



COMMONWEALTH OF AUSTRALIA

JOINT STANDING COMMITTEE

on

FOREIGN AFFAIRS, DEFENCE AND TRADE

(Trade Subcommittee)

Reference: Australia's trade relationship with India

PERTH

Thursday, 9 October 1997

OFFICIAL HANSARD REPORT

CANBERRA

JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
(Trade Subcommittee)

Members:

Mr Sinclair (Chair)

Mr Price (Deputy Chair)

Senator Chapman
Senator Margetts
Senator O'Brien

Mr Brough
Mr Dondas
Mrs Gallus
Mr Hollis
Mr Nugent
Mr Slipper

Matter referred:

Australia's trade relationship with India and to consider the emerging economies of South Asia, and report on such areas as:

India's economic significance for Australia, and the opportunities for expanding trade and investment;

the prospects for continuing economic reform and trade liberalisation in India and the implications of this for Australian trade and investment;

India's growing economic engagement with Asia and the Indian Ocean region;

South Asia's emerging economic significance for Australia, and the potential implications of closer economic cooperation amongst South Asian countries, including through the South Asian Association for Regional Cooperation;

WITNESSES

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JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
(Trade subcommittee)

Australia's trade relationship with India

PERTH

Thursday, 9 October 1997

Present

Mr Sinclair (Chair)

Senator Margetts

Mr Dondas

Mr Hollis

The subcommittee met at 9.07 a.m.

Mr Sinclair took the chair.

JOHNSTON, Mr Alexander David, Project Officer, International Trade Relations Branch, Investment and Trade Development Division, Department of Commerce and Trade, PO Box 7234, Cloisters Square, Western Australia 6850

STEINBECK, Mr Kenneth John, Manager, Indian Ocean Desk, Department of Commerce and Trade, PO Box 7234, Cloisters Square, Western Australia 6850

CHAIR—Welcome to you both. As you would know, this hearing is part of an inquiry that we are making within the Joint Standing Committee on Foreign Affairs, Defence and Trade, Trade Subcommittee, into Australia's relations with India and South-East Asia. The nature of our inquiry is that we have had a number of public hearings, we have received quite a number of submissions, and we see the prospects of the inquiry really as particularly interesting. I know that there were at some stage some difficulties in trying to get your department to make a submission, and I am very grateful that you have both been able to come because it is important.

I know that Hendy Cowan, for example, has been in India on a number of occasions and I know that you, being on the Indian Ocean Rim, have a particular interest in where we go from here. I know also that you are aware of the new horizons program and the Year of South Asia this year, and each of those has real relevance. The public submissions, some of which are confidential to us, have suggested that since 1991 there have been remarkable changes in the dimensions of opportunity for Australia in its trade relations with India, but we get a bit confused trying to work out just where the impediments exist.

One of the things I hope you might be able to do from a state government point of view is give us a bit of a dimension as to whether you find those impediments are significant or not, and how they affect you. We are of course also talking to people from the Curtin University and a range of Western Australian business and business interest groups. We hope to get a little bit of an overall understanding of where we are.

The proceedings are legal proceedings of the Parliament, and although we do not require witnesses to take an oath, they have of course the same significance as if they were proceedings of the Parliament. We prefer all evidence to be given in public, but if you at any stage wish that it should be given in private, then by all means feel free to do so, or ask the committee whether you may do so and we will give consideration to your request.

The subcommittee has received the submission from your government's Department of Commerce and Trade, which we have identified as submission No. 60. Perhaps you may wish to identify particulars within that submission, or perhaps make general introductory remarks, and then perhaps we can proceed to questions. Welcome, and we look forward to hearing from you.

Mr Steinbeck—Thank you, Mr Sinclair. I am the manager of the Indian Ocean desk in the international relations branch of the Western Australian Department of Commerce and Trade. My desk is responsible for the markets of South Asia, the Middle East, and Southern Africa. I am accompanied by Mr Alex Johnston, who is a project officer in the same branch. Mr Johnston was partly responsible for writing the original draft of the submission. I would like to tender the apologies of Mr John Loney, who was to appear before the inquiry, but unfortunately he is in Canberra this morning.

CHAIR—That is paradoxical in the circumstances, isn't it?

Mr Steinbeck—Yes. We are presenting the position of the department, and hence the government of Western Australia, in relation to this inquiry into Australia's relations with India. A formal submission was made in June to this inquiry representing the views, the issues, the concerns, and the recommendations of the Western Australian Department of Commerce and Trade. Our submission has sought to outline the role which the federal government should take in encouraging legislative and other changes, and monitoring changes as they occur to ensure that all the relevant state and federal government agencies are advised of these changes as they occur, and ensuring that Australian companies, particularly small to medium-sized enterprises, are positioned to take full advantage of the opportunities for trade as they are created.

Our submission has sought to encourage the federal government to put strategies in place to support long-term relationship building through mechanisms such as education programs and tourism to improve the mutual misperceptions of people within both countries. We would be now more than happy to answer any questions you may have in relation to our submission. I would like also to tender a copy of the *Indian Ocean Trade Strategy* which was referenced in our submission, but was unfortunately left out.

CHAIR—Thank you very much for that. We will receive that in due course as an exhibit before the inquiry. Have you any figures on the trend regarding new as distinct from traditional exports between Western Australia and India? You talk about small exporters. Is that still in the traditional fields, or are we starting to move? You have always exported a lot of pulses, for example, from Western Australia.

Mr Steinbeck—That is right. I think what we have seen is that 70 to 75 per cent of our exports from Western Australia are basically minerals and greasy wool, and that has been fairly traditional. If you are looking at the trends over the last five years what you see is that in other categories they have been very spasmodic, especially in the early years. What we are seeing is two major trends. One is diversification of products and services, so we are seeing a greater range of products and services going to India from Western Australia. We are also seeing a firming up of the trends in each of those categories.

In other words, in the early years, in the 1980s, they were very spasmodic. There

would be a large export in one year followed by virtually nothing the following year. But since 1991 we have seen, in most categories, a firming of the trend. So there has been a jelling of those figures and there is a consistent upward trend in most categories. We are seeing quite a large expansion in elaborately transformed manufactures. I think we quote the figures in here, that it has gone from something like \$86 million to \$236 million in the last five years. This reflects the export of a large number of different kinds of elaborately transformed manufactures. For example, drilling rigs are being exported over there.

We are currently looking at second-hand earthmoving equipment. We have an excess stock of earthmoving equipment as a result of the slowdown in the gold industry in Western Australia, and several companies here are quite keen to move that into India where there is going to be a large number of infrastructure projects, particularly in road-building. We are also looking at other elaborately transformed products such as fast ferries. We have in fact put together a consortium called the Integrated Water Transport Group, which is looking at all aspects of port development and the provision of ferries and other services to support that whole infrastructure of water transport, such as ticketing systems and other mechanisms, advanced technologies, software, et cetera, that would fall into that group.

CHAIR—In your submission you mention problems you have had with taxation and some of the department's particular legislation that gives you worries.

Mr Steinbeck—Yes.

CHAIR—We have been assured that this is progressively changing. When you run into a problem with a particular exporter, have you found that the Indians have been at all prepared to accept special pleading for a sector? In your submission you essentially say that that is something the federal government has to take up with the central government in India, and I accept that. But I just wondered, because the Indians keep on saying to us that they are moving in this area, whether you had found, in your representations for Western Australian exporters, any responsiveness to special pleading on a particular exporter's behalf.

Mr Steinbeck—I have only been with the department for about four months, so I haven't had personal experience of making any representations, although we are currently in the process of doing so for one local company which bought a consignment of steel from a company in New Delhi and paid cash in advance, and when the steel arrived in the container it was substandard. Now the company in India doesn't want to know, and we understand there is a process we can follow through our Western Australian Trade Office in Mumbai. We are still in the process of investigating that. We are trying to get some compensation, to remedy that situation.

CHAIR—Have you found the Bombay office worthwhile?

Mr Steinbeck—Very much so.

CHAIR—You are the only state which has such an office. That is why it is of interest to us. Have you thought of a sister state relationship and all those other dimensions?

Mr Steinbeck—The Bombay office has only been open since January last year. We have been having inquiries running at the level of 30 to 50 inquiries per month. There are quite a few significant joint ventures in the process of being set up. Through that office we have been able to access quite a number of large Indian companies who have indicated an interest in forming joint ventures. So there are a number of companies in Western Australia, such as Clough Engineering and Halpern Glick Maunsell, who are now in joint ventures with Indian partners. That is as a result of the trade office in Mumbai. The Mumbai office has also been able to introduce quite a few Indian business people to companies in Western Australia, and that has actually acted as a catalyst for transactions of trade.

CHAIR—How do you fund it? Is it just a peculiarly government-funded office or do you charge for services you provide?

Mr Steinbeck—No, our services through the Mumbai office are free, as are all of our services through the Department of Commerce and Trade to small and medium-sized businesses in Western Australia. Basically we have 57,000 small and medium-sized businesses in Western Australia, and most of the larger businesses are generally national businesses or subsidiaries of multinationals. Our economy here is mostly dominated by small and medium-sized businesses, and mostly they do not have the resources to access these markets. So as a form of support, the department does not charge for its services.

CHAIR—You mention in your submission that the abandonment of the 'Green DIFF' has 'provided a major setback for WA research and development on renewable energy technologies'. Could you expand on that at all? Have these renewable energy initiatives attracted any private sector finance? Where are you up to in that field? Do you know?

Mr Steinbeck—I cannot really answer that particular question because I have not had any direct experience with the alternative energy sector. My perception is that it is waning at this stage because of the lack of government support to catalyse some early activity in this area.

Senator MARGETTS—Can I follow on from that and ask whether there is anyone in your department who does specialise in promoting exports of renewable energy?

Mr Steinbeck—Yes. The industry development division within the Department of Commerce and Trade has now been established since April this year. It went through a

restructuring at that time. We have now set up teams of people who are concentrating on specific product and service sectors within the state. These are outlined in our trade strategy, and I will just note the major ones. We have a building and construction equipment services team, defence and aerospace education and training services, environmental management services and equipment, health and medical services, information technology and telecommunications, marine industry, marine equipment and services, oil and gas services, processed foods, and professional services.

Basically, they are aggregated into 10 product service teams and they interact with the local industry in terms of looking at investment attraction, looking at enterprise building, building the capabilities of enterprises through developing marketing plans, business plans, and other strengthening activities, and also looking at export opportunities. Another part of the industry development division is the section that Alex and myself are in, and that is international trade relations, and in this section we are divided up into five major desks. These desks are actually looking at target markets. Our function is to collect information about these particular markets and work with these product service teams. The product service teams are really reflecting what we perceive are the strength areas or the thrust areas for Western Australia.

Senator MARGETTS—I was just wondering—and certainly it would be very interesting for me, as there is obviously a lot of debate about greenhouse, and about Australia's contribution—whether that team working on renewable exports might be able to give the committee some more specific pointers about what potential there is for Western Australian exports of renewable energy, and what the federal government might be able to do to assist in the development of that, to create employment in Western Australia and also to make a contribution on a world basis. Everybody keeps saying, 'Yes, but what about India?' and 'What about China?' but if we are contributing to their reduction of greenhouse gas, then that is obviously going to be a good thing, as well as encouraging our industry here.

Mr Steinbeck—Yes. Of the initiatives that I have seen to date, one is the Rajasthan project. That was going to be DIFF funded, and that has now been put on the backburner. Another project which I am involved with is in a very embryonic stage, but it involves Bangladesh. We have currently a Dr Amzad Hussein, who works in Bangladesh for eight months of the year and is in Western Australia four months of the year. He is working on a poverty alleviation program in Bangladesh, and he is also an ex-student of Murdoch University, and the CRC out there for renewable energy. He is working with Professor Peter Newman, and they have just put in an AusAID package for renewable energy for a project in, I think, central Bangladesh, to electrify some villages. Five villages I think is the initial project—to provide solar power and wind power, alternative energy, for these particular villages. It is a pilot project for Bangladesh. Again that is an extrapolation of the project as originally proposed for India.

Senator MARGETTS—If it is possible, I wonder if you could just see if someone could put together a list of potentials.

Mr Steinbeck—Yes.

CHAIR—Could you do that, and let us have that? It would be very helpful.

Mr Steinbeck—Yes.

Mr HOLLIS—Western Australia seems to have developed a particularly close relationship with India. I am wondering why. Is it a geographic scene, or is it a particular push that someone had? For example, do you have a similar relationship with, say, South Africa, which is geographically the same, or have you perceived or someone perceived that India is of such significance that you have developed this?

Mr Steinbeck—In terms of the Department of Commerce and Trade, you could say they recognised the potential of these new emerging markets some time ago, probably in the late 1980s, early 1990s, and we have been very proactive at all stages in the development of the relationship building with India. We were involved in the development of the IOR-ARC process. Staff from our department have attended every meeting leading up to the signing of the charter in March this year in Mauritius. We have been very proactive in that regard. I think the publication of this document here, the *Indian Ocean trade strategy*, some two years ago highlights the fact that our department and the state government had recognised the potential of the Indian Ocean Rim as an emerging market. We have identified 11 key markets within the Indian Ocean Rim, of which we were already engaged with Malaysia, Indonesia and Singapore, and we already have trade offices in most of those places.

CHAIR—Where have you got your trade offices, apart from India? Malaysia?

Mr Steinbeck—We have a trade office in Kuala Lumpur, and in Surabaya. We have a sister state relationship—

CHAIR—North-east Java.

Mr Steinbeck—Yes.

CHAIR—What about in Southern Africa? Is there any trade office there?

Mr Steinbeck—No, not at this stage. I believe the government made some mention of establishing trade offices in Dubai and South Africa during the lead-up to the last elections, but they are still in the process of considering those options. We recently had the ambassador for the UAE come to Perth—in fact last week—and he pressed the point that now that there is an embassy just newly established in Canberra, it would be an opportune time for Western Australia, in particular, to establish an office in Dubai, similar to what the Victorian government has done.

CHAIR—Yes.

Mr Steinbeck—We are considering our options on that at the moment.

CHAIR—I am just interested in the relationship between your offices and Austrade offices. You have got these several offices. I know you have expressed in your paper some concern about the run-down in funding of DFAT and Austrade.

Mr Steinbeck—Yes.

CHAIR—How exactly do you work? You basically go out and do your thing but work within a pattern where, if Austrade services are available, you will piggyback on them? You work beyond the introduction stage, it seems to me, and providing the market analysis.

Mr Steinbeck—Yes.

CHAIR—You do?

Mr Steinbeck—In some ways we are in competition with Austrade. In other ways we are working in a complementary role. For example, in terms of India, Austrade also has an office in Mumbai, but our interactions with India are mostly through our own trade office, and we have representatives in Chennai and Calcutta as well, so we have the three corners of India covered, as it were.

CHAIR—Are they Indian-based staff?

Mr Steinbeck—They are Australian staff who are based in India. I think the two representatives in Calcutta, and one in Chennai, are Indians. Monish Paul is our regional director in Mumbai. He was born in Mumbai, but he grew up and was educated here in Western Australia. Monish has been there since the office opened. He will be coming back in mid-December this year, finishing his tour of duty, and there will be another appointment announced very shortly for his replacement.

Mr HOLLIS—Do you have a sizeable population here of Indian descent?

Mr Steinbeck—We do seem to have quite a population of Anglo-Indians that moved to Western Australia during the 1970s. I have attended a number of functions. They are a fairly strong community in terms of cultural awareness and maintaining their links with India, but they tend to mainly be of Anglo-Indian descent, and a lot of these people were born in India, and their children are first generation Australians.

Mr HOLLIS—You said something about fast ferries. I thought you had been exporting ferries to India from Western Australia.

Mr Steinbeck—To my knowledge, there is only one ferry that is actually in India that was built in Australia, and that is a second-hand ferry that was on-sold from Singapore that went into Calcutta. We sent a mission to India in February this year. Specifically, the Integrated Water Transport Group went to look at the opportunities for the sales of ferries, both in Mumbai and in Calcutta. The mission report has just been released, and the consortium is actually looking at the supply of three ferries at this present time to the Jawaharlal Nehru Port Authority in Mumbai. There is a large container port being built on the eastern edge of Mumbai Harbour, and that is being constructed by P&O Ports Australia. They won a \$260 million contract. The authority coordinating that project requires three ferries for the next 10 years to transport their workers across from old Bombay to the new site, and local ferry companies are actually bidding, or in the process of investigating the supply of three ferries for that particular project.

Mr HOLLIS—You have established your own trade office there. Is that an indication that you were unhappy with the services that Austrade was providing?

Mr Steinbeck—I think to some extent the fact that Austrade charges for its services probably means that quite a few small and medium-sized businesses would not access those resources. Also we felt that India is such an important market. Eighty per cent of the activities on my desk are related to India.

CHAIR—And you cover where else?

Mr Steinbeck—I cover South Asia, which is the four countries, Sri Lanka, India, Pakistan and Bangladesh. We virtually have very little contact with Pakistan. We have some contact with Sri Lanka. A bilateral trade organisation has just been set up. The Australian Sri Lankan Chamber of Commerce is just having its third meeting in Perth. We have two Indian bilateral trade organisations in Perth, the Australia-India Business Council, and the Australia-India Chamber of Commerce. The chamber of commerce tends to represent the very small and medium-sized companies and individuals, whereas the Australia-India Business Council tends to represent the larger firms in Perth.

We are also in the process of investigating the establishment of an Australia-Bangladeshi chamber of commerce or business council. That is undecided as yet, but because of what Austrade has been saying for the last six months—‘Look at Bangladesh. There are formal processes going on there as well. It’s a new emerging market’—we have been talking to firms.

There are about 40 companies in Western Australia who actively trade with Bangladesh, either on a periodic basis or on a regular basis. Recently I contacted 11 of those companies on a phone survey, just in the last week, to ascertain their interest in being involved in an Australia-Bangladeshi business network. Five said yes, four said no, primarily because people like Clough Engineering already have an office in Dacca and probably would not get much value out of being involved in a network. Another firm said

there were only two clients in Bangladesh, and they know them both and they work with them currently, so they could not see any extra value. There were three maybes.

Mr HOLLIS—Apart from Austrade charging in, and also the emphasis on the bigger markets, on the bigger firms, which is a criticism that has been put to me—that they are not interested in the small fry; they have got to have big bickies before they will look at it—I guess it is a bit of a tall order, but just off the top of your head, what other constraints are there from a federal government point of view? If you were the federal government and you wanted to expand trade and so on with India, what would you do? Are there any glaring examples that you would go in there and slash, or anything that the federal government is doing that you think should be done differently? Just from your personal experience, what are the shortcomings?

Mr Steinbeck—I think the one problem at the moment is the lack of resources in the state offices of Austrade. The 14 per cent cut in the budget has been taken in Australia rather than in the overseas offices, and this has left some offices virtually with skeleton staff. I would like to make a point which I think I did not make very clearly earlier on, when you asked how we work with Austrade. I think we work hand in glove with Austrade in the overseas offices. We might do our own thing in Surabaya and in Mumbai, but, for example, I am currently developing a trade mission which will be leaving on 25 October, going to the Middle East. That trade mission would not happen without the support of the Austrade office in Dubai, without the Austrade representatives and the DFAT representatives in Riyadh and in Amman and in Tel Aviv.

We could not operate in the Middle East without that support. They are organising our itinerary. They are making a lot of the arrangements. I am basically just orchestrating the whole thing and coordinating it, but I am very much reliant on their support. So it is very much a complementary activity; we help them as much as they help us. We supply the local Austrade office and DFAT office lists of companies. We are no longer, I think, as competitive as we once were in terms of clients, because we do have that perception that Austrade tends to look after the big end of town, and we tend to look after the small to medium-sized businesses which dominate our market.

In terms of how you can expand things, in terms of India I think the major impediment seems to be that a lot of the projects that are on offer, and may be in the infrastructure area, are on a BOT or a BOOT type basis—build, own transfer, build, own, operate transfer—so the Indians are asking us to provide the capital to set up the operation. It is just basically licensing a firm to come in and establish a business in India, be it a tollway or a freeway or a port, and they want us to provide the capital.

We seem to have a major problem here in Australia, and my perception is that we have a major problem with our consortia as well, being able to gain access to competitive international funds at reasonable rates where they can get guarantees. That seems to be a major problem. EFIC can provide funding up to 85 per cent for the sale of ferries to India

if the Indian partner or the purchaser is providing 15 per cent deposit. But that is a capital sale of a capital piece of equipment built here in Western Australia. That is fine. EFIC can also provide working capital for projects in India, but what they cannot do is provide capital for, say, a \$100 million stage 1 of the Mumbai to Pune freeway, which is a project we are currently looking at, so we are scratching around looking for sources of international finance.

If you are trying to raise finance in India you are looking at horrendously expensive finance, 15 to 20 per cent. Indian state governments are prepared to put in some money. They are looking at maybe their equity contribution being 30 per cent, and they are paying 11 per cent for their money. What we need is access to international funds, say from the US, the UK, Japan or Korea, at reasonable rates of six or seven per cent.

CHAIR—But if you get them through, for example, an ANZ Grindleys subsidiary—an Australian-based company, at least—you would be paying what sort of rates? It would be non-competitive in terms of the duration of the loan and the interest payable. Is that what you are saying?

Mr Steinbeck—My understanding is that all loans raised from international banks which are based in India charge the Indian rate. So if you go to them you would not be talking about seven or eight per cent interest; you would be talking about the 15 to 20 per cent, which makes a lot of these projects not viable. Also the time period—the payback period on a lot of these projects is too long for a lot of investors. There is something like \$4 billion worth of infrastructure projects up for grabs in India at the moment—ports, roads and some rail—but most of that is not attainable because we do not have access to cheap international finance.

Most of our consortia here have either been involved with aid-funded projects where the money is guaranteed, as it was through DIFF, or as it is through World Bank or some other international funding agency, so they expect to get their money up-front. Projects such as the Snowy Mountains Energy Corporation are heavily involved in World-Bank funded projects in all of these markets around the Indian Ocean. They have very little experience in actually going into commercial ventures where they have to raise and bring in the finance as part of that deal. We are on the beginning of the learning curve in terms of finding sources of funds. We are on the threshold of starting to identify some sources of funding, and I think that is something we need to push ahead with in order to secure some of these big projects in the future.

Mr DONDAS—Mr Steinbeck, since New Horizons last year how many return visits has your department had to India in the last 12 months?

Mr Steinbeck—In the last 12 months? We had a mission to India in February this year—that was the Integrated Water Transport Group—and we have one going on the 19th of this month which is a mixed services group. That is being led by the Governor of

Western Australia, and there are several people going with him representing management consulting. The four groups that were originally to go were education services, management consulting, land valuation and legal services.

Mr DONDAS—Whereabouts in India will they go?

Mr Steinbeck—I think they are going to Madras, New Delhi, Mumbai and Calcutta, four cities.

CHAIR—I thought there was a surfeit of lawyers in India. I didn't think we could sell them more legal services.

Mr Steinbeck—There was a lot of early interest from the law industry, but that dropped off as they thought it through. There are not as many people going now as originally proposed.

Mr DONDAS—I note on the documentation that through the Colombo Plan you have had a lot of students come into Western Australia. Would you have any idea of what the number of students from India might be who are studying in Western Australia at the moment? Obviously if you are setting up an education section as part of your delegation you must feel that there are opportunities there to expand on what you have already got.

Mr Steinbeck—We know through the high commission in New Delhi that the number of Indian students coming to Australia this year will be about 4,000, but we do not have any exact figure for Western Australia. I think India currently rates slightly above China in terms of total numbers of students coming to Australia but I have not seen the breakdown of figures for Western Australia at this stage. I know that the TAFE International here sees India as a new emerging market; and they have been to India once or twice, and there is a representative on this trade mission going with the governor this month.

Mr DONDAS—Since you have opened your representative office in Surabaya—that is, what, two years now, only a couple of years—have you noticed any marked increase in terms of the number of students who are wanting to come to the Western Australian education system?

Mr Steinbeck—I am sorry, I could not really answer that question.

Mr DONDAS—You are on the India desk, I know that, but sometimes you guys talk amongst yourselves.

Mr Steinbeck—That particular area has not come up to my knowledge. I know that Indonesia is our biggest feeder country for students to Western Australia in the education system.

CHAIR—That would be more from Surabaya though, surely, would it?

Mr Steinbeck—I am not sure; I think it is fairly much across the board.

CHAIR—But in the same time-zone. It is close.

Mr Steinbeck—There is a bit of a catch-22 in Surabaya, in that although we have a sister state relationship—and that is the reason Surabaya was chosen—there is a belief that really we should be in Jakarta, because that is where the decision makers are.

Mr DONDAS—So you have had a trade delegation or a delegation in February this year. You have got another one happening on the 19th of this month.

Mr Steinbeck—Yes.

Mr DONDAS—So at that stage your forward planning would be, what, two or three visits a year?

Mr Steinbeck—That is right, yes.

Mr DONDAS—To try and maintain some connection and build up some kind of—

Mr Steinbeck—There is a building and construction one that will possibly will get off the ground. There are four or five people indicating an interest to go to a Build India Exhibition in New Delhi. That is next month. I am not sure if that is going to go or not at this stage. They are still indicating a strong interest to go, but there are still a few people who need to commit to that.

Mr DONDAS—Are you getting any support from the Commonwealth government in terms of some expenses for the delegates who are going over?

Mr Steinbeck—Only through the EMSS system, the export market support scheme. Some of the private sector people are applying for the 30 per cent rebate through that. I think that is quite an attractive scheme and should be maintained. To some extent it creates a few problems because a couple of our clients are just too big. One company, for example, going to the Middle East applied for it but their parent company is a Korean company and it exceeds a \$25 million turnover; they are a worldwide company, so they will probably be excluded from being able to access those funds. But certainly it is a great help for the smaller businesses.

The one thing I do notice is that we have a lot of very entrepreneurial small small businesses here. That is consultants who have terrific design skills or specialised skills; they are into all sorts of things. The market in Western Australia in many cases is so small that they have never been locally focused. They have always been export oriented.

They have been selling their services offshore. This includes things like building theme parks, advanced digital systems, software companies, photogrammetric equipment for satellite imaging. They simply have to be world players, and they travel a great deal to the various markets to provide their services and are usually driven by larger projects; they get a half a million dollar project in Dubai or they get a project in India.

I think there is great scope for this. They have very little in terms of business structure. There are often just two or three people working as a consultancy who operate on a very lean and mean basis. They subcontract everything out, but they are able to put together quite a capability. They are heavily into design work, mostly: designing golf courses in Pune in India, designing theme parks in Dubai and in India. There is great opportunity for these sort of people, I think.

CHAIR—It sounds original, yes.

Mr DONDAS—Sounds like a few good ideas to make a buck. Thank you for that.

Senator MARGETTS—I will go back to my favourite theme, I guess. This is one you might need to take on notice, but how much actual money was involved in Green DIFF for projects in Western Australia?

Mr Steinbeck—Yes, I would have to take that on notice. I cannot answer that question. I have not really familiarised myself with the DIFF program so I have no experience of it. I would have to go back to the department and look at what we did in the past.

Senator MARGETTS—I guess DIFF in general has had mixed reactions from community groups but I think it would be fair to say that the Green DIFF has been supported widely by just about everybody I have spoken to. But the other question is in relation to the impact of the cooperative research centre in Western Australia in relation to renewable energy. What is the likely impact on development of export potential for renewable energy with the reducing funding for the CRC?

Mr Steinbeck—There was an article in the *West Australian* that sort of says it all, that without the federal government funding it is likely to close at the end of the next triennium. You have a similar sort of situation with the Indian Ocean Centre, where it has been funded for one triennium by the federal government. Although the funding is joint funding, taking the Indian Ocean Centre, for example, because I do not know the CRC situation very well, the Indian Ocean Centre was receiving \$50,000 from the Department of Commerce and Trade and \$50,000 from Curtin University, the remainder coming from the Department of Foreign Affairs and Trade.

That was the bulk of their funding, which was something in the order of \$200,000. They were guaranteed that money for a triennium. We are now into the third year of that

triennium, and it was recently announced, some months ago now, that the federal government's Department of Foreign Affairs and Trade funding for the Indian Ocean Centre was being cut by \$100,000.

That has put a big question mark over the future of the Indian Ocean Centre. For a start, they are losing one of their two key people—the associate director, whose contract basically was terminated at the end of September. He may stay on for an extra three months through support from Curtin University, but there is no continuance indicated in actual funding for the Indian Ocean Centre beyond June next year. The Indian Ocean Centre is not a commercial venture. It was not set up as a commercial venture; it was set up as a centre to provide policy advice originally on Indian Ocean matters, and subsequent to the IOR-ARC process, it has become more focused on trade and economic development within the region as well. But, in a sense, without funding from DFAT it is having the rug pulled from under it.

Senator MARGETTS—Yes, I think they are going to be arguing their case with us later today. If I can return briefly to the Cooperative Research Centre for Renewable Energy: if you put that in context, is it likely that the state government will see the benefits and potential—your department could perhaps recommend funding for such areas with the export component. If I put you on the spot, there seems to be hundreds of millions of dollars around for putting deep-water ports in to try to promote industry, which is likely to increase our greenhouse gas emissions very much. It is one per cent onto Australia's greenhouse emissions.

You are looking at \$50,000 here and there in terms of export potential industries which might actually be good for Australia's international reputation, apart from our employment and export potential. Is the state government likely to fill any gaps, for instance, in the cooperative research centre?

Mr Steinbeck—Again I do not think I can really answer that question. That is not an issue that I have been closely associated with or been in any discussions with with anyone in the department.

Senator MARGETTS—Because you are Commerce and Trade, is that the kind of thing your department might recommend to the state government, as well as to ask the federal government for assistance?

Mr Steinbeck—I think certainly it will be an issue that will be raised in the very near future because of the perceived threat to the continuance of that funding to the CRC. It is something we will take on board, and perhaps investigate the potential of some sort of support for this sustainable energy industry, because it is an emerging industry in Western Australia.

It is in a sort of catch-22 situation, in that there is not a viable market out there

yet. We need to demonstrate that market by perhaps having a number of aid-funded projects help create some sort of critical mass, and then follow through with commercial sales as well. Commercial sales may only follow from pilot projects and established projects in some of these countries.

Senator MARGETTS—That could also reduce costs for people in Western Australia. There could obviously be spin-off effects.

Mr Steinbeck—Ultimately it could, yes. I think we have a very small industry here, which has got the capability of rapid expansion to meet market demands if they arise. In terms of renewable energy, I have seen a number of companies who are very innovative and are doing small projects in remote outback Western Australia. That type of activity can be scaled up for remote isolated communities in countries like India, where they have the right environmental conditions of wind or solarisation. The same in South Africa: we recognise South Africa as a terrific potential market. The remote areas of the northern provinces of South Africa are ideal for this kind of activity.

Again, there is no viable market there. There is no-one out there with dollars to spend buying solar power panels, because these people are basically in either subsistence or very impoverished communities. In some ways, if we can get some demonstration projects going, then we might find that industry in some of these communities: Bangladesh, India, South Africa might take up alternative energy in a serious way. If they can see it can be demonstrated at a community level to provide a satisfactory source of energy at the community level, then it may be taken up by industry.

CHAIR—I wonder if you could tell us a little bit more about the Indian Ocean Centre. Putting aside the funding and worries of the future, what is it doing and how does the Western Australian government relate to it? You provide part of the money. What exactly have you been getting from it and what is its role?

Mr Steinbeck—Basically we provide the accommodation virtually free of cost. We pay the rent on their accommodation in Perth. Also we provide a grant of up to \$50,000 a year. That is, I suppose, a tied grant in that we cannot give them a \$50,000 cheque per se. What we are doing is actually contracting them to do research for our department.

CHAIR—What sort of research have they done?

Mr Steinbeck—For example, they help put this submission together. That was one of the projects. There are about six or seven research projects, under way at the present time. In the last 12 months we agreed to pay them something like—there were about 10 projects in total, each worth about \$5,000, and they are all research type projects which result in a major project, a paper or discussion document or some research material that will be provided back to our department, which we can disseminate to our clients.

They are organising conferences. There was recently a conference of eight senior economists who came across from India, and they met with an equal number of Australian economists. There was a five-day conference at the Indian Ocean Centre. It was like a preliminary session to preparing papers and discussing papers that were going to be presented at a major conference in New Delhi in November or December. I sat through most of those days, and it was extremely instructive in that we got the senior economists from India, actually the people who were advising the Indian government, and we were seeing the way they think in terms of their five-year plans, what their goals and objectives were, and what the issues were as far as the unfolding of the trade liberalisation and the development of the Indian economy are concerned. We saw that there were some conflicts there, but generally everyone was moving in the same direction.

CHAIR—Are those papers published and available?

Mr Steinbeck—Yes. They are published by the Indian Ocean Centre, and they are available through the normal academic networks.

CHAIR—What about private sector work, for example? You mentioned that some of these small business operations are pretty entrepreneurial, and obviously for some of them it would be very valuable to find out what is happening to the market. Is the IOC doing any work in that area?

Mr Steinbeck—Yes. Perhaps I will ask Alex.

Mr Johnston—That was, I believe, part of the role of the IOC—as well as operating at government level, to be promoting to business the opportunities that exist in the Indian Ocean region. I think the lack of resources, to actually have people who could be out there talking to businesses and informing them of those opportunities and then being able to have the businesses tap into that expertise, has been a problem. Through that lack of resources it simply has not been possible to have people playing that role. Rob Meecham, the associate director, to some extent, I understand, was involved in that. Through effectively it being underresourced it has not been as successful as we might have hoped.

I suppose that might be indicative of the conservative nature of the business community being hesitant in spending money, when they are not sure of any perceived benefits from it. Certainly, the small business community in Perth could benefit a lot from opportunities in the Indian market, and I think the Indian Ocean Centre would have been a key body in being able to promote those opportunities to the small business sector.

Mr Steinbeck—They do have a fairly substantial library resource of information about India, and quite a few people go there to access that. They do a fair bit of research and they have primarily been involved in primary research in the past.

CHAIR—Is there any work done at any of the other universities? They include Curtin, don't they?

Mr Steinbeck—Yes.

CHAIR—What about Murdoch or—

Mr Johnston—Murdoch has the Asia Research Centre, which does not focus really on South Asia at all. It is mainly South-East Asia and North-East Asia. I think UWA, for a while, did have some interest in South Asia in the 1980s, but that has since waned.

CHAIR—What about TAFE colleges? Is there any Western Australian TAFE that has an interest in the skills area?

Mr Steinbeck—Yes. Currently I am working with an Indian company. It is actually two brothers. One is based in Tennessee, and the other is based here in Perth. They run an advanced computer training business—computer skills training—which was originally set up in Tennessee. They then set it up in Hyderabad in the last two years. It is currently turning over about \$12 million, and they are seeking to set up a third arm here in Perth. Basically what they are doing is taking people who have university training or TAFE type training, community college type training, and giving them a very fast, intense period of advanced IT training, so that they can then go out into the work force as contractors. The company also employs some of the better students and then subcontracts them out.

In Hyderabad they have had 450 people through this process. They do a six-month course in mainly all advanced level IT-type skills, the sort of thing that people would need to have working with mainframes and working with client service. At the end of that period, those people usually have found employment, both in the Bangalore software industry and also in the software industry around Hyderabad. It has proven quite successful. I have linked them up with the South East College of TAFE, and they are currently developing a business plan to do a joint venture together to establish a training facility on the Bentley campus to set up a similar fast-tracking advanced skills training program here in Western Australia. There is a major employment company who is looking to subcontract the successful graduates coming out of that program as subcontractors.

So the TAFE colleges are interested. I am from the TAFE system; I have spent the last 10 years as a commercial manager in the TAFE colleges. The experience has been that TAFE was very successful in student recruitment, but it found it quite difficult in terms of international type projects. The level of competition is very tough out there. TAFE International in Western Australia, actually after a period of about four years, abandoned any attempt itself to try and secure international projects. Now it has handed that function over to the Snowy Mountains Engineering Corporation, so they are actually

looking at international projects in collaboration with other training providers.

CHAIR—UTS in Sydney is doing quite a bit of very effective work there. If you are ever over there—while you are talking to them—they have tried to link TAFE and universities. I am quite impressed with what they are doing. The only other thing I had is this. I do not know about my colleagues, but I was just interested in sister state type relationships—Tamil Nadu, or any of the states, or even the state around Mumbai or whatever it is.

Mr Steinbeck—Maharashtra.

CHAIR—Maharashtra. Would you see an advantage in developing such a relationship in your West Australian-Indian connection, or don't you see that as particularly—

Mr Steinbeck—Very much so. I think in India what is emerging is that there are three corridors of development. There is the corridor around New Delhi, there is the corridor between Bangalore and Chennai, and there is what is going to become greater Mumbai on the eastern side of the harbour. These are the areas where the infrastructure and development is going in. The latest intelligence we are getting is that is where most of the investment dollars and where most of the development would go.

We are particularly keen to develop our relationships with the state of Maharashtra. That is virtually the leading state in India in terms of development. It is the most progressive, from our point of view. It is the most industrialised and it has got a fairly substantial population in its own right. That market, on its own, is enough to virtually fully engage our state. There is enough opportunity there just to concentrate on that one state.

CHAIR—What is its population?

Mr Johnston—Nearly 80 million.

CHAIR—It is quite big.

Mr Steinbeck—Yes, so Maharashtra is of particular interest to us at the moment. We have had a number of delegations from Maharashtra. We have had a number of ministers down here and we have had a number of delegations in Perth. Dr Ramaiah, the federal minister for commerce, brought a group to Perth about a month ago. We had some very successful meetings with those ministers and made some good contacts with them as well, but our main focus is on building our relationships with the state ministries, because that is where the power shift is in India, as you are probably aware. It is moving away from the federal centralised system to state-based power. The states are just learning to come to grips with that power and just finding their way. Maharashtra is very progressive. West Bengal has been fairly progressive. We are working with two or three of the major

states. Tamil Nadu, West Bengal, Gujarat and Maharashtra are probably the four that we are targeting.

CHAIR—Any more questions? Colin, Nick?

Mr DONDAS—Only just a word of caution: maybe we should give them the paper that we received yesterday from Dr Peter Meyer regarding his comments about—

CHAIR—He is just worried about over-borrowing.

Mr DONDAS—Yes. You should maybe have a look at that. I am sure if you write to the secretary he will give you a copy of this.

CHAIR—No, he is just worried about the financial state to the extent to which they are using more and more of their revenues by way of interest payments to meet the repayments on the capital expenditure in fact. It does make the states very vulnerable because they are dependent on the federal government for their funds. Thank you very much indeed, Mr Steinbeck and Mr Johnston, for that evidence. It could be very helpful to us. Should you have any written material that emerges, quite apart from this document, we would be really grateful if you could send it along to our secretary.

Mr Steinbeck—Would you like a second copy?

CHAIR—Yes, it might be very helpful. Thank you very much.

Mr DONDAS—It would certainly be worth while getting a copy of that paper and reading it.

CHAIR—That is moved and seconded, thank you. We will have a brief adjournment just while we change witnesses.

Mr Steinbeck—The latest issue of *Economic Intelligence Unit* actually was full of caution about India, and it has given a lot of case studies in problems people are encountering.

[10.15 a.m.]

McGUIRE, Associate Professor John G., Director, South Asia Research Unit, School of Social Sciences and Asian Languages, Curtin University of Technology, GPO Box U 1987, Perth, Western Australia 6845

McLEAN, Dr Douglas Stewart, Research Associate, South Asia Research Unit, School of Social Sciences and Asian Languages, Curtin University of Technology, GPO Box U 1987, Perth, Western Australia 6845

CHAIR—As you would know, we are conducting this inquiry into Australia's relations, particularly our trade relations, with South Asia, beginning with an examination of India. We do welcome you as members of the South Asia Research Unit of the Curtin University of Technology. The proceedings are legal proceedings of the Parliament. We do not require witnesses to take an oath or anything. We do draw to your attention that they are formal proceedings of the Parliament and consequently need to be treated as such. We would prefer all evidence to be given in public, but if you want to say something in private, by all means ask. We will give consideration to that.

We have received a submission from you, which we have identified as submission No. 60, and we would perhaps appreciate any comments you might wish to make on it, or perhaps make another statement in opening to us. We do welcome you here today and look forward to hearing from you on what we are finding is an increasingly interesting subject, Australia's trade relations with India.

Prof. McGuire—Thank you very much. Professor Peter Reeves was meant to be here today. His wife took suddenly ill, so he sends his apologies. He was the founding director of the unit. The unit has been in operation for six years now. The primary focus has been on India, but it incorporates South Asia as a whole, and what we were concerned to do in this submission is highlight the importance of the political, I suppose, in assessing questions relating to trade with India. It is easy enough to refer to various economic criteria and say, 'This state perhaps represents a better investment prospect than another,' but we think that that is only part of the story, so that is what we have tried to highlight in the submission.

In fact when we began the South Asian Research Unit, we focused on the BJP. This was in the late 1980s. We anticipated that the BJP would be an extremely important political force going into the 1990s, and we applied for various forms of research funding, which we got, and we actually plotted—over a period of two years, 18 months—the week by week movements of the BJP, using a whole range of Indian newspapers.

It so happened that the BJP has emerged as the most powerful force in Indian politics today. In 1989 at the general election it won 86 seats out of about 546 possible seats. At the last election in 1996 it won 191 seats, which made it the party with the

largest single number of seats in the Lok Sabha—not enough to form government, but we suspect at the next election that the BJP could come to power either in its own right or as a coalition government. The BJP of course is not Congress. The BJP has different positions in relation to questions such as economic liberalisation in trade, and I think they need to be taken on board.

Dr McLean—Just adding to that, most of what Professor McGuire was saying was relating the BJP to central politics in India, but the BJP is one of the coalition partners in the government of Maharashtra, which is economically a very important state. So when looking at the state level, it becomes very important to take on board the politics as well that is represented by the BJP. They are also in power in a couple of other states as well, in the northern and western parts of India, but because Maharashtra figures so highly in any discussion of Australia's trade relations with India, then you cannot ignore the BJP and the Shiv Sena, its coalition partner in that state.

CHAIR—Before we get on to the question of your particular studies, one of the things I am not sure of in relationship within your own university is the Indian Ocean Centre, which is also within the Curtin University, but I have not made out just what faculty or division it is under. You are within the School of Social Sciences and Asian Languages. Is the IOC—

Prof. McGuire—The IOC is an independent centre, so it operates outside, in a sense, the faculty structure. It originated in the School of Social Sciences, but five years ago it was given centre status, and it has operated autonomously since then. The school has had some input into the centre. Peter Reeves, who was to be here today, sits on the board of that centre, but we have different briefs and different foci. The centre is concerned with the Indian Ocean as a whole, and we are concerned just with South Asia. We are concerned with studying certain questions in depth, whereas the Indian Ocean Centre is more involved in feeding into policy making, feeding into the business community, linking up with the media, and things like that.

CHAIR—You have also seemed to give a greater emphasis on the political science side of things. That is why I was interested in the genesis of the School of Social Sciences and Asian Languages. I know it is all related.

Prof. McGuire—Yes. We are political economists. We are interested in the economic questions. We see these as primary. But I suppose our position is that you really cannot understand those economic questions if you do not understand the politics. Take Maharashtra, which is the most important state in India in an economic sense. The politics there are not all that stable. In 1995 you had a Congress state government replaced by a coalition government comprising the Shiv Sena and the BJP. I suppose you could classify them as Hindu fundamentalists, populists, who were not very stable in terms of policy positions, and one of the first things they did when they came to power was tear up the contract that the Congress government had effected with Enron, the large multinational

from the USA.

It so happened after a prolonged period of negotiation a new contract came into being, but there was that uncertainty about where the BJP would go that makes it imperative to look beyond the economic question when you make decisions relating to trade and investment. At the moment in Maharashtra things are politically not terribly stable. You have movements among the Dalits, who were previously known as the Untouchables, you have a strong Mafia influence there in terms of gangsters, so you need to be able to work out what those parameters are if you are going to go in there.

By way of contrast, in West Bengal you have got a very interesting phenomenon. You have a state government that has been in power since 1977, and it is a communist government. In fact there are three communist parties in India. This is the Communist party Marxist, which came to power very strongly opposed to the notion of foreign investment capital. Yet in 1994 they were actually embracing it with open arms, and in a sense, whatever their political rhetoric is, basically their policy is not a great deal different from that of the central government. It was the need for capital that has driven them into this position.

But having said that, they are a very stable government. While they control the union movement, they can sign a contract and deliver. In that sense you might be put off by the label 'communist' and say you should not deal with that state, when in fact, you have a government that you can deal with, and a government that can deliver.

CHAIR—Why is the Congress party falling apart? Has it been personalities, corruption? Why is the BJP rising? The thing that, I guess from an Australian perspective, I find hard to understand—but I can understand what is happening in Japan where there are fundamental problems and the bureaucracy has really run the country for years and progressively the politicians are trying to adjust to exercising power. In India that has been quite different. You had a long tradition, from the beginning of democracy, of the people who are elected exercising authority. Congress was associated with personalities, but why is the class system breaking down? Is it economic advancement?

Prof. McGuire—I don't think it is breaking down. I think in fact it is developing. If you want the answer to that, there are both long-term and short-term reasons. In the long term when India acquired independence in 1947, Congress had the authority and the legitimacy of being the leader during the struggle for independence, and so it was the natural party to govern. At that point there was no one class or group that was powerful enough to impose its will on the government. Since then you have had a tremendous amount of development, so what began with Congress as an umbrella party, so to speak, representing different interest groups and classes, by the end of the 1960s was beginning to break down, and what was beginning to happen, both within and outside the party, is that these different interest groups were articulating what they wanted. So you had the first split in the late 1960s when Indira broke away from the main group. Since then that

process has been accelerated. For the first half of Congress rule you might say they operated with a socialist rhetoric; that was the Nehruvian legacy. Since then they have moved much more towards an economic rationalist position. They have also played on the issue of communalism, but they have fragmented from within, and now they are really just a shell of what they used to be, and, if you are looking to a party that is going to emerge in the 21st century, I doubt very much that it will be Congress. This is the big question that faces India at this time: that the BJP is really the only national party that seems to be able to draw enough votes to make it an almost viable contender for forming a government. The Left Front group are really getting nowhere near that figure.

What has tended to happen since 1989 is that the formation of coalition governments. You had a coalition government in 1989, with the title National Front, but it was drawing on different parties and it lasted less than two years. Congress then won, but not in its own right, and it was dependent upon a group called the Janata Dal to stay in government. By the middle of that government there were defections from the Janata Dal to Congress, but in 1996 it suffered a massive defeat, and a coalition government came to power again in 1996: to begin with, the BJP was offered the first chance of forming a coalition government, but it could not really get any other party to support it, so then another coalition came into being. You have had three prime ministers since 1996 in India.

Dr McLean—Yes.

Prof. McGuire—I see the only logical conclusion to this is the BJP coming to power, so they are the party really you are going to have to deal with.

CHAIR—So politics in India at the moment are still pretty unstable, from what you have described, and yet in East Bengal, as you say, you have got a—

Prof. McGuire—That is the irony of history. When the CPM, which is the West Bengal government, was formed—and this was in 1964—it really was as a result of discontent among a certain group within the CPI, the Communist Party of India, with the way they were, in a sense, supporting Congress and everything they did. But of course that was coming through from Moscow itself. The CPI was very strongly related to Moscow, so the CPM was an attempt to be an independent party within India.

Then four years later you had another split and you got the CPI Marxist-Leninist group. They have not in a sense grown in any way. They still exist, but it is the CPM that is the key party. To begin with they were quite radical in a whole range of ways, but since they came to power in 1977, rhetorically and in terms of appearance they may seem to be different, but when you look at the substantive things that they are doing, there is not a great deal of difference.

CHAIR—And they have been re-elected fairly convincingly, I think.

Prof. McGuire—Very convincingly over that time.

Dr McLean—Just last year?

Prof. McGuire—In May 1996. Yes, last year.

Dr McLean—Just last year—they have been re-elected for a further five years.

Prof. McGuire—I am not absolutely certain of this, but I think there is no other government that has been in power as long as the CPM in recent times.

Dr McLean—The other thing with the CPM is the power base. They are the only party in India that effectively gave land back to the peasants. Others passed legislation saying it, but actually implementing it was where it always broke down. The CPM implemented it to a sufficient extent to have built up a strong power base.

Mr DONDAS—If you know some of the people in the system, you can understand why. A fellow by the name of Halim has been the speaker with that parliament for 20 years, and he is a British-trained lawyer.

Dr McLean—Yes.

Mr DONDAS—So there are a few of them like that in the system.

Prof. McGuire—There is also Jyoti Basu, who is their leader, who is quite a charismatic person.

Dr McLean—Yes, and Somnath Chatterjee as well.

Prof. McGuire—And Somnath Chatterjee.

Dr McLean—He is another lawyer. He is the one who is in charge of the whole economic liberalisation project. He is probably much more at home interacting with businessmen than with trade unions.

Prof. McGuire—His comrades, yes.

Mr DONDAS—He spent a lot of time in London.

Prof. McGuire—Yes.

Dr McLean—Yes.

Mr DONDAS—It is interesting.

Dr McLean—The other thing in relation to politics that we have been talking about is that caste politics is becoming much more important in several states. I am not sure if it goes right across the nation, but certainly many states. The voters are becoming much more aware now that they can actually wield power. Because India has a first past the post system, this gives the largest caste, even if it is only 30 per cent of the population, the chance of forming government. There is this sort of awareness. So you have caste politics emerging on one hand and class-based politics on the other. Which way it is going to go, again, remains to be seen. That is just something else that muddies the waters when you are trying to forecast.

Prof. McGuire—The crucial thing when you are dealing with India is to think of it as diversified, as different. So in a sense, if you are working at the level of the state government, you would have to adapt accordingly. In other words, you would not go in with the same strategy for each state government. It is the regionalism within India that is still a very powerful defining factor of what India is, and that is it is defined by difference.

Dr McLean—I find it much easier to understand if you think of it in terms of Europe, except that you have got more unity at the top. But the differences between some of the states—between West Bengal and Maharashtra or UP—could be of the sort of level of difference you might have between different European countries, even to the language. There is an overall ‘Indianness’, as there is a ‘Europeanness’, but there can be quite substantial differences in outlook and the feel of the place.

Prof. McGuire—That is suggesting—and it has been suggested—that what possibly may emerge will be regional economic units where they are semi-autonomous, and you may get a federated system where they will operate in terms of economic issues almost independently of the other units. This would highlight in a sense what has been the uneven development across India in terms of regions. So if you move from a place like the Punjab, which is very highly developed, down to a place like Bihar, you have an enormous difference in terms of economic performance and development.

This then comes back to the question of infrastructure. One of the major difficulties that the states have is not so much getting foreign investors to sign MOUs but, once they get the name on the contract or the MOU, the question arises: have they the infrastructure to be able to facilitate that type of investment? More often than not, they have not. So that again varies from state to state.

Senator MARGETTS—Do you have, within your unit, people working on the social impacts of trade liberalisation in India?

Prof. McGuire—Yes, we do. It is one of the issues that we are looking at.

Senator MARGETTS—Are there any succinct papers that you might be able to

offer us?

Prof. McGuire—There is an enormous amount of literature that is coming out on this. We can refer you to that. Insofar as what we have written to date is concerned, that is on our agenda, but we are still in the process of trying to locate the economic and political questions. But the social impact has been very important. If you wished, I could forward on to you three or four key references.

Senator MARGETTS—That would be useful, even personally just for me. I would find that really useful. Obviously in the 1960s there was a very deliberate political choice in India to try to remove some of the worst effects of colonial influence; that is, to actually be a bit more self-sufficient and be able to produce more of their own goods and services, not just be a low-cost supplier for other people's industrialisation. Is there any danger that this might reverse?

Prof. McGuire—If you look at what has happened between 1947 and 1997, what must not be forgotten is how much India has developed in an economic sense. It is now self-sufficient in terms of food. You are talking about a country with nearly a billion people. What they have done has been enormous. We are highlighting difficulties, but underneath that you have to highlight what has been achieved. They set up the basis of a heavy industry structure, which has really taken off now. People tend to concentrate on China, but I suspect in the next 15 to 20 years you might see India at least coming up alongside China, if not taking over China, in that respect.

It is not a question of growth in terms of industry and agriculture, but there is the question of distribution. The new economic system really dates back to July 1991 when India was faced with a real fiscal crisis and it generated loans through the IMF and the World Bank. One of the conditions of those loans is that they adopt a structural adjustment program.

Senator MARGETTS—What a surprise!

Prof. McGuire—Yes, what a surprise. It is not peculiar to India, of course; it is worldwide. The majority of the people in India are either poor or very poor. At very best they get a wage all of which they have to spend on food and the other necessities of life. With the impact of economic liberalisation they have had inflation and a significant rise in prices, and so at that level people are becoming more and more discontented. That is a problem that any government has to face, because ultimately that is their constituency, and if they lose that support they are out. But this is where the BJP is feeding on this type of issue.

Senator MARGETTS—So more people are being drawn into the money economy rather than the subsistence economy?

Prof. McGuire—When you look at the poor and very poor in absolute terms, it has obviously grown, but when you look at the poor and very poor in proportional terms, it has also grown. So it has not removed that problem; it has actually accentuated it.

Senator MARGETTS—Yes, that is the kind of thing that I am interested in.

Prof. McGuire—Yes. But I do not think this is a problem peculiar to India.

Senator MARGETTS—No.

Prof. McGuire—Why you see it in India more so than other places is because it is so large. It is so graphic when you see the poor a la Mother Teresa, et cetera. What you have to remember at the same time, having said that, is that you have a middle class of over 200 million people, as large as any middle class in the world. So it is a dichotomy. You have parallel forms of development.

CHAIR—Is the middle class growing?

Prof. McGuire—The middle class is growing, yes.

CHAIR—What about the absolute poor?

Prof. McGuire—The absolute poor are growing obviously both in absolute terms but also in relative terms as a proportion of the total population.

CHAIR—That is right across the country?

Prof. McGuire—That is right across the country. There are certain places where it is more evident than others. There has been a book just published by an Indian journalist called Sainath, who was a visiting fellow at our unit. It is called *Oh, For A Good Drought*.

Senator MARGETTS—That has been mentioned to us before.

Prof. McGuire—Yes, about the six poorest districts in India. His stories are quite graphic. He talks about a particular village where the train stops. He says that on one occasion people in this village actually moved en masse into the train and then just plundered the water in the cisterns. There was no water in the village. He said they did not touch anything else, so they were not going around stealing.

Senator MARGETTS—Just trying to survive.

Prof. McGuire—He has a number of stories like this which illustrate the problem. It is a global problem of course, that you cannot allow to continue.

Dr McLean—Part of what he was saying as well is that the informal sector of the economy seems to be growing larger than the formal in terms of numbers of people working in it, so that is a major area of growth.

Prof. McGuire—Yes, there is what they call the unorganised or informal sector. That is the sector where state regulation is at a very minimum. In that sense, when you talk about deregulation, you never had to deregulate for the majority; it was always there. And then you have either the organised or formal sector. That sector is strongly constrained by law.

Senator MARGETTS—So we would classify that as under-employment in lots of ways?

Prof. McGuire—The unorganised sector—under-employment, exploitation, no protection whatsoever—has grown, again in proportional terms, from the time of independence. The organised sector was about 11 per cent. It is, I think, down to about nine or eight per cent now.

Senator MARGETTS—On a slightly different tack, you have mentioned Maharashtra—

Prof. McGuire—Bombay in the old terms, yes.

Senator MARGETTS—And the Enron hydro-electric power arrangement. Mainly on the Internet we are getting a number of stories about the level of social and environmental concerns about some of these mega-dam projects. Have you got any information about those kinds of issues?

Prof. McGuire—There is an enormous amount of information on that, yes. One of the difficulties of course is that in terms of industry, environmental costs can be quite high, and they are not going to observe environmental laws. That is not just peculiar to Maharashtra. That would be, I think, evident right across India.

Senator MARGETTS—The World Bank used to be really big on dams. Have they pulled their heads in a bit?

Prof. McGuire—Yes, they are being a bit more circumspect now, but it is local capital that drives it, and the level of development and the cost involved means that in most cases environmental questions are really not considered to be a priority.

Senator MARGETTS—Some people make a lot of money out of it and some people just lose their irrigation and lose their excess.

Dr McLean—They lose the lot—land, house, everything.

Prof. McGuire—They lose everything, yes.

Dr McLean—Nearly all of the projects come in with the promise of employing local people wherever possible, and very rarely does it go into practice. New industries come in and usually an industrial work force that is already skilled will move in to do it. The people whose land has been taken over are dispossessed. They are lucky if they get any compensation at all, and whatever they get is totally inadequate for the absolute loss of livelihood that goes with it.

Prof. McGuire—We have done quite a bit of work on the fishing industry in Bangladesh and West Bengal, and there is lots of evidence of that in that industry, as an example.

Senator MARGETTS—I have read some stuff on fishing from years ago, being a student of development studies. Basically, a number of people had these small fishing cooperatives that used to be able to bring in a regular income, but over time they were bought out or pushed into being employees, for export.

Prof. McGuire—Yes, that has happened.

Senator MARGETTS—Their real incomes actually went down, and the level of marine exploitation went up.

Prof. McGuire—In the case of every industry that relates to the environment there is a similar story.

Mr DONDAS—So that is the view now that Russia is out of the main picture in terms of financial support, in more ways than one, to India.

Prof. McGuire—I think it was always there, even when Russia was alive and well. From the early 1980s Congress was moving towards the States anyway. It is an open market now. They don't discriminate against anybody as long as they have money.

CHAIR—The American influence.

Prof. McGuire—The American influence, particularly when you think of the so-called consensus. You have the World Bank, the IMF, and the US government coming out of Washington, dictating what is going to happen. It is like everywhere else: it is the most influential force in terms of investment patterns. At the same time, in the 1980s you have had the emergence of a new economic orthodoxy within the bureaucracy in Delhi itself. They are not opposed to it, they actually encourage it.

Another interesting shift has been that, traditionally, Indian students went to Britain to do their postgraduate work. They still do that, but increasingly the United States has become much more important, so you are getting Princeton and Harvard graduates.

CHAIR—Moscow?

Prof. McGuire—There is still the link with Moscow, but Moscow is not the first priority. I would suspect now the States would be the first priority in terms of going overseas for education.

Dr McLean—In terms of trade, Germany is very important as well, but they have maintained a trade presence in India throughout. They would probably be about the second trading partner, I would think.

Prof. McGuire—Either Germany or Japan, yes.

CHAIR—There are a couple of detail questions I am interested in. In the relationship between the States and the central government, the central government from time to time moves in and takes over the government. It seems to be a product of a very centrally dominant structure. Now having heard that, we still understand that the States are increasing their authority and power, and I find that a little bit hard to reconcile. What is the situation there?

Prof. McGuire—According to the constitution, there is a clause that relates to what is called President's Rule, and if the state becomes too unstable the President, on the advice of the Prime Minister and cabinet, can dismiss that state government. They can then appoint a governor who will rule by executive decision until they decide the time is right for another election. At times this has been implemented because of this reason, but of course at other times it has been implemented because it is politically—

CHAIR—Politically convenient.

Prof. McGuire—Yes, convenient to do this. Mrs Gandhi actually misused that clause quite widely, and in the case of West Bengal, the Punjab and other places, just imposed President's Rule because there were state governments that weren't Congress governments and she just wanted to impose her will. Having said that, since 1991, in a whole range of other ways, the states have been given more authority to make decisions in relation to economic matters. Doug has been studying the legislative basis of this in some detail.

Dr McLean—There was a clause in one of the acts which gave the government all these powers to direct investment in medium and heavy industry to try and even out the weaker states from the other ones. That clause has since been lifted. By doing that, that has allowed the states to become free to attract investment to their own location. The states have become very competitive now in seeking investment capital. It also ties in with the taxation system, the division of taxing powers, where the federal government has powers to tax income and excise, but 85 per cent, I think it is, of what they get from income tax devolves back to the states from where it came, and 42.5 per cent of excise

goes back to the states.

Because of that, they have avoided raising taxes through these media, and have concentrated instead on areas which the states don't get a hand on, so you get higher rates of customs because the states cannot dip into that barrel. This is one of the major areas that they are having to reconstruct within their whole taxation system because economic liberalisation is being badly affected by this imbalance in taxing powers.

Prof. McGuire—What you have now is the states sending out their own agents to the global market to generate investment capital, whereas in the past that didn't happen. That has tended to create a situation in which one state is competing with another. We were in Calcutta about 18 months ago, and I remember when a delegation from Singapore arrived in Calcutta there were representatives from Bangalore up there, inviting them down. It is almost like this intense competition has emerged between the states for the investment dollar, and the centre has almost stepped out of that arena, although it has the final say as to whether the investment can go ahead or not.

CHAIR—Peter Mayer, from the University of Adelaide, yesterday gave us some fairly alarming data about what he said was the falling level of capacity of each of the states to maintain their level of services; that because of their dependence upon federal government revenues, and the decline in excise because of the lifting of restrictions and the removal of excise, their income base was going down. At the time they were borrowing heavily, and more and more of their revenue was being used to service the funds which they were borrowing in order to service infrastructure. He rather cast the view that, in spite of all the growth that is going on, there is an inherent instability, in the fiscal sense, in the way in which many of the states are operating. Would you agree?

Prof. McGuire—Yes. Peter is absolutely right. The contradiction of this whole economic liberalisation policy is that, on the one hand, they have given the states much more freedom to negotiate, but, on the other hand, as Peter says, they have cut back the amount of money that is flowing to the states. In part this is because of the pressure on the centre to rationalise its budgets. In many ways, it has lost its sovereignty because it has to accede to the wishes of the World Bank and the IMF. That means if it is paring its budget down then the states are getting less, yet the states need that money in order to establish the infrastructure necessary for the investments they are trying to attract.

Mr DONDAS—A catch-22.

Prof. McGuire—It is a catch-22 situation. Maybe a big and economically powerful state like Maharashtra can raise part of that money in the private sector, but for most states that is not really a possibility. All the states are trying to attract capital investment into infrastructural projects, but investors are very reluctant to move on this because there is no guarantee they are going to get a return for their investment. You have the new Howrah Bridge in Calcutta, which works on a toll system, but which you can drive across

and feel like you are on the Nullarbor, almost. There is no other traffic on the bridge. Whereas if you go to the old Howrah Bridge, it is just packed with cars. So there is some way to go before they can, I think, address that problem.

CHAIR—The other thing that you have mentioned which we haven't really heard much about is the Mafia. Is it caste-based?

Prof. McGuire—No.

CHAIR—Is it region-based?

Prof. McGuire—There are links with the Middle East and places outside Bombay, but it is basically centred in Bombay. It is very influential. They really are dictating a lot of the decisions. The extent to which they are linked up with the Italian Mafia, I don't know.

CHAIR—It is a Mafia of its own sort.

Prof. McGuire—Yes, of its own sort.

CHAIR—Whether you call it a Triad or whatever.

Prof. McGuire—Yes. It is a very powerful influence locally.

CHAIR—Operating mainly in Bombay?

Prof. McGuire—In Bombay, yes.

CHAIR—Rather than elsewhere in India?

Prof. McGuire—It may be operating elsewhere in India but I have no knowledge of that.

Dr McLean—I think most states have a very powerful underworld of some form or another, whether they are all linked together or not.

Mr DONDAS—They called them thuggees, didn't they?

Prof. McGuire—They're the old criminals.

Dr McLean—At least they had a religious base. The underworld can be very powerful, including economically. If you want to get business done, they can have an influence on that as well. I have read reports of the influence of the underworld on the ports, and on the movement of goods to and from the ports. India is not unique in that,

but certainly not far behind anybody else, either.

Prof. McGuire—The Shiv Sena is said to be closely linked to the Mafia. That is a Hindu fundamentalist political party that is located in Maharashtra.

CHAIR—There are a couple of other areas that we haven't really had much evidence on. The ongoing principal news story from India in Australia is the conflict with Pakistan. Is that something which looms large in the minds and affairs of Indians generally? Or is it more apparent when you get up to the Punjab, with the conflict between the Sikhs and the Hindus, and perhaps when you get to Kashmir, obviously, with the land border conflict? Does it have the same impact on India that, from an external perspective, it would seem to?

Prof. McGuire—So long as Kashmir is there, it is going to be a problem. It is usually other factors which come into play, and that may be the vehicle for the conflict flaring up. I think India operates with a policy of containment there. I am sure the two countries are talking at a diplomatic level. What the resolution to that situation might be, I don't know. It has been around for a long time.

Dr McLean—I think it also has a lot of mileage for some politicians and political parties as well, to be stronger than the other one. The BJP are particularly strong on confrontation over Kashmir, not to give an inch.

Prof. McGuire—If they came to power—which, as we said, is quite conceivable—it could become a much more significant issue than it is.

Mr DONDAS—What would they do?

Prof. McGuire—They have made all these sort of noises, are quite aggressive in terms of their foreign policy, and have been quite aggressive in terms of their nuclear stance. Whether they would follow those statements through to their logical conclusion, I don't know, or whether they would be more pragmatic when they came to government. I suspect they would be more pragmatic than they are claiming they would be.

But it is important to remember that BJP is not a party that operates by itself. It is driven by other organisations which are really quite powerful, particularly a group called the RSS. The RSS has a very powerful and comprehensive network of members and organisations right across the country, and I suspect if the BJP came to power the RSS would be driving the agenda quite strongly. So I think the danger of war between Pakistan and India would be greater if the BJP were in power.

CHAIR—What about the Tamils down in the south? What is the status of that situation?

Prof. McGuire—Again, that has been an ongoing problem in relation to Sri Lanka. It has been a matter of containment again. But what both of these issues you have highlighted indicate is the extent to which, say, President's Rule, for example, has been used as a means to govern. The other thing it highlights is the extent to which the army and paramilitary forces have been employed to maintain some sort of stability. If you look at Kashmir, for example, you have had an ongoing presence of the army there which is very alienated from the local population. So any sense of parliamentary rule has been suspended. Again, if you look at the north-east of India, in places like Assam, that same sort of thing operates.

So parallel with what we would see as a parliamentary system of government, you have this other side of the state emerging where it has to use force to contain the problem. That has certainly got worse rather than better.

Dr McLean—A large proportion of the Hindu population of Kashmir has been driven out through the insurgency. They have been targeted and driven out of the Kashmir Valley. The BJP always claim to be the saviours of these refugees, that it is the BJP and the RSS that set up the camps and the networks for them. In a sense, they have become like the Palestinians who were driven out. The BJP are the ones who have given them the support, and criticised Congress when they were in power for not doing more. With nothing to base it on, I would guess that, were the BJP to get back into power, one of the things that they might want to do is to try to get these people to go back in and reclaim what was theirs, which would require enormous support from the military to enable them to do that.

I could see them adopting that sort of stronger line. I certainly don't see them launching an invasion across the Pakistan border, but I could see them, certainly, trying to reclaim for Hindus what has been lost.

CHAIR—There was also, at the time they acquired the *Hermes* from the Brits, a feeling that the Indians were moving towards greater power, assertiveness generally, in the region. None of that seems to be realistic in today's circumstances. Would you accept that, except with respect to Pakistan, and perhaps vis-a-vis the Tamils in Sri Lanka?

Prof. McGuire—I wouldn't be absolutely certain about that. Your next witness would know more than I do about that.

CHAIR—That is why I'm testing you in his presence.

Prof. McGuire—No, I would pass on that one. I would leave him to answer the question.

CHAIR—The only other question I had was: in the evolution of India they had a very effective and efficient public service, but somehow or other the public service didn't

work. It seemed to be hidebound by bureaucracy. When you look at the reform process, part of the difficulty seems to be that the people at the top take a decision and the people, as you move down the structure, are not accepting it. Certainly, within the bureaucracy there still seems to be—and at the lower level—a large group of people who are not prepared to accept the momentum for change and reform. How do you see that? How do the BJP and new political forces relate to the old-style bureaucracy?

Prof. McGuire—I think in some ways the old bureaucracy has been damned a little unfairly. If you look at the progress that India has made since independence, one of the key forces has been the bureaucracy. Certainly, within the upper elements of that bureaucracy you had far-sighted bureaucrats who could see what was needed, and who went about doing it. With regard to the size and the complexity of India that we have referred to, and all those problems that they had to address, for each of us sitting around here there would be 54 people in India, so the problems have to be multiplied by that number.

We had a guest speaker yesterday at SARU who is a South Asianist, a very eminent Canadian from UBC. Somebody raised a question similar to yours because he was talking about NGOs. He said, ‘Well, look, I’ve been here seven weeks and I’ve been trying to get a key to my office and I still haven’t got that key. It is a bureaucratic problem, which if you multiply it by 54 seems like an immense problem.’ Clearly, there were difficulties with the old bureaucracy, but those difficulties were a product, I think, of just the complex nature and size of the society itself.

There have been real attempts, both at the centre and at the state levels, to bring about the reforms. I know in West Bengal that it is much easier now than it used to be, because they have cut away a lot of the red tape. I suspect that has been one of the really good things about the economic liberalisation process, that they have deregulated the bureaucracy in a whole range of ways. But in the past, again, if somebody was signing a piece of paper they were always looking over their shoulder. They had to protect themselves because of the complex nature of the legal system. If there was a mistake and they hadn’t cross-checked it 10 times they were responsible. Now, as they change that legal structure, people are going to be encouraged to operate in a more innovative and entrepreneurial way, I suspect.

Dr McLean—I would just like to come in on that one, about the innovation and the entrepreneurship, because in the budget in March this year one of the things that they wanted to liberalise was to have the customs value of goods coming in based on the invoices, which was going to speed up the whole process. By August the newspapers were saying they were developing a huge shortfall on the projected income from it, and that they have sent out teams to Hong Kong, the Middle East, Singapore, and various places, because there were people at the other end who are now working the invoices to minimise the amount of customs due on the goods coming in. So the moment they try to do something to free up the process and reduce the bureaucracy, somebody capitalises on it

and undermines what they are trying to do.

Back at budget time they were actually saying that by liberalising you were going to get more money through tariffs, because it was going to be easier to comply. It didn't make anybody comply with anything, it was another loophole to be exploited.

Senator MARGETTS—You mentioned the differences in foreign policy and nuclear stance of the BJP. Of course, the nuclear stance got my ears pricking. In a nutshell what are those differences?

Prof. McGuire—They are much more aggressive. India traditionally was non-aligned. The BJP has put down on paper a policy that sees India as the leading country in the Indian Ocean region, and one of the leading countries in the world; requiring a very large army and a very large navy, and having the right to use nuclear weapons if necessary to protect its national sovereignty and so on. There are all those things they have put down on paper. But, as I say, I suspect if they came to power they would be more pragmatic than that.

On the other hand, they don't operate in isolation. They are linked up with a broader network of Hindu fundamentalist organisations, the crucial one being the RSS. I certainly think it would be a more aggressive government in terms of foreign policy than the present one, or indeed the previous Congress governments.

Senator MARGETTS—Which leads me to my final question. There seems to be, from what you indicate, a sort of resurgence of sectoral disturbances and violence, between as well as within states.

Prof. McGuire—It has been ongoing for a long time now, yes.

Senator MARGETTS—Is it increasing?

Prof. McGuire—There have been various figures on this and certainly it increased throughout the 1980s quite significantly. Again, I haven't got the latest figures on that. Maybe Ken, when you speak to him, will be able to help you out there. But it is a very important component in the government of the country.

Senator MARGETTS—Throughout the world we are seeing a greater level of internal disputes, which can lead to wars from time to time. At times that has been linked to scapegoatism associated with harder economic times and greater inequalities. Are there any links that you see in India?

Prof. McGuire—I think in harder economic times people become more and more discontented, and they resist in various ways. If that resistance reaches a certain level, then the only way that it can be controlled is by the use of, say, paramilitary forces and the

army. So it is almost a necessary conclusion to the situation that has been created. You will find, particularly in places like Kashmir and the different states in north-east India, that this is most evident. Certainly, the north-east is where you have backward economic development, so economic liberalisation is hitting hardest there.

CHAIR—Thank you very much for giving us your time this morning. It has been fascinating. It is a subject that, as the evidence is advanced, I must admit I am getting more interested in. There are so many other things which are interesting, and India has been on the backburner a little for many of us for a long while. I was very involved in it years ago. But thank you very much. You will get a copy of your transcript, and if you wish to correct it, in grammar or fact, then by all means do so. If you have any further information or you produce any papers that you think are relevant, we would be delighted to have them. I hope we can have our evidence completed well before the end of the year, or by the end of November, if we can. We are getting along the way, but it does take time getting around and meeting people and talking to them. If there are any other documents or papers you think might be worthwhile, please advise us.

Prof. McGuire—Sure.

[11.22 a.m.]

McPHERSON, Associate Professor Kenneth, Director, Indian Ocean Centre, Curtin University, GPO Box U 1987, Perth, Western Australia 6845

CHAIR—On behalf of the committee, I welcome you to our hearing. As you would know, we are conducting this inquiry into Australia's trade relationships with South Asia, in particular India. The inquiry is really moving in several phases. We felt that it was impossible to deal with the whole of South Asia. We are looking at India first, and we might well move on to the second phase then, although the political cycle may have something to do with just how much we get done, and when and how, and how much detail we can give to that second phase.

We certainly look forward to hearing from you. We have heard a little of the Indian Ocean Centre, both from the West Australian government and from your colleagues a moment ago, and we would be interested in your reaction to where you are going as the Indian Ocean Centre, your role and purpose. We thank you very much for your submission, which we have accepted as submission No. 12. The proceedings are legal proceedings of the Parliament. We do not require people to give evidence under oath, but it is still a formal proceeding of the Federal Parliament and should be treated as such.

We prefer all evidence to be given in public. If you wish anything to be in private, then request it, and we shall certainly take note of that. If you wish to make an opening statement, either an explanation of the paper you have sent to us or otherwise, that would be very welcome. But you would have heard several of the questions to your colleagues and, as you said, you have taken a few notes of those and we would be very interested to hear your response to them, and then perhaps receive some questions from members of the committee.

Prof. McPherson—I am here in my capacity as Director of the Indian Ocean Centre, and as a result of a submission that the Indian Ocean Centre sent to the committee. I think the general context of our submission is really in some ways a background submission, in that we were very concerned that the issue of trade should not be taken in isolation. It is our view very much that trade with India, or trade with any country, has to be examined in a much broader context; that international, multinational, and bilateral relations are not based just on one issue, but on a complex mixture of issues. So that was essentially the direction we came from in compiling our report.

Perhaps I could make a couple of comments on some of the things I heard in the previous discussion, just to add to what John and Doug said. I was quite interested in the question that was raised about Russia. I think one of the perceptions that is abroad about India is that somehow India has cut itself adrift from its past, magically, in 1991, and sort of turned to the West and has fully embraced a Western capitalistic view of the world. I think this is rather simplistic. Certainly, there does seem to be across-the-board political

consensus in India that there is a need for economic reform and that India has to become part of the global economy.

Having accepted this, it is not necessarily true to say that every Indian or every Indian faction actually likes this. I think the situation is much more complex, in that whilst people may have accepted that this is a harsh reality at the moment, India is certainly not determined to abdicate all its freedom.

CHAIR—Relationships.

Prof. McPherson—Relationships—freedom—and if you look at what is going on in their relationship with Russia, at the moment there is a defence purchasing delegation in Russia, and the Indians are negotiating or looking at buying submarines, and I think buying an aircraft carrier. So the arms trade between Russia and India is certainly alive and well. Certainly, from the Indian point of view I think this is a very practical move, in that there are large sections of their industrial production which can certainly be sold to Russia. From a broader political point of view I think it is a statement—and I think quite a rational statement—on the part of India that they want to develop a broad base of international relationships, and not just be caught in a relationship with ‘the West’, or with the United States.

On the Pakistan question, I would tend to be a bit more pessimistic than John. I think Pakistan is a total preoccupation in India.

CHAIR—At what level?

Prof. McPherson—Right through the country, at every level. It seems to me that there is a total preoccupation, an historical preoccupation with Pakistan. It is not necessarily antipathetic, but what you had in 1947 was a family that was split apart, and I think one has to see it in that context. It wasn't two completely different people deciding to go their own ways, different ways. It was a family, with the same language in many instances, the same culture and, quite literally, some families got split apart.

Mr DONDAS—Different religions.

Prof. McPherson—Different religions, but language, music, food, history—how can you separate them? How do you separate Catholics and Protestants in Northern Ireland? So Pakistan does loom very large, I think, in the Indian psyche. This also I think reflects back on the whole question of the nuclear issue. I find it somewhat disappointing, I suppose, from a personal point of view, that there is a consensus in India, a very broad consensus, that supports India's stand on the nuclear issue, and there is quite a lot of documentary—

CHAIR—That is because of Pakistan.

Prof. McPherson—And also it was not signing the recent treaties—that India has a right to have a nuclear bomb, partially because of Pakistan, but also because of China.

CHAIR—I was going to say, China used to be the reason.

Prof. McPherson—It is still, but Indians suspect that Pakistan has got a nuclear capability, Pakistan suspects that India has got a nuclear capability, so that they are tied in this close and possibly self-destructive relationship. Then China is the other question there. But there is very little opposition, as far as I can make out, from any significant groups in India to India having and developing a nuclear capability. Even within a lot of NGOs that one would expect to be concerned by this issue, particularly in the environmental area, as far as I can make out there seems to be very little public discussion or public opposition. The consensus is, to a certain extent, I think, rather frightening, that India has this right to have a nuclear capability.

CHAIR—What about that other question of the role with respect to the Indian Ocean generally? How do you see the Indian perspective? You mentioned Pakistan and China, which are the two threats, if you would like to call them such, but the rest of the Indian Ocean region is far more benign. Yet there was a feeling that Indian ambitions might well extend beyond the defence mode into some assertion of power.

Prof. McPherson—Yes. That is a view that has been put forward, and I think there is a certain amount of validity to it. But if I could say, if you look at it from the Indian point of view, historically India sees itself as having a role in the Indian Ocean region, and it goes back 2,000 years. I could bore you with a long historical lecture, but there are cultural and religious reasons why India has had a tremendous influence on South-East Asia, on East Africa, and on the Middle East. There are large Indian expatriate communities. There are over a million Indians in South Africa, and Mauritius has got a major Indian population. There are large numbers of Indians in Sri Lanka, Singapore, and Malaysia.

From India's point of view it is quite logical that it should have an interest in these areas, just as I presume if we had a million Australians in South Africa we would have an interest in South Africa. I don't necessarily see it as aggressive. Also as the Indians are beginning to look at changing their patterns of trade and opening up their economy, it is quite natural that they look to some of these areas where they have a natural linkage. Why not play up that? So certainly India has a very strong economic interest in Mauritius, in South Africa, and in South-East Asia, and they are using some of these traditional contacts they have.

To some outside observers this is seen as expansionist, as aggressive, but I think that is overdrawing the case. I think India is using what natural advantages it has, quite rightly. Within the Indian Ocean region, I think they see that, given the collapse of a bipolar 'great power' world, there is a moment now to assert that the Indian Ocean can

look after its own affairs; the Indian Ocean is no longer an arena for the United States or the Soviet Union to play out their rivalry. This is an opportunity, with the collapse of the Soviet Union, to get up a regional body which can look after the region in its own right.

CHAIR—The Middle East?

Prof. McPherson—The Middle East? It would be a foolish man who would attempt to solve that one.

CHAIR—But you can't isolate the Indian Ocean from all the problems of the Middle East. That is the problem.

Prof. McPherson—No, you can't. Certainly India has a concern in the Middle East. It has a very strong economic interest in the Middle East. It is entirely dependent on the Middle East for its oil supplies. The Indians have certainly, even within the context of the Indian Ocean dialogue, encouraged the participation of Oman and Yemen, and they have been very active there in trying to get the Middle East involved.

CHAIR—Obviously the concept of the Indian Ocean Centre is of interest. It really predated, as I understand it, the general new initiatives that have been taken, the new horizons program and the Year of South Asia and all that sort of thing.

Prof. McPherson—Yes.

CHAIR—What was the role and what has been the product of the work? You have mentioned how you have these hopes—even before the public hearing—for your continuity. What have you achieved? What are your focuses? Apart from the difficulties you are having in maintaining your staff, what is the present direction that you see the IOC taking? Why an IOC? What role can you play in order to foster the general relationship of India and South Asia generally?

Prof. McPherson—The background to the formation of the IOC was that at Curtin University since 1979 we have had an interest in the Indian Ocean region. We have had several international conferences. We teach Indian Ocean history. We run a small journal which has managed to survive for 20 years. So we have built up a network of contacts in the region and some small collaborative projects. So this was probably our dowry that we brought when the centre was established.

The centre was established primarily to provide a research background for Australia in terms of developing the regional dialogue and regional cooperation. That was a very broad brief. We weren't told to work in particular areas. We were given freedom to range across a whole lot of issues. In fact we were expected to be a bit of a ginger group, because the dialogue, as it took off, was very much focused just on trade issues—how do we move to promote greater trade within the Indian Ocean region? Our brief was to try

and broaden that, to act as a second-track agency to bring other issues into the dialogue by doing work on them.

So we have tried to take an interest in getting projects going on development issues, comprehensive security issues, and human resource issues, as a platform for cooperative activity. So we have had these two roles. One is very basically of providing information to decision-makers in Australia, particularly Foreign Affairs, just raw information in terms of statistics, the contacts we have in various countries. The other is also to come up with a program of research, like second-track research, on a broader range of issues that might possibly be put into the regional dialogue at a later date. The model, I think, is probably the evolution of APEC. APEC developed not initially as a government initiative. APEC came out of 10 or 15 years of business groups talking.

CHAIR—More than that. Thirty years.

Prof. McPherson—Thirty years.

CHAIR—John Crawford was doing it when I first came into politics.

Prof. McPherson—Yes. But what we had with the Indian Ocean was that everything was put into one, so there was the political initiative at the same time as there was a research initiative. So what took 30 years to evolve in APEC was expected to evolve from the word go in the Indian Ocean. This has really been our problem. A lot of what we have had to do over the last three years is building up this cooperative research background, exploring areas that we can work with people in India and South Africa.

Given our resources, it is too big. Our resources have been cut. There are some things we have had to draw back on. For example, there was a possibility that we could get a collaborative regional project on fisheries, that John was talking about. That was part of it. We simply haven't got the resources to do it. We have got the people in place, and for the moment we are just going to have to say, 'I'm sorry. Let's see what happens in a year's time, whether we've got money.'

What we have continued with is the research into our relationship with India, because it seems to us that if there is to be regional cooperation we have to get the equation right with India. If India isn't in the Indian Ocean region, if we are not talking to India about regional cooperation, there isn't going to be an Indian Ocean Regional Association. It is as simple as that. So given our limited resources, we are tending to move towards examining the bilateral relationship and trying to develop that as much as possible.

CHAIR—In fairness, I suppose that is where APEC began. It really was trying to work out what in way we were going to live with Japan. China in those days was virtually irrelevant.

Prof. McPherson—Yes.

CHAIR—The other nations that have all emerged have emerged since that absolute necessity for a dialogue with Japan, and it has become part of that. One of the reasons I asked you the question is that we do have a number of vehicles through which we can talk to the countries in the region, but we have always really looked, as I see the Indian Ocean, in slabs of countries rather than necessarily as an Indian Ocean.. We have looked at South Africa, because it is a member of the Commonwealth, and the SADEC countries. You then looked at the countries of the Middle East. It is a bit like trying to work out where Asia begins and ends. You look at the Middle East, and where does it begin and end? Then you have got the countries of South Asia, and that tends to be a fairly broad stretch. But we have looked at them in geographic entities or political entities, rather than necessarily thought of as being part of a whole.

Prof. McPherson—Yes.

CHAIR—I think it is interesting that your focus has been across the region. Have you had any work with the Commonwealth, for example? Because we have got a number of Commonwealth countries—India and South Africa, for example—where apartheid was the real role of the Commonwealth for years, and India and Pakistan again now are part of the Commonwealth. Is that a forum where there has been any work done on the Indian Ocean?

Prof. McPherson—There has not been any work done on the Indian Ocean but that is not to say the work can't be done.

CHAIR—Is it worth doing?

Prof. McPherson—Yes, it is worth doing, for various ironic reasons, if nothing else. Mozambique has joined the Commonwealth now. Yemen is exploring the issue of joining the Commonwealth. Palestine is exploring the issue. Israel has even raised the question. The vast majority of the countries of the region already are members of the Commonwealth, and if those things happen perhaps even more would be. If we survive, it is one of the areas, yes, it would be worthwhile exploring. There are a lot of areas that are worthwhile exploring in terms of seeing whether we can get some of these bigger international agencies to focus on the region.

But you do have some problems. For example, UNESCO splits the region. Half the region is administered from Bangkok and half the region is administered from Kenya. If you were talking to UNESCO about trying to get projects on a regional basis, you would have to spend a lot of time flying between Bangkok and Nairobi. Other organisations tend to operate in the same way. The Ford Foundation, for example, works on a country basis, not on a regional basis. But you have got a real problem with trying to get a consensus on a multinational project with any foundation. So a lot of our work a lot of the last three

years has been actually just spent on trying to convince people that there is something called the Indian Ocean Region, if there are advantages in thinking about a region. Given our limited national resources, perhaps this is a way to tackle a far greater range of countries than we could normally.

CHAIR—You say that you have decided you have got to focus on the bilateral basis, so if you have certainty in your funding, where would your five-year strategy be?

Prof. McPherson—My five-year strategy would be to focus on several countries, not just one. But I think the key players in the Indian Ocean region at the moment at the moment are South Africa, India, Indonesia, Australia, and maybe one could think of one or two more. I think, given the nature of resources, that would probably be the best way for us to go.

CHAIR—What would be the dimension of your priorities? Would you look at the politics, the economics, the social, the environmental? What sort of parameters? I mean, you wouldn't have the resources—

Prof. McPherson—We wouldn't have the resources—cooperation in the environment, cooperation in human resource development, and cooperation in trade. Off the top of my head, I would say they would be the three areas that practically we should try and do something in. I would not want to divorce the environment from anything that we do, because I think it is just essential, and we have so much evidence of that now. Human resource development is a vital factor. Economic cooperation is the one that attracts a lot of the governments in, so we have to concentrate on that also.

CHAIR—And you would do that how? By trying to stimulate particular conferences, or scholars to produce papers?

Prof. McPherson—Conferences are fine if you have got a lot of money. I think what we need is hard research. One of the frustrations of looking at the Indian Ocean region is that a government agency can come to you and say, 'We'd like statistics on marine pollution in the region,' or, 'We'd like statistics on the amount of interregional trade.' It is not there, because nobody has ever worked on it. People have worked on the slabs. What we are doing is starting where APEC started 30 years ago, having to get that very basic information together just to create the raw databases for a lot of these things. So we are starting from a very low base of knowledge about the region. That is what we need to do.

I think the best and the most efficient way, if we are talking about regional cooperation, is doing our research in the context of regional cooperation.

CHAIR—Who else is doing it? Is there a counterpart organisation in India or South Africa?

Prof. McPherson—We are working with a couple of institutions in India. There is no other Indian Ocean Centre per se, but there are very good, excellent research centres around the region. At the moment we have got a dialogue, a workshop, going with an institute called the Centre for Policy Research in New Delhi. We had a workshop here in July. We will have a workshop in New Delhi in November. That is looking at economic linkages between Australia and India. We have got good contacts in South Africa. There are two research institutes we work with in South Africa; one at the University of Natal, one at the University of Witwatersrand. In Indonesia, the same thing—we have got contacts there—and in Sri Lanka. So there are specific institutions we work, with and also individual researchers, yes.

Senator MARGETTS—You mentioned the nuclear issue, which was also mentioned by previous speakers. What is the situation with nuclear power in India at the moment?

Prof. McPherson—An interesting one. The question seems to be raised very rarely. The major source of power that seems to be popular in the public discussion is one that also raises the dams, the hydro-electric schemes, and also coal-burning. I have come across very little public debate in India, public discussion, about nuclear power. That is not to say it isn't an issue, but there are certain areas we just don't have any information about. We don't know anything about India's nuclear program in detail; for example, its nuclear weapon program.

Senator MARGETTS—So they don't have any power stations at the moment?

Prof. McPherson—No, no nuclear power stations at the moment. But whether they are on the drawing board or not, I don't know.

Senator MARGETTS—I was talking earlier about the environmental aspects of trade liberalisation. Has your centre looked at any of the issues involved with environmental aspects?

Prof. McPherson—We have got a project on the boards at the moment, but again it is in the lap of the gods. Let's see what happens in terms of finance. It will involve about half a dozen research centres around the region. We want to have a look the socioeconomic impact of tariff reduction, because this is one of the central issues that is going to be debated in the regional dialogue.

Senator MARGETTS—Perhaps you could talk our government into doing it here as well!

Prof. McPherson—Yes. What we want to do is look at a model: if you have five per cent tariff reduction, 10 per cent tariff reduction, 15 per cent, what is the socioeconomic impact?

Senator MARGETTS—It sounds like a reasonable thing to do.

Prof. McPherson—Everybody talks about tariff reduction in the region. We suspect there is a fallout, but we don't know the details. If we take India, for example, one of the levers against liberalisation of the economy working in the United Front ministry at the moment is the great concern, 'Well, if we have tariff reduction, what happens to all those state industries? It's going to lead to massive unemployment.'

Senator MARGETTS—There will be differences between sectors and—

Prof. McPherson—Different sectors and states. The negative impact is enormous. How do we balance that against the positive side. Is there a positive side? We simply don't know enough about these things.

Senator MARGETTS—That would assist them and assist other governments in terms of policy development in the future.

Prof. McPherson—We hope all our work is put in such a way that it can assist governments in policy development—the decision-makers.

Senator MARGETTS—I think it is an excellent idea. I just wish our government would do something similar.

CHAIR—I have got a series of questions. I am interested in your recommendations. You talk again about difficulties in Indians obtaining visas. We have had some conflicting evidence about this.

Prof. McPherson—I feel very strongly about this.

CHAIR—Perhaps you can tell us a bit about it, because Colin rang his office an hour ago and I think he is still talking to them. He has got a conflicting view on it. He says there are problems and he believes all that can be done is being done, but I would be very glad if you would put it on the record where you are having trouble.

Prof. McPherson—Well, I am not having trouble.

CHAIR—Not you personally.

Prof. McPherson—No. I haven't been to India for a year or so, so I haven't sighted the physical conditions at the Australian High Commission, but I must admit the physical conditions that existed there before for a visa applicant, I thought, were appalling. The High Commission itself can do very little about it because its funds are strapped; I realise that. But when I was last there, if you were an Indian applying for a visa, you

moved into what was virtually an iron cage on the periphery of the High Commission.

CHAIR—Colin has returned. We are still on visas.

Prof. McPherson—It is just the physical conditions. The entry point for Indians coming to get a visa, I think, is just quite outrageous. Also, there have been complaints about attitudes, particularly attitudes of locally employed staff, towards Indian applicants. This is anecdotal. I have got no evidence to support it, but it has come from so many sources. Now, on the other side, I have heard people say, ‘Well, look, the same conditions exist at the US embassy. The same conditions exist at the French embassy.’ I don’t think that really holds water. The same conditions may exist, but the US is a much stronger magnet than we are.

We are in the position where we still have to create impressions in India and we still have to create attitudes in India. It is a matter of perceptions. I just think it is bad news; it is bad press for us in India. The perception of us is fairly fragile. The positive perception of us is fairly fragile in India anyway; it is built up on so few things. This for us is, I think, a powerful negative factor in an important area, where Indians often first come into contact with what they perceive to be the Australian bureaucracy and the Australian attitude towards them.

CHAIR—Would you like to respond?

Mr HOLLIS—I am sorry I wasn’t here. It is really interesting, talking about the Australian bureaucracy, because, having been to India many times, I have never experienced anything quite like the Indian bureaucracy. Bureaucracies are bureaucracies. The visa issue is a difficult issue. There is an argument about whether we should have visas or not. That is a totally different argument. Successive ministers on both sides of government, on both sides of the political fence, have opted to have visas for all sorts of reasons. One of the real problems is that there are so many Indians applying to come to Australia.

I said this yesterday in Adelaide. I have been there, and I have seen the queue go right round the block there. In fact, many years ago when I came back, one of the recommendations I made was to improve the waiting room there—when they eventually get to the waiting room—so that something can be done there. It is a fact of life, though, that there is an overstay problem with many of the Indians, and if you’re from Indonesia, there are half a dozen countries where, if you’re in a certain age group and you’re applying to come there, you have to have very firm guarantees in this country. That is based on actual fact.

The other problem is some of the record-keeping in India, this bureaucracy. They have got to check all these things out. I don’t know about the locally engaged staff. We hear that from various embassies around the world. I don’t know how you overcome that.

It is a problem, but I don't think it's quite so bad. One of the other difficulties is that some of the Indians don't always abide by the requirements that are there. I well remember once getting a telephone call from the Indian High Commission in Canberra some years back, not the present one, telling me that there was a problem with a parliamentary delegation who wanted to come to Australia, and could I see what I could do to sort it out.

I went round to see our Speaker, and he said to me, 'Yes, there is a problem, Colin, because they are refusing to fill out the forms.' We heard yesterday in Adelaide of some people who wanted to come to Australia after the New Horizons program. Whether the people went through the right procedures or not, I don't know. I know if I am going to India or anywhere, I just can't go and say, 'I want a visa.' I have to fill in forms, provide photographs, and do all sorts of things. We are not talking about that difficult 18- to 30-year-old bracket; we're talking about, say, business people or academics and so on. Provided all the requirements are filled out, I fail to see there is a problem. The chairman I think indicated yesterday we will have a look at this and see if there is some way that the system can be streamlined.

One of the real problems, too, is that there are a lot of Indians who want to come here, for one reason or another, and there is a delay. We get the same thing every time there is a bit of cold weather in London. We get huge queues there, and we get complaints that they move slowly. Because it has been brought up not only by you, it has been brought up in Adelaide, it has been brought up by other people here, we honestly will have a look at it, and see if there is a system that can be implemented. If the chairman is successful in getting this committee to go to India, that is one of the things that—

CHAIR—We will have a look at that.

Mr HOLLIS—Next time we are there. I go to India quite a lot, and I have discussed this matter with India. Next time I am in India, I most certainly will have another look at it.

Prof. McPherson—Yes, a lot of the evidence is anecdotal. The thing is, it has been anecdotal for 20 years, so one begins to think that maybe there are hitches in the system.

Mr HOLLIS—Yes, and obviously there are elements. There can be improvements there, I am sure.

CHAIR—There are just a couple of other things I wanted to go through before we finish. You talk about more sustained use by various Australian agencies of local expertise relating to India and South Asia. Obviously putting money aside, which is hard to do, is one of the ways to sustain use.

Prof. McPherson—Yes.

CHAIR—Is there any other way that you can see we can do this?

Prof. McPherson—It seems to me that it is a case at times, with government agencies, of the left hand not knowing what the right hand is doing. We have a National Centre for South Asian Studies in Melbourne, which was set up by DEET, I think, three or four years ago. We have SARU—the two previous speakers here—and there are various other groups around Australia which could, I think, be considered by government agencies for contract work, whereas at times one hears of contracts about work to be done on South Asia—research work, this type of thing—going to quite odd quarters, if I may put it that way.

It seems to me that if there was a consideration on the part of government, we do have a body of South Asian expertise at various education institutions and research centres around Australia. Perhaps the government needs to look at where it puts its research money, how it contracts things out, and maybe build up a list of expertise. These are people who can be consulted. None of us is deluded enough to think that money is going to fall from the sky for us to run away and do all the nice little things we want to do. What we are saying is, 'We do have expertise, we do have skills. For God's sake, use us.'

CHAIR—You also mentioned scholar exchanges, collaborative research programs, student support programs targeted at the South Asian market, and tourism promotion. There is a certain amount of that at the moment, but it's largely a bit spasmodic, from what I can gather.

Prof. McPherson—Yes.

CHAIR—Is there any private sector scholar exchange, for example?

Prof. McPherson—Not that I am aware of. I think a couple of universities have got small schemes going, but there is no concerted effort. To perhaps make a little bit of an excuse for some of our universities and some of our institutions, I think one of the problems is that the Americans can undoubtedly attract a lot of Indian students and scholars. They are able to offer part-time jobs, scholarships, this type of thing, because, quite frankly, they are well endowed, and the big universities there have a lot of money behind them. Our universities aren't in that situation. We don't have the spare resources to develop a system like that.

I think the harsh reality is, though, that if we do wish to attract high-quality Indian scientists, researchers and students here, the government or some agency is going to have to think of some way of inducing them, because we are competing against the United States, Canada and the UK, which do offer financial inducements for these people, apart from the fact that they have the aura, they have the reputation.

CHAIR—One of the reasons I asked the question was that yesterday we learnt of one particular company which has brought 450 technicians out to Australia.

Prof. McPherson—Yes.

CHAIR—And it struck me at the time, it is a pity that one of our TAFE colleges or our universities or your centre or somebody wasn't aware and couldn't have provided perhaps something to supplement the training that that company provided.

Prof. McPherson—Yes.

CHAIR—I don't know whether you are in touch with these companies. Obviously there are a lot of big mining companies and so on around who are doing these sorts of things. Does the IOC maintain a register of those who have contacts with India and let them know that the services are available? I don't think it is all up to government.

Prof. McPherson—No, I take your point.

CHAIR—I think there is a lot that your centre and universities generally can do, to say, 'We've got people with these skills. We're doing this sort of work. We have a capacity to do more. If you're bringing people out, or if you're doing a project, remember we're here, and we'd be happy to help.'

Prof. McPherson—Sure. If I can say, with respect to the Indian Ocean rather than just with respect to India, for three years we have worked closely with the national Chamber of Commerce here about Indian Ocean issues, and the interest has been from business. We have been there to provide backup research if they want it, and support. The interest has been minimal. We have a real problem in weaning people away from traditional markets. We have a real problem in telling people, 'Maybe there's a prospective market here.' I can understand it from a business point of view to an extent. They are out there to do business, but foresight should be a part of the business program. And if I may say now, quite frankly, I think a lot of Australian businesses are going to suffer because we have put our eggs in a South-East Asian market, in one basket.

What we have been trying to say to people over the last three years is: what about insurance policies? Why not diversify? Why not think about markets elsewhere? We can provide you with information. It is a very hard message to get across, and we have had remarkably little success. And now, quite frankly, I have a little bit of Schadenfreude. I can say, 'We told you so. Don't put your eggs all in one basket.'

CHAIR—Yes. Given the currency situation at the moment, there are a few worried people around. Thank you very much, indeed, professor. It has been well worthwhile. If you have any papers or thoughts that you feel might be worthwhile to give to us—

Prof. McPherson—There are two publications we have put out on India.

CHAIR—Thank you very much. They will be very worthwhile. Thank you very much indeed for coming, and the best of wishes in the funding of the IOC.

Prof. McPherson—We'll keep on fighting.

CHAIR—Can I have a resolution that the publications be incorporated, together with the submission, in the record of these proceedings? Moved by Mr Dondas, seconded by Mr Hollis.

[12.12 p.m.]

HAY, Ms Beatrice, Managing Director, Whittefield Pty Ltd, Committee Member, Australia-India Business Council, Western Australian Chapter, PO Box 75, Floreat Forum, Floreat, Western Australia 6014

MEECHAM, Mr Robert Leslie, Secretary, Australia-India Business Council, Western Australian Chapter, PO Box 75, Floreat Forum, Floreat, Western Australia 6014

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WHITAKER, Mr Ian, Manager, International Trade Centre, Chamber of Commerce and Industry of Western Australia, 190 Hay Street, East Perth, Western Australia 6004

JORDON, Mr Geoffrey Wesbun Frederick, Proprietor, Jordon Enterprises, 21 Allamanda Gardens, Mirrabooka, Western Australia 6061

LEICESTER, Mr Oswald Keith, Adviser, Jordon Enterprises, 21 Allamanda Gardens, Mirrabooka, Western Australia 6061

CHAIR—Can I welcome you all to this discussion about Australia's trade relationship with India. The Joint Committee on Foreign Affairs, Defence and Trade is divided into four subcommittees. The trade subcommittee is one of the four. Our subcommittee is examining that question, along with Australia's trade relations with South Asia generally, and we have had a number of public hearings. We have received some 70-odd submissions. We are trying to identify the areas and the degree to which government and ministerial action can be taken and processes pursued which might advance generally the relationship.

Obviously, you can't trade alone. You need far wider subjects than just trade per se. Those of you who have been here through part of the last session or even the earlier sessions know that really there are politics, social and environmental outcomes, and a range of other issues that all seem to affect our relationship. As a result of the New

Horizons initiative and the fact that this year is the Year of South Asia, there is a certain momentum about, but there is no doubt that the change in India that took place in 1991 has not really impacted in the minds and consciousness of most Australians to the degree that the withdrawal of India into itself did, which really characterised the previous couple of decades. People still register, rather, India as not being as much part of the world environment as Japan, Korea or China, or the countries of the Pacific.

For that reason, we think that this inquiry comes at a particularly opportune time. There has been a certain amount of work at a government level. There have been a number of papers and inquiries that have produced outcomes. At the parliamentary level, it is about 10 years since former Senator Maguire chaired a Senate committee that produced a very good report on Australia's trade relationships, so we are looking at it in broad terms. I thought it was better that we have lunch while we are talking, so that we can save your time and essentially advance what we think is a fairly important topic.

The idea of having this round table discussion is really that we thought each of you would have perhaps a slightly different point of view, and some might like to react to what others have to say. Mr Ken Steinbeck, in fact, has already appeared before us this morning and given evidence on behalf of the West Australian government. Also, the Australia-India Business Council, Western Australian chapter, has a point of view. There is a submission from it which we have on record, and we are interested, Mr Meecham, in your comments on that.

Apart from that, there are a few procedural matters about which I should advise you. First, we don't require witnesses to give evidence on oath or anything of that kind, but these are formal proceedings of the parliament and there is a *Hansard* record to which we will be able to refer. Subsequently, when we produce our report, we will identify any particular matters that come from that, and there will of course be a full transcript of the public information made available. If you have some information which you wish to remain confidential, then by all means request it and we will be happy to consider that.

I suggest that each of you makes an opening statement. Ken's testimony is already on record today, but if he wants to say something in this context, we will be happy to hear it. Rather than beginning with you, Dr Stokes, it might be better if you begin, Mr Meecham, because you have got a submission we have received. You might like to add some comments. After making an opening statement, we might have a general discussion.

Dr Stokes—I am Managing Director of Expert Access Pty Ltd. I am here in that capacity, and also as a member of the committee of the Perth chapter of the Australia-India Business Council.

Ms Hay—I would like to give a bit of background information. I was a former official in the Indian government at professorial level in tertiary education. I am also a lawyer of the Madras High Court. I have been in this country for a fair while. Recently I

completed a masters degree in marketing and international business law, all of which is very useful in what I am going to say. I have come here today because I am the Managing Director of my own consultancy, Whittefield Pty Ltd, and I am also a committee member of the Australia-India Business Council.

Mr Steinbeck—I am appearing before the inquiry as a committee member of the Australia-India Business Council and also as a representative of the state government.

Mr Meecham—I am the Secretary of the Australia-India Business Council, Western Australian chapter. I am the Associate Director of the Indian Ocean Centre, but I am appearing here on behalf of the council.

Ms Maguire—I am the Marketing Director for GoldCorp Australia at the Perth Mint. We are starting to do some business in India, so I am here representing GoldCorp's interests.

Mr Whitaker—I am the Manager, International Trade Centre at the Chamber of Commerce and Industry of Western Australia.

Mr Leicester—I have been chosen by Mr Geoffrey Jordon of Jordon Enterprises as an adviser because of my 34 years experience in trade and commerce in India.

Mr Jordon—I come from India myself. I was a company secretary in my previous appointment in India under the Companies Act 1913, in a registered company there. I had my own manufacturing units in India in the small-scale sector and I also had my own transport business. I was involved in a number of neo-political organisations, including the implementation of government projects while I was there. I have been out of India for the past 10 years but I have still maintained, as you would see from the documents that I have submitted, liaison with Indian counterparts over there. I had an import-export business in India, and now I have decided to perform more liaison work, or present ideas to this committee.

Mr Meecham—The Western Australian chapter made a short submission. We were aware that the AIBC nationally was making a submission and we thought that they would probably cover most of the significant points. We wanted to point out to the committee that there was a WA chapter, and it reflects the fact that Western Australia is active in activity, be it in trading or trying to stimulate trade with India. The main points that I made in the submission related to the establishment of the chapter here and what we try to do, and then looked very briefly at some concerns that we have about the way in which the government is handling the foreign affairs portfolio in relation to services that are provided through the High Commission and Austrade.

My background is working with the Indian Ocean Centre and, of course, you have just had the submission from the Indian Ocean Centre at some length. As I understand it,

this session is to concentrate very much on the business relationship, so I don't want to say anything more at the moment but rather allow the others who are working in businesses, and who are active there, to say more.

Dr Stokes—I understand you are interested in what my involvement is with India, what difficulties I see there, and some observations in general. I have been dealing with India over the last three years. My business is called Expert Access Pty Ltd. It is fundamentally about exporting the clever country; the notion that Asia is growing faster than it can replace its need for capability; that Australia has a reservoir of that capability that it can sell as an export service. That is where I am coming from. I am a former academic and I have worked closely with industry and universities around Australia over a long period of time.

We have a course in developing a proposal for grant funding. I have delivered this to 10 or 12 Australian universities. I have two licensees in India, a management institute, and my representative, who run this course in India. It basically provides assistance on how to package a project idea into a formal proposal for funding. We are also involved in transfer of technology, in problem-solving, research and customised training. We also do some study tours between the two countries. My representative over there looks after the Indian side of the business and I look after the Australian end.

We have had difficulty because of our arrangement. We are both small businesses and we have an arrangement whereby we cover our own expenses and we take 50 per cent of the returns from any business we do. The basis of that arrangement in India is that rupees can't be converted and I can't get any money out of India for the work that is done in India. That is a fairly major problem that we have. Maybe if we had a different arrangement, if we could afford to employ our representative, we would be able to repatriate funds. But that is not feasible either for my business or for my representative's business, so we are stuck with this problem. It is soon to be overcome with some technology transfer we are doing from here so that we will deduct the Indian amount and pay them a lesser amount. They hold all the rupees that are there, but it is not really a very satisfactory arrangement. So that is a major one.

The other comment I would like to offer—and I accept this is a personal observation—is that Indian businesses, both government and private, seem to have a very strong perception that there will always be somebody else to pay for any service that they receive. There is a mind-set, very generally, that there is someone else who will pay, so businesses slow down enormously while the Indian partner looks for that source of funds. It might be from a foreign agency. An example is a major industry development bank in India. I have been trying, over a year, to provide courses to them. My estimates of their annual profit works out at something like \$200,000 per employee of the bank. That is from their annual report. I am looking to charge \$10,000 to put 40 of their employees through a course and it has taken over a year while they have tried to find foreign funds to pay that miserable amount of money.

I see that as just an example of one of the difficulties that we have in doing business with India. Whereas an Australian organisation would say, 'Okay, we want the service; we pay for it,' in India there is always this—deep breath—'Who can we find to fund it?' I think that is not solely a difficulty with India. Countries that have been supported over a very long period with foreign funds seem to take that attitude, but to an Australian this attitude that someone else is going to pay is a bit of a surprise when you first come across it.

Ms Hay—I have been concentrating on finding sources of finance for companies, small businesses, wanting to do business in India or elsewhere. At the moment we have got some interest in engineering companies approaching me to start various projects in India. As I would advise any small business, the ideal way for them to go is under the joint venture partnership, because for a small business to start on its own without any partner in India would be very difficult. Of course, for a very large corporation that is a different story. That is the advice I give people.

Of course, with regard to finance, India has foreign exchange problems to a certain extent, although it does overcome them. Also, it is not as bad as formerly. That situation should improve. But if the Indian rupee is 26 or 27 to the Australian dollar, that is a vast difference, and that is where the problems come. So any Australians going into India to do business should do their homework very carefully. Of course, Australia is now opening up offices in the south, in Chennai. It was rather lopsided till now. All the Australian government offices were concentrated in the north—in Delhi, Mumbai and so on—and the south is a very significant portion of the country. So the Australian presence should be there. It is very important for people to rely on Australian assistance, where the money is coming from, as Dr Stokes just said. They do require assistance by way of finance, and I think the Australian government will be coming up with some suggestions in this area.

Mr Steinbeck—I would like to reflect on some of my experience in dealing with local companies who are engaging with India. One of the major problems seems to be a lack of understanding of the business culture. The business culture in India is much more subtle. Because English is widely spoken, people assume that the business culture is fairly Westernised, but companies here, I have found, do not react very well over the medium term in their dealings with Indian companies.

For a start, they do not understand there is a very slow decision-making process in India. They do not understand the bureaucracy that can slow down approvals. They do not appreciate that most businesses in India are family businesses, and there is an extended network of decision-making and consultation before you arrive at decisions, and the fact that Indians would appear to like to draw out negotiations and to some extent frustrate the Westerners, because I think that gives them some bargaining position. A lot of companies here in commercial transactions are used to dealing with strangers and coming to contracts fairly quickly. That is not the case in India. So there is a lot of subtlety about doing business in India, which is not understood.

I think one recommendation I would make is that there needs to be some sort of program, perhaps through Austrade, of raising awareness amongst people who are exporting to South Asia in particular—a program to raise awareness about the business culture and what to expect, because people are starting to see India as being too hard. Our experience is that most of the companies we have been dealing with who have been there for some time understand that feeling, and yet they say it is worth persisting, because they can see that India is a medium to long-term proposition.

For example, some research done by Michael Thorpe that was quoted at our conference at the Indian Ocean Centre had queried some managing directors of Australian mining companies that have been in India for some time—BHP, Rio Tinto, North Ltd. They have reported that, although India was a hard market, they actually encouraged people to persist because they said that they had generated profits in India within two years of establishment there, whereas they had not generated profits in China or in Malaysia. So India was seen as worth persevering with, although it is very frustrating and, from our point of view, fairly difficult. One of my recommendations is a personal one, really, that we need to help develop the culture of international trade relations amongst the business people by raising awareness about the subtleties of doing business with Indian firms.

Another point I would like to make is that I have seen a number of major opportunities, and I do not know if they have been engaged or not. But one opportunity is that it appears that the Indian government is looking to use LNG in a fairly substantial way in the future to fuel the energy needs of Indian industry. At the moment the per capita use of energy is about half that of China and they have a tremendous need to produce all forms of energy in order to fuel the growth they are anticipating.

We had a minister, Mr Baalu, in Perth about two months ago, and he indicated a very strong desire to move away from importing Australian coal to actually importing Australian LNG. He was indicating that the east coast of India from Madras to Calcutta is the ideal venue for small gas-fired power stations of the 50 to 100 megawatt scale. His ministry thought that sourcing LNG from Western Australia would be an ideal strategy. In fact, he surprised everyone at his briefings in Perth because no-one anticipated he was actually talking about buying a billion dollars worth of LNG by the year 2000.

I would strongly suggest, just as we are looking to do with Korea, that the federal government may fund a feasibility study with the Indian government to look at the supply of LNG from the north-west, from Darwin through to the North West Cape, from some of the newer fields like Gorgon and Challis, and look at the transport of that to the east coast of India in order to fuel some of their future needs, because they are very definitely going to move away from coal, and coal is one of our major exports to India. If they are going to reduce their reliance on coal and move more to natural gas, then we have got to start positioning ourselves for that.

Woodside were very interested in their interests in LNG, but it came completely out of left field as far as they were concerned. But maybe in order to progress things some sort of feasibility study could be funded to look at the economics and the infrastructure needs of supplying LNG to the east coast.

Ms Maguire—GoldCorp Australia's interest in India is based on the fact that it is one of the largest gold markets, if not the world's largest. We started looking at India probably about four or five years ago. We did a number of trips over there with various personnel, looking at the potential for importing gold in bar form. There were a number of difficulties in importing product to India, precious metals particularly, and the margins available in tola bars and gram bars just was not sufficient to make it worthwhile to pursue at that time. However, we maintained an interest there, and two years ago developed a relationship with a company who is actually a diamond company but they also distribute religious medallions in silver to a number of clients.

We started manufacturing value added medallions here in Perth and shipping them to this client in Mumbai. The business is quite small but we could see the potential there, although the market was unsophisticated in terms of appreciation of quality and so forth. The client has managed to develop an awareness of things that are better that may be coming in from outside India, and a reputation has been built around that for the Perth Mint GoldCorp in India. As a result, we decided to have a different focus on our approach to India and look at the value added medallion market rather than the lower margin bar market, and have found earlier this year a number of clients who we have signed up to commission us to manufacture medallions on their behalf.

We are currently considering opening a representative office, probably in Chennai, later this year or early next year. We have employed an Indian gentleman who is resident in Perth, he has been here for about 20 years, an ex-UWA academic, who understands the culture and background of doing business in India, which we feel in every region that we operate is essential. The business that we have done to date is relatively small compared to our operations in other regions, in the vicinity of \$1 million. We expect with our current operation to be able to expand that business, do twice as much in the next year and, hopefully, with the opening of a liaison office, to substantially increase that over the next three to five years.

Some of the obvious problems that we have encountered in dealing with precious metals in India are, for a start, their laws do not allow the importation of legal tender coinage. It is something that we are working on with the government over there at the moment because of the Olympic coin program which, incidentally, is being launched today. Importing gold in any form is limited to clients who have special import licences or SILs and the non-resident Indian route where there is a limited amount ever to be exported.

With a lot of the deregulation that happened earlier this year, the government has

decided that a lot more people can be issued with special import licences. It is allowing a lot more of the banks to officially import gold and silver into India. We are hoping that that will allow us to find new avenues to get our products in there. The banks in India have not got a very good rating in international standards, and as a result letters of credit can prove quite difficult.

The credit committee and the mind-set of Australian businesses, including our own, is that they work on the international register of banks and over certain limits they are not actually permitted to do business without having it guaranteed by an Australian bank, which on higher value letters of credit can cut into your margin very substantially. We are hoping, within our own organisation, to be able to look at India a bit more flexibly than we do with some other regions so that we can try and increase our business.

Freight is another problem. Our insurance company will only permit freight into Mumbai and Dubai. At the moment other regions, and particularly inland regions, are having very serious problems in getting anyone to insure freight into those regions. Even into Mumbai everything has to be in screwed down wooden boxes, whereas everywhere else in the world you can have strong cardboard boxes. Freight and the infrastructure in getting product around there is difficult. Apart from that, we see a huge potential in that market, initially in the value added medallion business, but later on when we have established a presence, in the gold trade generally.

Mr Whitaker—Our chamber's recent involvement in India began 10 years ago when it was decided that we should send our first trade mission to India at the invitation of the Madras Chamber of Commerce and Industry, who had visited us on the invitation of one Michael Kailis. Michael had developed a good involvement with Madras over a number of years, supplying fishing trawlers into India, and was probably one of the few Australian companies at that time supplying anything other than wheat, wool and coal to India.

The mission finally went in May 1989 after two deferments. It was very difficult to generate interest in anyone going on a mission to India in those days. Subsequently it did finally go, in May 1989, when it was led by the then Minister for State Development, the Hon. Julian Grill, at our invitation. India still was basically a closed shop in those days. The events of 1991 certainly changed the situation. We subsequently went back with a second mission after that, and have supported the state and federal government initiatives as well since that time. In recent years we have developed very close links, close relationships with our counterpart chambers, at least in the main metropolitan centres of India, and I think probably have a better working relationship with the chambers there than in almost any other country.

Of course, we are seeking to do that in the interests of our 6,000 or so members, many of whom already trade with India, and many of whom would be interested in trading with India if the opportunities were right. Although we have put a lot of effort into India,

I would have to say that it is still regarded, certainly at the corporate level, as a difficult market, a difficult country with which to conduct business, for two major reasons, and they have been alluded to here this morning. One is the regulatory environment. It is still a very protected market compared to Australia, for example, and most other trading nations. The barriers are still considerable in a lot of the product and commodities that Australian companies traditionally like to export, and allied to that there is a cultural thing on our side, where Australian companies are just starting to learn about alternative market entry strategies.

They are starting to learn that there are other ways to do business overseas, rather than to sell finished goods for cash—joint ventures, technology transfer and licensing, franchising, et cetera—and that is obviously the way to go in India, and that is the conclusion we reached on our very first mission there; that it was all about technology transfer and joint ventures and licensing, not about selling finished goods, certainly in those days, and it is still very much true today with most product categories. Many Australian companies are still coming to grips with this new concept, but times are changing, and I think attitudes are changing very rapidly.

That is the first reason, the regulatory reason. The second is the cultural, and Ken mentioned this as well, and it is very true, that there are significant cultural gaps. Despite the common language and cricket—we all open our conversations talking about cricket and so on—there are some very important common cultural links between India and Australia, being both former British colonies and the British heritage and the legal systems and the accounting systems and so on. But despite that there is a real genuine cultural gap, and many Australian business people find it difficult to bridge that gap, as indeed I am sure the same is true in the reverse. So there is that area as well to be considered.

Talking about the reverse, I would just like to make the point that a bilateral economic relationship should be bilateral in the truest sense of the word; that is, it involves two-way trade. I think there is a danger. We on our side tend to focus on selling, selling, selling our technology, our services, our skills, our products, and that is fine, but at the end of the day we can only sell to the world if we are prepared to buy it back. So we I think at the chamber, probably almost in isolation of most other trade promotion bodies that I am aware of, have tried to keep a balance on it and tried to facilitate trade back in the other direction.

There is a very considerable interest in India in trade with Australia. Just as anecdotal evidence of that, I can quote the number of meetings I have been at in chambers around India where it is attended in a room this size. There is standing room only. When they know that there is a mission in from Australia or someone visiting from Australia, they turn out in droves. Most of them want to sell to Australia. Some of them are keen on joint ventures and sourcing product from Australia, but most of them are there to sell. Secondly, we probably get more product offers and inquiries from out of India than all

other countries put together. There is a demonstrative interest there in them wanting to do business with us. It is not all the other way.

Much is said about how the awareness among the Indian business community of Australia is very low. I am not sure that that is as true as many people believe. I think there is a fairly high awareness of Australia. Maybe they are not fully aware of the nature of the business opportunities Australia has to offer them, but there is certainly a high awareness of Australia itself. Many of our members are already sourcing product out of India, and I would have to say many of them are having problems with quality and packaging and packing and so on. I have seen some horrendous stories. They tend to only come to us when things go wrong, and many do come to us and ask us to help sort out a problem. So there are real problems in quality of Indian product and packaging in particular.

Perhaps I can conclude by saying that we have come a long way in 10 years since we first went to India, and the number of Western Australian companies, certainly Australian companies, but Western Australian companies that are on the ground there doing business now, or trying very hard to, is far greater, probably many times than the number that were there 10 years ago; Michael Kailis and about nobody else almost, apart from the commodity traders. But it is still regarded as difficult, because of the two reasons I have mentioned: firstly, the barriers are still there, the tariff barriers are still there. I know they have come down a lot, but they are still very high and it makes it very difficult. Secondly, the cultural gap is very real. Perhaps I will leave it at that.

Mr Jordon—I am sorry, I didn't look at it from the West Australian perspective. I looked at it from an Australian perspective.

CHAIR—Which is really what we want. That is the perspective of—

Mr Jordon—Yes, because I thought I didn't want to narrow down the perspective, because if we have to break ground over there or make inroads into the market, I think the purpose of this committee is to find a strategy to do that, rather than to find complaints coming in from various sources. Sorry if I am a little blunt about this, but I feel for the members of the panel as to the difficulties they actually faced. I had made a submission on the premise of the terms of reference, and I specifically tried to address the terms of reference in the Indian context through my own functional understanding of the way business is actually conducted there, as well as the way we perceive Indian business.

A number of the points which I had mentioned in my submission have been touched upon by several of the members of the panel, and I was a little confused as to whether I was actually going to discuss my submission or discuss the agenda that John had actually sent me two weeks ago, so through my contacts in India and through a little further research into this, I have come up with a small document which I have placed before members of the panel, and I have decided to open this discussion on the premise of

a hypothetical question: To what extent does Australia want to get involved with the Indian business sector?

To answer the question, the first difficulty that Australian businesses would have is to stifle the political influence in business. Fortunately, here we do not have that to any great extent, but there they move hand in hand, and there is not only the political influence that is there, there are also the bureaucrats. You cannot do business without bureaucratic interference, and I think that is where most of the businesses would find a lot of stagnation or the problems that would arise from there. I will just read out some of the points which I have set out. The degree to which we need to do business needs to be determined by the Australian government itself, and on that premise we could move forward in looking at exploring avenues for business.

From whatever information I have at my disposal, we have come up with a small document. The question would arise as to how best the Australian government would need to determine the involvement in the interest of both countries. In my initial submission I made the point that India would look at business on a reciprocal basis, and as you can see from now, we have got \$1.2 billion being exported to India, in two basic products of coal and wool—I will come to those points a little later—and imports into Australia are worth about \$600 million or \$700 million. So the trade imbalance needs to be looked at, which I think Mr Ian Whitaker mentioned a little earlier. So unless the Australian government looks at that very closely, I think we would have a few problems.

Australian business, with the assistance of the Australian government—I am insisting on this because it needs to be looked at culturally as to how the Indian thinks—would need to look first of all at infrastructure projects. The infrastructure, while it exists over there, is in a state of disrepair. That is the biggest problem. They have two million kilometres of roads and about 75 million, 100 million or 200 million cars. While the growth of roads has been five per cent over the 50 years since independence, the growth in cars has been 750 per cent. That is the difference between them. So there is a scope over there for growth in infrastructure projects.

The other infrastructure project where they had disarray in planning was the power sector. I think someone mentioned earlier that the power sector needs to be looked at very closely. The simple reason is this: between 1960 and 1970, they electrified the entire railway system, and they use thermal power to a great extent. There were one or two hydro-electric power stations, but the capacity for those was to produce about 500 megawatts of power, which in real terms would never satisfy the demands of a growing consumer market, industry and the railways, so they had a crisis.

Because of the political problems that emanated from India, they became introverted in their outlook. I will come to that economical factor later on. So I think the government would need to look at infrastructure, and I think every Australian company that goes there would need to have solid backing by either a statutory body or the

Australian government, and that is the only way, because the Indian businessman leans towards government as a safety net. That is why all banks in India, except for a few foreign banks, have been nationalised, and in my submission you will find that most finance to business is done on the basis of a feasibility report rather than on collateral. So even if the business fails, there is a possibility that the goods will be dumped at the doorstep of the bank, and of course the government takes responsibility for the failure of that enterprise.

The second aspect of Australian involvement should be in joint ventures. There are certain documents laid out by the Indian government itself in terms of how joint ventures are to be executed, in terms of technical collaboration. While they have the intelligence, they do not have the ability to promote that intelligence, and I think that is where we as an Australian counterpart need to actually get into that.

With regard to the finance industry, of course, one of the strategies in our own trade outcomes is to make inroads into the lucrative insurance market. Again, the insurance market was nationalised after General Insurance was bought by the Gandhi government about 20-odd years ago. So industrial equities is another area they can go to, and of course their perception of Australia as being a primary producer is something we need to play on. They protect their primary industry only because of the poverty that exists within the farmer population, which is about 65 per cent of the Indian population itself. But they perceive the Australian farmer to be a wealthy person, so that is the cultural difference. So politicians, bureaucrats and the like would always protect that particular industry.

In my submission I had made a suggestion as to how to make inroads into that industry, because we are looking at food processing and other services. Of course, Telecom is over there, but I was a little appalled that a country like Switzerland could beat Telecom to a contract, which means we do not have the ability to liaise with Indian counterparts. When I say 'liaise', I mean at the highest political level, which means also using full, total political expediency. I cannot put it in a more simplistic term—political expediency to the extent of looking after their interests. That is the only way that we could make inroads and get business across in India. That is a tremendous weightage there.

The other important aspect in which I think we can make inroads is to look at the zones created by the Indian government for EPZs, if some of you are unfamiliar with the term, export processing zones, and the EOUs, are export oriented units. There are some conditions attached to those ventures over there, but I think they are more in line with our own interests.

Under the agenda that John sent me, we were looking at tariff barriers that exist there. Because of the way the economy functions in India, it is a factor that needs to be taken into consideration very strongly. They have the legal tender or the legal economy,

and they have what we know as the black economy. The black economy ranges from around 400 per cent, in ratio 400:1 to the legal tender that exists over there. So most business dealings are done by cash on the black market. Therefore, tariff reductions for the Indian government would be catastrophic in that sense because they cannot reduce tariffs to such an extent, because things would be bought in cash. Businessmen would come in with suitcases as long as this table full of cash, and they would just drop it at an exporter's door and say, 'Okay, that is it what we need to do.'

The only thing we need to do is implement tariff reductions under GATT agreements. Of course, Australia in its bilateral talks has managed to draw India into this to a great extent, and I think there are bilateral processes in place. They would need to be emphasised with the Indian government itself, but only at the highest political level. I am sorry if I have to say this but the AIBC at present would not be strong enough to make representation to the Indian government unless it has statutory backing. As far as Australia is concerned, it does have, but as far as India is concerned, it would be looked at as another body which just pays lip service to whatever happens around the country over there. This is practical. I am a practitioner in terms of how business is actually conducted, and the Indian businessman himself is like that, too.

There is what we would call a brighter side to this whole thing. If the Indian perceives Australia as being genuine, as I said in my document here:

However, if the Indian government observes that the Australian government—I use government to government level—is fair dinkum about its investment and increasing trade in India, I am pretty sure it will make concessions to reduce tariff barriers in the form of a bilateral agreement.

You need to hammer home that point about bilateral agreements and tariff reductions, especially in the area in which we are exporting to them at present, and that is in the wool industry. I have a friend who runs a wool business in India and he has just told me that the federal government in India has—this occurred on 22 September—reduced the tariff barriers on wool exports to about 15 or five per cent. So there is a further reduction in the tariff barriers. So that would be a bonus for India. But I emphasise that they need to be able to look at the bilateral discussions from their point of view so that they are able to help Australia to export the goods that Australia wishes.

This is primarily the way the Indian thinks, and of course he will do business in terms of when a bond is actually set together. I go back to the political context. In the early 1960s when China was on the verge of going to war against India, they tried to create a political pact between the two countries, and the Indian looked at China as being a brother, and in a brother state they do not infringe upon each other's legal boundaries, but of course China did eventually invade in 1962.

The same thing happened with Russia, but I think the Russian experiment for India was disastrous. They had Russian collaboration. The Russian machinery and equipment

was even worse than what was produced in India itself. Quality control was of the lowest standards. Third World countries were rejecting Indian products, and all with Russian expertise. I think, to some extent, the breakdown of the Soviet bloc has been a blessing to Australia in that sense. But although I said in my submission that it is a little late, I think we still have time to bond that together.

What needs to be considered is that this reduction process has been taking place over the past five years. It is still in its infancy. I think five years to reduce a tariff from 300, 400 or 500 per cent to 25 per cent is a big thing. We are protecting our industry with tariff barriers. The government has just protected the car industry in Australia, as well as the clothing industry to some extent. So I think it needs to be looked at from a more rational point of view, a more practical point of view, in terms of the tariff barriers. If they make concessions for Australia, they will reduce tariffs if they find that the bond is strong enough.

I quote some recommendations by the Tax Reform Committee, which was instigated in the early 1990s:

The recommendations of the Tax Reform Committee headed by Dr Chelliah which has been accepted in principle by the government is phased reduction should be carried out on tariffs by the year 1997-98. The ad valorem duty rates on industrial issues would range between five and 30 per cent.

I think in view of what I said earlier, and in view of what my Indian counterpart has actually mentioned to me, there is some substance to that.

Following the above suggestions on tariff reductions I think the policy document or trade outcome statements which we have put in our prospective strategies would increase opportunities for Australian investment in the finalisation of bilateral investment promotion and protection agreement. There needs to be more emphasis, and it needs to be hammered home, that if you want us to invest in your country you need to make concessions. They play hard ball but they like to negotiate. They like to come from a position of power, they like to negotiate with people. They have a tendency for what they call the bargaining temperament. So if you throw a price at them of, say, \$100 for a tonne of wool, as a hypothetical situation, they would say, 'No, I will give you \$50' till they come to a midpoint between what they can accept and what you are able to accept. So that is one way of actually scheming through Indian business.

CHAIR—What we can do with your paper is incorporate that, so that might save you having to go through it all.

Mr Jordon—That is fair enough.

CHAIR—Finish your remarks, but we can incorporate it all and receive it into evidence.

Mr Jordon—I mentioned here that the problem lies with the Australian government and companies in terms of India not having a broad base for investment levels, and that is what I mentioned a little earlier regarding making inroads into the finance industry. The opening up by the Indian government is still very premature and very young, and therefore they would need to be nursed into understanding that breaking down tariff barriers or allowing investments to come in there would actually implement or create what they call jobs and other allied services.

I have, however, mentioned here that one of the points that needs to be considered is frequent dialogue. The chairman attended an AIBC council meeting in September. Am I right, sir?

CHAIR—Yes.

Mr Jordon—I got the document yesterday from the bureau in Canberra. The next AIBC meeting will be in September or the third quarter of next year. That document, in terms of my understanding, is going to go to sleep. There need to be quarterly meetings. I know it is going to be an expensive process, but I think the end justifies the means. Once the process is put in place, it needs to be hammered home with the Indian. There needs to be frequent dialogue, there needs to be a continuum of dialogue, as I have mentioned in my document here. It is suggested that frequent dialogue be initiated at the highest level. When I say ‘the highest level’ I do not mean recommending bodies like the AIBC unless they are empowered by the highest political office, bureaucratic office, to be able to make recommendations so that the bilateral agreements could be put into place. The investment proposals by the Australian investors need to have the full backing of the Australian government.

CHAIR—I think we can put some of this in, and get on with the dialogue.

Mr Jordon—That is fair enough. I would like to briefly go through the NTBs, if you would allow me to go through that?

CHAIR—Yes, but do it quickly because I want to allow everybody a bit of dialogue.

Mr Jordon—Fair enough. I think the NTBs are the most significant factors for Australian business itself.

Senator MARGETTS—Pardon me, what is an NTB?

Mr Jordon—Non-tariff barrier. I have put here, ‘the inability to liaise’, and I mentioned it earlier. It is the political expediency. For the Indian, water does not seep upwards like rising damp, it percolates downwards. So it needs to be done at the highest level. Then it flows to business. This means that the recommending bodies such as the

AIBC would need to make strong recommendations for the decision-making bodies to implement rather than consider. That means there needs to be a little forceful discussion in terms of what we want and what India needs from us. It should not be viewed as lip service. It should not be viewed as a holiday destination or a prelude to a holiday by the various people that service this committee. Firm recommendations need to be made in terms of constructive action. I think the words 'constructive action' need to be looked at very closely as well.

The other NTB that we have at present, which I think is an Australian problem, if I may say so, is the availability of low-cost finance to Australian businesses to fund either joint ventures or 100 per cent equity projects in India. I think the federal government would need to look into that.

CHAIR—Yes, we have had a series of representations on that.

Mr Jordon—Yes. I have had inquiries from Queensland, New South Wales and Melbourne on the same premise, as to whether the federal government is going to do that. Import quotas are a peculiar problem; I have already mentioned that. The ad valorem tax, or the value added tax, which I think the federal government of Australia is wanting to implement, is one of the most significant taxes that is levied in terms of consumable goods in India. I will give the background to this information.

One of the most difficult things for government in its tax policy is to elicit tax in terms of the sales tax. Sales tax is not at source, it is at the end of the chain, which means it is added at the retail level, in which case an Indian businessman would come to you and say, 'Do you want to buy this commodity with tax or without tax?' The tax is about 24 per cent on the goods itself, so you would say, 'I want it without tax,' so that you get it cheaper from them. That is the way they do it. The ad valorem tax is value added tax that is put there to safeguard India from this black economy. The black economy is much larger and much deeper than the actual legal tender itself.

I have very briefly mentioned red tape, which needs to be thrashed out by the Australian government. Customs procedures: again, I mention the liaison that needs to be done at all levels, from the bottom to the top, and that the procedures need to be streamlined to the acceptable practices, standards and limits accepted by Australia itself. We have acceptable limits on certain goods that come into Australia and I think we need to look at it from that point of view.

CHAIR—I think we might incorporate the others. We are running out of time if we don't open it up. You have got a number of other points, all of which we will incorporate.

Mr Jordon—I think there needs to be a little more explanation, but since we are running out of time, I will leave it at that.

CHAIR—You have identified each of these, and on many of them there has already been evidence given. While I don't want to cut you short, I am conscious that we are running a little behind time, so we will incorporate this directly into our evidence. What I wanted to do was look at some of the matters that you have raised, and some that you haven't raised. We have had evidence given about, for example, visas. Have any of you had trouble with visa issuance from India?

Mr Meecham—Getting people from India? Yes.

CHAIR—Getting from India, not from Australia into India.

Mr Meecham—Yes.

CHAIR—What is the nature of that problem?

Mr Meecham—It is just simply getting the visa.

CHAIR—What is the problem? Is it getting it from Australia? Is it the Australian process?

Mr Whitaker—Can I give an actual example which really highlights the problem? I think the problem is at our end, not at their end. A couple of years ago we held a major conference here, which brought delegates from about 15 countries throughout Asia. We had a lot of registrations from the subcontinent. This problem was probably more in Dacca, Bangladesh and Pakistan than in India, but it was a general problem with the subcontinent that didn't appear anywhere else. Delegates, all of whom were members of chambers of commerce in whichever country they came from, registered and paid their fee. Then we got a panic fax from them a week or two before the conference to say they could not get a visa, that the Australian High Commission would not issue a visa.

We spent the rest of the two weeks leading up to the conference on the phone and fax to the immigration or visa officials at the high commissions. The standard reason given was, 'Well, our assessment is he's not going to Australia for bona fide reasons. He's registered for the conference, sure, but he really wants to go there to do business. He's going to take some samples with him.' So they basically refused them on those, I think, spurious grounds.

The classic one was the secretary-general of one of our counterpart industry associations, which was, from memory, the Bangladesh Chamber of Industries, for whom we had set up a program here in Perth. Aside from the conference, he wanted to visit a dairy farm and a factory, and we had arranged a program of appointments for him. They refused him a visa, and wouldn't issue it even on our appeal.

We went through the procedures and issued invitations for all of these people who

had registered, to comply with the visa-issuing requirements, but in the end I think we ended up with one delegate from Pakistan, one from Bangladesh, and a few from India. We had to return the registration fees for lots of delegates. They just couldn't get past the visa officers.

Mr Meecham—We have the problem—and it does seem to be a problem—in terms of the office in India, in New Delhi. I don't know what the problem is, but certainly it is one that we canvass regularly through the Australia-India Business Council. It is a problem that we run into at Curtin in terms of trying to get students over here.

With the bureaucracy, when you get to people who are exercising power at the grassroots level, the attitudinal change has not reached that level in many parts at this stage, but it is coming, and I think there is an awareness that it is an issue that has to be addressed in India.

CHAIR—There has been some evidence given to us of the general level of political instability. There have been successive prime ministers. The political system seems to be going through a process of change. Is that something that worries business, or isn't that in your consciousness?

Mr Meecham—No, I suppose we listen to what the Indian business people say when they are coming through. The group that came through from the Confederation of Indian Industry in May made the point that at their annual conference in May they had the Leader of the Opposition from the BJP, the newly-installed Prime Minister—who had only been installed on the day they held the conference—and the previous Prime Minister, all address the national meeting. They all said the same thing: 'The economic changes are going to continue, no matter which one of us is in power, whether it's BJP, Congress or National Front.' They are all saying the same thing, and I think that within the level of the bureaucracy there is just a commitment that the change is there. It now has to go forward.

Mr Jordon—Yes, I would support that view, because that is the information that they have given me. Political instability in terms of the various factions between the political parties might be different, but I think the objective as far as the country is concerned will be one. I think that is a multi-party agreement that they have taken, in principle at least.

Mr Stokes—It relates in part to the cultural and the democratic sense in India. I have never been in a country that had a stronger sense of democracy; that is, every person has their vote. This point that 65 per cent of the population are rural—that is a majority vote—and the interests of the rural party are very different from the interests of Mumbai or New Delhi or roads around the capital. The votes are not there. They are in the countryside. That makes for difficulty, I think, within India.

Mr Jordon—That is the cultural complexity which I have—

Mr Stokes—We have a notion, because we call it India, that it is one country, but I gather in Assam there are something like 250 separate languages spoken in that one state. It really isn't one country. It's an amalgamation of many different cultures and different countries, and it is up to us to deepen our understanding of that when we are working with them.

I would also like to pick up on a point made—that maybe Austrade should provide more cultural background briefings for Australian businessmen going overseas. The federal government has funded Asia research centres at a number of universities, and one of their briefs is to provide training assistance to Australian companies wishing to go abroad. Murdoch and Curtin universities here, Macquarie, Sydney, Monash University, a range of them, all have these centres. I would suggest that if that proposal were taken up, maybe they would be a better source of capability for training.

DFAT has put out a very interesting and useful tape and a little booklet about the cultural issues that Australian businessmen should be aware of before dealing with India. That is a very useful product as well.

CHAIR—We are running out of time, I am afraid. Thank you all very much for coming. Has anybody anything they really want to say before we close, because I know we have taken quite a bit of your time.

Mr Jordon—There are lots of things which I want to say but unfortunately we can't.

CHAIR—Can I thank you all very much for participating today. Each of you will be sent a copy of the transcript, so that you will be able to look at that and, if you wish to alter that, either in grammar or in fact, then please do so and return it to us. There will ultimately be a report which will include not only our comments, but also the transcript of all the evidence and all the submissions that have been made. I hope that will be tabled in the parliament before the end of the year.

I thank you all very much for participating today, and hope that it might lead to at least some identification, but not necessarily the correction, of some of the difficulties and impediments there are in the Indian-Australian relationship.

Could I have a resolution to incorporate this material that was handed to us by Mr Geoffrey Jordon? Moved, Mr Dondas, seconded by Senator Margetts. We will incorporate that into our proceedings.

Resolved (on motion by Senator Margetts, seconded by Mr Dondas):

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

Subcommittee adjourned at 1.38 p.m.