SENATE STANDING COMMITTEE
ON FOREIGN AFFAIRS,
DEFENCE, AND TRADE

AUSTRALIA-INDIA RELATIONS

TRADE AND SECURITY

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TERMS OF REFERENCE

On 29 September 1988, the Senate directed its Standing Committee on Foreign Affairs, Defence and Trade to inquire into and report on Australia's relations with India, with particular reference to:

(a) prospects for increasing trade between the two countries;

and

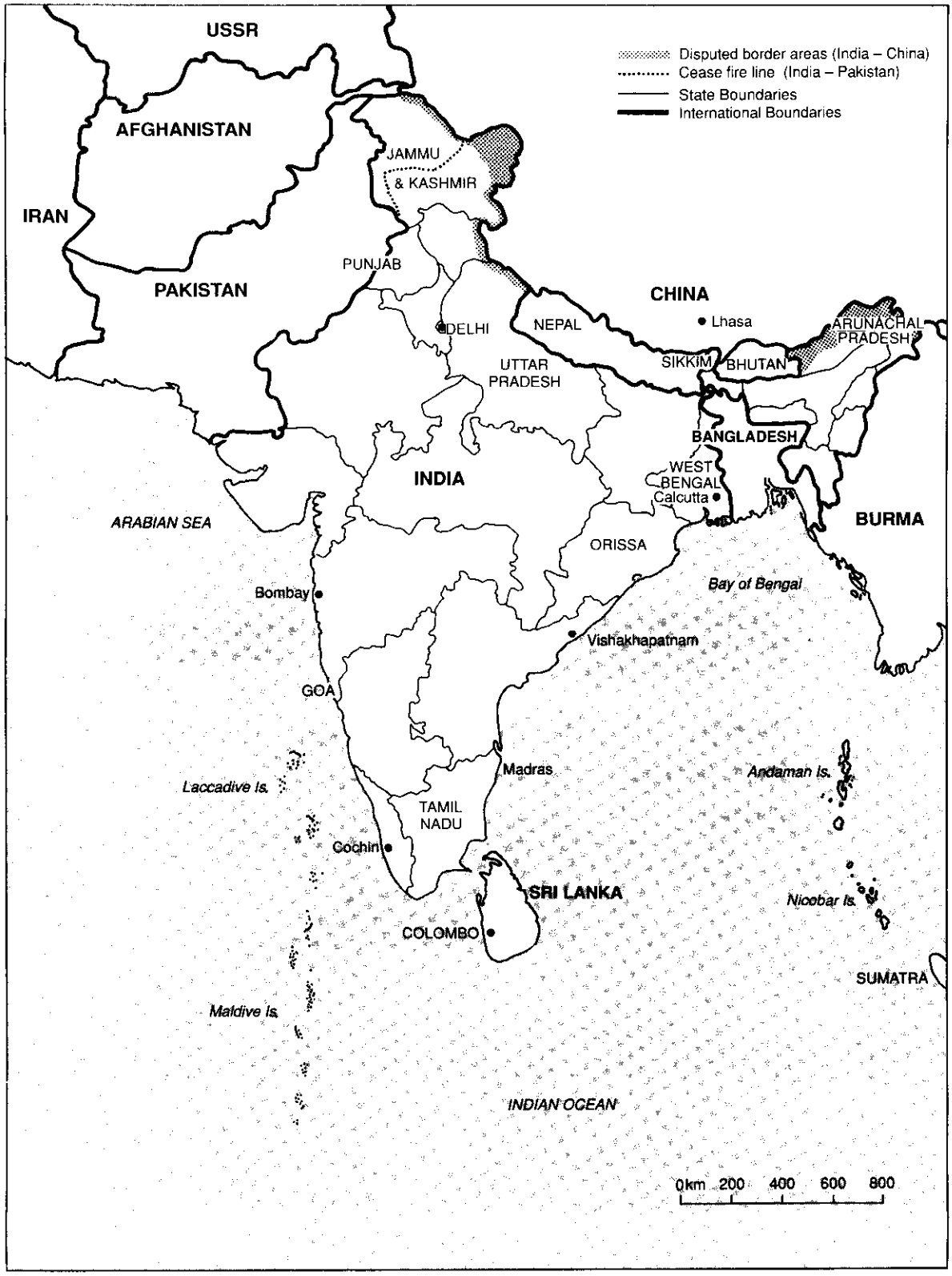
(b) the implications for the regional strategic outlook of India's enhanced defence capability.

COMMITTEE MEMBERSHIP

Chairman:	G.R. Maguire (South Australia)
Deputy Chairman:	Baden Teague (South Australia)
Members:	M.E. Beahan (Western Australia) B.K. Bishop (New South Wales) B.R. Burns (Queensland) I.P. Dunn (New South Wales) D.J. Hamer, DSC (Victoria) C. Schacht (South Australia)

The public hearings on this inquiry and much of the drafting of this report were carried out in the 35th Parliament by the predecessor to this Committee, whose membership was:

Chairman:	G.R. Maguire (South Australia)
Deputy Chairman:	D.J. Hamer, DSC (Victoria)
Members:	B.R. Burns (Queensland) I.P. Dunn (New South Wales) R.F. McMullan (ACT) J.M. Newman (Tasmania) C. Schacht (South Australia) Baden Teague (South Australia)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INDIAN OCEAN
Disputed border areas (India – China)
Cease fire line (India – Pakistan)
State Boundaries
International Boundaries
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MAIN FINDINGS AND RECOMMENDATIONS

1. The Committee believes that India already is an important Asian power of the same general order as China, albeit with a less prominent international trading and strategic profile beyond its immediate neighbourhood. India's power will probably continue to consolidate over the next two decades and its economy will probably continue to open up.

2. The Committee believes that relations between Australia and India are underdeveloped. The Committee found that, despite recent initiatives, the past neglect of India by Australia had not been overcome completely. The main problem seemed to be a lack of forward thinking in policy analysis. There is a need for a more coordinated national strategy towards India based on long term assessments of India's potential importance in Asian affairs.

3. There are few signs in the short term of a significant expansion of Australia-India trade. However, Australia should act now in the ways suggested later in this summary with a view to helping put our exporters in a better position in the longer term. If the opening up of selected sectors of the Indian economy to foreign trade continues, long term opportunities will occur in sectors where Australia is competitive.

4. A major sector in which Australia is likely to be competitive is in the technology (including consultancy and management services) associated with resource exploitation. The 1989 signing of a $500 million contract between White Industries Limited and Coal India Limited for construction of a coal mine in Bihar State is an encouraging development in this regard. However, on current assessments, Australia cannot hope to compete significantly in non-resource based manufacturing.

5. The Committee endorsed AUSTRADE's advice to exporters to think increasingly in terms of strategic alliances, joint ventures, and international sub-contracting. The Committee identified an important function for AUSTRADE, and perhaps major banks, in actively developing consortia in the longer term.

6. India does not, in the Committee's view, represent a threat to Australian security interests or those of our South East Asian neighbours. There is little conceivable basis for the view that India may develop unfriendly intentions

toward Australia. Nevertheless, India's development of a nuclear weapons capability and an intercontinental missile capability could affect Australian regional security interests.

7. As far as South Asia is concerned, India is already the predominant military power. This position, however, has a negative effect on India's security because it prompts India's neighbours to attempt to redress the balance. The Committee finds grounds for concern with India's view of its role as a regional policeman in South Asia and the degree to which pressure on its smaller neighbours may enter its calculations of enforcement.

8. The Committee notes that India and Australia are on friendly terms. Public misperceptions in Australia about India's strategic posture should not blind Australia to opportunities for greater cooperation with India based on shared interests, such as the security of sea-borne trade.

9. The Committee recommends that a large part of Australia's diplomatic effort in India be directed at encouraging the Indian Government to make faster progress towards relaxing trade and investment controls detrimental to Australian business. However, fundamentally important issues like Antarctica, chemical weapons, and nuclear proliferation should — in the Committee's view — still remain important in Australia's diplomatic priorities in India.

10. The Committee was made aware of claims that artificially high shipping rates charged by the state owned shipping line on the west coast of India are affecting Australian exports. The Committee recommends that the Australian Government commission a study, either from its departments or private enterprise, on which it could base approaches to the Indian Government to correct this problem.

11. The Committee found that the knowledge of India in Australian government and business is not adequate given the importance India will have in international trade and politics within the next decade. Therefore, the Committee recommends:

> the establishment of an Indian Studies Centre for advanced academic study of a range of Indian related disciplines which the Committee believes would boost the relationship between those parts of government and business in Australia which are concerned with India;
>
> the development of private sector support for such a Centre over the long term to supplement Australian government funding support for an initial fixed term such as five years;
>
> the upgrading by Australian employers, particularly government, of the expertise about India of their employees, with the provision of appropriate incentives for the further fostering of such expertise; and

the immediate establishment of an Australian-India Council to increase Australian expertise about India, to raise awareness of Australia in India and of India in Australia, to develop plans to bridge gaps in the relationship, and to support a broad range of contacts between the people and organisations of the two countries.

12. The Committee believes that the majority of submissions presented to the Committee bore testimony to the generally poor state of information policy in Australia where India is concerned. This has ramifications in several fields, the most important of which are: intelligence, especially commercial intelligence; and keeping the public informed. Therefore, the Committee recommends:

the establishment of an active program for the regular dissemination of assessments on India to important user groups within the community;

special attention by the Department of Defence to regular release of intelligence assessments, appropriately declassified, on India in order to allow the public debate in Australia on defence and security issues to be better informed; and

the development of closer links between government departments and non-government experts on India who should be invited to review the quality of departmental assessments on India.

13. The Committee found that coordination among government departments and authorities concerned with the development of trade with India was inadequate. There is a need to consider the balance between country oriented export strategies and approaches based more on sector profitability in the global market. Therefore, the Committee recommends:

a review by government departments of the relationship between "Strategic Plans" for a particular country like India and the appropriate emphasis to be given to sector specific strategies;

a greater emphasis by Government on the need to support Australian businesses seeking to export by providing more responsive, high quality commercial intelligence, and by offering greater country expertise to solve specific problems that Australian exporters face in dealing with complex foreign government regulations, like those in India.

CHAPTER ONE:

Australia-India Relations Today

Introduction

1.1 The emerging relationship between Australia and India is typical of the transition Australia has been making in the last two decades towards closer ties with Asia. In some respects, India and Australia have been unusually distant in their relations given their close cooperation on a broad range of Commonwealth issues and their shared cultural and institutional inheritances from Britain. As of 1990, there are an increasing number of opportunities for the two countries to draw closer together. At the same time, there are some obstacles to a more broadly based relationship.

1.2 In saying this, the Committee is not disputing the proposition that government to government links are now becoming fairly warm and cooperative. However, the Committee sought to prepare a report reflecting broader community aspirations rather than rely simply on a government to government perspective.

1.3 To this end, submissions were obtained from a wide range of business people, educators and government departments (*Appendix 1* refers). Public hearings were held in Perth, Adelaide, Melbourne, Sydney and Canberra. (See *Appendix 2*). The inquiry was directed to a review, with recommendations for change as appropriate, of public policy on Australia's relations with India in the trade and security areas. The Committee sought through this type of inquiry to achieve a wide public airing of community views, to test these views against expert opinion, and to document the conclusions reached in the form of the Committee's final report.

1.4 Public policy is not merely the domain of Federal Government departments. It embraces statutory authorities, educational institutions, and state government, as well as large private corporations. A number of submissions took the view that the trade and military questions could not be dealt with in isolation from the broader social, political and economic considerations that came within the purview of these other organisations. The Committee was of the same view.

Australian Policy Interests

1.5 Australia's policy interests in relations with India have been the subject of increased public debate in recent years. India has the most powerful military forces of any nation on the Indian Ocean littoral and is developing medium range ballistic missiles. It has had a nuclear weapons capability since 1974 when it exploded a nuclear device. Its domestic and international security situation is not stable. It has intervened with military force in Sri Lanka and the Maldives in

recent years, and in Bangladesh in 1971. India has active and tense border disputes with China and Pakistan, one a nuclear power, the other a nuclear aspirant.

1.6 In the next decade or two, India will be even more powerful than it is now. Australia must carefully assess, as best as is possible, just what India's intentions and capabilities might be into the early part of the next century. Any country must attempt to look this far ahead in considering its security interests.

1.7 India has island territories, the Andaman and Nicobar Islands, quite close to Indonesia and the important shipping lane of the Malacca Strait. The Indian mainland sits to the north of the oil route from the Persian Gulf to Japan.

1.8 Thus, in a geopolitical sense, India's military power and demonstrated will to use it could directly affect Australia's security interests: the security of seaborne trade and the security concerns of our allies and neighbours (Japan, our major commercial ally; Malaysia and Singapore, our partners in the Five Power Defence Agreement; and Indonesia, whose security is also important to us as a near neighbour).

1.9 India already affects Australia's security interests in less direct ways. India has often supported (or appeared to have supported) positions of the USSR and its allies, especially on such matters as the invasions of Afghanistan and Cambodia, when Australia has been strongly opposed. In addition, the risk of nuclear proliferation in South Asia is viewed with grave concern by the Australian Government as a threat to international security in broad terms. The Australian Government has been a consistently strong advocate of the Nuclear Non-Proliferation Treaty.

1.10 Similarly, if conflict between India and Pakistan or India and China were to occur, any escalation involving major external powers, such as the USSR or the United States, could have a negative effect on international security relationships. Such a scenario, however, is not very likely and the consequences for Australia in this would be indirect.

1.11 The complexity or intractability of the conflict situations in which India is involved, and the recent Indian military build-up need not lead automatically to the conclusion that India can only be some sort of international security threat for Australia. There have been a number of security interests shared by the two countries.

1.12 India has a growing interest in expanding its relations with developed Western countries, including the United States and Japan. A number of the international tensions or issues which put India and the Western Alliance at odds, such as the Cold War, the US-Pakistan alliance, the Vietnamese occupation of Cambodia, the Soviet occupation of Afghanistan, and US technology transfer, are now undergoing important modifications. India is increasingly interested in international trade after many years of insisting on fairly rigid adherence to the goal of self-sufficiency.

1.13 Australia has important interests in capitalising on India's renewed interest in trade. Our exports to India have experienced some fairly solid annual growth rates in recent years. While the bulk of exports are in traditional items (largely commodities), there has been some expansion of our exports in manufactures and services to India. AUSTRADE regards India as an important market with potential for rapid growth and has set itself a target for exports by 1992 of twice the 1987-88 level ($1,000 million compared with $500 million). Australia and India also have a mutual interest in a number of international commodity arrangements (sugar, wheat, iron ore and bauxite) and both are members of the General Agreement on Tariffs and Trade (GATT).

1.14 The changing political scene in South Asia and some new directions in Indian foreign policy and trade policy do provide opportunities for Australia, as a member of the international community with a stake in promoting peace and development, to bring some influence to bear on more disconcerting aspects of Indian policy, such as the military build-up and nuclear proliferation.

1.15 At a less visible level, any expansion of Australian/Indian contacts has good potential to enhance regional security and Australia's position in the Asia/Pacific community by reducing suspicions of Australia as an outpost of European culture or American strategic policy. Australia needs to be seen in Asia as an independent country with its own trade and security interests.

1.16 India's military position may also be turned to advantage for the security interests of Australia. The naval capability now possessed by India need not necessarily develop into a threat to seaborne trade. As long as India sees itself as having a stake in this trade, especially with Japan and the United States, India's military power may in fact serve to underpin the security of shipping lanes in the northern Indian Ocean. Australia has an interest, therefore, in seeing India consolidate its moves towards better relations with major Western countries and towards expanded trade, especially involving Australia.

1.17 Australia must also seek to engage India in cooperation on matters such as environmental protection and development of Antarctica and the fishing resources of the Indian Ocean.

India: Democratic, Powerful but Poor

1.18 India is the world's largest democracy. It is also the world's most diverse democracy, embracing a complex variety of cultures, religions and languages. It is a powerful country. It has the second largest population in the world — about 800 million people.[1] It is the heir to a civilisation that developed at the same time as that in China, and which was in all respects as rich as China's. The literature, philosophy and religion of the old Indian civilisation had a substantial impact on many parts of Asia. Today, India has an economy that ranks eleventh in the world and a Gross Domestic Product just higher than Australia's.[2] India is a

[1] This is an estimate. See *Evidence*, p.813

[2] For example, for 1987, India's GDP was US$230 billion compared with Australia's US$194 billion. See *Evidence*, p.282

recognised leader of the Third World but is in some respects a member of the group of second level powers, such as China. India aspires to recognition as a major player on the world stage.

1.19 India's land borders are 15,000 km long and its coastline is 5,600 km.[3] India has land borders with Pakistan, China, Nepal, Bhutan, Burma and Bangladesh. The territory of Bangladesh is almost completely surrounded on land by India. India is a sub-continent more than a country. Its regional diversities are reflected in a myriad of cultures, languages and religions, as well as disparities in wealth. However, over 80 per cent of the people are Hindu and this provides some cultural homogeneity.

1.20 In terms of military capability, India has the third largest army in the world (1.2 million personnel). The Navy and Air Force are by far the largest of those in any Indian Ocean littoral state. The defence industrial base in the country is highly developed. Military related scientific skills are extensive, as demonstrated in India's possession of a nuclear weapon capability and recent development of ballistic missiles. The country as a whole has an estimated two million engineers and scientists, and ten million graduates of all kinds.[4] India is now a producer and consumer of high technology, with major American and West European computer firms producing under licence there.[5]

1.21 India is relatively well-off in natural resources and manufacturing capability, as the following 1986-1987 world rankings provided in evidence show:

FIRST	Iron ore deposits
	Tea production
	Groundnut production
	Jute and similar fibres
SECOND	Irrigated land area
	Cotton fabrics production
	Rice production
	Natural rubber production
THIRD	Milk production
	Sugar production
	Tobacco production
FOURTH	Wheat production
	Cotton production
FIFTH	Coal production.[6]

[3] *The New Encyclopaedia Britannica*, 15th ed., 1988, Vol.21, *India*, p.1
[4] EIU Country Profile, *India, Nepal 1988-89*, p.10
[5] *Evidence*, p.333
[6] *ibid.*, pp.282-283

1.22 The industrial sector generates about 22 per cent of GDP and India is arguably one of the ten most industrialised countries in the world. Economic growth in recent years has been impressive: 5 per cent per year on average through the 1980s.[7]

1.23 This is significantly below the growth rates being achieved in some other Asian countries, but well ahead of a number of developed countries.

1.24 Three quarters of the population depend on agriculture for their livelihood and two thirds of the cultivated land is devoted to non-irrigated agriculture.[8] Growing agricultural productivity in recent years has helped promote economic growth generally but mass poverty, especially in rural areas, remains a significant social and developmental problem.

1.25 A number of submissions highlighted the existence in India of a potentially large, urban middle class consumer market. For example, Dr Mayer of Adelaide University reported this middle class market to comprise about 10-15 per cent of the population — that is, about 100 million people. The number of owners of industrial establishments has been put at 1.2 million and there is a well-off agricultural class of about 200 million. The relatively higher disposable income of these groups is reflected in the very rapid growth in the market for consumer durables in recent years.[9] The consumption patterns of the consumer market in India are quite different nonetheless from those in Australia. The definition of middle class in India is more likely to embrace the ability to buy a motor scooter rather than a car.

1.26 According to the World Bank, about a third of the world's one billion 'absolute poor' live in India.[10] According to the Indian Government's own, rather austere, definition of poverty — based on an income sufficient to ensure access to minimum nutritional standards — approximately 37 per cent of the population is estimated to live below the poverty line.[11] Poverty alleviation programs are having only limited success.[12]

1.27 There is a great variation in the extent of poverty, ranging in rural areas from only 12 per cent in the Punjab to 69 per cent in Orissa, and in urban areas from 25 per cent in the Punjab to 51 per cent in Kerala.[13]

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7 D.P. Chaudhri, *Recent Trends in the Indian Economy*, Canberra, 1988, p.2
8 EIU Country Profile, *India, Nepal 1988-89*, p.11
9 *Evidence*, p.457
10 EIU Country Profile, *India, Nepal 1988-89*, p.8
11 *ibid.*
12 *ibid.*, p.9
13 *Evidence*, p.566

1.28 Adult literacy in India is estimated at 36 per cent, with women as a group being significantly behind men (25 per cent compared with 47 per cent — 1981 figures).[14] Health standards, especially in the countryside, remain poor due largely to lack of nutrition and shortage of medical support workers and facilities.[15]

1.29 India has to some degree been isolated from shocks in the world economy but at the same time has denied itself the growth potential that the world system can provide.[16] The objective of Indian economic planning is (in theory) to establish a socialistic pattern of society with recognition of private property rights, inheritances and some of the other economic rights accepted in most democratic countries. The basic criterion for determining policy, according to the Indian Government, 'must not be private profit but social gain', and the pattern of development should result 'not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth'. The benefits of economic development 'must accrue more and more to the relatively less privileged classes of society'.[17] When India began its socialist economic planning, the ratio of invested capital to output was quite healthy but with each successive planning period, the incremental capital/output ratio has been declining.[18]

1.30 India's economic planning has been conducted through the mechanism of successive Five Year Plans. Each plan is fine-tuned through the annual budgets. The current plan, the Seventh, covers the period April 1985 to March 1990.[19]

Australia's Past Neglect of India

1.31 There was a wide consensus in the submissions received by the Committee that, until recent years (1985 at the earliest), successive Australian Governments, educators, media editors and most business people ignored India.[20] There was a plea to 'break into this vicious circle of Australian ignorance of modern India'.[21] The Australian public had been denied an accurate picture of India, according to the Asian Studies Association of Australia.[22] The view is supported in part by the Department of Foreign Affairs and Trade.[23]

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[14] EIU Country Profile, *India, Nepal 1988-89*, p.9
[15] *ibid.*, p.10
[16] *Evidence*, p.324
[17] *ibid.*, pp.560-561
[18] *ibid.*, p.324
[19] *ibid.*, p.699
[20] *ibid.*, pp.332-338, 382-383, 791
[21] *ibid.*, p.338
[22] *ibid.*, p.382
[23] *ibid.*, p.786

1.32 This Department concedes its own shortcomings in this area:

> Australia's...efforts to develop the bilateral relationship have not kept pace with India's rate of growth and achievements since independence.[24]

1.33 When the Foreign Minister Mr Hayden went to India in May 1985 it was on a damage limitation mission: 'to stop the drift' in the relationship.[25] As late as mid-1988, according to the Department of Foreign Affairs, there was still a 'sense of drift'.[26]

1.34 Some observers have contrasted Australia's opening to China in the 1970s and 1980s with our neglect of India:

> If the same government effort that has been devoted over the past few years to cultivating trade with China had been focused on India, the benefits to Australia may well have been greater.[27]

1.35 The Committee did not receive persuasive evidence on this point. The question is not one of India or China — it is simply one of applying to India, with its large growth potential, marketing efforts more in proportion to those we currently devote to China.

1.36 In February 1984, the Prime Minister Mr Hawke described the basis of Australia's developing relationship with China:

> we now have important and substantial links. These are built on the recognition that a substantial relationship with China, acknowledging China's important role in the region and the world, should be central to Australian foreign policy.[28]

1.37 The Government does not appear to accord the same degree of strategic importance to India. The thrust of the Australia/India bilateral relationship today is from Australia's perspective largely commercial. The decisions by the Government in 1986 to withdraw the Australian defence attache from New Delhi in 1987 and to cease naval visits after 1986 (both decisions made under pressure from resource constraints) lend weight to suggestions made to the Committee that Australia has tended not to give India the weight in its diplomacy that significant elements of the community think it should have. (Both decisions have since been reversed.)[29]

1.38 Statements by senior government officials to the Committee and public statements by the Minister for Defence on the strategic significance of India have revolved around the question of whether India represents a threat to Australian

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[24] *ibid.*, p.788
[25] *ibid.*
[26] *ibid.*, p.790
[27] *ibid.*, p.332
[28] Quoted in Senate Standing Committee on Industry and Trade, *Australia-China Trade*, 1984, p.1
[29] *Evidence*, p.809

security interests. While such statements are made to defuse public concern about a possible Indian threat, the broader diplomatic issues of constructive engagement of India over the coming decade in pursuit of common security goals appear to have been given a lesser priority.

1.39 The Department of Foreign Affairs and Trade has been anxious to take account of concerns in some countries in South Asia and South East Asia about Indian military capability, but for the most part believes that the correct diplomatic response to India's military position should be 'low-key'.[30] The Australian Government has engaged in discussion with India on a range of security issues but India appears to remain the object of blandishments by us about its undesirable actions (for example, ballistic missile proliferation) rather than the object — as China has been — of an attempted strategic engagement based on shared security interests. India has received little credit from Australia for its position of independence from the USSR, which has poured much political and financial capital into India in an attempt to persuade it otherwise.

1.40 The importance to Australia of reviewing its perceptions of India as the starting point for a new relationship was highlighted in a number of submissions along the following lines:

> (i) economic relations between Australia and India are grossly underdeveloped because we have made insufficient effort in the past to approach more than the lowest end of the Indian market and have allowed perceptions both of difficulty and of the unimportance of India in the overall scheme of Australia's relationships to obscure real opportunities; and
>
> (ii) given our attitudes, the chances are that we will misconstrue the development of India's defence capabilities...[31]

1.41 Discussion of the influence of attitudes referred to stereo-types in the Australian public image of India:

> ...it seems possible, also, that early Indian migration to Australia...left an image of 'hawkers', 'camel drivers', and farmers or labourers which even the substantial post-second world war migration of professional people and their families has not effectively dispelled...[32]
>
> Our experience as teachers tells us that Australians hold hard, but ill-informed cultural stereotypes of India. Indians are supposedly lazy, religious, fatalistic, other-worldly, corrupt, poor, inefficient, unreliable and fertile.[33]

1.42 The lack of interest by Australians at large in India has been described in terms of India's failure to grab our imagination.[34] Again the comparison with China emerges:

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[30] *ibid.*, p.809
[31] *ibid.*, p.5
[32] *ibid.*, p.6
[33] *ibid.*, p.332
[34] *ibid.*

> Because of the common language, Australians assume they know all they need to know about India. They tend to neglect the study of language, culture and society that they realize is necessary in dealing with countries like Japan, China or Indonesia. ... Too few Australians have been able to distinguish India's new social and industrial formations... China's experience, on the other hand, caught the popular imagination: 25 years of isolation suddenly ended with the dramatic curtain-raising of the mid-1970s... Australians looked on China with new eyes... India has not produced the cataclysms and the mystery necessary to capture the attention of Australians.[35]

1.43 The Melbourne South Asian Studies Group was critical of the Australian media for its approach to India. Part of the reason, they said, for the credulousness of the stories about Indian naval expansion and some threat to Australian interests was that 'no Australian media outlet, except the ABC, keeps a correspondent in the South Asian region'.[36]

1.44 The Australian media were seen as relying too heavily for Indian coverage on British and American news agencies. The 'overworked' ABC office in New Delhi was described as 'hard pressed' to keep up with all of the news while the rest of the Australian media 'rarely get beyond sensational political or disaster stories'.[37]

1.45 Professional educators who presented submissions to the Committee, while admitting a vested interest in the expansion of Indian studies, sketched a picture of declining interest in South Asian studies in their institutions (both funding and enrolments) and a lack of interest by public corporations and government in exploiting their expertise.[38] The 1989 Ingleson Report on Asian studies in Australian higher education[39] reportedly found that South Asian subjects had been reduced by 25 per cent and enrolments had fallen by a third in the preceding five years.[40]

1.46 According to one academic source, the Ingleson Report itself failed to pay sufficient attention to South Asia and was criticised by the Asian Studies Association for this oversight.[41] Another academic source predicted that by the year 2010, the existing pool of South Asian expertise in Australia will have been lost if new measures are not introduced soon to maintain current levels, let alone build for the future out of recognition of India's growing importance.[42]

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[35] *ibid.*
[36] *ibid.*, pp.336-337
[37] *ibid.*
[38] *ibid.*, pp.8-9, 333, 337
[39] *Asia in Australian Higher Education: Report of the Inquiry Into the Teaching of Asian Studies and Languages in Higher Education*, submitted to the Asian Studies Council, January 1989
[40] *Evidence*, p.337
[41] *ibid.*, p.19
[42] *ibid.*, p.470

1.47 A number of submissions assessed the level of knowledge of India in the Australian Government and public corporations — both in the general cultural and social sense as well as in the hard-nosed commercial sense — as inadequate.[43]

1.48 Having experienced a certain frustration in trying to get a clear picture of the more complex aspects of the India/Australia economic relationship from some of the submissions, the Committee was left of much the same opinion — that expertise on India in Australia was at best fragmented between government departments and tertiary institutions or, from a less charitable perspective, simply not comprehensively developed and maintained.

1.49 On the other side of the Indian Ocean, there may be an equal lack of knowledge of Australia. According to some submissions, attitudes to Australia in India are not highly developed.[44] The Indian public's knowledge is for the most part confined to awareness that we play cricket and that some of our television programs and films are worth watching. Beyond this, the Indian business community and Government have felt little need to consider Australia because they felt we had little to offer them.

1.50 The Committee accepted that there had been a high state of ignorance or neglect of India in Australia. At the same time the Committee sought to review critically the limits to our financial resources in terms of funding new initiatives to redress Australia's neglect of India. India was clearly going to be more important to Australia in the future but would it be sufficiently important to warrant a significant diversion of resources?

The Bilateral Relationship

1.51 Alfred Deakin, before he became Prime Minister of Australia, wrote a book entitled *Irrigated India*, in which he noted that:[45]

> ...the future relations of India and Australia possess immeasurable potencies. Their geographical proximity cannot but exercise a very real and reciprocal influence upon the forces of national life in each. *(London 1893, p.vi)*

1.52 Australia opened an official mission in New Delhi in 1944, three years before Indian independence. At the end of the war, the Premier of New South Wales, Bertram Stevens, sought to establish close commercial links seeing Australia's future as 'bound up inextricably in terms of trade and full employment in the extent to which they [the Government, businessmen and people as a whole] participate in the task of raising the standards of life in India and other eastern territories'.[46]

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[43] *ibid.*, pp.10, 283, 298, 338
[44] Dr J.C. Masselos, *Submission*, p.4
[45] As quoted in the submission of Dr Masselos, p.7
[46] *ibid.*, quoting from *New Horizons*, Sydney, 1946, pp.24-25

1.53 In the post-war period, these sorts of visions have not been fulfilled. Australia, under the Prime Ministership of Sir Robert Menzies, had an uneasy relationship with India, led by Jawaharlal Nehru. In the atmosphere of the Cold War, Australia could not come to terms with India's policy of non-alignment, particularly since Australia was fully committed to the Western alliance under the leadership of the United States. The view that India was not committed to the cause of anti-communism contributed to a lack of enthusiasm on Australia's part in any expansion in relations.

1.54 From India's viewpoint, Australia was seen as little more than a satellite of the United Kingdom and the United States. Moreover, India regarded Australia as irrelevant to its interests. The fact that Australia's immigration policies for many years discriminated against Asians contributed to a cool relationship. The aid that Australia gave India in these years at times of natural disasters and under the Colombo plan did not have a substantial impact on relations. Australian support for India in its border conflict with China in 1962 led to a noticeable warming in relations at that time.

1.55 The McMahon, Whitlam and Fraser Governments made some advances in Australia/India relations in the early 1970s, represented by agreements for cooperation in the fields of culture (1971), science and technology (1975) and trade (1976).[47] There was not much follow-up to these initiatives however. Prime Ministerial visits did occur in both directions but usually in connection with Commonwealth Heads of Government meetings.

1.56 Visits to India in 1985 by the Australian Foreign Minister (May) and the Minister for Trade (October) gave the relationship its first real impetus, resulting in an agreement to form a Working Group on Mining, Minerals Processing and Heavy Engineering as the first step towards the creation of an Australia-India Business Council.[48] In that year, Australian exports to India grew across most categories, resulting in an increase in total exports compared with 1984 of 165 per cent.[49]

1.57 In May 1986, Indian Prime Minister Gandhi's former senior economic adviser, Mr L.K. Jha, visited Australia to prepare the ground for Gandhi's visit later in the year and the Minister for Steel and Mines, K.C. Pant (later the Defence Minister), visited Australia in July 1986. In October 1986, Gandhi's visit resulted in agreement on moves toward long term economic cooperation through initial cooperation in selected areas. The Australia-India Business Council was set up; a revised agreement on cooperation in science and technology was signed; a high level officials' group to monitor expansion of relations was formed; and agreement was reached on the possible formation of a Joint Working Group on Coal.[50]

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[47] *Evidence*, p.788
[48] *ibid.*
[49] *ibid.*, p.305
[50] *ibid.*, p.789

1.58 In 1987, there were some brief Indian Ministerial visits to Australia and none in the other direction. In November 1988, a visit by Australia's Minister for Primary Industry and Energy, Mr Kerin, facilitated negotiations on the sale of Australian coal to India and provided the opportunity for discussions on cooperation in food processing, agricultural science and animal husbandry. Mr Kerin was accompanied by Australian business representatives with interests in India.[51]

1.59 A Joint Ministerial Commission was agreed during the visit to India by Prime Minister Hawke in February 1989 and both sides undertook to increase the pace of ministerial level exchanges.[52] The Foreign Minister visited India in June 1989 to formalise some of the matters agreed during the Prime Minister's visit, including a $35 million bilateral aid program, and to hold discussions on some important trade issues, including tariffs. Agreement was reached on a new round of negotiations on double taxation arrangements and, after three years of discussing it, on the establishment of a Joint Working Group on Coal.

1.60 The inaugural meeting of the Australia-India Joint Ministerial Commission was held in July 1989, with the Indian Minister for Commerce, Mr Dinesh Singh, leading his country's delegation. By the end of 1989, a number of forums existed for business and government to promote trade.

Aid

1.61 When Australia began its international aid program in 1951, India received a bigger share than any other country but in recent years aid to India had been maintained at only a very modest level, for example, only $2.8 million in 1987-88. The new development assistance program announced by the Prime Minister during his visit in February 1989 proposed a $35 million line of grant aid over three years beginning in 1990-1991 for development projects, with a focus on the promotion of mutual economic links in which Australia has expertise and comparative economic advantage. An Australian aid reconnaissance mission has visited India and it is envisaged that the program will focus on telecommunications, energy and mining exploration technology (including environmental management aspects), food storage technology, food processing technology, and railways.[53] The existing country program ($325,000 in 1988/89) provided in that year for training ($155,000), a plant quarantine project and a solar cell development project ($64,000), and a Small Activities Scheme ($100,000) which provides funds for relatively small, but effective aid activities.[54] Total Australian Development Assistance for 1988-89 was $8.4 million.[55]

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[51] *ibid.*
[52] *ibid.*, p.790
[53] Department of Foreign Affairs and Trade, *Trade and Commercial Development Program for Australia in India*, June 1989, p.6
[54] *Evidence*, pp.800, 823
[55] *Australia's Overseas Aid Program 1989-90*, Budget Related Paper No.4, p.34

1.62 As of June 1989, five projects in India were under consideration for financial support from the Development Import Finance Facility (DIFF), which provides non-programmable grant aid funds to be used with commercial export finance either as a mixed credit or in a single concessional loan to government buyers of Australian capital goods and services for approved projects. The Government will fund between thirty-five per cent and fifty per cent of the cost of a project. The Australian Government sees DIFF as a strategic and cost-effective official mechanism for enhancing Australia's commercial profile in India.[56]

1.63 Australia also provides aid to India through multilateral agencies, such as the International Development Agency or the World Bank; and through community groups in Australia, such as Community Aid Abroad. Overall, though, India has ranked lowly in Australian aid priorities in recent years, coming behind countries such as Mozambique and Egypt in terms of Australian Overseas Development Assistance.[57]

Cultural Relations

1.64 The level of Australian Government sponsored cultural activity with India is modest by comparison with Australian programs with China, Japan or Indonesia and is about the same as the programs with the other ASEAN countries and the USSR. The funding ($85,000 in 1988/89) is seen by the Australian Government as 'seed money for the establishment of institutional links promoting Australian literature and the arts, and Australia's excellence in scientific and technological areas'.[58] The money spent in this area is also intended to create an awareness of Australia as a sound economic partner.

1.65 According to the Department of Foreign Affairs and Trade, India expects Australia to do more in the area of cultural exchange, especially in the promotion of Indian studies in Australian tertiary institutions.[59] The Department appears to see the Indian view as somewhat less pragmatic and more idealistic than our own, which it described as 'simply...a support measure for other national interests'[60] — presumably economic.

1.66 In 1988, the Australian Government set up a Coordinating Group to facilitate marshalling of resources within Australia and to ensure that any party with a related interest, especially trade interests, gets full benefits from any cultural exchange. The Group includes representatives of relevant Federal Government agencies, the Business Council, and the International Development Program of Australian Universities and Colleges.[61]

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[56] *Evidence*, p.804
[57] *Australia's Overseas Aid Program, 1989-90*, Budget Related Paper No.4, p.34
[58] *Evidence*, p.800
[59] *ibid.*, p.801
[60] *ibid.*
[61] *ibid.*

1.67 The Department of Foreign Affairs and Trade is looking at the feasibility of new funding measures that will tap into private sector resources for a general sports exchanges program which is expected to have special value in Australia's relationship with India. It is intended in part to support trade linked opportunities.[62]

1.68 The sports contacts between India and Australia, mostly in cricket and to a lesser extent hockey, have probably been the first point of reference for many Australians about modern day India. The Western Australian Chamber of Commerce and Industry has realised the potential to build on this in support of a general expansion of cultural and commercial contacts.

1.69 It is not unusual for large Indian companies to support their own cricket teams. To exploit the commercial value of this, the Western Australian Chamber of Commerce and Industry, in cooperation with the State's Cricket Association, sought to strengthen cricketing ties between the Indian state of Tamil Nadu and Western Australia. The M.G. Kailis Group of Companies is the Australian sponsor of the M.G. Kailis/Chemplast Cup played between the Tamil Nadu and Western Australia cricket teams. The Indian sponsor is Chemicals and Plastics India Pty Ltd, which is part of the large Sanmar Group.

1.70 According to the Western Australian Chamber of Commerce and Industry, the activities associated with preparing for the Cup have led to strong personal business connections and the opening of a range of communications channels on other matters.[63]

Science and Technology Cooperation

1.71 The main activity under the Science and Technology Cooperation Agreement with India is collaboration on research projects and the main area of government expenditure is on travel funds to support this collaboration. Twelve grants were made between June 1987 and March 1989, comprising ten visits to Australia by Indian researchers and two in the other direction by Australian researchers. Funding of institution to institution links, for which the Agreement provides, has not been possible because of resource constraints.[64]

1.72 In April 1987, senior officials from both governments agreed on a number of areas for possible development of large scale cooperative projects between counterpart institutions or enterprises in each country: space, meteorology, marine science, geoscience, biotechnology and materials science. The most promising area of scientific cooperation so far has been the solar cell project referred to above which aims to manufacture under licence in India high quality solar cells developed by the University of New South Wales. The Indian partner is a commercial firm, Central Electronics Limited, as opposed to a research organisation.[65]

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[62] *ibid.*
[63] Western Australian Chamber of Commerce and Industry, *Submission*, p.14
[64] *Evidence*, p.641
[65] *ibid.*, pp.641-642

1.73 The Department of Industry, Technology and Commerce saw the Cooperation Agreement and related activities as useful support for the promotion in India of Australia's technological capability in selected commercial sectors. The Department's submission suggested that the Australian Overseas Information Service 'could play a significant role' in this area, but warned that Australian efforts would need to be carefully assessed because the links between the scientific community and business in India were relatively weak.[66]

1.74 The CSIRO Office of Space Science and Applications has been working to develop cooperation in remote sensing for commercial and scientific applications. This was one of the areas identified in the senior officials' talks in April 1987. The CSIRO is interested in a project which would produce a jointly built Australian-Indian remote sensing instrument to be carried into space in 1993. The funding level required would be, according to the submission, $10 million over three years. The advantages to Australia from this project would be to exploit India's well developed expertise in space applications, especially long distance telecommunications, in remote sensing for renewable and natural resources, and in meteorological studies. In return, Australia could offer expertise in infra-red techniques for remote sensing. The similarities between the two countries in size, climate and resource management problems were advanced as strong arguments in support of such collaboration.[67]

1.75 An unusual feature of the CSIRO submission was that it was one of the few that explicitly recognised India's technological advancement.

Immigration

1.76 Immigration to Australia from India has not played a major part in determining the agenda for the bilateral relationship and the local Indian community has not sought to lobby the Australian Government on our policy toward India. The 1986 census recorded 47,816 Indian born people in Australia, with the highest concentrations in New South Wales (14,617) and Victoria (14,535). The second wave of Indian immigration to Australia after the War occurred in the late 1960s when Australia was in need of doctors, engineers, teachers and other professionals. Interest in migration to Australia remains high in India, with an increase in formal applications over the last two years of more than 100 per cent.[68]

Conclusion

1.77 Through the course of its inquiry into Australia's relations with India, the Committee became even more convinced of the need for the inquiry. While government departments were prepared to admit that the relationship between India and Australia had been one of 'shameful neglect' or 'benign neglect', there

[66] *ibid.*, p.643
[67] CSIRO Office of Space Science and Applications, *Submission*, pp.1-2
[68] *Evidence*, p.802

was little evidence of a strategic change of direction similar to that undertaken by Australia in respect of China in the 1970s. Hiatus seemed to characterise many aspects of the relationship and follow-up to initiatives was often missing.

1.78 There appeared to be elements missing from the decision-making processes in a range of public bodies in Australia. There was little forward thinking: what will India be to Australia in the year 2000? How far might the economic opening up that has only just begun proceed by the year 2000? How can we harness India's strategic weight to our advantage in the next century?

1.79 There appeared to be a weak institutional memory and little empathy with Indian culture in Australian Government departments. The submissions from businessmen and academics who know India well showed a richness of detail which made their arguments all the more convincing. By contrast, there appeared to be a certain lack of colour and an unnecessarily narrow focus on government activities in the submissions from government departments.

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.

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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]

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[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

	Year						
	82-83	83-84	84-85	85-86	86-87	87-88	88-89
CATEGORY	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$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]

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[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]

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[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]

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[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

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[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]

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[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]

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[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.

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[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.

CHAPTER THREE

THE COMMERCIAL ENVIRONMENT

Introduction

3.1 The Australia-India Business Council painted a fairly positive picture of the commercial environment in India.[1] This view was shared by most submissions which, while recognising considerable difficulties and frustrations, believed that a well-informed, tenacious businessman with the right product or service and with a good local agent could do good business in India.[2]

3.2 The Business Council cited the following summary of the business climate in India that had been prepared by Coopers and Lybrand in 1989:[3]

ASSETS
Large urban consumer and industrial market
Strong human capital and R&D base
Low labour rates
Improving manufacturing quality and competition
Good infrastructure
Increasingly responsive bureaucracy
More attractive direct foreign investment rules
Stable political environment
Significant private sector capital

LIABILITIES
Exchange controls
Equity participation restrictions
Reputation for bureaucracy, poor manufacturing, and pirating
Very large poor segment of the population
Financial business sector restrictions

1 *Evidence*, p.880
2 *ibid.*, pp.460, 533
3 *ibid.*, p.880

The Indian Business Culture

3.3 The ANZ Banking Group took the view that 'in terms of the general spectrum of business...India is one of the more comfortable countries' and reported no difficulty in finding staff who are happy to live and work in India for a long time.[4] However, there was a clear need to bridge the gap between the Australian and Indian business cultures in some way, according to a number of submissions. The Melbourne South Asian Studies Group reported that successful Canadian firms in India could attribute their progress to use of employees with Indian experience in the planning stage of their Indian ventures.[5]

3.4 It was asserted that Australian businesses have yet to appreciate the value of employees with knowledge of India in spite of general recognition by the Australian business community that to crack the India market required patience, persistence and the ability to build relationships.[6]

3.5 There was no reference in the submissions of Australian government departments to the view that India has a vigorous traditional business culture which is accessible only to those who know Indian languages.[7] The importance of Indian languages was highlighted in other evidence. Dr Bhattacharya of the University of Sydney reported that only three per cent of Indians speak English.[8] Dr Chakrabarty expressed the view that 'so long as you communicate only in English, you miss out on all the crucial inflexions of the culture'.[9] The implication of these facts would appear to be that many Australian businessmen are unlikely to be aware of the finer points of business negotiations in India.

3.6 Cultural differences aside, there were a number of business practices that set the two business communities apart. For example, according to Dr Mayer, Australians found it difficult to deal with the 'imposition by the [Indian] government of post-agreement conditions, and the leaking of sensitive commercial information to competitors'.[10]

3.7 The long lead times characteristic of contract negotiation in India tended to exclude smaller Australian firms (in practice, the high technology exporters) because such firms could least afford the diversion of senior members of staff for lengthy periods.[11]

3.8 Dr Mayer identified several flow-on effects of the overly protectionist trade regime.[12] These included:

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[4] *ibid.*, p.318
[5] *ibid.*, p.333
[6] *ibid.*, p.337
[7] *ibid.*
[8] *ibid.*, p.596
[9] *ibid.*, p.375
[10] *ibid.*, p.459
[11] *ibid.*, p.460
[12] *ibid.*, p.461

- the creation of quasi-monopolistic sectors as a result of the granting of exclusive licences;
- the resulting expectation among Indian manufacturers for high returns without needing to put too much effort into development;
- the development of a short term 'trading' approach with little commitment to engineering;
- a tendency by Indian negotiators to focus exclusively on price, neglecting depth of expertise in technology transfer; and
- an attitude that time is not money, that bargaining for a lower purchase price is more important.

3.9 Dr Bhattacharya had a similar view, though with slightly different emphasis:[13]

> ...basically the business leaders are guided by market profitability – and that is immediate profitability. They are not prepared to wait for a long time. On the other hand, India is still a traditional society, the people are not slaves to time. Time does not mean that much in India. Indian business people are prepared to wait a long time before they cultivate a friendship and then ultimately make the decision: 'I can depend on this person, I can do business with that person...'. So if you want an immediate horizon, immediate profitability, India is not the country.

3.10 Mr Ward, the Managing Director of Atlas Air Australia, expressed the view that despite excessive regulation of foreign participation in the Indian economy, the Government is prepared to bend its own rules if it has a strong need for the product that you are offering.[14]

Public Sector vs Private Sector

3.11 The Indian Government regulates and controls large-scale industry by means of specific price and allocation controls and general capital issues, by its industrial licensing policy, and the Monopolies and Restrictive Practices Act. Thus, government influence is felt in the private sector decision-making process at every level, determining such matters as salary paid to company directors, the nature of a company's imports, the location of its plant, and the amount of capital it can raise. These controls are reinforced by elaborate taxation laws that discriminate against companies with very few shareholders as well as against intercorporate investment.[15]

3.12 The Government has sought to take a strict line with private industry and to discourage its growth in key and basic industries. Government policy encourages private ownership in small and medium sized business, leaving the commanding heights of the economy to the public sector. Relations between Government and industry have frequently been strained. This has been partly

[13] *ibid.*, p.586
[14] *ibid.*, p.540
[15] *The New Encyclopaedia Britannica*, 15th ed., 1988, Vol.21, *India*, p.16

because of an excessive preoccupation by the private sector with profit to the neglect of the broader social justice goals of the Government, and because of a failure on the part of the Government to recognise the importance of the profit motive and the economies of scale that can be achieved by large corporations.[16]

3.13 The reality is that government regulations have worked to the advantage of a number of industrialists who have learned to manipulate the regime of controls to their advantage. Such industrialists dominate the private sector. They dislike competition and fight against import liberalisation measures and the removal of licence controls that would introduce an element of competitiveness. Thus, there is a coincidence of interests between the big industrialists and the bureaucrats who support the rigid controls.[17]

3.14 The public sector is accorded pride of place in the Indian economy by the Government. Rail, air and sea transport, power generation, banking, insurance, petroleum, steel, mining, and heavy engineering are predominantly public sector industries.[18] The productivity of many of these public enterprises has been unimpressive because of parliamentary and governmental interference, and management by bureaucrats rather than people with business experience.[19]

3.15 A number of public sector enterprises have discretionary purchasing and importing powers. Many imports must be channelled through a public sector organisation before being disbursed to other private or government enterprises. The main enterprises with such discretionary powers are:

Steel Authority of India
Railway Board of India
Oil and Natural Gas Commission
Indian Oil Corporation
Department of Telecommunications
Ministry of Defence[20]

3.16 Most other imports are purchased by the Directorate of Supplies and Disposals or the two trading authorities, the State Trading Corporation of India and the Minerals and Metals Trading Corporation of India.[21] Australian companies have had relatively little success in securing major government contracts other than for the supply of raw materials.[22]

3.17 The public sector organisations for the most part adhere inflexibly to the Indian Government's policies and attitudes in their business dealings. The process of getting official approval for a new trade or investment venture can involve a number of government departments. There have been instances of one

[16] *ibid.*
[17] *ibid.*
[18] *ibid.*
[19] *ibid.*
[20] *Evidence*, p.710
[21] *ibid.*
[22] *ibid.*, pp.710-711

department trying to expedite a contract or licence while another has tried to slow it down.[23] The business person trying to get contracts in public sector enterprises must spend a lot of time talking to bureaucrats to succeed.[24]

3.18 According to some observers, the private sector is more dynamic and more approachable than the public sector,[25] and is beginning to rival the public sector as a buyer of unrestricted imports.[26] The private sector received very little attention in the submissions received by the Committee, including the AUSTRADE submission.

3.19 The fact that there is a big public sector does not mean that there is a high degree of 'command' in government planning which might manifest itself in such things as mandatory production quotas. The Indian Government attempts to manipulate economic activity rather than dictate it.

Legal Framework

3.20 The legal framework is a central element of any business relationship and in international business is usually a major issue to be tackled, especially in respect of dispute settlement. The submissions received by the Committee did not address legal issues in any detail. Problems of contract negotiation (time taken — from nine to forty-eight months)[27] and payment[28] were mentioned. Poor protection of intellectual property (patents and copyright) was also cited as a major obstacle to increased trade with India.[29]

3.21 Legal education of foreign business people and pressure from foreign governments to change laws must play a major part in the opening up of closed, centrally planned economies. This was certainly the case with China in the last decade where several hundred new laws had to be drafted to accommodate the new trade and investment regime. Obviously, the degree of change required to India's laws would be substantially less than in China's case but lack of attention to these issues is probably detrimental to Australian attempts to achieve greater penetration of the Indian market. If the submissions received by the Committee are a guide, Australian public bodies, government departments and businessmen have not done much work in this area.

Finance and Banking

3.22 India has a relatively well developed banking and financial system. The Reserve Bank of India, as the central bank, strictly regulates all banking activity, about ninety per cent of which is in the public sector as a result nationalisations of major banks in 1969 and 1980. Since nationalisation in 1969, credit to agriculture and small scale industry has grown rapidly, but larger scale industry

[23] *ibid.*, p.294
[24] *ibid.*, p.372
[25] *ibid.*, p.389
[26] *ibid.*, p.700
[27] *ibid.*, p.459
[28] *ibid.*, pp.460, 709
[29] *ibid.*, p.638

and trade have faced tight credit conditions.[30] Interest rates for deposits and loans are controlled by the Reserve Bank. Foreign exchange regulations are stringent.[31]

3.23 There are four major principles governing foreign exchange policy in India. First, receipt and conversion of foreign exchange into rupees is freely permitted, but only through scheduled commercial banks authorised to deal in foreign exchange. Second, payments from foreign currency funds acquired from transactions abroad must be handled by and surrendered to an authorised dealer in foreign exchange. Third, foreign currency borrowings require the approval of both the Reserve Bank and the Ministry of Finance. Fourth, all release of foreign exchange in India, such as payment for imports, is controlled by the Reserve Bank.[32] The Government regulates its foreign exchange resources to pay for imports through its import licensing system.[33]

3.24 There are a number of sources of finance, including bilateral or multilateral aid (loans or grants), soft loan/mixed credits, and internal resources of Indian industry. Foreign currency is generally available provided the Indian customer can convince the Government of the high priority of the proposed undertaking.[34]

3.25 The Export-Import Bank of India (EXIMBANK) has a refinancing facility for deferred payment exports. The focus of EXIMBANK is on financing the sale of Indian machinery, manufactured goods, technology and consultancy services on deferred payment terms. The financing, except by special arrangement, is in rupees.[35]

3.26 Countertrade is another way of financing commercial activities in India. Countertrade is favoured by the Indian Government but it is not widely used by Australian exporters. BHP, like some other larger Australian companies, has a countertrade unit.[36] Use of countertrade could seal a contract that the Indian authorities otherwise might refuse to approve or issue an import licence for.[37]

3.27 Dr Fisher of AUSTRADE suggested a new proposal for finance arrangements: a line of credit for a particular industry, negotiated between an Indian ministry and an Indian bank for a specific range of imports or projects provided by an Australian firm. There would be a standard set of terms and conditions on the basis of which an Indian consumer in the industry would negotiate supply terms with the Australian supplier. The advantage of such a

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[30] *The New Encyclopaedia Britannica*, 15th ed., 1988, Vol.21, *India*, p.15
[31] *Evidence*, p.284
[32] *ibid.*
[33] *ibid.*, p.267
[34] *ibid.*, p.426
[35] *ibid.*, p.294
[36] *ibid.*, p.334
[37] *ibid.*, p.612

system is that the Australia supplier is guaranteed payment and leaves any legal problems with the end user to be settled by Indian agencies. This proposal reportedly has the support of the head of India's export credit agency.[38]

3.28 According to AUSTRADE, the demand from Australian exporters for Australian Government financial assistance for projects in India has been quite limited to date. In recent years, only two Export Finance and Insurance Corporation (EFIC) loans have been made. One loan, of $1.56 million, negotiated in 1984, financed the sale of fishing vessels, while the other, for mining equipment in 1985, involved an EFIC loan of $336,000 and a Development Import Finance Facility grant of $114,000.[39]

3.29 In addition, AUSTRADE-EFIC has made about fifty 'without commitment' indications of finance in support of prospective capital goods exports to India, mainly in the mining and shipbuilding sectors.[40] These exports have either found alternative finance arrangements, often from Indian authorities, or have not proceeded.

3.30 A strong argument advanced to the Committee was that Australia must be able to offer concessional finance packages to its businessmen to allow them to compete for major projects against businessmen from the major industrial countries, such as Japan or Germany. The argument was that if only Australia can be seen to win several projects and thus demonstrate its level of technology, there is an increased likelihood that future contract bids by Australian companies will have a better chance of succeeding.[41]

3.31 A counter argument would be that since concessional finance is becoming the norm, and Australia cannot consistently match the resources of the majors countries any Australian bid in the future for a large project in India — to be competitive — will have to be Government assisted.

3.32 Exchange rate variations can have a strong inhibiting influence on the export of consultancies where the margins are reportedly relatively small and where the contracts can be in operation for several years.[42] Most contracts for exports to India are signed in US dollars. One attempt reported to the Committee to get an Australian contract expressed in Australian dollars was not successful.[43]

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[38] *ibid.*, p.774
[39] *ibid.*, p.737
[40] *ibid.*
[41] *ibid.*, pp.643, 693
[42] *ibid.*, p.427
[43] *ibid.*, p.445

Foreign Investment and Joint Ventures

3.33 Industries in India open to foreign collaboration have been specified in the Industrial Policy Guidelines. The Government has issued an 'Illustrative List of Industries for which Foreign Collaboration is Welcome'. The list is not exhaustive and is subject to revision from time to time.[44] The list concentrates exclusively on heavy industry and other industrial products rather than consumer goods.

SUMMARY OF INDUSTRIES OPEN FOR OVERSEAS COLLABORATION

ENGINEERING INDUSTRIES

Metallurgy
Prime Movers
Electricity Industry
Automobile Ancillaries
Industrial Machinery
Agricultural Machinery
Commercial Office and Household Equipment
Electric and Electronic Equipment
Machine Tools

NON-ENGINEERING INDUSTRIES

Fertilizers
Inorganic Chemicals
Organic Chemicals
Drugs & Pharmaceuticals
Man-made Fibres
Paints
Dyes
Paper
Rubber Products
Glass & Glass Products
Engineering Plastics & Resins
Synthetic Rubber
Electronic Components
Telecommunications
Industrial Electronics
Computers

3.34 An authoritative booklet titled *Foreign Collaborations and Investments in India: Law and Procedure* has been published by Singhania and Co. This covers the main policies affecting collaborative ventures including repatriation of earnings and tax implications.[45]

3.35 Foreign investment in India is approved on a case by case basis. It is only permitted where it would serve to introduce important technology not available in India. Even in those cases, there is a distinct preference for technical collaboration agreements — to foster technology transfer. Key considerations in evaluating proposals are the level of sophistication of the technology involved; the need for the technology; and the impact on the balance of payments.

[44] *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.86

[45] *ibid.*

Generally, no more than 40 per cent foreign equity is permitted.[46] This is the normal limit set under the *Foreign Exchange Regulation Act 1973*, but in some high technology ventures, up to 74 per cent may be allowed. Investment without technology transfer (that is, financial collaboration only) is possible for OECD investors (including Australians) and for non-resident Indians up to 40 per cent in approved cases.[47]

3.36 There has been little interest by Australian firms in investment in India. This can be attributed principally to Indian restrictions on foreign investment; restrictions on industrial capacity expansion; complex administrative procedures; restrictions on remittances; and lack of clarification on taxation in the absence of a double taxation agreement.[48]

3.37 According to a Western Australian study, government clearance for ventures involving foreign collaboration may take up to 6 months in some cases. Where rejection occurs, it is generally for non-compliance with policies. Once the joint venture is in place, some delay may be experienced in repatriation of dividends and royalties, but these are never blocked (at least in the experience of Grindlays Bank).[49]

3.38 Some examples of Australian joint ventures in India include a factory in Madras making India's first locally produced lap-top computer, designed in Australia, and produced under licence from HRC Technologies of Brisbane; and Amalgamations Repco, 40 per cent owned by Repco Ltd of Melbourne, and one of India's leading domestic suppliers of clutch parts and assemblies.[50]

3.39 One advantage of joint ventures in India is reportedly the access they provide to other markets. For example, the USSR and India have a bilateral 'balanced trade' agreement which is supposed to operate on the basis that no foreign exchange has to be spent by either country importing goods from the other. The result is that the USSR has an incentive to give India preference over suppliers from countries with hard currencies. The United States company, Xerox, has formed a joint venture with the Modi Industrial group in India to manufacture copiers, most of which are exported to the USSR. But the opportunity this type of access provides is limited by the imbalance in India-USSR trade in India's favour.[51]

3.40 The Indian Government has set up six export processing zones where most of the restrictive regulations applying to foreign investment and trade do not apply. Approvals for investment in these zones are supposed to be easy to obtain quickly (45 days).[52]

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[46] DFAT, *Trade and Commercial Development Program...*, *p.38*
[47] *Potential in the Indian Market...*, p.87
[48] DFAT, *Trade and Commercial Development Program...* p.19
[49] *Potential in the Indian Market...*, p.89
[50] *Evidence*, p.153
[51] *ibid.*, p.638
[52] *ibid.*, pp.307, 542

3.41 Plants in the zones can be 100 per cent export oriented ventures or can sell 25 per cent of their production in the local market against a valid licence. All capital goods, raw materials, consumables, spares and office equipment required can be freely imported with no licenses and no customs duty. Alternatively, local inputs are available at reduced prices. Output is exempt from all duties and taxes. Other infrastructural and interest rate concessions are available.[53]

3.42 Picking the right partner is of course an important decision for joint ventures in India as elsewhere. It has already been noted that the public sector dominates key industry areas. In the private sector, however, there is another pattern of dominance — by family groups. It is expedient to be aligned with the appropriate group to ensure that the local partner has sufficient strength and knowledge to be effective.[54]

3.43 Major private sector industrial activity is heavily controlled by a number of wealthy extended families. Commercial life in Calcutta is almost entirely dominated by such families and a potential investor/importer/collaborator would be imprudent to ignore this.[55]

3.44 Another factor to be kept in mind is the likely political support which a joint venture may attract. Areas of India in conflict with the Government (such as the Punjab region) may not be propitious locations and, in fact, have experienced something of a flight of capital in recent years.[56]

3.45 On the other hand, the high per capita income of the Punjab has a countervailing influence on this trend of disinvestment. The Indian Government has also introduced special measures to encourage new investment in the Punjab to counteract any disinvestment trend.

3.46 The Indian Government has given special incentives to non-residents of Indian origin to invest in India and establish economic ties.[57] Investment by non-resident Indians in the country was estimated at 86 billion rupees as of 1 January 1987.[58]

Direct Sales of Products and Services

3.47 According to a major consultancy report prepared for the Western Australian Government, direct sales must be undertaken with the assistance of an Indian agent or representative. The main problem when selling to India is finding the *right* agent, particularly given the size of the country. Most firms do

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[53] *ibid., p.307*
[54] *Potential in the Indian Market...*, p.88
[55] *ibid.*, p.89
[56] *ibid.*
[57] *ibid., p.90*
[58] Lincoln Kaye, 'An Overseas Harvest,' *Far Eastern Economic Review*, 21 May 1987, p.83

not have the resources to retain a number of agents who are able to cover all regions. Hence, it is important to limit ambitions and to target intelligently the most prospective cities, regions or markets.[59]

3.48 The same study also suggests the most effective way to identify an agent when dealing with the government sector may be to make inquiries of the state organisation which may be a prospective buyer, via AUSTRADE or a bank. In the course of discussions about the nature of the product/services which are to be offered, any preference by the state representative for particular import channels (that is, agents) should be ascertained. Then an approach to the appropriate agent to begin the process can be made.[60]

3.49 There are a number of ways for companies to obtain assistance in finding suitable agents — for example, by use of AUSTRADE; companies in Australia which specialise in links with India; and the banking system. Nonetheless, it has been suggested that trying to sell 'cold' into India by use of an agent selected at arm's length by an intermediary is not a strategy for success.[61]

Sale by Tender

3.50 Government departments, agencies and public sector companies use tenders for major procurement and projects. About 70 per cent of the total value of imports into India is for the government sector. Aid-funded projects in key sectors are also normally offered by tender. Tenders are usually published in the newspapers and government publications.[62] In most cases, the AUSTRADE office is also informed when tenders are issued and these are then circulated by that office to interested Australian firms through the Australian publication *Tenders*.

3.51 According to the study provided to the Western Australian Government, there are several pre-requisites for successful tendering: representation by a competent local agent; willingness to 'lobby' and facilitate the transaction (in the case of aid-funded projects, this includes ongoing contact with officials in such places as the Asian Development Bank headquarters in Manila and the World Bank in Washington); and the resources and patience to sustain a long lead time where the decision may be slow in India and/or in the main funding agency.[63]

3.52 Australian firms have had differing experiences with the Indian tendering process. Some major companies have become discouraged by their lack of success and have been inhibited from further attempts even when a new project appears 'tailor-made'. In other instances, the tender process has been the preferred approach. Unilab, for example, has expressed a preference for the tender route because they do not wish to devote the resources required for a more substantial business exploration program in India designed to lead to joint ventures.[64]

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[59] *Potential in the Indian Market...*, p.83
[60] *ibid.*, p.85
[61] *ibid.*, p.84
[62] *ibid.*
[63] *ibid.*, pp.84-85
[64] *ibid.*, p.85

Business Support

3.53 As noted, the Australia-India Business Council (AIBC) was inaugurated in December 1986 following the visit to Australia of Rajiv Gandhi. The Council's membership is open to any Australian firm, company or person engaged in trade, commerce or investment between Australia and India. Its aim is to promote mutual understanding and contacts as the basis for expanded commercial relations. The Council meets once a year with its counterpart, the Indo-Australian Business Council.

3.54 The Australia-India Chamber of Commerce aims to further two way trade between the two countries; to study and report where necessary on economic developments which might affect trade; to provide trade related information; and to provide contacts for business people.[65] There is no Indian equivalent. Neither the AIBC or the Chamber of Commerce receive government funds.[66] The AIBC secretariat operates out of the national headquarters of the Confederation of Australian Industry in Canberra.

3.55 AUSTRADE operates a post in New Delhi and a sub-post in Bombay, the centre of India's private sector commerce. As of July 1989, a Senior Trade Commissioner and Trade Commissioner had responsibility for all facets of export facilitation, with the assistance of eleven Indian marketing and support personnel, two of whom are located permanently in Bombay. (The New Delhi post also has responsibility for sub-posts in Dacca and Colombo.)[67] AUSTRADE sees one of its primary objectives as the education of Australian exporters to the realities of doing business in India. Another is to find ways to eliminate or at least minimise the 'problems experienced by some of our clients'.[68] Many of the marketing activities of the New Delhi post are 'directed towards demonstrating areas of Australian technological superiority'.[69]

3.56 In a number of submissions received by the Committee considerable praise was given by the business community for AUSTRADE's activities in India and the strong commitment of the officers currently serving there. At the same time, the Committee was interested in how the AUSTRADE mission reviewed its performance in promoting exports to India and whether their functions might not be better performed in different ways. One businessman was quite critical of the inflexibility of the AUSTRADE mission regarding compliance with regulations, suggesting that such rigour was not observed by Australia's competitor trade missions.[70]

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[65] *Evidence*, p.521
[66] *ibid.*, p.539
[67] *ibid.*, p.696
[68] *ibid.*, p.707
[69] *ibid.*, p.705
[70] *ibid.*, p.532

3.57 The roles of other government departments, such as Foreign Affairs and Trade or Immigration and Ethnic Affairs were not discussed at length in any of the public hearings or submissions. One plea was made for a more sympathetic approach from Australian immigration officers to visa applications from Indian business people.[71]

Conclusion

3.58 The preceding discussion of the commercial environment in India bears out the guidance on company preparation advised by a consultant engaged by the Western Australian Government: delineation of the most promising opportunities; identification of specific potential buyers; their preference as to contracting channels; identification of traditional sources of supply and main competitors; identification of suitable partners, joint venturers, or agents in India; data on precedents of supply; and data on governmental and regional importance attached to the industry concerned with a view to possible support from an Australian Government agency or other aid agencies.[72]

3.59 On the basis of this sort of market research, an action plan can be devised: identification of the specific skills and equipment required to compete; linkages with other firms which have the capability to supply some or all of the required inputs; nomination or formation of an entity which would then pursue the business by vigorous marketing and organisation of supply; and clarification of all the necessary inputs at the Indian end (such as funding, or negotiation channels).[73]

3.60 Much of the advised strategy is fairly commonplace for business activity but its value in the opinion of the Committee, as a guide to action for India-Australia trade, is that it emphasises the central place that improved market intelligence and improved education of Australian business people about India will play in any expansion of trade with India.

[71] *ibid.*, p.547
[72] *Potential in the Indian Market...*, p.102
[73] *ibid.*, p.103

CHAPTER FOUR

THE EVOLUTION OF INDIA'S MILITARY POSITION

4.1 In assessing the implications for the regional strategic outlook of India's enhanced defence capability, the Committee looked at the potential threat posed by India to the strategic balance in South and South East Asia. The Committee pursued the time-honoured formula that potential threat has two dimensions: intent and capability. This chapter surveys those factors which are important in understanding India's intent in its present defence build-up. The reasons behind the rapid growth of India's navy are given special attention. The following chapter reviews Indian military capabilities.

4.2 India's defence establishment has been profoundly influenced by the country's turbulent experience of international affairs since independence. This experience has been marked on the one hand by war and instability in the South Asian region, and on the other hand by India's leading role in representing the Third World in the international arena.

4.3 India's post-war experience of international affairs has been much more complex — and threatening — than Australia's. As an officer of the Department of Defence observed:

> It is rather trite to say — but I think it needs to be said — that the world looks very different from New Delhi, than it does from Canberra or Washington or London.[1]

4.4 Yet India's current policies cannot be explained entirely as a product of past pressures; or even of continuing difficulties with its neighbours or with some of its own communities. During the last decade, India has undergone major internal changes. Its economy has expanded rapidly and this process has consolidated India's position as the region's major power and as one of the world's second ranking powers. The educated classes in India, and many among the less educated people, now have new and more proud expectations of their country's international standing.

4.5 Thus, to understand India's current military policies, it is necessary to look not only at its threat perceptions, which still have the major impact on its defence planning, but also at the development within the country of views on what India's regional and world role should be.

Conflict in South Asia and India's Threat Perceptions

4.6 The two most important external threats that India has been concerned with in the modern period are Pakistan and China, and their allies or friends. India has had four wars since 1947 and serious border clashes on several other

[1] *Evidence*, p.231

occasions. War almost broke out between India and Pakistan in January 1987 and between India and China as recently as September 1987. As the Department of Defence put it:

> To the Indian politician or defence planner, the abiding geographic reality of India is that it has extensive land borders over which threats to India have traditionally come, on and off, for close to 5,000 years. Abutting those borders are two countries of large existing or potential military power which have close relations with each other, and neither of which can be seen to be aligned with India and its interests. India has fought four wars: three against Pakistan and one against China... Defence planners tend to be driven by worst case scenarios, and that is particularly so in India where previous experience suggests that these worst case scenarios are not necessarily unreal.[2]

4.7 India's security perceptions have also been shaped from the outset by internal considerations: from the initial potential threat posed by a large Muslim community at times when India was at war with Pakistan; to Chinese backed insurgency in the north-east in the 1960s; and to pressures created by the Tamil population of southern India in connection with the Tamil insurgency in Sri Lanka. There are others. As the Department of Defence noted:

> Problems affecting internal security and unity, most notably in Punjab, are a continuing preoccupation.[3]

Pakistan: the First Threat — India's Response

4.8 The partition of British India into Pakistan (East and West) and India was accompanied by great communal violence: millions of Muslims crossed into Pakistan and millions of Hindus moved into India. At the same time, millions of Moslems remained in India and a substantial Hindu population remained in Pakistan. Thus, the Hindu-Moslem communal conflict of British India was transformed into an international conflict and was perpetuated by continuing communal problems in the two separate countries. This situation was aggravated and, in a sense permanently institutionalised, as a result of the situation that prevailed in the border province of Jammu and Kashmir at the time of independence.

4.9 This province contained a large Muslim majority but was ruled as an independent Princely State by a Hindu Maharajah. His hesitation in choosing whether to join India or Pakistan resulted in an incursion by Muslim tribesmen from Pakistan, a local uprising, the flight of the Maharajah into India, and the formal accession of his territories into India. The incursion was met with Indian armed resistance and war broke out in 1948. A UN sponsored ceasefire was eventually agreed to but it resulted in a divided Kashmir.

4.10 This division of Kashmir provided the opportunity for yet another war in 1965. This war did not resolve the matter either.

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[2] *ibid.*, pp.231-2
[3] *ibid.*, p.217

4.11 The 1965 Indo-Pakistani War marked an important turning point in Indian naval development. Although the war had been fought specifically over control of Kashmir and was therefore primarily a land-based war, naval clashes took place. In these clashes, the Pakistani forces proved themselves able to raid Indian ports on both the east and west coast with virtual impunity.

4.12 Until 1965, India's motley fleet of antiquated ships had essentially concerned itself with maintaining harbour security and patrolling waters used by Indian fishing and merchant ships. Indian defence planners had assumed that this patrolling activity, projecting India's navy as a 'denial force', would deter any aggressive Pakistani naval activity.

4.13 However, the short war with Pakistan proved the Indian Government's confidence in their 'denial force' to be misplaced. The Indian emphasis on peace-time patrolling as a method of protection had left the Indian naval force inadequately equipped and trained to intercept the Pakistani raiders. Indian shortcomings were aggravated by the fact that the Navy's carrier, *INS Vikrant,* was out of action undergoing a refit.

4.14 Pakistan's naval attacks during this war forced a change of thinking in India. In 1965, India had 1 carrier, 2 cruisers, 3 destroyers, 8 frigates, 6 small escort vessels and no submarines.[4] There was no longer any room to believe that a war over disputed land territory would be confined to land. Prior to 1965, India's formally documented plans for a major naval expansion had been largely ignored by the Government because of other perceived priorities. Renewed interest in these plans was the direct result of Pakistan's naval successes in 1965.

4.15 The Indian Government called for an increased emphasis on the Navy as well as a more effective naval defence strategy. The Indian Navy's new approach was to aim for a force that was equipped and trained either to defeat an enemy navy or, at least, to bottle it up in its home waters. India would no longer rely on the psychological impact of extensive naval patrolling.

4.16 In mid-1966, it was announced that a rapid naval expansion programme would take place. This would include moves to establish a two fleet navy, an Eastern and a Western fleet. Naval bases at Bombay and Cochin were expanded. New bases were established at Marmagar (Goa) and Vishakhapatnam. New facilities were planned for Port Blair in the Andaman Islands. The Naval Air Arm established airfields in Goa and at Wellington Island off Cochin.

4.17 The Naval Air Arm also obtained more anti-submarine warfare helicopters. These were stationed on the carrier *INS Vikrant.*

[4] *ibid.*, p.101

4.18 In August 1966, a delegation visited the Soviet Union to negotiate the purchase of naval vessels. These included eight OSA class missile boats, four submarines, eight patrol craft and some landing ships. The Soviet Union provided easy terms of purchase.

4.19 Later in 1966, the Government formally announced its plans to establish an indigenous warship construction capacity. India would, from then on, build up its navy with a combination of vessels purchased abroad and built at home.

4.20 The 1971 Indo-Pakistani War was quite different in character from either the 1948 or 1965 wars. The two earlier wars were fought over control of Kashmir. The 1971 war was fought over the question of independence for Bangladesh — what was then East Pakistan. The prospect of independence for Bangladesh also offered the possibility of a major change in the strategic balance in South Asia in India's favour. Indian forces intervened in Bangladesh and, in a very short war defeated the West Pakistani forces based in the East, thereby delivering independence to Bangladesh.

4.21 The Indian navy played an important role in the 1971 war. The forces in the east, structured around the *INS Vikrant*, bottled up Pakistani shipping in the Bay of Bengal off the coast of East Pakistan. This prevented Pakistan from either re-supplying or evacuating its forces in the East. The *INS Vikrant* launched many strike missions in the Bay of Bengal. The Western Command, with its OSA class missile boats as spearhead, launched a highly successful strike against Karachi harbour, where the Pakistani fleet was headquartered.

4.22 The value of effectively denying an enemy the ability to deploy its naval forces became an entrenched part of Indian naval consciousness as a result of the 1971 war.

Great Power Involvement in Indo-Pakistani Conflict

4.23 By the time the 1971 war occurred, the India-Pakistan confrontation had become internationalised — the superpowers began to be more directly involved. This process of internationalisation had its origins in the different foreign policy stances adopted by the new Governments of India and Pakistan at the time of their independence, and in relatively poor management by the United States of its early relationship with India.

4.24 India, under Prime Minister Nehru, became an outspoken leader of the Non-Aligned Movement and severe critic of what it saw as Western imperialism in Asia and Africa. Pakistan, under successive governments, developed a much stronger pro-Western orientation. Pakistan signed a Mutual Assistance Agreement with the United States in 1954 and joined the two United States sponsored military alliance groups — the South East Asia Treaty Organisation (SEATO) and the Central Treaty Organisation (CENTO). During the 1950s, the US supplied Pakistan with substantial military and economic assistance. The military aid to Pakistan was justified on the grounds that it was needed for Pakistan to participate in the Western Alliance's common defence against potentially hostile communist neighbours to the north. However the majority of

military equipment delivered by the United States was stationed on the border with India and nearly 90 percent of Pakistani forces continued to be deployed against Indian positions.

4.25 The 1959 security agreement between the US and Pakistan committed the United States to support Pakistan by measures 'as may mutually be agreed upon' if Pakistan was subjected to armed aggression. Pakistan has always tended to a broad interpretation of this treaty, arguing that it covered Indian aggression against Pakistan and not just communist aggression.

4.26 Another important naval event in connection with the 1971 war also had a significant effect on Indian naval development. In the later phase of the 1971 war, the United States despatched to the Bay of Bengal a carrier battle group, including the nuclear armed *USS Enterprise*. These United States forces were attempting to demonstrate some United States support for Pakistan but they arrived after the surrender of the Pakistani forces and their role was never fully tested.

4.27 In India, however, this United States show of force was naturally viewed as a threat and, indeed, a possible nuclear threat. Dr Michael McKinley quoted in his submission the following assessment by an American scholar, Stephen P. Cohen, of that incident:

> The sailing [into the Bay of Bengal] of the *USS Enterprise* was the ultimate in symbolic insult, and drove India's fear of regional penetration to new heights just at the moment of its greatest political and military triumph... Years after it occurred, the *Enterprise* episode is invariably raised in discussions with Indian strategists, journalists and members of the foreign policy community. It had a major impact on military thinking and contributed directly to the present expansion programme of the Indian Navy. Above all, it is remembered as a nuclear as well as a military threat.[5]

4.28 Dr Robert Bruce of the Centre for Indian Ocean Regional Studies in Perth made a similar point during his evidence:

> The point about the American ship coming to the Bay of Bengal is important... The Americans did not want to have the Indian navy built up. What they did perhaps helped to provoke it, which over the long term was not what they wanted. On the other hand, perhaps the Indians saw exactly the impact that that had. The superpower, which was unopposed, was able to go that close and attempt to achieve political ends. In other words, it was telling India, 'Do not go too far in terms of the dismemberment of Pakistan. Do not attack Pakistan'. The Indians may have seen what it was like to be at the weak end and they recognised that military strength has certain benefits.[6]

[5] *ibid.*, p.94
[6] *ibid.*, pp.58-59

4.29 The psychological impact on India of this great power intervention should not be underestimated. The United States action gave India a strong sense of impotence and a dent in its pride.

4.30 Ways and means of discouraging such future interventions by any outside major power have figured prominently in Indian strategy since then. The foundation of the strategy to prevent a repetition of such coercive naval diplomacy has been the projected establishment of well-armed carrier battle groups that can operate with the support of ground-based aviation as well as carrier-based aircraft.

4.31 The 1971 deployment of the *USS Enterprise* carrier battle group was, however, the only significant example of US forces actually being deployed in assistance to Pakistan. In fact, United States failure to come decisively to Pakistan's defence when the country was dismembered with Indian military assistance resulted in a decision by Pakistan to develop much closer relations with China, a country also seriously at odds with India.

4.32 Although India buys major amounts of military equipment from the Soviet Union and signed a Treaty of Friendship and Cooperation with the USSR in 1971, India prefers not to rely on its relationship with the USSR as the major deterrent against Pakistan or the United States. India has always aimed at building up the greatest degree of self-sufficiency in its defence forces. This is even reflected in the kind of agreements it has negotiated with the Soviet Union which provide for manufacturing within India of major equipment items, including ships and planes. India has not offered the USSR regular basing facilities for the Soviet navy and in this respect clearly intends to set itself at one step's remove from military alliance with the USSR.

4.33 In fact, this policy of distance from the USSR tends to confirm the proposition that India's response to the naval involvement of the superpowers in the India-Pakistan conflict and the Indian Ocean has been as much political as it has military. Indian defence planning does not consider that it is possible for India to defeat a full superpower battle group, such as those possessed by the United States. Nor does India particularly want to engage in combat with one. The Indian calculation has been to raise political costs to the United States of becoming involved in a naval battle with India. This calculation depends on India's importance as a leader of the non-aligned movement and on its close relationship with the USSR. India does not regard its Treaty with the USSR as a military alliance guaranteeing Soviet intervention in the event of a major conflict. Nevertheless, the Treaty was signed only weeks before the Indian intervention in East Pakistan in 1971, implying that the Indian Government saw some value in the Treaty as a complicating factor in Pakistani and United States calculations.

4.34 The long term objective of India's naval strategy was described in 1979 by a former Indian Chief of Naval Staff, Admiral A K Chatterji, as follows:

> ...a force equal in size and competence to the naval forces of any one of the superpowers now formally operating in the area.[7]

4.35 The Australian Department of Defence commented on this aspect of India's naval power in the following way:

> An enhanced maritime capacity would also lessen the likelihood that India itself could be subjected to 'coercive naval diplomacy', which India believes occurred with the deployment of a US carrier battle group into the Bay of Bengal during the 1971 Indo-Pakistani War.[8]

4.36 The concern that naval defence against major powers not be neglected is reflected very clearly in the following statement of then Prime Minister Rajiv Gandhi quoted by the Department of Foreign Affairs and Trade in its submission:

> Confronted with the growing presence of outside naval forces in the Indian Ocean, we are left with no alternative but to strengthen our naval defences and resist any attempt to undermine our independence or integrity from the direction of the sea. We are also determined to exercise our legitimate rights in our exclusive economic zone.[9]

4.37 The course of the development of India-Pakistan relations, the specific character of the three wars, and the internationalisation of the conflict have all contributed to the momentum towards a major defence force, including major naval forces.

Pakistan: A Threat in the Future?

4.38 India's perceptions of threat from Pakistan still underlie current Indian defence planning despite recent efforts to improve relations between the two countries.

4.39 The territory in Kashmir remains in dispute and the border is a potential flashpoint. Outbreaks of artillery exchanges in the Siachen glacier area have become routine. The Kashmir problem continues to define threat perceptions that exist today in India. United Nations observers remain in place on the border. While this problem between Pakistan and India remains, another war between the two countries over control of Kashmir cannot be ruled out. Both India and Pakistan deploy significant portions of their Armed Forces on or near their mutual border.

4.40 The Committee does not therefore accept the view that any reopening of hostilities is unlikely simply because the Indian Armed Forces are far more powerful than those of Pakistan.

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[7] Quoted in P. Lewis Young, 'India's Nuclear Submarine Acquisition', *Asian Defence Journal*, 11/1988, p.14

[8] *Evidence*, p.223

[9] *ibid.*, p.805

4.41 The Committee also rejects the view that the threat of conflict with Pakistan does not account for the expansion of India's navy.[10] Information available to the Committee and outlined above demonstrates a clear naval dimension to the India-Pakistan conflict. Moreover, the tension between India and Pakistan has attracted the involvement of the superpowers, and this involvement brings with it a much wider naval dimension.

4.42 The accession to power of Rajiv Gandhi in India and, more recently, Benazir Bhutto in Pakistan saw new initiatives aimed at trying to improve relations. A number of face-to-face bilateral meetings were held. Gandhi made a point of keeping Bhutto informed on the results of his trips overseas, in particular his trip to the People's Republic of China. Agreements were signed on increasing trade and making travel between the two countries easier. They also signed an agreement to the effect that neither country will attack the other's nuclear facilities.

4.43 At the same time, disagreements and suspicion continue. Differences emerged at the Summit Meeting of the South Asian Association for Regional Cooperation (SAARC) in late 1988, especially on the issue of arms control. Bhutto has urged bilateral arms control talks between India and Pakistan. However, India does not see the security problem in the region as stemming from the India-Pakistan relationship by itself, but from the presence of extra-regional powers in the Indian Ocean region and from the presence of nuclear missiles in the People's Republic of China. It therefore desires arms control talks to take place on a much wider basis.

4.44 More serious disagreements have arisen over Indian accusations about Pakistani involvement in the Sikh revolt in the Punjab, over concern with some statements from within Pakistan about its nuclear weapons programme, and over the continuing deployment by Pakistan to the Indian border of sophisticated military equipment supplied by the United States ostensibly in response to the Soviet occupation of Afghanistan.

4.45 There is obviously a desire on the part of the two Governments to reduce tensions and improve the relationship. However there is little evidence that the underlying foundations of this long rivalry (particularly domestic political imperatives in both countries) have receded to the extent that either country will change the assumptions upon which they base their defence planning. Indian defence planners will continue to plan for the contingency of a surprise Pakistani attack on Kashmir, especially in the case of problems on other fronts. India will continue to assume that any resurgence of conflict with Pakistan will involve naval forces and that such a conflict will have the potential to involve the United States Navy. India will continue to pursue the objective of a large, blue water naval force.

4.46 The resultant build-up of Indian defence capabilities will heighten fears in Pakistan which will, in turn, continue to seek further United States military assistance. The arms race dynamic shows few signs of faltering.

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[10] *ibid.*, p.222

4.47 The Indian Armed Forces are not all located adjacent to the Pakistani border. The Indian defence establishment sees the need to consider the possibility of conflict elsewhere at the same time as having to defend its claims in Kashmir. There is a reasonable prospect that Pakistan, if it were to consider a military action in Kashmir, would wait until India became involved on other fronts, such as with China, in Sri Lanka, or with major ethnic or communal disruptions inside India itself.

4.48 This question of nuclear proliferation in South Asia is dealt with in the following chapter. However, it should be noted here that another consequence of the rivalry and arms race between India and Pakistan is the emergence of a nuclear aspect. Both India and Pakistan are considered nuclear weapons threshold states. They have the capability to move quickly to build nuclear weapons. India and Pakistan have recently tested ballistic missiles which could eventually be used as delivery systems for nuclear weapons. These developments confirm the persistence of the arms race between India and Pakistan.

4.49 A significant development in India's situation towards Pakistan — and in India's foreign relations generally — has been the marked warming in relations between India and the United States. During his term in office, President Reagan described India as making a 'valuable contribution to regional stability'.[11] As another United States official put it:

> It doesn't make sense for the U.S. not to have a congenial relationship with the largest democracy and the dominant military power in the sub-continent — and with a country that will clearly take its place on the world stage in the 21st century.[12]

4.50 High level visits in both directions have become more frequent, with Rajiv Gandhi visiting the United States in 1987 and the Indian Defence Minister, K.C. Pant, visiting in 1989.

4.51 The United States has begun to transfer high technology to India, including some military technology (the United States has sold India a super computer previously denied to it, and has also offered to participate in an Indian project for development of a light combat aircraft). The stated aim of such a policy is to help India become self-sufficient in defence technology and less dependent on the USSR.[13] As the relationship between India and the United States improves, India will feel much more confident of its security position in respect of Pakistan and superpower interventions in general.

India and China

4.52 The most substantial element in Indian threat perceptions and military planning since 1947 has been the prospect of war with Pakistan. However, the transformation of the India-China relationship from one of friendship in the 1950s

[11] Ross H. Munro, 'Superpower Rising', *Time*, 3 April 1989, p.15
[12] ibid., p.15
[13] ibid., p.20

into one of armed conflict in the 1962 India-China border war added a significant new dimension. Senior Indian military officers regarded the outcome of the 1962 conflict as a humiliation for India's armed forces. There is a strong sentiment in Indian military circles that one day India will have to 'sort China out'. The acquisition by China of a nuclear weapons capability in the mid-1960s and the general belligerence of China's foreign policy during the Cultural Revolution (1966-1971) added a new edge to India's already stretched military position. The support by China of communist insurgent movements in Asia, including in India's north east, was another cause of grave concern.

4.53 Suspicion is still a dominant feature of India's relationship with China. The invasion of Vietnam by China in 1979 was confirmation for India that it needed to maintain its guard against a similar border conflict with China. India also views with concern China's ambitious naval plans, especially the acquisition of nuclear powered, nuclear armed submarines.

4.54 Negotiations between India and China on improving mutual relations began in 1981, with the establishment of several working groups (including one on the border dispute). The discussions in the working group on the border dispute rekindled the suspicion on each side that the other had not abandoned its previous hard-line position. By 1987, both China and India had reinforced military units along their common border in the disputed areas to the point where a resumption of hostilities seemed imminent.

4.55 The situation was eventually defused but the fact that both sides were actively preparing for a possible resumption fighting as recently as three years ago demonstrates that there is a long way to go before India and China will cease to be suspicious of each other. Continuation of such suspicion, alongside China's stated claim to large parts of the Indian state of Arunachal Pradesh, and India's determination to retake some territory it lost in 1962, serve to underpin the continuation of the Indian military build-up in general.

4.56 There have been some fairly recent, serious attempts to improve relations. In 1988, Rajiv Gandhi made the first visit to China by an Indian Prime Minister for decades. The trip seemed to be quite successful and does open up possibilities for improved relations. The highest ranking Chinese official to visit India since 1962, Vice Premier Wu Xueqian, made an official visit from 11th to 18th October 1989. That visit was also marked by cordiality. However, until a new relationship is consolidated, we can assume that Indian defence planners will continue to perceive China as a threat.

4.57 In addition to China's missile and air force capacity, and its possession of nuclear weapons, other factors continue to operate to maintain China's position as a perceived threat. Probably foremost amongst these is China's continuing close relationship with Pakistan.

4.58 Pakistan's airforce is partially equipped and trained by China, as well as the United States. There are joint U.S.-Chinese-Pakistani efforts in some areas of defence equipment development. It was Pakistan which played the role of intermediary between the United States and China during the Nixon years when the rapprochement between them took place.

Other Security Concerns

4.59 India's relations with Pakistan and China, and the international ramifications of those relations, have not been the only focus of concern for India. The strategic and political situations in the rest of South Asia, in the Persian Gulf, and the Indian Ocean as a whole have also been important.

4.60 ***South Asian Problems:*** As a senior Indian military analyst, Air Commodore Jasjit Singh put it:

> Western strategic and popular literature has been referring to India's emergence as a regional power...
>
> What is forgotten by everyone is that in the context of the subcontinent alone, India was always the pre-eminent power, militarily and otherwise...[14]

4.61 India sees itself as having a responsibility to maintain stability within its region, but this mission inevitably carries with it the connotation of India's view of what is best. The mission is justified by India in terms of preventing great power intervention in its region in the event of instability in the smaller South Asian countries; preventing spill over effects in India of problems in neighbouring countries; and promoting democratic values against the more authoritarian regimes in some neighbouring countries. In 1989, the 'dissonance between India and the countries around her' was listed by the Defence Minister of the day as one of the four major factors influencing India's security perceptions.[15] The Indian intervention in Sri Lanka in 1987, the suppression of a coup attempt by mercenaries in the Maldives in 1988, and the virtual border blockade of Nepal in 1989 demonstrate India's determination to take an aggressive view of its security interests in South Asia as a whole, with the use of coercion figuring highly in India's eventual solutions.

4.62 The Indian intervention in Sri Lanka since 1987 has been justified by an Indian commentator in the following terms:

> Having been a victim of the phenomenon in 1971, India has also been concerned with the problem of internal turbulence and violence in neighbouring countries spilling over and adding to the internal security

[14] Air Commodore Jasjit Singh, *Strategic and Security Perspectives of India*, Paper prepared for the Indo-US seminar held at the National Defense University, Washington, D.C., 19-21 September 1989, p.5. Singh is the Director of the Institute for Defence Studies and Analyses, New Delhi, India's major strategic studies centre

[15] Speech by K.C. Pant at the Massachusetts Institute of Technology, 1 July 1989

> problems. The ethnic violence in Sri Lanka has held out the danger of not only the break-up of that country but also of India having to face the fall-out effects of it.
>
> ...a premature withdrawal of the Indian Peace Keeping Force from Sri Lanka would only open the flood gates of violence and anarchy, with predictable results on the environment.[16]

4.63 The paternalistic concern shown by India toward developments in all of its smaller neighbours also places significant demands on Indian force structure and consequently on defence expenditure.

4.64 ***Persian Gulf:*** India's naval build-up began after the 1965 war with Pakistan. There is little doubt that it was the experience of this war which brought the needs of the Navy into greater focus. At the same time, however, a major military build up started under the Shah of Iran. The Iranian Armed Forces were soon seen as the major military force of the Middle East and the strongest navy on the Indian Ocean littoral.

4.65 This was perceived as a problem in India. India was, and still is, dependent on Persian Gulf oil for its growing industrial base (about 30-40 per cent of India's total oil consumption is imported from the Persian Gulf). Another 35 per cent comes from off-shore oil installations. Approximately 80 per cent of India's gas requirements are also met by its off-shore facilities.[17] The need to be able to guarantee the safety of oil shipments to India through the Gulf was used as an argument in favour of a stronger Indian naval force.

4.66 It was also noted in India that its dependence on Persian Gulf oil meant that it was dependent for energy on the Middle Eastern Islamic states. These states were considered the natural allies of Pakistan, especially while the India-Pakistan rivalry had a communal-religious aspect to it. Pakistan's membership of the CENTO pact also tied it to Iran.

4.67 The submission of the Melbourne South Asia Studies Group saw the instability of the Persian Gulf as one of the most important reasons for India's naval build-up. In their view:

> Approximately one million Indians work in the Gulf. Indian oil supplies come from the Gulf, and India's own off-shore oil rigs are vulnerable to spillovers from warfare in the Gulf. The British policed the Gulf, partly from Bombay, for 150 years. Indian spokespeople, however, downplay the Gulf factor for diplomatic reasons. India's population contains 90 million Moslems, 11 percent of the total. Indian foreign policy has striven to maintain cordial relations with the Muslim states of West Asia...[18]

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[16] Jasjit Singh, *op. cit.*, p.15
[17] *ibid.*, p.22
[18] *Evidence*, p.335

4.68 This sensitive situation has been balanced somewhat by India's support, as a leading Non-Aligned country, for important Arab causes, especially that of Palestine. All the same, the question of the security of India's oil supplies has remained a factor in its security preoccupations.

4.69 In the 1980s, the Persian Gulf has been proved to be a very unstable and dangerous area. The unpredictable nature of the attacks on oil tankers by Iran and Iraq created the need for some tankers to be escorted by naval vessels of various countries. While it appears tankers delivering oil to India escaped attack, India's policy of self-reliance in defence matters implies a need to build appropriate naval escort capabilities. (It is of note though that during the attacks on tankers in the Persian Gulf, India did not provide any naval escorts for tankers.)

4.70 The fall of the Shah changed the nature of India's concern with Iran. While Iran lost its supplies of American weaponry, thereby reducing its power projection capabilities, it remained an important factor for India. First, as mentioned above, a high level of insecurity was introduced into the Persian Gulf as a result of the Iran-Iraq war. There is, of course, a ceasefire presently in place but the two sides remain unreconciled.

4.71 Second, there may now be some potential for more direct collaboration between Iran and Pakistan. Both Iran and Pakistan explicitly identify with Islamic fundamentalism. There were signs of an 'Islamic alliance' developing during the rule of the late General Zia. This was manifested in the exchange of military delegations and discussions about defence cooperation. The situation has altered somewhat since the coming to power of Benazir Bhutto, whose ideological outlook does not have a lot in common with that of the Islamic Revolution. On the other hand, Bhutto's main opposition, the Islamic Democratic Alliance, and the leadership of the Armed Forces, especially General Beg, have some sympathies with Islamic fundamentalism and the policy of defence exchanges with Iran has continued.

4.72 The prospects of an 'Islamic Alliance' have now receded but Pakistan will still seek to use contacts with Iran to provide further depth to its security posture.

4.73 ***Indian Ocean:*** A number of submissions have emphasised the complexities of the political and security situations of the Indian Ocean littoral countries (East African countries, South Africa, the Persian Gulf countries, Thailand, Malaysia, Indonesia and Australia — as well as Pakistan, India, Bangladesh, Sri Lanka and Burma). Dr Michael McKinley in his submission described the region in the following manner:

> Within the 44 independent nations washed by the Indian Ocean are found Arab, African, European, Indian and Malay peoples practising the faiths of Buddhism, Christianity, Hinduism and Islam. Taken together they constitute nearly one-third of the world's population, but this statistic by itself obscures the range of contrast — from India with more than 700 million down to Comoros with fewer than 500,000. More importantly, the region is host to a representative sample of the major ills which beset political society, domestic and international, in the

> closing years of the twentieth century. It is a pathology whose constituent parts include political and social deprivation, economic under-development, colonial and post-colonial exploitation, racism, sectarianism and dynastic differences. The politics of much of the region tend, therefore, to be characterised by the relative fragility and vulnerability of democratic institutions, where they exist, but transcending this, almost permanent conflict, particularly in the so-called 'arc of instability' which stretches from the Horn of Africa round to the Indian subcontinent, including the hinterland of the littoral states.[19]

4.74 Dr McKinley goes on to make the point that this complex and unstable situation has attracted various manifestations of interest by external powers, from attention, to presence, to outright interference. The United States, the USSR and France have regular, though declining, naval presences. Dr McKinley sums up the essence of the situation in the region with the statement:

> Overall, so riven with externally induced (and internally generated) tension and conflict is it, that the Indian Ocean basin does not so much describe a region as it does the geographic setting for fissiparous forces which result in a collection of sub-regions.[20]

4.75 While Dr McKinley may have given unusual emphasis to the factors for instability, his views were useful because they show that it is not only Indian defence analysts who refer to this complex environment when discussing the expansion of India's military capabilities. The instability of the region is especially emphasised by Indian analysts when referring to India's need to defend its 200 nautical mile Exclusive Economic Zone (EEZ). Because of India's massive peninsular shape and its offshore islands, the EEZ is a huge area of 2.5 million sq km.

Foreign Policy Ideology

4.76 ***India's Perception of Its International Role:*** India's response to its security situation has been moulded by its foreign policy ideology. India has always been very assertive and individual in its foreign policy line. As early as 1947, this line was expressed by Jawaharlal Nehru as follows:

> Our general policy is to avoid entanglement in power politics and not to join any group of powers as against any other group. The two leading groups today are the Russian bloc and the Anglo-American bloc. We must be friendly to both and yet not join either. Both America and Russia are extraordinarily suspicious of each other as well as of other countries. This makes our path difficult and we may well be suspected by each of leaning towards the other. This cannot be helped ... The Soviet Union, being our neighbour, we shall inevitably develop close

[19] *ibid.*, pp.80-81
[20] *ibid.*, p.81

> relations with it. We cannot afford to antagonize Russia merely because we think that this may irritate someone else. Nor indeed can we antagonize the USA.[21]

4.77 Prime Minister Nehru, along with President Tito of Yugoslavia and President Nasser of Egypt, was a founding father of the Non-Aligned Movement, and India has since been a leading member. Its allegiance to this group has had two major planks. First, India has been a strong supporter of the decolonisation process and has vigorously opposed any signs of Western resistance to decolonisation. Second, it has been a strong opponent of what it sees as unjustified superpower influence. The other side of this stance has been its emphasis on the right of the newly independent countries to have freedom from superpower pressure in decision making, including in foreign affairs and defence.

4.78 India's foreign policy outlook has had a major impact in the area of defence planning and policy. It has meant that India has avoided tying its defence to any military alliance with a major power. India has signed a Treaty of Friendship and Cooperation with the Soviet Union but this Treaty falls quite a way short of a military alliance relationship such as the USSR has with its Warsaw Pact partners. The Treaty does not commit the USSR to immediate military support to India in the event of a war. The Treaty has nonetheless been important in terms of assistance with defence supplies, as well as broader political and economic relations.

4.79 As a result of this Treaty and of the high level of cooperation with the Soviet Union on defence equipment matters, some commentators have categorised India as an ally of the Soviet Union. (The recent issue of *Soviet Military Power* by the United States Department of Defense is typical of media statements to this effect in that it shows India in red on a map of the world along with a number of Third World countries and the USSR's communist allies.) The Committee was interested to note, however, that the majority of submissions it received did not share this view. It is also the Committee's own assessment that India's status vis-a-vis the USSR is not one of military ally. According to the Australian Department of Defence:

> The USSR is India's second largest trading partner (after the US) and is the major supplier of India's defence needs. The relationship however is a pragmatic one. India is not a client state of the USSR.[22]

4.80 India has not allowed any permanent Soviet military presence in India. India does not conduct joint exercises with the USSR. India has insisted on high levels of Indian based manufacture, even when purchasing Soviet military equipment. As a result, a number of Soviet designed systems (including aircraft), as well as spare parts, are actually manufactured in India. The USSR even

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[21] Quoted in K.P.S. Menon, 'India and the Soviet Union', in B.R. Nanda (ed.), *Indian Foreign Policy: The Nehru Years*, Delhi, 1976, pp.134-135

[22] *Evidence*, p.220. The Committee notes that the USSR slipped from being the second largest trading partner of India in 1985-86 to being third largest in 1986-87, being displaced by Japan, according to Indian Government statistics. The USSR's relative weight in India's trade has continued to decline slightly.

obtains some spare parts for its own aircraft from the Indian manufacturers. Indian shipyards also build major warships, such as frigates. India has not allowed its relationship with the USSR to prevent it from seeking defence equipment from NATO countries as well. It purchased its second aircraft carrier from the United Kingdom and has modern French and British jet combat aircraft. It is currently working with the United States on the design for a light combat aircraft. It has purchased artillery from Bofors in Sweden. India has also been looking at a French design for a new aircraft carrier.

4.81 India's non-aligned stance and support for decolonisation has meant that it has shared some important foreign policy stances with the USSR. These include its friendly relations with Vietnam, for example. On other issues where it has had a similar position to the USSR, it has also followed its own variation. On Afghanistan, for example, it refused to condemn the initial Soviet occupation. On the other hand, it has worked for some time to enable the Soviet Union to withdraw. Its position on Afghanistan, including its formal recognition of and friendly attitude towards the Najibullah Government, is also influenced by its relations with Pakistan.

4.82 In the economic area, India has also pursued policies aimed at securing its economic independence. Its policy of large scale public ownership of industry has enabled it to develop a substantial industrial base without calling in foreign capital to the same extent as other former colonial countries. It has also protected its consumer goods market through a strict policy of import-substitution and exclusion of foreign products. In this sense, its polices can be characterised as aimed at achieving indigenous, non-dependent, capitalist economic development. The public sector has aimed to establish an environment relatively free of the influence of foreign business, and intended to enable both the big Indian business houses as well as small and middle level businesses to flourish.

4.83 India has also played an important role in promoting the concept of the New International Economic Order and cooperation amongst the 'South' in the North-South dialogue. It has hosted major conferences of the 'South' countries.

Domestic Politics and Indian Defence Policy

4.84 In the 1980s, India has become more assertive in its aspirations for status and recognition. As the submission of the Australian Department of Foreign Affairs and Trade stated:

> India's strategic outlook springs partly from its determination to have a say in regional and world affairs and partly from its geographical location. India has a pre-eminent role in the South Asian region, which is predicated on its large population, economic strength, military capability, its ancient civilisation and cultural heritage and its leading voice in Third World and global forums. Statements by spokesmen for India's political elite, such as Prime Minister Rajiv Gandhi, reflect a

> desire to secure India's rightful place as a great civilization in the upper ranks of the world's nations; a rank denied it, in the Indian view, by many centuries of foreign domination and exploitation.[23]

4.85 According to evidence given to the Committee, the policy of ensuring maximum independence of action has been reinforced by increasing disenchantment with the failure of the international community to accord to India the prestige or status it believes it deserves. This disenchantment is, reportedly, greatest amongst the newer Indian middle class:

> India is a great power with a burgeoning middle class — a middle class that is anxious to shed the image of beggar India which is so widely prevalent here. That middle class will applaud any expansion of Indian defence forces.[24]

4.86 The argument suggests that many Indians feel that India as the second largest country in the world, with the third largest number of scientists and technologists, a large and growing industrial sector, and one of the leading non-aligned nations is not being treated accordingly. For example, it is not a member of the inner club of permanent members of the UN Security Council.

4.87 The former Indian Government of Rajiv Gandhi, by turning India into a fully-fledged regional military power, was seen as responding to this desire of the middle class for enhanced national prestige and status. The analysts who present this view do not suggest that the desire for national status and prestige had developed into a desire for an expansion of national territory or other forms of naked aggression. At the same time, the actual exercise by India of its position as the dominant regional power has included such actions as the 1989 partial economic blockade on Nepal and the military interventions, at the request of the host Governments, in Sri Lanka and the Maldives.

4.88 The Committee notes that almost all the submissions it received on this issue, including those of the Departments of Defence and Foreign Affairs and Trade, emphasised that India's desire, as a more confident and technologically advanced country, for regional and even world power status was a major cause of India's defence build-up. These submissions also emphasised what they considered to be the relatively 'benign' aspect to India's efforts to gain recognition as a major power. The key argument here was that India wanted such things as a blue water navy, a nuclear submarine and a modern airforce as status symbols and for the prestige such items delivered in the conduct of international relations.

4.89 The importance of defence capability as a symbol of the nationalist concerns of the new Indian middle class was mentioned in the comments of Dr Chakrabarty of the Melbourne South Asian Studies Group:

> Defence within India is one of the most, I would think, uncontested areas of Indian policy. There is very little debate in the Indian media about the desirability or otherwise of the naval expansion and the sorts

[23] *ibid.*, p.805
[24] *ibid.*, p.354

> of things that you were talking about. There is some, but on the whole the absence of debate indicates the very strength of the kind of nationalism that the middle class has. Last year, when India went into the Maldives...the newspaper editorials were talking about putting India back into the Indian Ocean. I think that is very reflective of a large body of the middle class desiring to see India emerge as some kind of world power, which you cannot be without the naval strength that you can project.[25]

4.90 The Australian Department of Defence commented in its submission that while the nature and scope of India's naval programme were not directed at any specific operational objective, they 'do accord...with its aspirations to major power status and its concern to consolidate its status as the dominant power in South Asia'.[26]

4.91 The symbolic significance of India's new defence capability was also mentioned in the evidence of Dr McPherson, Director of the Centre for Indian Ocean Regional Studies at Curtin University:

> Within the last 20 years there has been the creation of a middle class of 100 million people. It is a real middle class with many, for want of a better word, capitalist aspirations.
>
> That part of Indian society which runs India now is locked into the concept of progress and new technology. I think this is part of the procedure. These people are in some way more nationalist than the people who fought the nationalist movement in terms of their perceptions about India's place in the world. India is now a modern country. We have had these generations of being looked down upon.
>
> What are the symbols of a modern country? What are the symbols of power and progress? A nuclear submarine ranks very highly in that... I went to their Republic Day parade in January... This year, for the first time, it was technology — the army, the navy, and all sorts of other technology.[27]

4.92 Dr Samina Yasmeen of the University of Western Australia explained the new phenomenon in the following manner:

> Over a period of time, they [the leaders] have seen that the non-aligned flag does not work any more... Indian society has become more realistic. Indians realise that the moral argument does not work any more and that India needs to have the military behind it.[28]

4.93 During the 1950s and 1960s, status and prestige flowed to India as a leading spokesman for the non-aligned movement. As the movement's role has changed, and with a number of non-aligned countries becoming aligned, particularly with the West, India seems to have adopted the same 'currency of international relations' as many others — the prestige that flows from military

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[25] *ibid.*, p.360
[26] *ibid.*, p.223
[27] *ibid.*, pp.57-58
[28] *ibid.*, p.69

power. It will not be lost on Indian politicians that the world at large has paid more heed to India on account of its increased military power than it ever did because of its leadership of the non-aligned movement.

Conclusion

4.94 The Committee concluded that India's defence build-up is now motivated as much by a desire to achieve recognition as a major power as by battlefield experiences of four wars and fears for India's security. The Committee also believes that the role of India's defence forces in the military build-up is related to the question of prestige and status rather than expansionist objectives. The Committee notes, however, that the new emphasis in the conduct of India's foreign policy on the role of military power may have brought with it a disconcerting predisposition to use force.

4.95 The Committee considers that the mystery that is sometimes considered to surround this issue, its so-called 'intriguing' quality, has been exaggerated. The mutual interactions between threat perceptions flowing from past wars, a strong ideology supporting non-alignment and independence, and the impact of the new nationalism of India's growing middle class together quite adequately explain these defence policies.

4.96 At the same time, as the final chapter of this report will address in more detail, India's intentions alone do not determine the outcome of international interactions. The Committee is strongly of the view that India has a responsibility as a member of the international community not to raise concerns among its neighbours that Indian military capability might be used against them without direct provocation. In fact, India has a responsibility to defuse such concerns and to promote de-escalation of tension, especially the arms race between it and Pakistan.

4.97 The Committee agrees with the current Australian Government's view that India does not represent a threat to Australia or countries of South East Asia. On the other hand, the Committee considers that increased militarisation of South Asia is harmful for the region. Australia continues to urge India to accede to the Nuclear Non-Proliferation Treaty.

4.98 The following chapter will discuss some general features of India's military effort and three specific aspects of Indian military capability that have raised most concern: power projection capabilities; nuclear weapons proliferation (and ballistic missile proliferation); and the threat to sea lanes.

CHAPTER FIVE

INDIA'S MILITARY CAPABILITIES

5.1 Most of the publicly stated concerns about Indian defence policy have been reactions to Indian acquisition of new defence equipment. The Indian acquisition, on lease, of a Soviet nuclear submarine for training purposes stimulated a number of press articles raising concerns about 'Indian expansionism'. India's acquisition of this submarine has been, for some, symbolic of a worrying general expansion program.

5.2 It has been the rapid growth in size of the Armed Forces, and of the Navy in particular, that has caused the main concern. In his evidence, Dr Michael McKinley emphasised this concern when he said:

> Any country that spends over $US20 billion on defence equipment over a six year period is inevitably going to improve its military capabilities to a marked degree. When that country's Gross National Product places it within the world's leading 10 economies, and when it regularly spends in excess of 3.5 per cent of Gross Domestic Product and devotes nearly 20 per cent of government outlays to defence, the results can be impressive indeed. For India they certainly are.[1]

5.3 There seems to be a concern that India spends too much money on defence — that its capabilities exceed the requirements suggested by its stated strategic aims. For example the Department of Defence expressed the view that:

> There appears as yet to be no clearly articulated or agreed strategic purpose behind India's maritime expansion.[2]

5.4 The Australia Defence Association took a similar view of India's military policy in general:

> It is possible to argue that India's general approach to security relations with the outside world is both obscure and confusing.[3]

5.5 India now possesses the third largest standing army in the world, well-supported by arms and services such as armour, artillery and aviation. The Air Force is the fifth largest air force in the world.[4] The Navy is the seventh largest in the world in terms of combat tonnage and number of submarines;

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1 *Evidence*, p.100
2 *ibid.*, p.222
3 *ibid.*, p.181
4 *ibid.*, p.100

eighth largest in manpower; and ninth largest in numbers of principal surface combatants.[5] In addition, India has para-military forces numbering 672,000, including 100 battalions of border security forces (some 90,000 personnel).[6]

5.6 Some submissions, for example, the Melbourne South Asian Studies Group, did not see anything particularly unusual about the level of Indian military activity:

> ...by the standards of nation-states in the 1980s, India's defence activity is unexceptional.[7]

5.7 The submission went on to say that:

> In 1989, the Indian navy is no more threatening than the far larger navies of China or Japan.[8]

5.8 The view that the Committee takes is similar to that of the Melbourne South Asian Studies Group, although with some qualifications. For example, the Committee notes that China and Japan do not have aircraft carriers and therefore depend on land-bases. Moreover, an important fact from Australia's point of view is that India has military facilities (naval and air) on the edge of Australia's area of primary strategic interest, in the Andaman islands, some 800 km west of the Thailand/Burma border.

5.9 The Committee feels that the reason some organisations, such as the Australia Defence Association or the Department of Defence, could not find 'clearly articulated or agreed strategic purpose' behind various aspects of Indian military policy is that they had concentrated more on military and technical aspects using an arbitrary concept of how much military capability is sufficient for India, rather than looking at broader social and cultural influences to see what Indian planners do regard as sufficient.

5.10 This chapter analyses in some detail the extent of India's current and projected military capability. After reviewing India's defence effort in general, three specific issues are addressed: power projection capability; nuclear weapons proliferation; and the security of sea lanes.

India's Defence Effort

5.11 In terms of the number of people in the armed forces in proportion to the population as a whole, India certainly appears to be one of the less militarised nations, as the following table shows:[9]

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[5] Total regular armed forces in the Army, Navy and Air Force number 1.2 million personnel.

[6] International Institute for Strategic Studies, *The Military Balance 1989-1990. Appendix 3* below shows the Order of Battle for the Indian Armed Forces.

[7] *Evidence*, p.335

[8] *ibid.*

[9] Calculations are based on information in IISS, *The Military Balance 1988-1989*

Country	Ratio — Total Population: Military Personnel
Israel	32
Vietnam	50
USSR	56
South Korea	68
United States	113
France	121
United Kingdom	178
Australia	236
China	335
India	**429**
Japan	498

5.12 The ratio for India may be distorted by the high absolute size of the population, but the comparison with China, which has a comparably large population, is quite reliable.

5.13 A similar picture emerges when the share of 1986 GDP/GNP allocated to military activity is compared:[10]

Country	Percentage Share of GDP/GNP
Iraq	31.7
Iran	30.4
Saudi Arabia	22.4
Israel	18.9
Jordan	15.5
Syria	14.5
Sri Lanka	8.9
United States	6.7
Singapore	6.6
Pakistan	6.5
Taiwan	5.8
South Korea	5.2
United Kingdom	4.9
Thailand	3.7
India	**3.5**
Australia	2.7
China	2.6

5.14 India's officially announced defence expenditure as a percentage of GDP has remained within a relatively low range between 1965 and 1985 varying from a little under 3 per cent to just over 4 per cent.[11]

[10] IISS, *The Military Balance 1988-1989*, pp.224-226
[11] IISS, *The Military Balance 1987-1988*, p.220

5.15 According to the Department of Defence, in 1988-89 the share of India's GDP taken by defence expenditure was about 4.2 per cent.[12] However, according to the Department of Defence, 'there is some doubt as to whether the trend will continue to be upward...'.[13] The Department of Foreign Affairs and Trade estimated the decline in the 1989-90 defence budget to be 'a decline in real terms over the 1988-89 budget of about 11 per cent', with the possibility that there could be 'some cuts and an overall reduction in the rate of growth of defence expenditure'.[14]

5.16 The Department of Defence stated that India's defence expenditure had more than doubled since 1983.[15] However, with 1983 expenditure estimated by the London-based International Institute of Strategic Studies at 58.6 billion rupees and the 1988 figure at 125 billion rupees, the doubling is in current year prices only, not in inflation adjusted prices ('real terms').[16]

5.17 The Committee accepts the views of some Indian commentators that the official Defence Budget may not include all defence related expenditure. However, the Committee was not in a position to assess the volume of expenditure outside the budget. No information was provided to the Committee on just how such an assessment could be made.

5.18 In spite of the fact that India ranks amongst the world's largest economies, sitting somewhere between tenth and sixteenth in size, the economy has to support the second largest population in the world. India's 1986 per capita income stood at only US$270. This compared with Pakistan's at US$350 per capita, China at US$300 per capita, the United States at US$17,500 per capita and the USSR at US$8,410 per capita. The low per capita national wealth has been a major cause of criticism of India's defence effort. As one Indian academic put it:

> It is immoral and nonsensical that in a country where most people don't even have adequate drinking water, we are spending millions of dollars on rockets... Hundreds of people have been dying of cholera right here in the capital. So how can our leaders boast that they are spending a smaller percentage of the GNP than the Soviet Union or the U.S. on defence? I don't see people dying of cholera in those countries?[17]

5.19 At the same time, the proportion of India's economic output coming from manufacturing is still relatively small. India, despite the absolute size of its economy and its impressive growth rates, remains a relatively unindustrialised economy — when related to its population and resultant social and economic

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[12] *Evidence*, p.218
[13] *ibid.*, p.231
[14] *ibid.*, p.808
[15] *ibid.*, p.218
[16] *ibid.*, pp.808, 814
[17] Ross H. Munro, 'Superpower Rising', *Time*, 3 April 1989, p.23, quoting Professor Dhirendra Sharma

needs. Clearly India is taking an inordinately heavy burden on itself by seeking to achieve world status in the military sphere while still having such a low per capita income, low literacy rates and relatively small industrial sector.

5.20 With the official defence budget for 1989-90 sitting at just over 4 per cent of GDP for the second year running, there has been considerable pressure to cut it back. According to Giri Deshingkar, the Director of the Delhi-based Centre for the Study of Developing Societies:

> Whenever defence expenditure in a developing country crosses 4 per cent of the GNP, such pressures are felt.[18]

5.21 Additional financial problems for India's defence programme have been caused by the cost of India's operations in Sri Lanka and on the Siachen Glacier, as well as reinforcement of the northern border with China. The falling value of the rupee against the Franc, Sterling and the Deutschmark have also made payments to European suppliers a much heavier burden.

5.22 Another problem waiting in the wings is the possible change of policy by the Soviet Union on the financial conditions of arms sales to India. Some Indian military officials have expressed concern that if Soviet arms sales were put on a proper commercial basis then India would be hit with paying more realistic prices. The very favourable conditions under which the Soviet Union has been providing military equipment has been a major reason why India has been able to achieve the levels of defence equipment acquisition that it has. The new foreign policy of the USSR may also involve a change in the favourable Soviet attitude to India's military posture.

5.23 Perhaps more important than the projected drop in defence expenditure in this year's budget is the increasing shortfall between the amount needed to maintain India's defence forces at their current level and the amount needed to fund current development plans. The bigger and more powerful the armed forces, the more money needs to be found to maintain them. As one Indian commentator put it:

> After a decade of growth, India's ambitious defence plans have come to a dangerous pass. A resource crunch is seriously hampering modernisation and maintenance, and in desperation, the Government is even planning to export arms... As planners scan armouries and account books to see what went wrong, the stark reality is staring them in the eyes: there is just no money to pay for the plans.[19]

5.24 Moreover, if the limited actions in Sri Lanka and on the Siachen glacier already generate financial pressures, more ambitious offensive actions further afield could only be carried out at considerable economic cost.

5.25 As a result of these financial pressures a number of defence plans are reported to have been aborted. For example, the Army 2000 plan that aimed to develop the Army to 45 division level has been put on hold. The proposal to

[18] 'Heading for a Crisis', *India Today*, 28 February 1989, p.43
[19] *ibid.*, pp.42-43

raise an air-mobile division supported by a large new helicopter force has been shelved. A plan to buy an advanced jet trainer is reported as no longer possible. Due to a shortage of tanks, an armoured regiment is no longer built on a 'brick' of 72 tanks, but usually on a 'brick' of 62, and even in some cases, 55 tanks. It is also reported that the Army and Air Force have told the Government that they are extremely short of battlefield electronic counter-measures.[20]

The Army

5.26 The Indian Army of just over 1.1 million personnel is the third largest standing army in the world. Forty per cent of its strength is deployed opposite Pakistan and thirty per cent is opposite China. Elements of four divisions are involved in a major peacekeeping operation in Sri Lanka. The rest of the army serves as a strategic reserve.[21] Vietnam's army also has the same number of personnel.

5.27 A large share of the Army's fighting forces are mountain divisions trained and equipped for mountain warfare on India's borders with Pakistan and China. The relative balance of army strengths between India and its major potential adversaries may be gauged in part from the following comparisons:[22]

	INDIA	PAKISTAN	CHINA	
Personnel	1,100,000	480,000	2,300,000	(all China)
Divisions	33	16	10	(near India)
			90 +	(all China)
Tanks	3,150	1,750	9,000	(all China)
Artillery (towed)	3,860	510	14,500	(all China)

5.28 Thus, while the Indian Army enjoys a margin of superiority over that of Pakistan, the need for India to consider other contingencies (such as border conflict with China) reduces that margin considerably — especially in the light of the close military relationship between Pakistan and China.

The Air Force

5.29 The Indian Air Force is the largest regional air force and is deployed mostly in the north and west of the country. It has over 110,000 personnel, and 836 aircraft, mostly Soviet, but including fairly advanced Western aircraft such as *MIRAGE 2000* and *JAGUAR*.[23]

[20] *ibid., p.43*
[21] *Evidence*, p.218
[22] IISS, *The Military Balance 1989-1990*
[23] *ibid.*, p.160; *Evidence*, p.219

5.30 By comparison, Pakistan's Air Force has 25,000 personnel, and 451 combat aircraft, including about 40 American F-16 fighters, as well as older *MIRAGE* aircraft. China's Air Force has 470,000 personnel and 5,000 combat aircraft.[24] Pakistan is purchasing an additional 60 F-16 aircraft.

The Navy

5.31 The Army and Air Force have experienced a relatively stable status since the late 1970s. It is the Indian Navy which has experienced the most visible growth and which has sparked most of the concerns.

5.32 Dr McKinley quotes a defence commentator and specialist on India in his submission to this effect:

> ...the long standing debates about the virtues of the submarine versus the carrier, and the capital ship versus the escort, were systematically resolved by a decision to procure substantial numbers of each of these classes.[25]

5.33 The implication of this statement is that India did not resolve conflicts between cost and priorities by denying itself certain capabilities. It chose instead to acquire all of the capabilities and avoid the sorts of trade-offs in capability that many nations have made.

5.34 Prior to 1863, India had a significant and impressive ship-building capacity. This was dismantled by the British colonial government in 1863. The maritime defence of India was then undertaken by the Royal Navy based in Singapore and a newly created Royal Indian Marine whose tasks were confined to coastal policing.[26] When India won its independence in 1947, the Indian Navy consisted of four sloops and two frigates, and 25 other minor vessels all of which had belonged to the Royal Indian Marine.[27]

5.35 India has a 5,600 km coastline and several island territories off both the East and West coasts to defend. It was natural therefore that the newly independent country began a program of building up the Navy. During the first years after independence, the Navy was able to commission 2 cruisers. These were the flagship, the *INS Delhi*, and the *INS Mysore*. In addition, they obtained 6 ex-Royal Navy destroyers, plus some fleet support vessels.[28]

5.36 In the early 1950s, the Government developed a ten year plan for further major expansion. It intended to build up a strong task force, comprising two light aircraft carriers, three cruisers, nine destroyers, along with necessary support ships. However, the country's financial situation was unable to sustain such a

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[24] *ibid.*, pp.149, 171

[25] *Evidence*, p.100

[26] Pushpindar Singh, 'The Indian Navy: Modernisation and Strategy in the 80s', *Asian Defence Journal*, 7/87, p.4

[27] Sherrill Whittington, *Indian Security and the Indian Ocean*, Parliamentary Library, Legislative Research Service Background Paper, Canberra, November 1988, p.2

[28] Pushpindar Singh, *op. cit.*, p.6

program at that time. With the aid of the United Kingdom, India did undertake a six year naval development program between 1956 and 1961, acquiring with Lord Mountbatten's help a light carrier the *HMS Hercules*.[29] India also added eight frigates and four coastal mine-sweepers to its fleet during this period.[30]

5.37 The *HMS Hercules*, after an extensive refit, was commissioned in the Indian Navy in 1961 as the *INS Vikrant* and remains in service today as one of India's two carriers. It was laid down during World War II.

5.38 In the early 1960s, plans to expand the navy were part of India's overall response to its unresolved conflict with Pakistan and the war with China in 1962. In a visit to the United Kingdom in 1964, the Indian Defence Minister was reported to have been interested in purchasing 3 frigates, 3 destroyers, a submarine, and a couple of minesweepers.[31] The United States declined to show any interest in Indian inquiries for naval orders, while the USSR was only too happy to offer demonstrations of naval vessels.[32]

5.39 Talks with the United Kingdom about naval deals had some results but for a variety of reasons an agreement with the USSR, announced on 6 September 1965, was India's preferred course. The deal involved four submarines, some missile patrol craft and naval infrastructure development.[33]

5.40 In the wake of the 1965 war with Pakistan, India announced in mid-1966 a rapid naval expansion programme. Later in 1966, the Government formally announced its plans to establish an indigenous warships-building capacity. India would, from then on, continue to build up its navy with a combination of vessels purchased abroad and built at home. By 1968, the Indian navy was a well established force.

5.41 After the 1971 war with Pakistan, more submarines, missile corvettes and support vessels were ordered. India also decided that every new ship of frigate size and above would take a helicopter. Port Blair in the Andaman Islands was developed further and infantry units were stationed there. The Air Force intensified exercises to ensure better preparedness at its base at nearby Car Nicobar Island.

5.42 The Eastern Fleet was eventually created and was based at Vishakhapatnam, strategically located half-way up the east coast. With the aid of the Soviet Union, Vishakhapatnam had repair and overhaul facilities for Soviet-built ships. A submarine base and training school was also established at Vishakhapatnam. In 1977, a Southern Naval Command was also established, based at Cochin.

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[29] Whittington, *op. cit.*, p.2
[30] Pushpindar Singh, *op. cit.*, p.6
[31] Ravindra Tomar, *Development of the Indian Navy: An Overstated Case?*, Strategic and Defence Studies Working Paper, No.26, Canberra, 1980, p.2
[32] *ibid.*, p.3
[33] *ibid., p.5*

5.43 In 1987, India obtained its second aircraft carrier, the 26 year old *HMS Hermes*, commissioned now as the *INS Viraat*. Indian designers are also designing a 30,000-40,000 ton carrier, one of which may be produced by early next century, by which time the *INS Vikrant*, India's first carrier, may well be decommissioned. India will probably build the new carrier.

5.44 India also took receipt, on lease, of a Soviet *CHARLIE-class* nuclear powered submarine in January 1988. The Department of Defence believes that India may seek additional such submarines. They are not nuclear armed. The first one, *INS Chakra*, is being used for training.[34]

5.45 However, India's experience with the Soviet submarine has been an unhappy one and it has been given the telling nickname *CHERNOBYL*-class. The next *CHARLIE*-class submarine, to be delivered to India in 1990, will probably replace the *Chakra*. Prime Minister Gandhi said in February 1989 that there were 'no immediate plans to increase the numbers of nuclear submarines', although the USSR had agreed in principle to supply two or three more.[35]

5.46 India has a well developed ship-building capacity, with three major shipyards at Bombay, Goa and Calcutta, all of which build various classes of naval vessels. The Bombay yard has built 6,000 tonne frigates and commenced a submarine construction program in 1984.

5.47 The following table based on *The Military Balance 1989-1990* shows comparisons between the Indian Navy and other regional navies:

CATEGORY	INDIA	PAK	CHIN	MAL	INDON
Personnel	47,000	15,000	260,000	12,500	43,000
Carriers	2	0	0	0	0
Destroyers	5	7	19	0	0
Frigates	21	10	37	4	15
Landing Craft	10	0	58	2	15
Submarines[36]	17	6	93	0	2

5.48 This table bears out the Department of Defence in its assertion that 'India's naval forces are now larger and more powerful than any conceivable regional naval threat'.[37] The Committee sees India's naval power more in terms of a defensive capability rather than as a powerful force for offensive operations beyond South Asia.

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[34] *Evidence*, p.221

[35] *Jane's Fighting Ships 1989-90*, Foreword, p.91

[36] Eighty-four of the Chinese submarine fleet are *ROMEO*-class, a Soviet design of the early 1950s considered to be obsolete

[37] *Evidence*, p.220

5.49 The picture for the future will probably remain much the same. The following table shows the major elements of Dr McKinley's assessment[38] of Indian naval growth since independence and projected naval profile during 2000-2010:

CATEGORY	1947	1965	1971	1986	21st Century
Personnel	11,000	16,000	40,000	47,000	80,000
Carriers	0	1	1	2	3
Cruisers	0	2	2	0	0
Destroyers	0	3	3	4	18-24
Frigates	2	8	9	23	26
Escorts	1	6	9	4	44
Sloops	4	0	0	0	0
Minesweepers	16	6	8	18	24
Landing Craft	0	2	3	12	12
Submarines	0	0	4	10	22-24
TOTAL	23	28	39	73	149-157

5.50 The Committee was not informed as to the assumptions underlying Dr McKinley's projections but there is room to doubt that India will have the money or the strategic justification to double the size of its navy in the next fifteen to twenty years — as it did in the last fifteen to twenty years. It must be noted however that the navy will increase considerably in sophistication in the coming decades as new technologies and new ships replace existing ones.

5.51 The Indian navy has a number of weaknesses. It rarely exercises with other navies. It has an unresponsive stores system. There is no effective airborne early warning. There is also a shortage of skilled technicians. It has not developed a dedicated logistics system to support distant naval operations. The Navy's strengths include a large and well motivated recruit base; a large fleet with modern weapons; and good organisation. The Navy can also rely on Indian merchant shipping to some degree for support in overseas deployments.

Assessment of India's Capabilities

5.52 The Committee believes that the current size and structure of the Armed Forces give India the following capabilities. First, it is probably capable of defending its borders and containing any surprise attack from, say, Pakistan, and any incursions less than full scale attack by China. The Committee notes the Defence Department's assessment that India's army would 'eventually' be able to defeat Pakistan's army in any renewal of full-scale war.[39]

[38] *ibid.*, p.101
[39] *ibid., p.219*

5.53 Second, India has a capability to patrol its Exclusive Economic Zone (EEZ) along both the eastern and western coasts. It could offer a credible defence against the naval forces of any small countries but not against the United States or Soviet navies. India would find it difficult to enforce fully its EEZ against illegal fishing.

5.54 Third, it has the capability to launch small scale rapid deployment operations in the northern Indian Ocean, as the recent action in the Maldives indicates. It has the capability to sustain operations at some distance from its own shores against most navies in the Indian Ocean.

5.55 Fourth, it has the ability to deploy substantial numbers of ground troops overseas in collaboration with host governments, as was shown in Sri Lanka. From Australia's point of view, the possible use of the Andaman or Nicobar Islands by India as a staging point for deployment of Indian military power into Southeast Asia is at least a theoretical possibility which cannot be discounted when looking purely at capability issues. It is precisely that capability, based on the geographical position of the Andaman and Nicobar Islands, that has given rise to concerns in Indonesia, Malaysia and even Burma about India's future intentions.

5.56 Fifth, there seems to be substantial opinion that India has developed a significant deterrent capability, even in relation to the superpowers, should either of them come into conflict with India. The Department of Defence commented on this deterrent capability in relation to external powers in its submission as follows:

> The influence flowing from India's possession of significant maritime power could, in the longer term, enable it to resist increases in the presence of external powers in the Indian Ocean or surrounding states and to constrain their involvement in regional conflicts. An enhanced maritime capacity would also lessen the likelihood that India itself could be subjected to 'coercive naval diplomacy'...[40]

5.57 This issue was elaborated on during evidence by Captain Barrie. The capability that India was hoping to achieve was not, according to Captain Barrie, one that would enable India's naval forces to 'take on the might of the United States'. Rather it was aimed at 'making US decision makers think again, or at least making them go through the analysis in more detail, and not acting quite so quickly in future'. The aim was that the United States might be more reluctant to use available military force to exert political pressure and instead choose some other way of attempting to influence events.[41]

5.58 Dr McKinley went a lot further in this regard. He argued that Indian naval capabilities, especially its submarine capacity and its bases on the Andaman and Nicobar Islands near the Strait of Malacca, could be used by India to counter the regional deployment of the United States Sixth Fleet from the Mediterranean or the Seventh Fleet from the Pacific. According to Dr McKinley:

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[40] *ibid.*, p.223
[41] *ibid.*, pp.241-242

> This is not to claim that the US Navy would inevitably suffer defeat by the Indian fleet in a regional conflict, only that in keeping with the latter's deterrent posture, the uncertainties and costs of it prevailing might necessarily induce discretion in Washington.[42]

Power Projection

5.59 In discussing power projection capability, the Committee reviewed India's capability to occupy and defend foreign land targets outside South Asia, an operation which would be essentially a maritime one, albeit with ground and air forces involved. The issue of threats to sea lanes is addressed separately in this chapter.

5.60 The overall size of the Indian Armed Forces, their high level of technology, and the recent sustained growth have generated an image of a country set on a long term expansion of its military might. Power projection is one of the major issues of India's military build-up that seems to preoccupy those parts of the community that see danger signs in it for Australia or Southeast Asia. The concern was expressed by the Australia Defence Association:

> Of more direct concern to Australia and to other western maritime nations is the power projection capability displayed by India's navy.[43]

5.61 Even some of those witnesses who have expressed no concern at India's military build-up as far as Australia's interests are concerned, see the actual capabilities of the Indian Navy as continuing to grow. For example, Professor Reeves commented that he did not think that India would stop at building only one additional aircraft carrier.[44] Both Dr Bruce and Professor Reeves were of the view that India would go on to make further acquisitions to ensure that it could increase its power projection capabilities.[45]

5.62 On the other hand, the Department of Defence, while assuming that India would continue to expand its armed forces, noted that India was not giving emphasis to the acquisition of sophisticated munitions or other war stocks needed to support a protracted conflict.[46]

5.63 An assessment of India's real power projection capabilities must not be based on knee-jerk reactions to the acquisition of this or that particular weapons system. Even a stocktake of the overall size and equipment holdings of the Indian Armed Forces does not give a complete picture of power projection capabilities — particularly since India has been concentrating on equipment procurement and may not have paid sufficient attention to the other equally important aspects of capability (training, maintenance, etc). It is necessary to

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[42] *ibid.*, p.104
[43] *ibid.*, p.185
[44] *Ibid.*, p.56
[45] *ibid.*, p.62
[46] *ibid.*, p.222-223

look at the full range of factors that influence a nation's military capabilities. These include geography, military doctrines, training and exercise patterns, technological skills of the personnel, logistic features, and resource availability.

5.64 India has not developed new military doctrines to suggest that India is developing capabilities for contingencies other than those that have concerned it in the past — that is, ones associated with South Asian problems and great power intervention in that region. India does not exercise or train for new military tasks. Old manuals are still in use. India does not exercise with any other nation and rarely deploys its forces outside its own EEZ. When it does, these deployments are usually by single ships. The Indian Armed Forces do not have a power projection doctrine that has been developed in any clearly articulated way, except for South Asian contingencies.

5.65 It is the absence of new strategic doctrine, or a revised foreign policy doctrine to go with it, that has disconcerted more experienced military analysts. As a senior United States official put it:

> Given India's growing power, it is incumbent on it to articulate a foreign policy that lays out a road map showing exactly how it intends to apply its considerable influence in the future.[47]

5.66 The unspoken assumption — possibly quite groundless — is that India intends to use military force in the future in ways and for purposes quite different from those it has pursued in the past.

5.67 Another concern about the capability is that if it is available — even without a doctrine for its use, political pressures might push India to adventurism. As one commentator put it:

> The danger is that for any Indian leader facing such an array of domestic and foreign policy problems, the lure of foreign adventure is going to grow. You cannot yet call India a militaristic country. But it is headed in that direction, and that is where it is putting its resources.[48]

5.68 The existing doctrine of the Indian Armed Forces sees the Indian Army as essentially a continental army, with no need to develop logistics arrangements for operations outside South Asia, and with the vast majority of its forces deployed on existing operational tasks (or in reserve) in northern India. Approximately 70 per cent of India's army formations are based facing either the Chinese or Pakistan border. A similar situation exists as regards India's airforce units, which are located mainly in northern airfields.

5.69 The Indian Navy has expanded remarkably in the last two decades but its doctrine remains oriented towards meeting the kind of demands it has been faced with in the past. The concept of a two carrier navy is meant to allow India to have a carrier battle group to patrol both the long eastern and western coasts. The 1971 India-Pakistan war indicated the importance of being able to handle

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[47] Ross H. Munro, 'Superpower Rising', *Time*, 3 April 1989, p.23, quoting Richard Armitage

[48] *ibid.*, quoting an unnamed 'Western diplomat in New Delhi'

the situation in the west off the Pakistani coast and in the east in the Bay of Bengal. Although the establishment of Bangladesh has removed the Pakistani threat in the east, the Indian Government considers there are still important operational requirements for the Eastern Fleet, especially in the protection of the Andaman and Nicobar Islands and the protection of seaborne trade.[49]

5.70 It should also be noted that while Pakistan's navy is considerably smaller than the Indian Navy, it is equipped with six submarines. Pakistan remains India's major military concern and India's naval deployments are designed so that India can dominate the naval theatre. Thus, the availability of Indian naval forces for activities outside home waters is significantly reduced.

5.71 India's doctrine also aims to counter any coercive naval diplomacy of external powers, and therefore the two carrier battle groups are needed for the eastern and western coasts.

5.72 The Defence Department has said:

> India will be able to project significant naval and naval air power into most of the northern Indian Ocean in an arc from the east coast of Africa to the west coast of Indonesia.[50]

5.73 This is, however, an assessment of India's capability simply to put forces into a particular area. It is not an assessment of India's ability to prosecute a military campaign against opposing forces.

5.74 In view of the following factors, the Defence Department has probably overstated the case. The Indian Armed Forces face a number of technical limitations.

5.75 First, India does not have the sea-support or logistical capability to carry out long distance offensive operations. As the Department of Defence itself noted, the overall operational effectiveness of the Indian Navy is constrained by limited at-sea logistic support at any distance from Indian ports.[51]

5.76 When the geography of the Indian Ocean is considered, it is obvious that both at-sea logistical support and massive air capability would be essential for Indian operations outside South Asia. This would especially be the case for any operations in the Southeast Asian region or in the vicinity of north-west Australia. The distances involved are considerable and lines of communication would be very exposed. Besides requiring larger numbers of attack aircraft, such a force would need an air-to-air refuelling capability (which India does not have), and a larger naval replenishment fleet than India presently has. The Committee is unaware of any plans for expansion in these support capabilities but notes that India made effective use of its flag merchant vessels during the Sri Lankan landing operation.

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[49] Tomar, *op. cit.*, p.18
[50] *Evidence*, p.229
[51] *ibid.*, p.220

5.77 Second, the Committee agrees with the statement by the Australian Department of Defence in its submission that India's overall strategic preoccupation and the rationale for its major force development remains the security of its borders with both China and Pakistan. The Committee also agrees that India is not, and will not in the foreseeable future, be in a position from the point of view of forces available to turn its back on those potential threats to undertake a major military campaign elsewhere.[52]

5.78 Third, any long-distance combat operation has the risk of turning into a protracted involvement, just as the short distance Sri Lanka operation did. There are few prospective 'targets' for hypothetical Indian aggression in the Indian Ocean which would not be defended. This would impose on India the necessity to be able to replace lost equipment over an extended period of time. While it is true that India has substantial domestic defence production capability, it is also dependent on both major military blocs for resupply.

5.79 All submissions to this inquiry have emphasised that India is not a military ally or a client of the USSR. This is an important question for analysing power projection capabilities because of the assumption that is sometimes made that aggressive or expansionist intent by India may be backed by the USSR. This was noted in evidence given by the Department of Defence at public hearings:

> In our view, India does not threaten Australia. Force projection requires a balanced and large capability with large and secure logistic support. On capability grounds alone, concepts of a threat being posed to Australia are fanciful, and they are driven largely by a misunderstanding, in our view, of India's relations with the Soviet Union...[53]

5.80 The very fact that India is not part of an operating alliance system means that any offensive operation must be taken on India's own initiative and without any guarantee of support from any ally. Just as India has equipped itself to defend its borders with Pakistan and China and to counter 'coercive naval diplomacy' without needing to seek assistance from any third party, its foreign policy emphasis on independence suggests that even if it were to contemplate aggressive activity, it would probably not do so if it needed to depend on recourse to a third party such as the USSR. (The USSR has of course changed its own policies on foreign military adventures in the last year or so under President Gorbachev.)

5.81 One specific scenario of Indian power projection that has been suggested to the Committee is an Indian occupation of Cocos Island. Mr Michael O'Connor, Executive Director of the Australia Defence Association, argued that India did have the capability to occupy Cocos Island. He also argued that Australia needed to increase the defence of the island, in particular, with the establishment of a rapidly deployable amphibious unit.[54]

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[52] *ibid.*, p.222
[53] *ibid.*, pp.233-234
[54] *ibid.*, pp.189, 192-193

5.82 There is little doubt that India would have the capability to occupy Cocos Island. Indeed, as Cocos Island is currently undefended in so far as there are no military forces deployed in its vicinity on a regular basis, many other countries would have the same capability to occupy the island. Large forces are not needed to occupy a small undefended territory.

5.83 The Australian Department of Defence was, however, very sceptical about the seriousness of such a threat. They could see no reason why India should develop such a desire to invade Cocos. Indeed, they told the Committee that it was unlikely that such a scenario had even been considered in the Department as a hypothetical option.[55]

5.84 The Committee also is sceptical about the likelihood of such an event. As Mr O'Connor himself pointed out, such an offensive by India would have to be preceded by some kind of political campaign around the issue beforehand. Such a campaign would give Australia ample time to take both diplomatic and military action, as required. A surprise attack by India, in the absence of any political campaign, would be seen internationally as an unwarranted act of aggression and would isolate India during any counter-measures by Australia.

Nuclear Weapons

5.85 According to the Department of Defence:

> A nuclear arms race on the sub-continent is a worrying possibility. India believes that Pakistan is developing a nuclear weapons capability and is also well aware of China's nuclear capability. India has demonstrated its own nuclear explosive capacity with a 'peaceful' nuclear explosion in 1974.[56]

5.86 India does not possess nuclear weapons and has indicated that it has no intention to acquire them at the moment. On the other hand, India also refuses to sign the Nuclear Non-Proliferation Treaty, arguing that it is discriminatory against non-members of the current club of nuclear weapons states. India has made it plain that while India faces a nuclear equipped China to the north, a nuclear aspiring Pakistan in the west, and a nuclear equipped United States Navy in the Indian Ocean, it will not commit itself to non-proliferation.

5.87 In June 1985, the then Prime Minister Gandhi made a statement that India could manufacture nuclear weapons within a matter of weeks. India's capacity to build nuclear weapons is based upon an extensive program of nuclear energy production. Nuclear research in India began in 1945, even before independence, with the establishment of the Tata Institute of Fundamental Research. After independence, the Government established the Indian Atomic Energy Commission in 1948.

[55] *ibid.*, p.241
[56] *ibid.*, p.221

5.88 From the beginning, India's nuclear development program was influenced heavily by the same overall concern for independence of action as characterised its national industrialisation and foreign policies. India developed a capability over the entire nuclear fuel cycle. India has an indigenous capability to produce its own uranium fuel, fabricate the fuel, construct power reactors, produce heavy water to moderate them, and reprocess the spent fuel into plutonium which can be used for weapons. It also has a significant nuclear research and industrial infrastructure.

5.89 Between the foundation of the Atomic Energy Commission in 1948 and the mid-1960s, the nuclear energy programme proceeded very modestly. This situation changed significantly following the Sino-Indian war in 1962 and, especially, the first Chinese atomic test in 1964. These two events changed India's assessment of its strategic situation. China's entry into the nuclear club in 1964 obviously introduced a direct nuclear factor into India's strategic considerations.

5.90 Following China's atomic test a major political debate took place in India over the question of whether India should obtain the bomb. In the end, the Indian Government decided against obtaining nuclear weapons. There was a majority view that India could still rely on either the Soviet Union or the United States providing some kind of nuclear umbrella or countervailing force against China.

5.91 On the other hand, India refused to rule out the acquisition of nuclear weapons. It was at this time that India's policy on this question crystallised as one of maintaining a nuclear weapons option. Under this policy, India did not actually make nuclear weapons but constantly threatened to do so. This policy was aimed at not only discouraging China from directing any of its nuclear arsenal at India. It was also calculated to pressure the major nuclear powers to provide guarantees against China so that India would not actually manufacture weapons.

5.92 India's explosion of an atomic device in 1974 represented an escalation of this same policy. The 'peaceful' atomic explosion was meant to reinforce the international perception that India's policy of maintaining a nuclear weapons option was based on a real capability.

5.93 This escalation was also in response to new international developments and, in particular, the new relationship that emerged between the United States and China, and Pakistan as well. The rapprochement between China and the Nixon Administration occurred almost at the same time as the India-Pakistan war of 1971, which saw the United States show of force in the Bay of Bengal on Pakistan's behalf. In India this raised serious doubts about whether it was a wise policy to rely on the US as any kind of countervailing force against China. A major outcome of this reassessment in the Indian Government was the development of a nuclear weapons capability.

5.94 India's explosion of an atomic device indicated its capability to develop an independent nuclear force in a situation which its defence planners obviously saw as more uncertain than in the past.

5.95 The explosion in 1974 did, however, have one significant unintended consequence. This step by India prompted a renewed effort by Pakistan to acquire a nuclear capability. Pakistan also rejects signing the Nuclear Non-Proliferation Treaty and pursues the same policy of maintaining a nuclear weapons option. Both India and Pakistan have now adopted this policy of developing the capacity, not producing weapons but keeping their options open.

5.96 India's indigenously-built nuclear facilities are — technically speaking — not subject to international restrictions. According to the evidence of Dr McKinley, India has a capacity to produce between 15 and 30 nuclear weapons annually.[57] Pakistan's indigenously-built nuclear facilities are also outside international supervision. Pakistan has a capacity to manufacture weapons grade uranium. It should be remembered however that the international community takes a dim view of nuclear proliferation and a number of international safeguards and sanctions do operate to dissuade India (and Pakistan) from acquiring nuclear weapons.

5.97 The Department of Defence has assessed that India, like Pakistan, has the potential to develop both nuclear weapons and a delivery system within one year.[58]

5.98 India's possession of modern British, French and Soviet jets gives it a potential weapons delivery capacity (albeit limited in range) within South Asia, north into China, and into Southeast Asia. Like India, Pakistan's main delivery system would be aircraft, namely the United States supplied F-15 and the French supplied MIRAGE V.[59] However, India and Pakistan have also recently tested ballistic missiles.

5.99 In May 1989, India test fired its new surface-to-surface medium range ballistic missile, *Agni*. The 75 tonne missile is reported to be capable of carrying a payload of 1,000 kilograms and to have a 2,500 km range. It was developed as part of a $333 million Integrated Guided Missile Development Program. The missile was assembled and test-fired by the Indian Defence Research and Development Organisation, which employs approximately 25,000 scientists and engineers. In February 1989, India also tested a short range missile with a range of 300 km, which could have an estimated potential payload of 1,000 kilograms.

5.100 Indian officials claim that the *Agni* program was intended as a demonstration of its technological capabilities and that it had no plans to mass produce the missile. It would take India up to five years to develop a usable ballistic missile delivery system for nuclear weapons if it chose to do so.[60]

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[57] *Evidence*, p.105
[58] *Letter* to the Committee, 8 January 1990
[59] *Evidence*, p.107
[60] Assessment of the Department of Defence, *Letter* to the Committee, 8 January 1990

5.101 As in the case of India's nuclear capability, Indian missile developments have spurred the Pakistanis into their own program. In February 1989, the Army Chief-of-Staff announced that Pakistan had test-fired missiles with ranges of 30 km and 120 km.[61]

5.102 The Committee shares the concern of the Australian Government about the potential of both India and Pakistan to develop nuclear weapons. While India remains a threshold nuclear weapons state, it will be important for the major nuclear weapons powers to develop policies which reduce India's security concerns and thereby reduce the incentive for India to develop nuclear weapons. The United States, China and the USSR have the most significant potential influence in this area.

Security of Sea Lanes

5.103 A potential Indian threat to shipping in the Indian Ocean is a common theme in press reports about the Indian Armed Forces and figured in the comments of Mr O'Connor to the Committee:

> I would be more concerned, I must say, about the security of merchant shipping of all nations passing through the Indian Ocean.[62]

5.104 The Committee viewed such a possibility as almost incomprehensible for a number of political reasons referred to in Chapter Four. The Committee accepts that a limited Indian blockade of shipping going to Pakistan, Sri Lanka, or Bangladesh is possible, but that an Indian campaign against shipping in the Indian Ocean in general is barely credible.

5.105 India certainly has weapons platforms which can threaten, damage or sink commercial shipping. Indeed, India could for demonstration purposes attack the seaborne trade of any major Western nation. India could, for a short period, and if there was no military opposition, put a submarine barrier or lay mines across the Strait of Hormuz or the Malacca Strait. As the Iran/Iraq conflict showed, a country does not need much capability to have a significant effect on international shipping in a confined waterway.

5.106 However, India simply does not have the number of platforms with sufficient patrolling range and frequency to make any appreciable lasting impact on the volume of shipping using the Indian Ocean. In financial year 1984-85, Australia alone had over 5,000 shipping movements through the Indian Ocean.[63]

5.107 None of the submissions made to the Committee attempted to demonstrate in practical terms exactly how India might interdict seaborne trade: whether carrier battle groups would be used; whether land-based aircraft operating in conjunction with submarines would be used; in what areas would attacks most likely be conducted; what the frequency and range of patrols would

[61] Ross H. Munro, 'Superpower Rising', *Time*, 3 April 1989, p.23
[62] *Evidence*, p.204
[63] *ibid.*, p.82

be; and what operational goals the Indian Armed Forces could hope to achieve (for example, ten ships sunk per day); or what response India would make to the simple tactic of rerouting traffic outside the range of Indian military forces.

5.108 For example, there was no discussion in the submissions of India's mine-laying capacity. Yet, it is partly an implicit mining threat combined with India's proximity to the Malacca Strait (through the Andaman and Nicobar Island bases) or the Persian Gulf that might offer at least some possibility of a credible Indian threat to significant sections of Indian Ocean shipping in general. While it is relatively easy to lay mines without dedicated mine warfare platforms, such activity does not figure highly in Indian naval doctrines or exercise patterns.

5.109 The Committee accepted as theoretically accurate the Defence Department's assessment:

> India's enhanced maritime capabilities do give it some potential to threaten shipping on international trade routes across the Indian Ocean.[64]

5.110 Notwithstanding the Department's view that political constraints (the reactions of other powers) would dissuade India from considering such an option, the Committee was surprised that the theoretical possibility could not have been more roundly discredited by an analysis of just how little India could, in hard military terms, achieve in the way of interdiction of shipping at any distance from its shores.

5.111 In fact, the focus in most submissions that addressed the security of sea lanes was to discuss India as a possible threat. The neglect of the view that India shared with Australia an interest in contributing to the security of sea lanes, particularly Western oil traffic, was, in the Committee's view, typical of the superficial analysis in most submissions of India's military build-up.

Conclusion

5.112 In general terms, the Committee found that India's military build-up is far less threatening for the foreseeable future outside the South Asian region than some views suggest. Some suggestions that were raised seriously in the submissions, such as direct Indian military intervention in support of the Indian population of Fiji, can only be regarded as hypothetical at best.

5.113 At the same time, India is already the predominant military power in South Asia. Its capability is already very powerful. The continued expansion of that capability over the next decade will probably reduce not only the security of India's South Asian neighbours but also that of India itself as its neighbours respond to the military build-up.

[64] *ibid.*, p.225

5.114 There are grounds for concern about India's views of its role as regional policeman and the degree to which coercion enters into its calculations of enforcement. India's slow but determined progress to nuclear weapons capability is also a cause of strong concern.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

Main Findings

6.1 Relations between Australia and India have made important advances since the beginning of the Committee's inquiry in September 1988. Prime Minister Hawke visited India in February 1989, and there have been a number of other ministerial level visits in both directions. A joint Ministerial Council has been established and the Australia-India Business Council (established in 1986) has established a broad range of new contacts. Several intergovernmental agreements have been signed and Australia has pledged $35 million over three years in aid to India for projects with significant Australian commercial involvement. Australia's Chief of the Naval Staff visited India in March 1990.

6.2 In September 1989, the biggest ever single business deal between Australia and India was signed. It was a commercial contract for the construction of an open-cast steaming coal mine in Piparwar (Bihar State) between White Industries Limited and Coal India Limited. The total value of the contract is $500 million, although the returns to Australian industry in goods and services will be about $150 million over several years. The Australian Government has provided $61.5 million in grant aid and additional financing support in a loan of $140.1 million.

6.3 Nevertheless, during the course of its inquiry into Australia's relations with India, the Committee became even more convinced of the need for the inquiry. While government departments were prepared to admit that the relationship between India and Australia had been one of 'shameful neglect' or 'benign neglect', there was little evidence of a subsequent sustained, strategic change of direction similar to that undertaken by Australia in respect of China in the late 1970s. A state of hiatus seemed to characterise many aspects of the relationship and follow-up to initiatives was often inconsistent.

6.4 There appeared to be elements missing from the decision-making processes in a range of public bodies in Australia. There was little forward thinking: for example, what will India be to Australia in the year 2000? How far might the economic opening up that has only just begun proceed by the year 2000? How can we harness India's strategic weight to our advantage in the next century?

6.5 Comprehensive estimates of India's national economic position or military position in the next two decades were not provided in the submissions received by the Committee. Assessments were most often limited to general observations about India's growing economic power and growing military capability in the next few years. One submission did provide projections of India's naval capability into the first decade of the twenty-first century. There was little comparison made

between India's likely international significance and that of other major powers such as China. For the most part, the Committee was left to its own devices to make the central strategic judgement from which most public policy decisions on India would flow — the likely importance of India to Australia in the longer term.

6.6 There appeared to be a weak institutional memory and little empathy with Indian culture in Australian government departments. The submissions from businessmen and academics who know India well showed a richness of detail which made their arguments all the more convincing. By contrast, there appeared to be a certain lack of commitment and an unnecessarily narrow focus on governmental activities in the submissions from government departments.

6.7 With respect to trade policy (*Part A* of the *Terms of Reference*), the Committee believes that relations between Australia and India are underdeveloped in a number of areas. Trade performance in both directions is volatile and patchy when analysed from the point of view of broad categories of traded goods 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 industries of it in which Australia is internationally competitive. There may be some potential for India to increase its exports to Australia.

6.8 However, the pace and scope of liberalisation of the Indian economy over the next few years will need to match that of recent years if there is to be a sustained expansion of trade. The flattening out in the growth rate of Australia's exports to India across the board in the last two financial years is of serious concern. The Australian government may have to devote special attention to convince India of the value to it of a continuation of the opening up of the Indian economy. Australia will also have to watch for any signs of a return by India to a more closed economy under pressure from nationalist elements of the new Indian government.

6.9 The Indian market has unique features which create special needs for any Australian company trying to sell into it. Above all, India's large public sector purchases of Australian exports and its unique business culture appear to demand considerably greater efforts and local expertise than some other markets. Significantly enhanced market intelligence will play a central role in any expansion of trade with India.

6.10 The Committee strongly supports the views that education of Australian businessmen and officials in Indian affairs has an important role to play in further development of trade and that too much direct government participation in the actual business function should be avoided.

6.11 There are few signs in the short term of a significant expansion of Australia-India trade. The Committee has therefore directed its recommendations towards helping put Australia in a better position to compete in the longer term.

6.12 The main sector in which Australia is likely to be competitive will probably be in high technology (including consultancy or management services) associated with resource exploitation. The Indian Government certainly gives a high priority to imports in these areas. There appear to be few opportunities for export of consumer goods in the Indian market and Australia, on current assessments, cannot hope to compete significantly in non-resource based manufacturing. Niche market opportunities will present themselves to the astute exporter but these are unlikely to figure highly in the overall value of Australia-India trade.

6.13 Some general advice offered by AUSTRADE in its last Annual Report to Australian exporters is, in the Committee's opinion, particularly pertinent for the case of India. AUSTRADE advised Australian companies to think increasingly in terms of strategic alliances, joint ventures, international sub-contracting and similar approaches to reduce the magnitude of the competition, to spread the risk of capital expansion and technological development, and to capitalise on knowledge and skills bases, wherever they are available.[1] As one AUSTRADE study found, most of the top thirty exporters of the 249 applicants for the 1988 Export Awards had some sort of market presence in the tougher markets of Japan, West Europe and North America, which was seen as giving them the credibility as suppliers that buyers were after.[2]

6.14 With respect to security issues (*Part B* of the *Terms of Reference*), the Committee found that India's military power in the next two decades would be substantial and, therefore, sufficient to make India an important target of Australian study and diplomatic activity. India does not, in the Committee's view, represent a direct threat to Australian security interests or those of our Southeast Asian neighbours. As to the future, there is no evidence and little conceivable basis for India to develop an intent to threaten Australia's security interests or those of our neighbours. Nevertheless, Australian and regional security would be affected by India's development of a nuclear capability and an intercontinental missile capability, albeit limited.

6.15 Perceptions of a potential threat from India — which have been expressed by Australia's neighbours and some sections of the Australian community — also affect Australia's security policy, particularly its diplomacy and public presentation. Authoritative studies of India's actual and potential military capability should play an important part in the Australian Government's dealings with concerned neighbours and with concerned sections of the Australian community. Such studies would also fulfil the normal government requirement for long-term assessments of the military policies of powerful and relatively proximate nations.

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[1] Australian Trade Commission, *1988-89 Annual Report*, p.17

[2] Speech by Mr W.D. Ferris, Chairman of AUSTRADE, at the *Australian Financial Review* conference on *Industry Policy and the Hawke Government* in Sydney, 14 July 1989

6.16 As far as South Asia is concerned, India is already the predominant military power there. Its military capability is very powerful compared with that of its South Asian neighbours.

6.17 The continued expansion of India's military capability over the next decade will probably reduce not only the security of India's neighbours but also that of India itself as its neighbours respond to the military build-up. There are also grounds for concern about India's views of its role as regional policeman and the degree to which coercion enters its calculations of enforcement.

6.18 The Department of Defence presented the following views of India's military power in the future:

> Its enhanced maritime power will assist in ensuring that India's views are given full weight in regional decision-making, further its political and economic interests in the region, and may increase its influence over many of the Indian Ocean littoral states.[3]
>
> The influence flowing from India's possession of significant maritime power could, in the longer term, enable it to resist increases in the presence of external powers in the Indian Ocean...[4]
>
> Australia's area of direct military interest — while encompassing the more proximate eastern part of the Indian Ocean — does not overlap the areas in which India could be expected to exert strategic influence or maintain an effective maritime presence.[5]
>
> There is a difference between wider naval operations for essentially international relations purposes, and a capability for sea control or sea denial operations. For the foreseeable future, the latter capability for India is likely to be restricted to the area proximate to the subcontinent.[6]

6.19 The Committee endorses these assessments, particularly the last assessment: India's military power is unlikely to have much effect outside the South Asian region, beyond protection of India's territory in the Nicobar and Andaman Islands. The Committee has reached this view on the basis of assessed limits to India's defence expenditure in the next decade, India's continuing preoccupation with South Asian military problems, India's poorly developed military logistical system (especially naval), and the lack of Indian interest to date in military activity outside its immediate region.

6.20 At the same time, the Committee accepts the view that India's industrial and technological potential could — in theory — easily be geared up over a decade or so to support a more aggressive military policy. Australia should be alert to this possibility — but no more so with India than with any major country of Asia.

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[3] *Evidence*, p.223
[4] *ibid.*
[5] *ibid.*, p.225
[6] *ibid.*, p.234

6.21 The Committee does not accept that India has shown significant indications of a move towards an aggressive expansionist military policy. In fact, India has done far less in terms of military development and actual use of force in the last decade than China, and China's military posture has, for some time, not been regarded in the Australian community as a threat to regional stability or Australian security interests.

6.22 India does have the technical and financial resources to develop nuclear armed ballistic missiles. However, the Committee believes that any decision by India to deploy such a capability would not add significantly to the attention Australia should give to India. The Australian Government already devotes considerable time and resources to monitoring the military and foreign policies of India and to registering our concerns about nuclear weapons proliferation.

6.23 The Australian Government should watch for any significant development of power projection doctrine, capability or logistic support.

6.24 Yet the Committee notes that India and Australia are on friendly terms. Australia should not allow public misperceptions of India's defence capability or intentions to cloud relations. Moreover, Australia should seek where possible to develop defence contacts with India, especially where there are shared interests, such as the security of sea-borne trade.

Public Policy and India

6.25 The Committee believes that India already is an important Asian power of the same general order as China, albeit with a less prominent international trading and military profile beyond its immediate neighbourhood. India's power will probably continue to consolidate over the next two decades and its economy will probably continue to open up.

6.26 Given the well documented neglect of India by Australia, and the declining position of Indian studies in our universities, the Committee believes that public policy in Australia should, in coming years, devote more attention to India to compensate for past neglect and build for the long term future. The ability of government and the private sector to respond to India will depend on the Indian expertise of their employees. In this regard, the Committee notes a conclusion of the 1989 Ingleson Report that Asian studies in Australian universities are in a generally poor state.[7]

6.27 A major determinant of priorities for forward planning should be the assessment of what is likely to be most important to Australia in coming decades. Until now, India has ranked well behind Japan, the United States, the European Community, China and South East Asia in Australian foreign, defence and trade policy. For a number of fairly obvious reasons, India is unlikely to displace any of the traditional, high priority targets of Australian interest — major

[7] *Asia in Australian Higher Education: Report of the Inquiry Into the Teaching of Asian Studies and Languages in Higher Education*, submitted to the Asian Studies Council, January 1989, para. 7.2

trading partners, major allies, or neighbouring countries. At the same time, the Committee concluded that India — in the next two decades — will be of sufficient importance to warrant its elevation to approximately the same rank as China or South East Asia. Japan, the United States and the European Community will remain of significantly higher importance.

6.28 The main reason for the Committee's conclusion about the increased importance of India in the future is a simple one — in a more multi polar world, any country with power such as India will possess, and in such relative proximity to Australia, should be the object of active diplomacy and commercial engagement.

Recommendations

6.29 The Committee recommends attention to four broad areas of public policy:

- education;
- information;
- government support for trade; and
- diplomacy.

Education

6.30 The Committee accepts the view of the Asian Studies Association of Australia that 'Far too few Australians have a developed understanding of the modern Indian nation-state'.[8] The Department of Defence acknowledged this to a point:

> ...we could not put together a team from Defence of experts on India. I would doubt that we would be able to do so in the foreseeable future, nor would we see a need to do so.[9]

6.31 To redress this ignorance, it would obviously be easy for this Committee to recommend immediate allocation of greater resources to Indian oriented concerns, with no reference to competing pressure for resources to be directed towards other countries. The Committee is acutely aware that resource availability is finite and that priorities in public policy must be set.

[8] *Evidence*, p.382
[9] *ibid.*, p.236

6.32 The Committee is in no position to repeat the research and analysis of the Ingleson Report but the Committee does note that this report has been criticised for its neglect of Indian and South Asian studies.[10]

6.33 With due regard for the above considerations, the Committee recommends the establishment of an Indian Studies Centre to provide advanced academic study of a range of Indian related disciplines. The development of this Centre should be based on a thorough analysis of the needs of the Australian Government and the business community. In establishing the Centre, the Committee recommends maximum use of existing academic resources. In particular, an Indian Studies Centre should overcome the existing problem of loss of institutional memory on India as individual universities change their priorities away from Indian studies or as Australia's older academics specialising in India retire. Such a Centre would become the country's register of expertise on India in other Australian institutions or enterprises.

6.34 The Committee believes that future development of Asian studies in Australia should recognise the need to pursue a two-track approach — the first involving support for advanced studies in humanities (history, literature, languages, arts and social sciences); the second involving support for commercially related, applied studies. Government, educational institutions, and the commercial sector should work actively to develop the two elements in tandem, with a creative and innovative approach to promoting interaction between the academic and applied streams. Studies in support of trade and collection of basic data on Australia/India trade should be an important part of the Centre's activity.

6.35 The Committee believes that the long-term funding of an Indian Studies Centre should be undertaken on a partnership basis between government and commercial enterprises, particularly large public corporations. The relatively new Australia-India Business Council may be able to play some role. In fact, the development of an education policy, duly accompanied by appropriate funding, could be regarded as an integral part of the Council's trade promotion program.

[10] The reasons for the strong emphasis in the Ingleson Report on Japanese, Chinese and Indonesian studies compared with the almost total neglect of South Asian studies has been explained as follows. The situation in which Australia finds itself in respect of the study of countries such as Japan, China and Indonesia — which are *now* of vital interest to us — is so desperate that a great deal of urgent catch-up work needs to be done. Therefore, since India's importance to Australia is more a long-term issue, the Ingleson group was directed in its original guidance from the Asian Studies Council along the lines that increased attention by Australia to India should not be at the expense of urgent expansion of interest in the countries which are now very important to us and which will continue to be so. The Ingleson Report did make worthwhile recommendations in terms of maximising the efficiency of resources currently devoted to teaching Hindi but there are few additional specific references to South Asian studies.

6.36 The Federal Government as an important user — at least in theory — of expertise on all of Australia's major Asian neighbours should take a strong lead in developing a more solid basis for future Australian knowledge and study of India. The Committee believes that the Australian Government should, through relevant organisations such as the Asian Studies Council, commit itself to strong funding support for an Indian Studies Centre for an initial fixed term such as five years. The main user departments, such as Foreign Affairs and Trade, Defence, and the Office of National Assessments, must have training and information requirements that an Indian Studies Centre would satisfy and which are not now being fully met.

6.37 The level of funding required would be several hundred thousand dollars per year over and above current costs of existing Indian studies courses in the universities. The Committee believes such a funding level could be easily met within existing levels of appropriations by the relevant departments through minor adjustments in priorities.

6.38 The Committee envisages a need for the development of innovative funding and endowment arrangements for a new Indian Studies Centre. The provision of direct commercial support for specific specialisations in advanced study in the humanities in Australia is extremely underdeveloped, and, as a consequence, many areas of foreign commercial and government policy analysis suffer.

6.39 Companies with large commercial stakes in India, or even companies hopeful of a long-term future in Asia generally, would find it a drop in the ocean of their resource base to sponsor regular post-graduate awards for specialised study in commercially related fields. Moreover, the spin-offs in India to Australian companies being seen to sponsor Indian studies may be significant from a promotional point of view. If such awards were related to work-study arrangements for the recipients, Australian businesses might reap the rewards even more directly.

6.40 The ANZ Banking Group may consider membership on the management board of an Indian Studies Centre as a useful way to ensure the development of an adequate information base on India that businessmen can use, along the lines proposed by their representative at public hearings in Melbourne.[11] The ANZ Banking Group may well foresee other advantages in terms of personnel development for its Indian staff of Grindlays or Australian staff here in placing officers in the Indian Studies Centre on a regular basis to pursue commercially relevant academic research.

6.41 The mechanism by which a new Indian Studies Centre is created would be the concern of the relevant organisations but the Committee believes that a free-standing Centre, affiliated with a major university, would be the most desirable model. A new corporate body formed around representatives of major interested parties would appear to be the management arrangement most likely to guarantee long-term private sector funding (and use) of the Centre.

[11] *Evidence*, p.323

6.42 The initiative of interested universities in bidding for the new Centre would, in the Committee's view, be central to the success of the proposal. The Committee does not see the new Centre as a mere extension of existing undergraduate level studies currently offered in several universities, but the Committee does accept the thrust of the Ingleson Report's recommendation to rationalise existing resources in South Asian studies. A university able to share existing teaching and library resources, and able to offer additional physical space for a new Centre would probably have a distinct advantage over a university without these resources at present. The Melbourne South Asian Studies Group may wish to sponsor a joint development initiative between two or more universities.

6.43 The Committee is aware of the interest in the academic community and government in a broader South Asian perspective for a new Centre, so that it would include study of Bangladesh, Pakistan, and Sri Lanka, rather than focus exclusively on India. However, resource priorities would appear to exclude development of such a broad focus for a new centre. Existing discipline-based studies (such as political science or development economics) could be expected to provide some coverage. Foreign academic resources can also be relied upon.

6.44 The Committee believes that the study of India will of necessity generate some policy relevant study of broader South Asian issues. Australia should aim first to develop its Indian studies capacity and then, if resources permit in the longer term, consideration could be given to expanding into other South Asian studies.

6.45 No time should be lost in establishing the new Centre if it is to begin operating as a driving force in the development of Australian expertise on India, particularly in commercially related aspects. For this reason, the Committee does not regard it as premature for interested parties to begin studying and planning for the Centre immediately.

6.46 Apart from the creation of a new Indian Studies Centre, there are a number of avenues in the educating of Australians about India that the Committee believes should be pursued more vigorously. These include teacher and student exchanges, industry training in Australia of Indian nationals from Indian state corporations, conferences and symposia, trade union exchanges, and trade fairs.

6.47 The advancement of Indian studies in Australia could usefully be accompanied by increased support for Australian studies in India. Australian public bodies have some role to play here and, while needing to consider the prerogatives of the Indian Government, are free to undertake a range of initiatives.

6.48 The Committee believes that education policy in Australia has not kept pace with the increased Asian share of Australian trade, tourism, cultural exchanges and security preoccupations. In this respect, the Committee endorses

the recommendations of the Ingleson Report for an expansion of Asia related content in general curriculum design for humanities subjects at all levels of education.

6.49 One of the biggest obstacles to the fostering of advanced studies of Indian affairs, and Asian studies in general in Australia, is the lack of professional rewards available to people with advanced qualifications in the field. For example, people with Master's degrees or Doctorates in Asian studies can receive almost no recognition, compensation or employment in government or industry significantly different from that received by people without such specialist qualifications. Some Asian studies specialists are able to obtain employment in their subject areas for several years but are, for the sake of promotion, eventually forced to work in areas not specifically related to their field of expertise. At the same time, government and industry regularly observe a deficiency in Asian expertise within the country. The Committee therefore urges employers across the country to review their recruitment and incentives policies for people with specialist skills in Asian studies.

6.50 In particular, the expertise on India in government departments should be significantly upgraded and encouraged with appropriate incentives.

6.51 The establishment of an Australia-India Council, along the lines of the Australia-China Council, would be an appropriate mechanism to foster the development of the study of India in Australia in ways that are most responsive to broad community and governmental needs.

6.52 The Committee recommends therefore the immediate establishment by the Australian Government of an Australia-India Council. The aims of the Council would be to raise Australian expertise on India; to raise awareness of India in Australia and of Australia in India; to identify gaps in the relationship and focus attention on these through appropriate initiatives; and to organise support for and otherwise encourage a broad range of contacts between state and private organisations, governments, and people in the two countries.

6.53 The Council should initially comprise leading members of Australian business, academic and governmental organisations who have strong expertise in Indian affairs. The Council should be established by an Order-in-Council, with members to be appointed by the Governor-General, on the recommendation of the Minister for Foreign Affairs and Trade.

6.54 The earliest priorities of the Council should include the development of the Indian Studies Centre and a review of proposals for developing a broadly based, long term, mutually beneficial relationship between Australia and India by the end of the decade.

6.55 The Council would be responsible for providing some financial assistance to support innovative projects aimed at promoting longer term Australian goals with respect to India. In order not to dilute its resources or its goals, the Council should in the Committee's view support projects which are likely to have a "strategic" impact on relations between the two countries or on Australian

expertise on India. The Council could build on areas where cultural exchange already has a prominent profile as is the case with cricket. An eminent practitioner of the sport could be considered for a position on the Council.

Information Policy

6.56 The majority of submissions to this Committee bore testimony to the generally poor state of information policy in Australia where India is concerned. This has ramifications in several fields: intelligence, especially commercial intelligence; interdepartmental coordination; promotion of Australia in India and vice-versa; and keeping the public adequately informed.

6.57 The Committee found that the intelligence analyses presented to it, especially in the commercial sphere, were of variable quality and rarely addressed issues in an appropriately forward looking manner. There is almost certainly a link between the quality of the intelligence and the lack of support for advanced study of India in Australia. The unsatisfied demand in the business community for information and analysis on India, not only on future developments but also for basic data, is sufficient evidence in itself for this proposition. However, there was also evidence of a lack of rigour by government departments and authorities in development of consolidated, comprehensive analyses of key events in India of direct policy interest to Australia.

6.58 The Committee recommends that departments and authorities review their basic intelligence capability in respect of India. The Committee believes that the sort of information and analyses that government departments provided in submissions should already have been available in internal documents before the event and not been the object of a major research and writing task once the Committee called for submissions.

6.59 The Committee recommends that Australian Government departments regularly place in the public domain major assessments and information reports of a topical nature on the key countries of Asia. This already occurs to some extent through a variety of mechanisms, such as ministerial statements, answers to parliamentary questions, departmental information bulletins, and submissions to parliamentary inquiries. The interest shown by the general public through inquiries to this Committee's Secretariat for copies of departmental submissions is some evidence that public demand for certain types of assessments is not being met by other mechanisms. Assessments by the Department of Defence are in particular demand. Regular release of intelligence assessments of the security policies of our neighbours should make a worthwhile contribution to public attitudes and public debate on defence and security issues.

6.60 The Committee recommends that government departments review the degree to which their existing analysis of Indian politics, economics and defence policy provides an adequate basis for assessment of long term trends across the range of policy issues. In respect of trade, the Government's data base and analysis should be more responsive to the demands of business. In particular,

the Committee recommends that government agencies, universities and businesses review their information holdings on legal aspects of doing business in India.

6.61 AUSTRADE has made considerable advances in provision of market intelligence to Australian exporters in the last year through the establishment of a subscriber service computer data base, called TOP — Trade Opportunities, which incorporates not only information collected by AUSTRADE but also major international commercial data-bases. The Committee applauds such initiatives.

6.62 At the same time, the processed intelligence — the hard assessment of particular commercial issues — is something that cannot be provided by a fact based data system. Human resources and constant reassessment are central to good commercial intelligence. The Committee recommends that the government agencies assess the quality of their commercial intelligence services from that perspective.

6.63 Current government practice in filling most positions in the relevant departments is to assign non-specialist officers. Therefore, many officers who are tasked with writing major policy advice papers on India have learnt their subject almost exclusively from on the job training. This would not be a problem provided that daily work pressures did not prevent officers from devoting a substantial amount of time to in depth study of the subject. Such a situation does not, however, exist. The Committee believes that generalist analytical and writing skills are not an adequate substitute for deep knowledge of the country involved — in this case India. The lack of in depth knowledge results in papers which are largely descriptive of the past and which appear to lack the confidence to be appropriately forward looking.

6.64 Given the relatively undeveloped state of expertise on India in the relevant areas of government departments, the Committee recommends that departments institute a system whereby major assessments or policy papers would be subject to critical appraisal by at least one external expert. The establishment of a working relationship between government departments and experts — who could be given appropriate security clearances — is a normal practice in the United States and the United Kingdom.

6.65 With respect to interdepartmental coordination of information policy, the Committee is aware of steps currently underway to overcome previous deficiencies. A regular meeting of desk-level officers has been convened. This should have been normal practice.

6.66 The Committee also regards as unacceptable the practice whereby one government department seeks to publish a major document on a subject as important as foreign trade or foreign relations without first incorporating the information or assessments that all other key departments, or the relevant diplomatic missions overseas, might have to offer. The decision by the Department of Foreign Affairs and Trade to publish its *Trade and Commercial Development Program for Australia in India* independently from and ahead of AUSTRADE's proposed *Market Development Plan* strikes the Committee as

undesirable. The lack of regular access of AUSTRADE officials to briefing papers prepared in government departments is also a matter of concern to the Committee.

6.67 The Committee does not seek to impose a bureaucratic solution to the problem of poor coordination of activity or information among government departments. The Committee does however make a strong plea for a more coordinated approach.

6.68 The effectiveness of the promotional activities of Australian companies or government departments must be disadvantaged by the poor state of Australia's information policy toward India.

6.69 The Committee notes the statement in the *Trade and Commercial Development Program for Australia in India* that an 'appropriate Australian Overseas Information Service (AOIS) program will be developed as an integral part of Australia's overall strategy'.[12] The Committee recommends that the relevant departments participate jointly in development of any AOIS plan for promotion of Australia in India. The Committee further recommends that AOIS activities in India be developed with the long term purpose of supporting Australian exports and not be devoted to support of broader goals of propagandising to Indians the quality and unique features of the Australian way of life. The Committee does not believe that Australia can afford to devote its information resources in India to the imitation of the cultural export policies of more wealthy countries, such as the United States, France or Canada.

Government Support for Trade

6.70 The Committee is strongly of the view that the main responsibility for development of export markets rests with the private sector. This view is based on the facts that the market-place decides and that business people are in the best position to respond to the market-place for their particular product. However, in the case of countries such as India, with a large public sector, the Australian Government has an important role as a facilitator.

6.71 Therefore, the Committee does see merit in the development by government agencies of marketing strategies built around the promotion of a wide range of particular sectors in India. At the same time, the Committee recommends that relevant departments, and AUSTRADE itself, could give more weight to sector specific strategies responsive to the global market-place in the development of country oriented strategies. The continued implementation over several years of a country specific plan in countries like India may not prove worthwhile in the longer term if the commercial prospects in the particular country for industries targetted in the country plan do not improve or even worsen. AUSTRADE has already made some progress in developing its sector export strategies, according to its 1988-89 Annual Report.[13]

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[12] p.35

[13] Australian Trade Commission, *1988-89 Annual Report*, p.7

6.72 Country specific trade strategies, like the one developed for India must avoid becoming prisoners of the bureaucracy that invented them. For example, the AUSTRADE estimate of July 1989 to the Committee that Australian exports to India have the potential to reach $1 billion in a five year period appears to have been made more on the basis of the need to set some sort of target rather than on the basis of specific sector projections. Pursuit of poorly developed targets could well prove to be costly in terms of dollars spent and possibly in terms of opportunities missed elsewhere.

6.73 The Committee believes that the government function in support of trade must be based on maximum flexibility to respond to the specific demands of business as they arise in four specific areas especially: provision of commercial intelligence; liaison or dealing with state ministries or corporations in the host country on behalf of Australian commercial enterprises; export promotional activities; and provision of administrative support for Australian business people not yet acquainted with or established in the country concerned. The question of the long term desirability of government financial support for Australian exports through various rebate, loan or soft credit schemes is one which the Committee believes is worthy of thorough review.

6.74 Australia has come late to the opening up of the Indian economy and finds it hard to compete with countries, such as Japan or Canada, which can offer more attractive soft financing arrangements. The Committee is mindful of the cost to Australia in trying to compete.

6.75 One important function for AUSTRADE, and perhaps the ANZ Banking Group, in support of Australian exports to India may be active involvement in consortium development, especially in bringing together Indian investors, either state sector or private, and Australian businesses. AUSTRADE may well be the only Australian organisation, apart from the ANZ Banking Group, with sufficient exposure in India to set up long-term collaborations between Australian and Indian partners.

Diplomacy

6.76 Australia must recognise its own limitations in regard to its influence as a medium level power. Simply put, Australia must decide the relative priority it is to give to the fostering of Australian exports in comparison with the priority given to attempts to influence Indian thinking on its own security affairs. No other country will look to Australia's export performance in India but a number of far more influential countries, such as the United States and Great Britain, are already actively seeking to influence Indian economic and security policies in much the same directions as Australia. Australia must recognise the potential reactions it could generate by taking the moral high ground in relation to countries like India.

6.77 The Committee recommends that a large part of Australia's diplomatic effort in India be directed at encouraging the Indian Government to make faster progress towards relaxing trade and investment controls detrimental to Australian

business. However, fundamentally important issues like Antarctica, chemical weapons, and nuclear proliferation should — in the Committee's view — still remain important in Australia's diplomatic priorities in India.

6.78 The Committee recommends that in respect of countries such as India, which are not in Australia's area of primary strategic importance, the Australian Government should only develop a diplomatic position on their external policy or defence policy where there is a direct threat to our interests, such as that presented by nuclear proliferation,[14] or a breach of international law. This would appear to be the practical implication of the comments of the Minister for Foreign Affairs, Senator Evans, in a speech on priorities in Australian foreign policy when he said:

> priority in our foreign policy should be given to that which is not only important but achievable;...for a country of Australia's size and weight in world affairs...it is not wise to have exaggerated ideas of influence beyond our station...[15]

6.79 The submission to the Committee by the Department of Foreign Affairs and Trade was suitably modest in this respect. Nevertheless, at times the desire to lecture India on its economic and military policies appears to creep into Australian thinking. A tendency to blame the Indians for most problems in the relationship — in the absence of any real self-criticism of Australia's performance — is some indication of a disturbing sense of superiority adopted by some officials and other commentators who appeared before the Committee.

6.80 For this reason, the Committee recommends that Australian groups or government officials seeking to influence Indian thinking on major policy issues, either in the commercial or security spheres, give more attention to the commissioning of in-depth studies which could support the Australian point of view by demonstrating to the Indian side what might be in it for them. If Australia cannot produce such studies, it is unlikely to get much more than a polite hearing.

6.81 Specifically, the Committee recommends that the Australian Government commission a study, either from its departments or private enterprise, on which it could base approaches to the Indian Government to correct one problem mentioned in Chapter Two of this report: the claimed artificially high shipping rates charged by the state owned shipping line on the west coast of India. Another subject worthy of some study by the Australian Government for discussion with the Indian authorities would appear to be the proposal of AUSTRADE for the establishment of a line of credit with a designated Indian agency for a particular industry, such as the fishing industry. The line of credit, held for example by a development bank in India, would be used to allow individual Indian clients who may not have sufficient resources or credit rating

[14] The Committee believes that it is of some concern to Australia foreign policy to attempt to dampen the tendency towards competition in defence between India and Pakistan especially in nuclear weapons

[15] *Roy Milne Memorial Lecture*, 27 April 1989, reprinted in *Australian Foreign Affairs and Trade: The Monthly Record*, April 1989, p.142

acceptable to a foreign seller to purchase the imported items — the presumption being that the process of recovery on default would be easier for Indian authorities than for Australian exporters.

6.82 The Australian Government should ensure that the range of services that affect trade with India, including post and telecommunications, as well as visa arrangements for Indian businessmen are as well developed as resources allow. Some dissatisfaction with these services was made known to the Committee.

G.R. Maguire
Chairman

APPENDIX 1

INDIVIDUALS AND ORGANISATIONS WHO MADE WRITTEN SUBMISSIONS TO THE COMMITTEE

APEX Exports (Australia) Pty Ltd, Mr Haneef Badrudeen, Melbourne, Vic.
ARGYLE Diamond Sales Limited, Mr D.S. Karpin, West Perth, WA
ASIAN Studies Association of Australia, Ms Elaine M. McKay, Clayton, Vic.
AUSTRADE — Australian Trade Commission, Canberra, ACT
AUSTRALIA and New Zealand Banking Group Limited, Mr David Wilson, Canberra, ACT
AUSTRALIA Defence Association, Mr Michael O'Connor, Box Hill, Vic.
AUSTRALIA-INDIA Business Council, Mr Malcolm J. Overland, Barton, ACT
AUSTRALIA-INDIA Chamber of Commerce, Ms Patricia Verma, Sydney, NSW
AUSTRALIAN Char (Holdings) Pty Ltd, Mr R.W. Nettleton, Oakleigh, Vic.
BARZ, Dr R.K., Asian Studies Centre, Australian National University, Canberra, ACT
BARWICK, Mr Chris, Kew, Vic.
BHATTACHARYA, Dr Debesh, Department of Economics, Sydney, NSW
BRAMBLE, Mr Angus J., Legana, Tas.
BRUCE, Dr Robert H., and McPHERSON, Dr Kenneth, Curtin University of Technology, Centre for Indian Ocean Studies, Perth, WA
CHIRMULEY, Mr Dilip, Prospect, SA
CHOCKALINGAM, Mr K.C., Box Hill, Vic.
CSIRO Office of Space Science and Applications, Dr K.G. McCracken, Barton, ACT
DEPARTMENT of Defence, Canberra, ACT
DEPARTMENT of Foreign Affairs and Trade, Canberra, ACT
DEPARTMENT of Industry, Technology and Commerce, Canberra, ACT
ENERGY Mineral Managers Pty Ltd, Mr Mohan Varkey, Blackburn, Vic.
JONES, Mr Peter, Office of Senator Jo Vallentine, Independent Senator for Nuclear Disarmament, West Perth, WA
KINHILL Engineers Pty Ltd, Mr John Gillett, Melbourne, Vic.
MASSELOS, Dr J.C., University of Sydney, NSW
McKINLEY, Dr Michael, Australian National University, Canberra, ACT
MELBOURNE South Asian Studies Group, Melbourne, Vic.
MENDELSON, Dr Oliver, La Trobe University, Bundoora, Vic.
MAYER, Dr Peter, University of Adelaide, Adelaide, SA
NATH, Mr Rajendra, Hawthorne, Qld
ODDIE, Dr G.A., University of Sydney, NSW
PASMINCO Metals, Mr Roger P. Wyeth, Melbourne, Vic.
PRADHAN, Dr J.S., Adelaide, SA
RAM, Mr R.K., St Ives, NSW
REED, Mr Warren, Mosman, NSW

REEVES, Professor Peter, Curtin University of Technology, Perth, WA
ROONEY, Mr John, Macarthur, ACT
SHEKHAR, Mr S.C., Joint Coal Board, Singleton, NSW
SINCLAIR Knight & Partners, Consulting Engineers, Mr Bruce Sinclair, St Leonards, NSW
SOUTH Asian Studies Association of Australia and New Zealand, University of New England, Armidale, NSW
STAVRIDIS, Mr S.T., Braybrook, Vic.
WESTERN Australian Chamber of Commerce and Industry, Mr Ian Whitaker, West Perth, WA
WHITTINGTON, Ms Sherrill, Canberra, ACT

APPENDIX 2

WITNESSES WHO APPEARED AT PUBLIC HEARINGS

Asian Studies Association of Australia
Dr Ian Falcon Stuart Copland
Ms Elaine McKay

Atlas Air Australia
Mr Colin Ward
Managing Director

Australia Defence Association
Mr Michael James O'Connor
Executive Director, Australia

Australia and New Zealand Banking Group Limited
Ms Margaret Stoneman
Senior Economist, International

Australia-India Business Council
Mr Malcolm James Overland
Secretary-General

Mr Henry Roach
Executive Member

Australia-India Chamber of Commerce
Mrs Patricia Verma
President

Australian International Development Assistance Bureau
Mr Erik Karl Olbrei
Country Programs Manager, South Asia Programs

Australian Trade Commission
Mr Peter John Dixon
Special Trade Commissioner, Operations Group

Dr David Frederick Fisher
General Manager, Finance, Insurance and Projects Group

Mr Peter Flanagan
Area Manager, India-Middle East-Africa, Operations Group

Mr John Paul McCaffrey
Senior Trade Commissioner, New Delhi

Bhattacharya, Dr Debesh

Centre for Indian Ocean Regional Studies
Curtin University of Technology
Dr Robert Bruce
Associate Professor John McGuire
Dr Kenneth McPherson
Professor Peter Reeves

Department of Defence
Captain Christopher Alexander Barrie
Defence Adviser, Designate

Commodore Ian Arthur Callaway
Deputy Director, Military, Joint Intelligence Organisation

Captain Charles Simon Hastings Harrington
Force Development and Plans Branch, Headquarters,
Australian Defence Force

Mr Alan George Thompson
First Assistant Secretary, Strategic and International Policy

Dr Stewart John Woodman
Chief Executive Officer, Strategic Guidance and Policy

Department of Foreign Affairs and Trade
Mr William Bowen
Director, Australia Abroad Cultural Relations Branch

Mr Ross Burns
Assistant Secretary, South Asia, Africa, Middle East Branch

Mr Michael Hillman
Director, South Asia Section

Dr Ron Huisken
Director, Nuclear Testing Section, Peace,
Arms Control and Disarmament Branch

Mr Heath McMichael
Officer, South Asia Section

Mr Richard Smith
Deputy Secretary

Mr Robert John Walters
Director, Trade Strategy Branch

Department of Industry, Technology and Commerce
Mr Kym Anthony Fullgrabe
Assistant Secretary, Asia Branch

Dr Glenn Pure
Project Officer, Asia Branch

Engineering Export Promotion Council
Mr M Koteeswaran
Regional Manager

Jones, Mr Peter

Kinhill Engineers Pty Ltd
Mr John Arthur Gillett
Director International

Mayer, Dr Peter Baldwin

McKinley, Dr Michael

Melbourne South Asian Studies Group
Dr Dipesh Chakrabarty
Dr Robin Jeffrey
Dr Salim Lakha
Dr Marika Vicziany

Mendelsohn, Dr Oliver David

Pasminco Metals
Mr Roger Wyeth
Manager International Sales

Reed, Mr Warren

Yasmeen, Dr Samina

APPENDIX 3

INDIAN ARMED FORCES[1] ORDER OF BATTLE

REGULAR FORCES		1,260,000
	Army	1,100,000
	Navy	47,000
	Air Force	110,000
TERRITORIAL ARMY		160,000
PARA-MILITARY	Border Security Force	90,000
	Assam Rifles	40,000
	Indo-Tibetan Border Police	14,000
	Special Frontier Force	8,000
	Defence Security Force	30,000
	Railway Protection Forces	70,000
	Central Reserve Police Force	90,000
	Provincial Armed Constabulary	250,000
	National Security Guards	5,000
	Ladakh Scouts	5,000
	Central Industrial Security Force	70,000

ARMY	2	Armoured Divisions
	1	Mechanised Division
	19	Infantry Divisons
	11	Mountain Divisions
	14	Independent Brigades
	3	Independent Artillery Brigades
	6	Air Defence Brigades
	4	Engineer Brigades
	3,150	Main Battle Tanks
	700	Armoured Fighting Vehicles
	450	Armoured Personnel Carriers
	3,860	Towed Artillery
	280	Helicopters

[1] Source: IISS, *Military Balance 1989-90*, pp.158-160

NAVY	17	Submarines
	2	Aircraft Carriers (with 8 SEA HARRIER attack aircraft 8 SEA KING helicopters)
	5	Destroyers
	21	Frigates
	34	Patrol and Coastal Combatants
	31	Naval Combat Aircraft
	53	Naval Armed Helicopters

AIR FORCE	28	Squadrons Fighter Ground Attack with a total of:

60	MIG-23
120	MIG-21
70	JAGUAR
72	MIG-27
80	AJEET
20	MARUT

22 Squadrons Fighter Aircraft
with a total of:

49	MIG-29
52	MIRAGE 2000
65	MIG-23
200	MIG-21

12 Squadrons Transport Aircraft
with a total of:

108	AN-32
30	AN-12
10	DHC-3
10	DHC-4
16	BAC-748
12	IL-76

APPENDIX 4

PHILOSOPHY OF INDIAN DEFENCE
by K.C. Pant

This is the text of the speech delivered by K.C. Pant (former Minister of Defence of India, in the Government led by Rajiv Gandhi) at the Massachusetts Institute of Technology on 1 July 1989.

Even before India became independent, Jawaharlal Nehru, in his first broadcast after assumption of office as Vice-Chairman of the Viceroy's Executive Council, said on September 7, 1946 "we propose, as far as possible, to keep away from the power politics of groups aligned against one another which have led in the past to two world wars and which may again lead to disaster on an even vaster scale. We believe that peace and freedom are indivisible... We seek no dominion over others and we claim no privileged position over other peoples". This was the basic tenet on which India's foreign and defence policies have been based over the last forty two years.

As India became free, on the midnight of August 15, 1947, the members of the Constituent Assembly of India took a pledge to dedicate themselves to this ancient land attaining her rightful place in the world and making her full and willing contribution to the promotion of world peace and the welfare of mankind.

Unfortunately, in spite of her ardent desire to promote international peace, especially in her neighbourhood, India has been involuntarily drawn into five wars involving her territorial integrity and national security. In 1947 Kashmir was invaded when it became a part of India on its ruler signing the instrument of accession under the provisions of the Transfer of Power Act enacted by the British Parliament and accepted by a British Governor General. In 1962, the Chinese launched a massive attack across India's northern and north eastern borders. In April 1965, Pakistan attacked across the Rann of Kutch. In August 1965, Pakistan launched "Operation Gibralter" and "Operation Grand Slam" against India and these have been chronicled in detail by Pakistani writers themselves. In 1971, the refusal of the Pakistan Army and West Pakistanis to accept the results of their national elections, which returned Sheikh Mujibur Rahman with a clear majority, and the unleashing of a genocide in East Bengal resulted in the entry of ten million refugees into Indian Territory and eventual escalation into a war. At the end of the war, East Bengal became sovereign Bangladesh.

It would not be out of place to recall that till 1962 India was spending less than 2 per cent of her GNP on defence. The military setback of 1962 and the compulsion of having to safeguard her western border as well as the long northern border involving varying terrains, such as snow clad peaks, thick forests, mountains, plains and deserts, necessitated the expansion of the

Indian armed forces, resulting in the defence expenditure rising to around 3.3 per cent of GNP. The Defence budget remained stable at this level for nearly 15 years, till the early eighties. In recent years the Indian defence expenditure has been around 4 per cent of our GDP and yet remains one of the lowest among the nations of the world, including our immediate neighbours. In this context it may be observed that our economic growth rate, which for a long time hovered around 3.5 per cent. Moved up to over 5 per cent in the current plan, and is expected to grow to 6 per cent in the next plan.

In the Indian context, defence and development are two sides to the coin of nation building. Long ago, Jawaharlal Nehru defined the equation of defence as defence forces plus the industrial and technological background plus the economy of the country and the spirit of the people.

This equation holds good even today. In other parts of the world, while there has been no war since 1945 hundreds of billions of dollars are spent on defence. On the other hand, India has been compelled to look after its defence in the light of our having had to defend our security on no less than five occasions in the forty two years since attainment of independence.

India has never believed in dividing the world into permanently frozen antagonistic blocs. Non-alignment and peaceful co-existence were vital components of our foreign policy long before the idea came to be accepted by other nations. India has constantly believed in foreign and defence policies built around enlightened national interest and not around ideologies, political or religious. As President George Washington had advised the fledgling American state in his farewell address, India avoided entangling alliances and did not join any military pact. Those who criticised India's non-alignment had evidently not understood that the largest democracy in the world was in fact emulating the model set by the second largest democracy, a century and half earlier!

The security problems of India arise out of four major factors:

(i) India's geography and geo-strategic location;

(ii) the prevalent strategic doctrines;

(iii) the dissonance between India and the countries around her; and

(iv) the inexorable drive of the weapon technologies pursued by the industrialised nations and their selective arms proliferation policies.

All these factors are attributable to the attitudes and strategic doctrines prevalent in most of the world and the values and perceptions of the leading industrialised countries which determine the world strategic environment. It must be appreciated that while India herself does not subscribe to these strategic doctrines, it is not possible for her to ignore the belief systems of other countries — especially the most powerful ones in the world. Inescapably, the Indian defence policy has to be designed to take into account the realities

of the existing world order even while continuing to work towards peace and cooperation, which are imperative if this planet is to survive as a habitable one.

It so happens that India has nuclear weapon powers in its vicinity. China shares our longest border. Very often this factor tends to be over-looked when India's security problems are viewed within the narrow context of the erstwhile British Indian Raj frontiers — what is today termed as the SAARC region.

British India had the best army in Asia. Britain was the super power of the world and the British Navy was the most potent and versatile instrument of coercive diplomacy. At that time the British Raj in India tried to shape the strategic environment of Afghanistan, Xinjiang, Tibet and, in Asia, from Suez to Malacca.

Today, the strategic environment of Asia is totally different. Technology has made the Himalayas a surmountable barrier. China, India, USSR, Indonesia, Bangladesh and Pakistan, all ranking populous countries, form a cluster in Asia. With its Central Command, encompassing part of South Asia, the USA and USSR are acknowledged nuclear weapon powers and Pakistan is believed to have acquired a nuclear weapon capability. Thus, the three largest nuclear powers in the world, USA, USSR and China, interact in our region and this strategic interaction is a vital factor in India's security calculations.

Let me now turn to the strategic doctrines prevalent in the world. The industrialised nations, which are also militarily significant powers, have adopted nuclear deterrence as their basic security doctrine. India does not subscribe to the doctrine of nuclear deterrence. However, India just cannot afford to overlook the fact that three major nuclear powers operate in its neighbourhood and Pakistan is engaged in a nuclear weapons programme. If we are to influence these major powers and attempt to ensure that they do not indulge in nuclear threats then it becomes inescapably necessary for us to reckon with their nuclear deterrence concepts. As our Prime Minister said in the third UN special session on disarmament, "left to ourselves we would not want to touch nuclear weapons. But when tactical considerations, in the passing play of great power rivalries, are allowed to take precedence over the imperatives of nuclear non-proliferation, with what leeway are we left?"

India and other non-aligned countries have repeatedly proposed in the United Nations that the use and threat of use of nuclear weapons be outlawed. Over 136 nations have repeatedly voted for the resolution. India and the Soviet Union have jointly proposed that pending elimination, the use and theat of use of nuclear weapons should be banned. But seventeen militarily significant industrialised nations including three nuclear weapon powers, have consistently opposed these moves. It is proclaimed that nuclear weapons have preserved peace in Europe and therefore nuclear deterrence is salutary. Then, would it not be logical if some more countries get nuclear weapons so that the ambience of deterrence is increased all over the world, contributing to greater peace? This is not what we assert, but is it not the fall out of doctrines propounded by the leaders of certain nuclear weapon powers? Our Prime

Minister has proposed a three phase programme of elimination of nuclear weapons. India, having demonstrated its nuclear capability, has exercised enormous restraint in not producing a nuclear arsenal. This has gone totally unappreciated by nations which assert their belief in the doctrine of nuclear deterrence. India had proposed in 1965, and again in 1988, that there must be a reciprocity of obligations between nuclear weapon powers and the threshold nations. If the former would agree to a phased programme of elimination of nuclear weapons, the latter should not cross the nuclear threshold. Peace and freedom are indivisible so also human rights, war doctrines and weapons philosphy. Is it not ironical that those who would unhesitatingly dismiss the argument of dictators and fundamentalists that democracy and human rights are alright for phlegmatic cold climate people but not for people in the developing world find nothing discriminatory in the argument that certain types of weapons are desirable and necessary for certain nations but not for others?

Unless nuclear proliferation by the industrialised nations is halted and reversed and an effective move is made towards their elimination, it will not be feasible to think of preventing the proliferation of nuclear and other sophisticated weapons. India has repeatedly made her position clear that she is for the elimination of all nuclear weapons from the world. India does not accept the thesis that nuclear deterrence is good for preserving peace in some parts of the world, but that other nations should not have such weapons. Such an argument itself poses security threats to the nations of the world. India, with one sixth of the world's population, and situated as it is within a cluster of some of the most powerful nuclear armed nations, adopts a global approach to the problem of nuclear weapons. Radioactive clouds do not recognise regional borders. The same arguments apply to various kinds of sophisticated non-nuclear weapons as well, such as ballistic missiles.

Another important issue is the dissonance between India and countries around. India has chosen to be secular, democratic, federal and to give linguistic autonomy to its states. India has been able to accommodate Communism within its democratic framework and two of our states are governed by Marxists within the parliamentary order. They get elected in free and fair elections and go out of office if they are voted out, as happened in Tripura last year. While recently Pakistan has moved towards a democratic framework and Sri Lanka has been democratic for the last four decades, our other neighbours still tread a different path. The developing nations who got decolonised after 1945 are in a state of turbulence because of the problems arising out of nation building. This was the case in Europe and North America too for three centuries and finally the international rivalries exploded into two world wars. Denial of democracy and representational government, lack of human rights, discrimination, fundamentalism, uneven development etc., all these factors have caused instabilities in the developing nations while they are attempting to evolve into stable nation-states. India having accepted liberal democratic secular values, has demonstrated a stability and political maturity which has confounded many of its critics.

Many of the security problems in South Asia arise out of this contradiction between liberal democracy on the one hand and militarism, authoritarianism of various types, and religious fundamentalism on the other.

Some of the regimes have sought to rely on external linkages to sustain militarism, authoritarianism and status quo at home. Here again, India's stand is clear. She stands for democracy. It is not quite clear whether the nations which practice democratic values at home do not succumb to the temptation of supporting various kinds of authoritarianism elsewhere in the world, purely for reasons of strategic expendiency.

Our security policy has also to take into account the engine of technology in advanced countries, which produces successive generations of sophisticated weapons. Strategic doctrines of great powers as expouned in the document "Discriminate Deterrence" advocate provision of high technology weapons to allies in the developing world. There has been a long history of introduction of high technology weapons on a discriminatory basis to selected countries to shape the strategic environment in a particular region. India is compelled to take this possibility into account both in regard to its own R&D and its weapon acquisition programmes. One of our grave concerns emanates from the fact that long range Naval missiles are available to various countries in the Indian Ocean area. These missiles, fired from submarines, can pose serious threats to our shore installations such as atomic power plants, chemical plants etc. Consequently, we are compelled to pay increasing attention to anti-submarine warfare.

It is our view that war is no longer a viable instrument of policy, as envisaged in the nineteenth century. Vietnam, Afghanistan, the various anticolonial wars, the recent Iraq-Iran war and the happenings along the West Bank have established that it is costlier to keep an alien people under occupation than to invade a territory. Military power as a component of overall strength is fast losing its earlier pre-eminence, when compared to economic and technological power. The popular media have of late tended to sensationalise India's military role. One has only to look at the voting record at the UN of our neighbours and compare it with ours to get a clear understanding of how much our neighbours feel intimidated by our military power. Our roles in Sri Lanka and Maldives were responses to calls from our neighbours in difficulties. India has no desire to play the role of a regional policeman. The role of our armed forces is strictly defensive and is meant to safeguard the autonomy of our decision making and our development processes, particularly in the political and social development sectors, and to ensure that the turbulence in the countries around us does not spill over into our territory. Militarist regimes often interpret the Indian defence effort on the basis of the historical experience of the major nations of the 18th, 19th and the first half of the 20th century and tend to ascribe various motivations to India on the basis of conventional wisdom. Most of the western strategic literature, with its emphasis on military power, also contributes to this kind of perspective and the elites of the developing nations around India are also influenced by such literature. This is quite understandable since India has a self-contained civilisational and philosophical tradition, distinguished from the great civilisations to its north,

west and east. Gandhiji's Satyagraha and Nehru's non-alignment are products of this tradition. One has to take note of the fact that it is this distinguishing civilisational feature which has enable India to internalise parliamentary democratic values and made the Indian Army an apolitical institution, both achievements unfortunately somewhat rare phenomena in the developing world.

The international situation is undergoing a great flux. The military component of power is becoming increasingly less significant than the economic and technological aspects. The powers of the great nations have tended to diffuse.

An increasing number of middle tier powers are becoming meaningful actors in the international scene. The ideological divide is narrowing. Marxism-Leninism is undergoing a profound transformation. The world is coming to increasingly understand that non-military threats to security — the population explosion, adverse consequences of climatic changes, destruction of rain forests, toxic wastes, the debt problem, sluggish economic growth, religious fundamentalism and ethnic parochialism pose much greater threats to the security of nations than mere military threats. Development, population control, poverty alleviation, attention to ecological problems, cultivation of a secular and tolerant approach and democracy constitute a strategy package which can meet the real threats that humanity faces. Non-alignment, dissolution of military blocs, elimination of nuclear weapons and mutually verifiable control over military R&D and a move towards an integrated world view are the vitally needed steps.

We, in India, are aware that these attitudinal changes are not likely to come about overnight. However, we are optimistic that such attitudinal changes are bound to take place. Slavery, colonialism, denial of civic rights, the stand that women were biologically unfit to take political decisions and govern, the belief that nuclear wars can be fought and won, the assertion that non-alignment is immoral neutrality and such other attitudes have been consigned to the dustbin of history. Authoritarian exploitation, faith in religious fundamentalism and a belief that peace can only be built upon nuclear deterrence will hopefully go the same way.

I belong to a civilization which holds "Ekam Sat. Viprah Bahudha Vadanti" (Truth is one, the learned expound it in many ways). Even while waiting optimistically and patiently for such inevitable attitudinal changes to take place, we have to safeguard our democratic way of life from miscalculated adventurism.

It is our hope that democracy will prevail. Once this comes about and the movement towards arms reduction in Europe blossoms into a worldwide trend towards the elimination and reduction of nuclear weapons and other sophisticated arms, we shall be able to reduce our defence effort and devote scarce resources to accelerate our development.

To bring about this process we need the understanding and support of the democracies of the world. We urge them to pause, reflect and review their past perceptions and world view nurtured during the cold war period and

calculate their cost-effectiveness in retrospect. The Soviet Union has embarked upon "new thinking". The "Gentler and Kindlier World" that President Bush visualises is what the entire international community must strive for.

Let us start a dialogue on how to promote a gentler, kindlier and more democratic world which will move towards a non-violent, nuclear-weapon-free international order and ensure a habitable planet for the generations to come.