going to be competitive and there were better options. Are there lessons that we can draw on from Woolworths' experience that create a model?

Mr Neil—To answer the last bit first, I think everyone needs to assess their own risk. But let me answer that question by saying I have had long-term experience in partnerships and joint venturing. Even if I am partnershiping or joint venturing with a person who is in the office next to me, I regard it as a very high-risk event in the event that I do not share common values with that person or entity. So in seeking partners in India there is a significant challenge that you have got to ensure that your partner shares your values, not only now but for a long time in the future or for however long you are going to be in partnership. That, in effect, was how Woolworths got to be in business with the Tata group, because Ratan Tata, who is the executive chairman, and Roger Corbett struck up an acquaintanceship a number of years back which turned into a significant friendship. But compared to joint venturing with one's next-door neighbour in Australia, to do it in India is a much higher risk strategy.

There is a great advantage in India, I think, in that they, as we do, operate on a British based system of law. In my view that gives significant advantage over some other statutory environments where that is not the case, because, in simple terms, with a British based system of law you can gain confidence that in the end if everything else goes pear shaped you can go and seek some redress in an environment that will be hopefully impartial, as opposed to some other contexts where you may be involved.

ACTING CHAIR—Is the banking system all right?

Mr Neil—I do not have any experience. The entire economy—and I do not want to sound critical—is still in a very evolutionary phase. There is no compulsory superannuation so there is not a pool of institutional investment funds. There is a lot of money, but it does not wear quite the suit that it does in Australia, UK, Europe or the US. But I would suspect that it is quite quickly moving in that direction. Looking at the real estate market there, there was absolutely no institutional investment in it two years ago and the first signs of it are occurring now.

Mr BRUCE SCOTT—What currency do they trade in?

Mr Neil—My experience is limited, but generally I would think it is probably similar to our other trading partners—that is, about 60 per cent US dollar dominated. But I am in part guessing with that answer.

Mr BRUCE SCOTT—Listening to you there, it sounded like the partnership seems to be related to almost a personal friendship. They have established this foothold.

Mr Neil—With any partnership, even if you document it perfectly today, the objectives or circumstances or drivers of one or other of those partners is going to change as a simple matter of definition. You can never document something sufficiently well to ensure that you have to address those new circumstances. Therefore, you have to rely upon good values and good balance when it comes to the time to adjust the imbalance. That is a general statement about joint venturing, not about India.

Mr BRUCE SCOTT—Also, regarding the product that you are selling in India, it was obviously an opportune time for that product as opposed to other commodities to reach into the market in India.

Mr Neil—Yes. Part of our decision to go there was based upon the rapid growth in education and employment and therefore in available consumer expenditure dollars. In turn, crashing over that was this enormous change in available products that exist. No doubt all of you own an iPod.

Mr BRUCE SCOTT—Are they made domestically?

Mr Neil—No.

Mr BRUCE SCOTT—So the employment is possibly in China?

Mr Neil—Yes, in China and other places.

Mr WAKELIN—I understand that in some industries India prescribes restrictions on foreign employees. Would that happen in the retail industry?

Mr Neil—We have not come across that.

Mr WAKELIN—Are you bringing people in from Australia and other places?

Mr Neil—Yes. We have about 10 or 12 Australians living in—

Mr WAKELIN—You would have come across that if it applied to your industry then.

Mr BRUCE SCOTT—Are they senior people?

Mr Neil—The head of our wholesale business is an Australian. The head of our retail business, which is the Tata side of the joint venture, is an Indian. But I have to express ignorance on what might have been—

Mr WAKELIN—That is fine. It has just come to our attention that in certain industries it has been suggested that there are prescribed restrictions on foreign employees.

Mr Neil—I repeat that I am uncertain, but I think I recall that there was a short list of prospective heads of the business and there was a range.

Senator MOORE—Do you have any length of time for the contracts of people from Australia that are going overseas as part of their employment? Is it a one- or two-year kind of thing so that it is attractive for people from your business in Australia to work and live in India?

Mr Neil—I think generally they are on two- and three-year contracts.

Senator MOORE—Is that standard?

Mr Neil—Woolies, for an entity that employs 175,000 people, is quite amazing in terms of its HR relationships. There are many lifelong Woolies employees. In a sense—and I am only a relatively recent arrival, so I dissect myself from this—they do not know that they are ever going to work with anyone except Woolworths. So if Woolies asks them to go somewhere, they will never be forced to go, but there is a high level of passion. It is quite amazing.

Senator MOORE—I am interested, in terms of building up that commercial relationship between India and Australia, in whether there is a need for any kind of incentive to have people go and work in India as opposed to go and work in New Zealand, Hong Kong or the other places in which you said you have business. Can I leave that one on notice to find out whether there is an interest in working in India amongst employees with the particular skills that you need there?

Mr Neil—I can certainly answer that positively.

ACTING CHAIR—Thank you very much indeed for being with us this afternoon and for the evidence you gave us. It was most useful.

Resolved (on motion by **Senator Moore**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.32 pm