CHAPTER TWO

PROSPECTS FOR INCREASED TRADE

Introduction

2.1 In undertaking this inquiry, the Committee was particularly interested in reaching a view on the best roles to be played by public organisations (for example, government departments, businesses, universities) in promoting greater trade (especially Australia's exports) with India. A major private study of successful strategies for Australian trade expressed the view that:

> Policies tied to government interpretation of prospects for particular sectors almost invariably turn out to be wrong. Neutral policies which do not interfere with private investors' assessments of prospects are best.[1]

2.2 The same study recommended a concentration of government support effort elsewhere in Asia than India but it did see India as an important potential growth market and an important part of an overdue orientation away from trade with Europe.[2] The majority of submissions to the Committee called for greater action by public organisations, including educational bodies, to promote trade with India.

2.3 The Committee has considerable sympathy with the view expressed by the Department of Foreign Affairs and Trade that 'the impetus for increasing trade between the two countries must emerge from their respective business sectors'.[3] At the same time, the high degree of state control of the economy in India appears to force on the Australian Government a greater degree of involvement in trade facilitation in India than might be appropriate for less rigidly controlled economies. This is, of course, similar to Australia's experience of China.

Australian Domestic Economic Policies and Trade Growth

2.4 The Committee recognises that Australia's domestic economic framework (tariffs, productivity, taxation, government spending) has a significant impact on our international trade, especially our export competitiveness. It is clearly beyond the terms of reference of the India inquiry for the Committee to review domestic economic policies across the board as they affect our trade in general. However, it is surprising to the Committee that nearly all submissions did not address economic policy initiatives on the domestic Australian scene, especially on a sector basis, that might enhance our export performance in the Indian market.

---

1 A. Stoeckel and S. Cuthbertson, *The Game Plan: Successful Strategies for Australian Trade*, Centre for International Economics, Canberra, 1987, p.3

2 *ibid.*, pp.4-7

3 *Evidence*, p.803

2.5 There were a few exceptions. Mr Gillett of Kinhill Engineers Pty Ltd noted that the public sector ownership of electricity generation in Australia and its separation into state and regional authorities denied Australia some competitiveness when it came to bidding for contracts in the power sector.[4] Mr Gillett also advocated some recognition (special concessions) by the Australian Government of the difficulties faced by the consultancy industry in the domestic economy. He based his plea on the emphasis that the Australian Government placed on consultancy and services in the country's current export drive.[5] The ANZ Banking Group submission referred to the difficulties caused for Australian exporters in general by the Australian interest withholding tax.[6]

2.6 The neglect in submissions of the effect of Australian domestic policy on trade with India was reflected in a tendency of most submissions to lay the blame for most problems, or to look for the solution to most problems, in the Indian economy, Indian Government policy or Indian business practice.

The Opening of India's Economy: A New Trade Regime

2.7 Economic policy in India has traditionally stressed the need for 'self-reliance' and the public sector has assumed the leading role in the economy. Emphasis on planning and regulation has been reflected in a licensing and control system covering most aspects of business. Centralised economic planning remains more dominant in India than in most non-communist countries but has become more flexible over the past few years.[7]

2.8 The former Government, led by Rajiv Gandhi, placed greater emphasis on promoting private sector growth and industrial development than its predecessor. These policies could, if continued over the long term, give a major boost to the competitiveness of India's manufacturing sector.[8]

2.9 New policy initiatives launched early in Rajiv Gandhi's Prime Ministership included:

- comprehensive reform of the personal and corporate tax systems (this has encouraged greater compliance with tax laws and led to an increase in tax revenue);
- a relaxation of industrial licensing procedures, designed to give companies greater freedom to invest and expand;
- amendments to the strict anti-monopoly legislation and to other regulations that used to favour small-scale industry at the expense of large scale enterprises;
- the complete removal of production limits for output directed specifically to export;

---

4 *ibid.*, p.437
5 *ibid.*, p.447
6 *ibid.*, p.297
7 *ibid.*, p.280
8 *ibid.*, p.280

- the extension of import liberalisation for key intermediate and capital inputs;
- measures designed to improve both private sector access to capital markets and allocation of financial resources (including changes in the interest rate structure to stimulate savings and lending for production related purposes); and
- steps to facilitate foreign participation in the economy particularly in high technology and export oriented industries.[9]

2.10 In spite of this recent liberalisation, India retains an extensive set of tariff and non-tariff barriers to trade. The tariffs are substantial. The World Bank has estimated that the unweighted average basic plus auxiliary tariff was 138 per cent in 1986. Duties ranged from zero to 300 per cent. However, non-tariff barriers are generally the more significant obstacles to trade. These include the import licensing system and government procurement preferences for local suppliers.[10] The Eighth Five Year Plan (1990-1995) has a 'noble aspiration' to reduce the general tariff levels from the current 120 per cent to 50 per cent.[11]

2.11 There are prohibitions and prohibitive tariffs on the import of most goods and commodities produced in India.[12] Capital goods can, by and large, only be imported into India if they are not produced locally. Such imports come under three licence categories: restricted, special and open general licences. Restricted and special licences for capital goods are given on a special exception basis, with restricted being the more difficult category to obtain. Open licences operate on a list basis for industries involved in export (such as tea, cereals, basic chemicals, clothing, to name a few). Capital goods on open licence are those not produced in India. The open licence for capital goods can only apply where the importer is the actual user.[13]

2.12 The former Indian Government (led by Rajiv Gandhi) sought to have 25 to 50 per cent of all capital goods imports covered by counter-trade arrangements. The Minerals and Metals Trading Corporation of India aimed to have 75 per cent of its imports covered by counter-trade by 1989-90.[14]

2.13 A number of schemes exist to facilitate imports by enterprises engaged in export. For example, the Import Replenishment Scheme provides exporters with a duty drawback and cash compensation for other indirect taxes paid in respect of imported inputs.[15]

---

9 *ibid.*, pp. 280-281
10 Department of Foreign Affairs and Trade, *Trade and Commercial Development Program for Australia in India*, June 1989, p. 43
11 *Evidence*, p.673
12 *ibid.*, p.701
13 DFAT, *Trade and Commercial Development Program...*, p.43
14 *ibid.*
15 *ibid.*

2.14 Import licensing of raw materials, components and spare parts (that is, goods which are not capital items) occurs within four categories: in Indian terminology, these are restricted, limited permissible, canalised, and open general licences (OGL). Restricted licences are applied where domestic production is considered adequate and for which there is an almost total ban on imports. The limited permissible licence applies to items where domestic production is considered significant but imports are still necessary. Both restricted and limited permissible licences for non-capital goods are issued on a case by case basis. The canalised and open licences operate on a list basis. Canalised imports are those that may only be imported by public agencies while the open licence has no restriction. In 1986-87, canalised imports accounted for 20 per cent of India's non-petroleum imports. As of June 1989, the OGL list for non-capital items included 944 items, while the restructed plus limited permissible licences included 816 items.[16]

2.15 The Indian Government has reviewed its trade regime every three years, publishing the results in a document called *The Export Import Policy of the Government of India*.[17]

2.16 In the first nine months of the 1988-89 Indian financial year (April to March), imports increased sharply compared with the same period in 1987-88: 27.4 per cent compared with 13.5 per cent. Non-oil imports in this period increased substantially — by 33.4 per cent. The substantial rise in imports, according to the Government, was largely attributable to larger bulk imports coupled with higher prices for some of these bulk items (like metals and edible oils), imports of food grains to replenish food stocks, and exchange rate variations.[18]

2.17 During the first six months of the 1988-89 year, the value of Indian imports and growth rates compared to the same period in the previous year for selected categories were as follows:[19]

---

[16] *ibid.*
[17] *Evidence*, p.551
[18] Government of India, *Economic Survey 1988-89*, p.106
[19] *ibid.*, p.107

MAJOR CATEGORIES	GROWTH RATE %	VALUE bn (rupees)
Non-ferrous Metals	91.5	3.96
Edible Oils	52.9	5.10
Chemical Materials & Products	27.5	.90
Inorganic & Organic Chemicals	97.8	9.08
Pearls, Precious Stones, etc	62.3	15.36
Paper & Products	48.8	1.40
Finished Fertilisers	202.5	1.67
Iron & Steel	40.5	7.84
Petroleum & Products	12.4	21.05
Capital Goods	12.4	32.34
OTHER CATEGORIES		
Cereals & Preparations	1,344	1.57
Medicines/Pharmaceuticals	70	.98
Non-metallic Mineral Manufacture	189	.70
Synthetic/Regenerated Fibres	50	.17
Instruments, etc	46	3.08

(Average exchange rate for 1989: A$1 = approx. 11 rupees)

2.18 The European Community (EC) has been India's largest and fastest growing source of imports for a number of years (33.6 per cent of India's imports in 1987-88). Within the EC, the Federal Republic of Germany took the largest single share in 1987-88 at 9.7 per cent of India's total imports in that year. Japan and the United States came next with 9.5 per cent and 9 per cent respectively. The United Kingdom accounted for 8.1 per cent in that year. The share for Eastern Europe was 8 per cent and for the USSR it was 5.7 per cent.[20]

2.19 Australia's share of Indian imports in 1987-88 was 2.2 per cent.[21] According to the ANZ Banking Group, Australia's share was 2.1 per cent in calendar year 1982, about 0.9 per cent in 1983 and 1984, and steady around 1.6 per cent between 1985 and 1987.[22] The share in 1970-71 was 2.3 per cent.[23]

2.20 India's external payments situation experienced considerable stress in the 1988-89 financial year.[24] This was reflected in a sharp decline of foreign reserves which may be accounted for by the bunching of some import payments, high international prices for some imports, and increased imports of bulk

[20] *ibid.*, p.109
[21] *ibid.*, p.S77
[22] *Evidence*, p.302
[23] Government of India, *Economic Survey 1988-89*, p.S76
[24] *ibid.*, p.105

commodities. While export growth was good, there was an even stronger surge in imports. (External debt reached 23 per cent of GDP in March 1988.)[25] Taken together, these factors point to continued pressure on the balance of payments.

2.21 The good export performance of the newly industrialising countries of Asia, if it continues – and it is expected to – will be a major constraint on India's ability to improve its own export performance and achieve greater market shares in Asia and the Pacific, including Australia.[26]

Export Performance

2.22 At an aggregate level and taking 1980-81 as the base year, Australia appears to have enjoyed for most of the past decade a good position on the wave of India's economic opening up to the world. India's total imports (measured in Rupees) increased by about 78 per cent between 1980-81 and the end of the 1987-88 financial year.[27] In the same period, Australia's exports to India (measured in Rupees) increased by 192 per cent.[28]

2.23 The cumulative growth rates in selected categories of Australian exports to India (A$ values) have been particularly spectacular during part of that time (1983-1987):[29]

Vegetables and Fruit	1701%
Machinery & Transport Equipment	1380%
Coal	486%
Other Miscellaneous Manufactures	221%

However, growth has been fairly flat since 1987.

2.24 The dollar value (at current year prices not adjusted for inflation) of major elements of Australia's exports to India for recent years are as follows:[30]

25 *Evidence*, p.292
26 *ibid.*, p.293
27 Government of India, *Economic Survey 1988-89*, p.S73
28 *ibid.*, pp.S76-S77
29 *Evidence*, p.305
30 Derived from statistics supplied by the Parliamentary Library, Legislative Research Service, based on Australian Bureau of Statistics information

CATEGORY	82-83 $m	83-84 $m	84-85 $m	85-86 $m	86-87 $m	87-88 $m	88-89 $m
Vegetables	.01	0	3	27	26	52	41
Wool/Other Hair	36	49	58	86	80	123	105
Coal/Coke	70	22	77	179	191	186	124
Lead/Lead Alloys	23	15	16	29	23	25	25
Zinc/Zinc Alloys	8	6	5	16	7	15	10
ADP Machines/Ware	.03	.02	.2	1	26	12	3
Ships/Boats	0	0	2	0	12	9	4
Other	75	48	77	90	60	83	243
Total	**212**	**140**	**238.2**	**428**	**425**	**505**	**555**

2.25 India accounted for 1.2 per cent of Australia's exports in 1987-88 ($505 m).[31] Speaking in July 1989, a representative of AUSTRADE was particularly pleased with Australia's recent export performance in our trade with India:

> Over the last five years our export trade with India has increased on average by 33 per cent per annum. It now rates 19th in terms of market importance (from 28th in 1984). This, in part, is an index of past promotional efforts.[32]

2.26 While the AUSTRADE figures may be correct, technically speaking, the Committee notes that the most significant leap in annual export figures was in 1985-86, but that was a recovery from a slump between 1982-83 and 1984-85 when export earnings from India fell in real terms.

2.27 The figures for export performance in 1988-89, which were not available to witnesses appearing before the Committee in July 1989, were very disappointing. Although there was an overall increase of $50 million in current dollars (10 per cent increase on 1987-88), this represents little gain on inflation and there were significant decreases in all but two of the major export items in 1987-88.

31 *Evidence*, pp.796-797
32 *ibid.*, p.756

The following figures reveal this trend:

ITEM	% CHANGE
Vegetables	-21
Pulp & Waste Paper	-12
Wool/Other Hairs	-15
Coal/Coke	-33
Iron/Steel etc	-36
Lead & Alloys	0
Zinc & Alloys	-38
ADP Machines	-87
ADP Parts/Ware	0
Ships & Boats	-52
Other (incl. Confidential Items)	+218
TOTAL	+10

2.28 These figures suggest an underlying volatility in the Indian market and a healthy expansion in the low value items (earning less than $5 million per year). However, there was an unusually high increase in the dollar value of confidential exports and this could distort analysis of the figures for various categories.

2.29 Dr Oliver Mendelsohn took the view that Australia-India trade is 'far less than it might be' and 'in the main is not the result of great entrepreneurial effort'.[33]

2.30 The submission from the ANZ Banking Group and a document supplied by an agency of the Western Australian Government provided the more in-depth analysis and statistical information on Indian trade that was made available to the Committee. However, in order to update and extend the analysis provided, and to see past the specialised interests of the various organisations which made submissions to the inquiry, the Committee found it necessary to rely on some additional sources to develop its views on trade complementarities between Australia and India. The Committee is surprised that most government agencies and academics who provided submissions did not include comprehensive, standardised and detailed analysis of market share projections for major export categories.

2.31 The sort of market share analysis expected might have started with facts such as that in 1986-87 Australia supplied 20 percent of India's total imports of ADP machines compared with only 2 percent in 1985-86.[34] Given the high share in 1986-87, what measures did Australia or Australian companies take to protect that market share against the competition that was brought to bear eventually by other countries to reduce our sales by 90 percent in the following two years when India was actually increasing its imports? What can Australia do to regain its earlier share?

---

33 *ibid.*, p.389

34 According to figures provided by the Legislative Research Service based on Indian official trade figures

Export Strategies

2.32 Without good market analysis, the Committee was left wondering how to assess the quality of current public policies in the trade area. Would Australia always follow the lead of others or could it be there at the onset of a commercial opportunity? The Committee was presented with a variety of different approaches pursued by different groups. The Committee gained the impression that AUSTRADE had not developed a method for reviewing its performance.

2.33 AUSTRADE has adopted a trade strategy in respect of India that is designed to 'concentrate on those areas of expertise in which Australia is an acknowledged international competitor'.[35] The market strategy developed by AUSTRADE for India is focussed on nine sectors, each of which has been accorded priority under India's Five Year Development Programs.[36] These sectors are:[37]

- mineral exploration, mining and power projects;
- communications equipment and services;
- general engineering and associated technology transfer;
- agribusiness and food processing technology and equipment;
- railways;
- industrial raw materials;
- marine vessels;
- computer software and hardware; and
- education and training services.

2.34 The ANZ Banking Group's submission reported that the 'best trading opportunities are probably in increasing exports of raw materials'.[38] It also noted the rapid growth in the export of machinery and transport equipment (almost 1500 per cent between 1983 and 1987), with office and computer equipment being the fastest growing sub-sectors of this category.[39] Other opportunities for export of equipment and technology identified by the ANZ Banking Group were in power, communications, agriculture and infrastructure development.[40]

2.35 There was a slightly different emphasis in the AUSTRADE submission. AUSTRADE took a more strategic view and sought to concentrate on Australian export of manufactures and services as part of an overall Australian government strategy to strengthen the long term economic viability of the domestic economy and our international trading position by reducing our heavy dependence on primary industry and export of primary products. Similarly, the Department of

[35] *Evidence*, p.693
[36] *ibid.*, *p.753*
[37] *ibid.*, pp.753-754
[38] *ibid.*, p.288
[39] *ibid.*, p.290
[40] *ibid.*, pp.288-291

Foreign Affairs and Trade noted that pre-eminence of primary commodities in our exports to India is increasingly in contrast to the main areas of growth in imports by India.[41]

2.36 According to the Department of Industry, Technology and Commerce, the most useful initiatives which might be undertaken to promote trade with India would be promotion of Australia as a source of high technology and collaboration on research projects with commercial applications.[42] The Australia-India Chamber of Commerce advised that Australia should not try to compete in manufactures but concentrate on export of technology.[43]

2.37 The functional or corporate interests of groups which presented submissions to the Committee appeared to obscure some of the complementarities in sectors where greater export earnings could be achieved but which did not need extensive, special support from groups like AUSTRADE. For example, in calendar year 1988 Australia earned $68 million in vegetables and fruit exports to India, the third highest export category to India and 11.8 per cent of our exports to India in that calendar year.[44] AUSTRADE does offer support for this trade but it does not figure highly in their market strategy as outlined to the Committee.

2.38 Some submissions identified low-cost housing as a good Australian export opportunity in India[45] with 5 million housing starts per year in India compared with 120,000 to 140,000 in Australia, but this did not get mentioned in either AUSTRADE's submission or that of the Department of Foreign Affairs and Trade. It was picked up though in the Department's *Trade and Commercial Development Program for Australia in India*.[46]

2.39 The Committee took note of the creation of an Intelligence Unit in the Heavy Engineering Projects Corporation of Australia, which is to be funded by the Department of Industry, Technology and Commerce. According to that Department, the approach adopted by the Intelligence Unit is opportunistic, 'as opposed to AUSTRADE's more strategic approach'. The Unit will operate by gathering early market intelligence on potential projects. AUSTRADE will be one of the sources. The philosophy behind the approach is to provide maximum time for formation of a consortium for a project, development of marketing positions, and for negotiations. The Department saw this sort of approach as combining well with AUSTRADE's longer term strategic philosophy.[47]

---

41 *ibid.*, p.798
42 *ibid.*, p.645
43 *ibid.*, p.526
44 DFAT, *Trade and Commercial Development Program...*, p.45
45 *Evidence*, pp.421, 879
46 DFAT, *Trade and Commercial Development Program...*, p.29
47 *Evidence*, p.646

2.40 The Unit has identified a number of special export related project opportunities in India in heavy engineering.[48] The question left unanswered is why this sort of commercial intelligence activity does not already occur across the board on a systematic basis within AUSTRADE, the Department of Foreign Affairs and Trade, the Department of Industry, Technology and Commerce, and even the Office of National Assessments. Another question not addressed before the Committee is why Australian enterprises have not funded this sort of continuing commercial intelligence activity themselves. Considerable intelligence activity of this sort obviously occurs already and AUSTRADE is, by all accounts, a good source of such intelligence but the Committee was left with the strong impression that Australian performance in this area is patchy.[49]

Exports: Case Studies

2.41 Some examples of various sectoral experiences in our trade with India are included below to demonstrate the range of opportunities and problems.

2.42 ***Coal, Power and Steel:*** Prospects for coal exports were assessed as good for the next few years, although this market has been marked by significant year to year volatility.[50] AUSTRADE foresaw an expansion of Australia's exports of coking coal, noting that India's goal of energy self-sufficiency would be unattainable for a number of years and that the low grade quality of Indian coal makes it less suitable for iron and steel production.[51] The Department of Foreign Affairs and Trade foreshadowed some potential for significant growth in Indian demand for steaming coal, although Australia is not a large supplier of steaming coal to India.[52]

2.43 The ANZ Banking Group saw India's total demand for coal trebling in the next two decades (500 million tons compared with 139 in 1984-1985).[53] Australia exported 3.5 million tons of coal to India in 1987-1988, representing 90 per cent of India's imports for that year.[54] Coal sales to India in 1987-1988 realised $186 million for Australia.[55]

2.44 Australian exporters of coal to India enjoy a competitive margin over other exporting countries because of quality of the coal and freight rates.[56]

---

48 *ibid.*

49 The Committee is aware of the new computerised information system for market intelligence introduced by AUSTRADE in June 1989 and to which 750 major Australian companies had subscribed in the first month of operation. Such a database is, however, only the first step in the intelligence process and not a substitute for the comprehensive analysis which must follow.

50 *Evidence*, p.288

51 *ibid.*, pp.700, 714

52 DFAT, *Trade and Commercial Development Program...*, p.20

53 *Evidence*, p.288

54 DFAT, *Trade and Commercial Development Program...*, p.17

55 *Evidence*, p.811

56 K.H.Badenoch, 'India Becomes a Land of Potential', *Overseas Trading*, December 1986, p.29

2.45 A number of submissions addressed the opportunities for Australia to export coal mining equipment and technology to India.[57] The ANZ Banking Group saw the opportunity for the export of equipment and technology as offering some compensation for the expected decline in exports of the minerals themselves.[58] The AUSTRADE submission reported the visit to Australia of a delegation from India's Department of Coal in 1986 to identify areas of possible collaboration.[59] India identified 40 items of mining equipment and a range of mining technologies which it wanted to import.[60] Fifteen Australian exporters have won contracts for export of equipment and two companies have won major contracts for export of technology.[61]

2.46 One company, Kinhill Engineers Pty Ltd, won a contract for a coal washery project from the Steel Authority of India in 1988. This was a feasibility study for a coal washery at one of the Authority's steel plants and involved testing of ten tonnes of Indian coal at the Australian Coal Industry Research Laboratories under Kinhill supervision. Kinhill hopes that the completion of the study will result in the negotiation of a consultancy assignment to engineer and manage the implementation of the new washery.[62]

2.47 Kinhill reported that this contract was one of three they won after attempting to enter the Indian market in 1985 with several unsuccessful tenders for contracts in the steel and power industries. The other two projects involving Kinhill in India are both related to the power industry and the Steel Authority of India.[63] Following one of the earlier unsuccessful tenders to the power industry in relation to environmental management, in 1987, Kinhill came to believe that externally funded projects might be more viable. They identified a World Bank funded study to assist the Steel Authority to draw up an environmental management plan for its plants. With the experience gained in its earlier tenders and using the combined resources of Kinhill and BHP Engineering (BHPE) for the tender, the contract was won against significant international competition. The project was tendered in April 1988, negotiated in July and August and the contract signed in September 1988. The project is valued at about $5 million and will involve four of the Steel Authority's major plants and its associated mines. In addition, the contract requires Kinhill to procure associated equipment on behalf of the authority.[64]

2.48 Following the successful signing of the environmental contract, BHPE-Kinhill identified a need within the Steel Authority for assistance with management of its modernisation program. The opportunity was discussed with the Australian High Commission in New Delhi and a small amount of aid funds

---

57 *Evidence*, pp.288, 715
58 *ibid.*, p.288
59 *ibid.*, p.715
60 *ibid.*, p.721
61 *ibid.*, p.723
62 *ibid.*, p.422
63 *ibid.*, p.423
64 *ibid.*

was made available from the Commercially Related Training Budget. This fund of $100,000 was used to subsidise the provision of training in project management to senior officers of the Authority. The brief program had the commercial advantage to Australia of exposing the executives of Kinhill and BHPE to the opportunities for further involvement in the very large scale modernisation being undertaken by the Steel Authority.[65]

2.49 BHP has also concluded other agreements to export technology to India, including the design and commissioning of two galvanised iron production plants. BHP has also signed an agreement with the Steel Authority for the manufacture under licence of Zincalum, a high tech compound developed by BHP. This project is valued at about $3.5 million.[66]

2.50 ***Wool:*** Australia supplies nearly 100 per cent of India's greasy wool imports. These are blended with the local product to produce 'wool mark' quality fabric, 65 per cent of which is then exported to the USSR. During the five years from July 1983 to June 1988, wool exports to India jumped from $49 million to $123 million.[67] In 1988-89, the total fell back to $105 million.[68]

2.51 AUSTRADE found it difficult to assess the prospects for expansion, citing price competitiveness as a key issue. The possibility that increasing Australian wool prices might force Indian fabric manufacturers to substitute synthetic fibres for Australian wool was another issue. On the other hand, if India were to reduce the tariff on wool imports, such a reduction would offset the increase in prices. The Minister for Primary Industry has made representations to the Indian Government to reduce the tariff. AUSTRADE concluded that short term prospects for wool exports to India were good because of the profitability of India's export trade in wool.[69] In June 1989, the Foreign Minister made further representations to the Indian Government on wool import tariffs.

2.52 The Department of Foreign Affairs and Trade saw the medium and longer term prospects for wool exports to India as good, citing a recent reduction in the tariff on wool imports, the strong demand for fine wool in India, and the 'considerable potential for India to increase its sales of woollen fabrics and garments on international markets'.[70]

2.53 The Department assessed that 'all the basic ingredients for a successful wool "initiative" with India along the lines of the China wool initiative would seem to be in place'. The aims of such a program would be to 'overcome bureaucratic delays and interference'; to provide training and technical assistance; reduce India's tariffs on wool imports and Australia's tariffs on imports of Indian woollen textiles; and to encourage joint ventures.[71]

---

65 *ibid.*
66 *ibid.*, p.648
67 *ibid.*, p.715
68 See para. 2.24 above
69 *Evidence*, p.716
70 DFAT, *Trade and Commercial Development Program...*, p.21
71 *ibid.*, p.31

2.54 ***Wheat:*** Both AUSTRADE and the Department of Foreign Affairs and Trade found it difficult to foresee good prospects for wheat exports to India and did not seem fully informed of recent history of the trade.[72] The Department pointed out that India has not been a regular market for Australian wheat since 1976-77, and since then has only imported small quantities at irregular intervals.[73] (Information from the Australian Bureau of Statistics shows that Australia exported $123 million worth of wheat in 1981-82.)[74] While alluding to the success of India's agricultural policies as one cause of the drop-off in Indian wheat imports from Australia, the Department also pointed out the need for India to sustain the momentum of its green revolution if it was to avoid becoming a significant importer.[75]

2.55 AUSTRADE was one step ahead of the Foreign Affairs and Trade Department, saying that the 'latest market intelligence is that India may require substantial wheat imports in the immediate future'. The 1987-88 drought has caused a considerable reduction in India's grain reserves. Over the longer term, AUSTRADE assessed that India will probably not be able to maintain the momentum of its green revolution. Crop expansion has begun to slow and output gains are being eroded by population growth. However, AUSTRADE believed it may be difficult for Australia to exploit this opportunity because of strenuous international competition, depressed prices, and possible limits on the availability of Australian wheat.[76]

2.56 According to the latest Indian Government statistics, India's imports of cereals in the six months April to September 1988 were five times the value (1.6 billion rupees) of cereals imports in the whole of the previous year (330 million rupees).[77] Press reports suggest that India has purchased subsidised wheat from the United States and possibly the European Community beginning in 1988.[78]

2.57 ***Pulses (Peas and Beans):*** Most of the unprocessed foods exported by Australia to India consist of pulses (such as chick peas). AUSTRADE identified a steadily growing trend in this export.[79] The Department of Foreign Affairs and Trade's *Trade and Commercial Development Program for Australia in India* does not give any assessment and mentions this export only in passing. Yet this export category earned ten per cent of Australia's total exports to India in 1987-88. In 1988-89, Australia's exports of unprocessed food to India fell by 21 per cent.

2.58 In its submission in February 1989, AUSTRADE identified some threats to the 'steadily expansionary' trend in export of pulses. There was some threat that the Indian Government may impose a tariff to encourage the expansion of local

[72] *ibid.*, p.20; *Evidence*, p.717
[73] DFAT, *Trade and Commercial Development Program...*, p.20
[74] Department of Trade, *Composition of Trade: Australia 1983-84*, p.53
[75] DFAT, *Trade and Commercial Development Program...*, p.20
[76] *Evidence*, p.717
[77] Government of India, *Economic Survey 1988-89*, p.107
[78] *Australian Financial Review*, 15 April 1988 and 28 April 1988
[79] *Evidence*, p.716

production.[80] By June, the tariff had already been imposed and the Minister for Foreign Affairs, Senator Evans, made representations to the Indian Government during his visit in June 1989 on the high tariff barriers on pulses. The tariff was reduced just before the Indian elections in December 1989 probably for domestic Indian political reasons. A second problem identified by AUSTRADE was that fluctuations in India's domestic supplies and prices have encouraged defaults in payments to the Australian exporters and consequent lack of interest by them in continuing the trade.[81]

2.59 ***Lead, Zinc, and Alloys:*** Australia has been exporting some of these metals to India for well over four decades.[82] Lead export earnings have risen from $15 million to $25 million in the six years from 1983-84 to 1988-89. This represented 4.5 per cent of our export earnings in India in 1988-89.

2.60 Zinc exports to India have fluctuated over the last six years, with the highest point being 1985-86 at just over $15 million. Earnings from zinc in 1988-89 were $9.5 million.

2.61 The Department of Foreign Affairs and Trade assessed medium term prospects for lead and zinc exports as quite good but with longer term prospects not as promising.[83] AUSTRADE found it 'difficult to predict future trends' for lead and zinc exports but pointed to continued good prospects in the short term based on increasing industrial demand.[84] AUSTRADE mentioned the competition presented to Australian exports by the USSR because of its ability to accept payment in rupees.[85] The Department of Foreign Affairs and Trade saw pressure from India's plans to increase its domestic smelting output.[86]

2.62 India is the largest individual lead export market for Pasminco Metals (a company owned 40 per cent by CRA and 40 per cent by North Broken Hill Holdings) and takes about one-sixth of its total production.[87] The Pasminco submission brought to the attention of the Committee several problems which were affecting Pasminco's ability to hold its share of the Indian market. These were the monopoly position and increased freight rates of the Shipping Corporation of India, particularly on the west coast for the last two to three years; and the uneconomic purchasing policies of the state purchasing organisation, the Minerals and Metals Trading Corporation (MMTC).

2.63 These problems would appear to be susceptible to government to government negotiation of some sort – especially if the Australian Government could demonstrate the gains to India of changed policies in this area. (For example, deliveries of metals to the west coast by the supplier which replaced Pasminco are reportedly four months behind schedule.) The nett gain to

80 *ibid.*
81 *ibid.*
82 *ibid.*, p.895
83 DFAT, *Trade and Commercial Development Program...*, p.20
84 *Evidence*, p.718
85 *ibid.*
86 DFAT, *Trade and Commercial Development Program...*, p.20
87 *Evidence*, p.934

Australia of research in this area might be substantial. At the least, such research – if it could convince the Indian Government to change its policies – might stop Australia from losing its current market share. After the freight increases were introduced, Australia lost its total dominance of the MMTC imports of lead.[88]

2.64 The representative of Pasminco Metals told the Committee that his company had tried to get the shipping issue tabled for discussion by Prime Minister Hawke's delegation either with the Indian Prime Minister or with some of the working groups that held meetings during Mr Hawke's visit.[89]

2.65 ***Small Ships and Fishing Vessels:*** Exports in this category earned Australia $12 million in 1986-87 but only $4 million in 1988-89. The Indian Government has approved the import of up to 500 vessels to expand its fishing industry and fish exports. India had become Australia's most important export destination for such vessels, with Australian shipyards actively marketing in India.[90]

2.66 The main type of vessel involved has been shrimp vessels but India has now prohibited further imports because of depletion of the shrimp resource.[91] Nevertheless, according to the Department of Foreign Affairs and Trade, there are still opportunities for export of a range of other boats, including small ferries, cruise vessels, small naval vessels, and other fishing vessels.[92]

2.67 There have been some problems with the export of small craft. Slow payments affected the cash flow position of the companies involved and they have had other difficulties in dealing with Indian officials. Exchange rate variations have reduced the profitability of the export and Australian Government efforts to convince the Indian Government to renegotiate the approved price have been unsuccessful.[93]

2.68 The response of some companies to this has been to withdraw certain categories of vessel from the market, despite the continued high demand, and introduce new vessels in order to obtain a new approved price. Some companies have also sought to have the purchase price expressed in Australian dollars to avoid the problems caused to them by exchange rate movements.[94]

2.69 In April 1988, some Australian shipbuilders formed the Australian Marine Export Group with support from AUSTRADE and the Department of Industry, Technology and Commerce. The Group agreed to take a united and cooperative

---

88 *ibid.*, p.930
89 *ibid.*, p.935
90 *ibid.*, p.725
91 *Potential in the Indian Market for Western Australian Products and Services*, Report prepared for the Technology and Industry Development Authority of Western Australia by Interex Ltd, August 1988, p.49
92 DFAT, *Trade and Commercial Development Program...*, p.23
93 *Evidence*, p.725
94 *ibid.*

approach to marketing fishing vessels in a number of export markets, including India.[95] The Group has also agreed to cooperate in production with a view to winning bigger orders.[96]

2.70 The Group is working on a proposal to assist the development of the fishing industry on India's west coast, involving design of a suitable type of vessel and possible joint venture operation of it.[97]

2.71 A Madras firm has entered into a technical and financial collaboration agreement with a Perth firm to set up a trawler building yard in Madras for constructing deep sea vessels. The Orissa State Government is also investigating possible Western Australian involvement in a new fishing project on the east coast.[98]

2.72 ***Computers and Associated Technology:*** There have been two boom years for export sales in this field: 1986-87 and 1987-88 when total sales were about $25 million and $12 million respectively. Registered sales in 1988-89 fell to a mere $3 million. The Indian Government now endorses a much freer attitude towards trade in technology and adopts the principle that technology imports enhance the international competitiveness of Indian industries and therefore enhance export earnings in the longer term.[99]

2.73 AUSTRADE held out some hope of a return to strong export performance in computers and associated technology. There is a very wide range of applications in Indian industrial, technical, infrastructure and commercial sectors for the variety of computer equipment and technology, including software, produced in Australia. However, the problems of cloning and stiff international competition were highlighted by AUSTRADE as major threats to resumption of these lucrative exports.[100] The Indian electronics industry has increased its output (in value) by a factor of three in the last four years thereby affecting domestic demand.[101]

India's Exports to Australia

2.74 As discussed earlier, India had not given exports a priority until recently, and had aimed instead at broad self sufficiency in most products through import substitution.[102] India now recognises the limitations of this policy.[103]

---

[95] *ibid.*
[96] *ibid.*
[97] *ibid.*, p.726
[98] *Potential in the Indian Market..., Appendix 6B1*
[99] *ibid.*, p.59
[100] *Evidence*, p.727
[101] DFAT, *Trade and Commercial Development Program...*, p.31
[102] EIU Country Profile, *India, Nepal 1988-89*, p.46
[103] *Evidence*, p.294

2.75 A major feature of India's exports in recent years has been the radical change in composition.[104] Jute and jute manufactures accounted for 20 per cent of exports in 1960-61 but only 2 per cent in 1986-87.[105] In the same period, the share of exports taken by tea fell from 19 per cent to 4 per cent. The most important and fastest growing items are now engineering goods, cut diamonds and other handicrafts, chemicals, fish products, and garments.[106]

2.76 According to the Indian Government, India's exports experienced considerable growth in the last two years.[107] Exports (in rupees) in 1987-88 grew by 26.4 per cent, following on from an increase the previous year of 14.3 per cent. The increase was mainly concentrated in the manufacturing sector, with more than two thirds of the increase being accounted for by sectors identified by the Government of India as priority sectors: garments, fabrics, chemicals, engineering goods, gems, and leather. In the same year, exports of agribased items suffered a decline due to the drought conditions.

2.77 Provisional Indian Government figures show a further strong growth in exports of about 24 per cent during the first nine months of the 1988-89 year.[108]

2.78 India's exports to Australia in the four years to 1988-89 in current year prices not adjusted for inflation were as follows:[109]

	1985-86 $m	**1986-87 $m**	**1987-88 $m**	**1988-89 $m**
Fruit & Nuts	16	18	16	14
Petroleum products	0	20	17	0
Leather & products	19	23	20	20
Pearls/Diamonds, etc	15	20	24	29
Garments	20	21	24	24
Textile fabrics	20	20	23	31
Chemicals	9	8	9	11
Machinery/Transport equipment	7	7	10	13
Floor coverings	6	6	7	9
Other	59	60	78	96
TOTAL	**171**	**203**	**228**	**247**

104 EIU Country Profile, *India, Nepal 1988-89*, p.48
105 *ibid.*
106 *ibid.*
107 Government of India, *Economic Survey 1988-89*, p.109
108 *ibid.*, p.110
109 *Evidence*, p.812; Legislative Research Service Note for 1988-89 figures

2.79 Australia-India trade is heavily weighted in Australia's favour, with our exports amounting to twice the dollar value of our imports in the past few years ($550 million to $250 million in 1988-89). According to AUSTRADE, efforts to redress this trade imbalance are unlikely to succeed.[110] Australia's domestic market, with only 16 million people, has only a limited capacity to absorb Indian exports. Most of the sectors in which India has been experiencing strong export growth have been ones in which Australia has long established ties with traditional suppliers in Europe and North America.[111]

2.80 The Governments of both countries have 'recognised' the problem of the trade imbalance. For its part, India called on Australia in 1986 to work towards targets for imports from India. In response, Australia undertook to work towards the goal of importing from India one per cent of our total imports of engineering products within five years from October 1986.[112] Australia's Market Advisory Service (MAS) has been trying hard to promote this but 'there is still some way to go to attain the target'[113] – from $28 million to $130 million, according to the Australia-India Chamber of Commerce.[114] MAS has sponsored trade displays in Australia of Indian produced pumps and compressors, automobile parts, and office equipment. The Engineering Export Promotion Council (an Indian organisation) will be holding a massive trade fair in Australia in February 1990, with about 75 to 100 Indian engineering companies expected to participate.[115]

2.81 The prospects for increased Indian exports to Australia were not addressed in much detail in the submissions received by the Committee. Dr Mayer and the ANZ Banking Group described more cogently than most some of the general problems facing India in its attempts to increase its share of the Australian import market. Dr Mayer pointed out that many of the difficulties can be traced back to the uncompetitive nature of the Indian domestic market. In particular, Indian manufacturing techniques tend to be older than those currently used in Australia; quality control is poor; and, despite cheap labour, the high cost of other factors of production make Indian products relatively expensive.[116]

2.82 Dr Mayer added that India's overseas trade promotion bodies are said to be enmeshed in some of the administrative rigidities that characterise the Indian civil service at large. One consequence of this, according to Dr Mayer, was that a serious effort to expand India's exports to Australia may require Australian assistance to Indian exporters seeking to enter the Australian market.[117]

[110] *ibid.*, p.703
[111] *ibid.*
[112] *ibid.*, p.799
[113] *ibid.*
[114] *ibid.*, p.541
[115] *ibid.*
[116] *ibid.*, pp.461-462
[117] *ibid.*, p.462

2.83 The ANZ Banking Group's submission saw much the same range of problems that restrained growth in India's exports to Australia.[118] The submission highlighted the impact on Indian competitiveness of the anti-monopoly legislation (preventing economies of scale in the private sector), energy shortages, and inadequate infrastructure.[119]

2.84 The question of whether India should seek balanced bilateral trade with Australia came up several times in public hearings. The ANZ Banking Group argued:

> The main cause of the imbalance is Australia's coal exports, but there is no reason to expect that those countries which can provide the raw materials and other bulk imports which are essential to India's development objectives will necessarily provide sizeable markets for India's products. In upgrading the efficiency and competitiveness of Indian industry, imports of both technology and capital goods will clearly play a major role. To optimise the benefits of such moves, India needs to purchase imports from countries with the best technology or the greatest cost and comparative advantage. Again there is no reason to expect that such a source is necessarily also a good market for India's products. ... Preoccupation with bilateral trade issues is likely to dilute or misdirect India's export drive.[120]

2.85 There was a strong view in the Committee that if one country is going to try to balance its trade with another country, then that means taking a position totally contrary to the principles of multilateral trade. Ms Stoneman of the ANZ took a similar view:

> ...it should be viewed multilaterally and...it is in India's own best interests to look multilaterally both for its markets and for its suppliers.[121]

2.86 Mr Koteeswaran, Regional Manager, Engineering Export Promotion Council, saw some opportunity to redress the bilateral imbalance because India has 'certain advantages in catering to the Australian requirements'.[122] The specific field which he addressed was engineering equipment and he saw Indian products as competitive in price and quality, with few exceptions.

2.87 On 1 July 1988, an increase in the Australian tariff on Indian water pumps imported into Australia made this particular product range far less competitive.[123] The Australia-India Chamber of Commerce identified this as one area where the Australian Government could readily support Indian exports to Australia.[124] It was suggested that Australia could give India preferential treatment in tariffs for several years to allow Indian firms to establish a reputation in the market here.

---

[118] *ibid.*, pp.294-296
[119] *ibid.*, p.296
[120] *ibid.*, p.295
[121] *ibid.*, p.321
[122] *ibid.*, p.541
[123] *ibid.*, p.545
[124] *ibid.*

Conclusion

2.88 Trade relations between Australia and India do appear to be underdeveloped in a number of areas. Performance is volatile and patchy in both directions when analysed from the point of view of broad categories of exports and their dollar values. There would appear to be considerable potential for Australia to increase its exports to India given the general opening up of the Indian economy and the clear priority given to development of sectors of it in which Australia is internationally competitive. There may be some potential, but probably more limited because of the small size of the Australian market, for India to increase its exports to Australia.

2.89 The following chapter will address the commercial environment of two-way trade between the two countries and thus will give a clearer picture of how good prospects for increased trade really are. However, from the analysis in this chapter, the Committee formed the view that the general state of the bilateral relationship and trade patterns will need a considerable amount of nurturing — and further in-depth study — if there is to be any significant expansion of trade relations. The Committee's view of what might be done will be discussed in the final chapter of the report which contains the conclusions and recommendations.