

CHAPTER 1

SIGNIFICANCE OF THE INDIAN OCEAN

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Historical Influences on the Region

Throughout history the Indian Ocean has been an important communication route providing access for many nations to influence, trade with or gain control of lands washed by its waters. The lands of the littoral have been a source of raw materials available to the many other nations of the world and although the distances to be covered were formidable the wealth that could be extracted made the journeys worthwhile.

In Roman times spices were the major attraction, and Indian navies plied the region from the 4th century B.C. to the 5th century A.D. The Indonesians traversed the ocean to eastern Africa and Madagascar. By the 7th century A.D. Arab and Persian merchant navies became predominant and they were followed by the Chinese with enormous fleets between the 13th and 15th century A.D. The 15th century A.D. saw the entry of Europeans in the Indian Ocean with the Portugese establishing their control for the next two centuries. By the 18th century the growing naval power of Britain and its leadership in industrialisation enabled her to embark upon acquiring an empire in the region. The European interest in the region was accentuated and made easier by the building of the Suez Canal, a point of entry which has remained strategically and commercially important since its construction. The eventual British hegemony in the Ocean and over some lands of the littoral was not won without rivalry and competition from other European nations, notably the French, the Germans, the Portugese and the Dutch. British naval dominance

lasted to the post World War II years and turned the Indian Ocean into what is often referred to as a "British lake".

European settlement came to Australia across the Indian Ocean but chose the Pacific coast of the continent along which to establish itself initially, the western coast was settled later. It was not until the advent of faster shipping and commercial aviation that the Indian Ocean diminished as a formidable expanse of water against commercial and cultural access to Britain and Europe. Only now Australians are turning their attention to the Indian Ocean and its littoral and are becoming aware of the vast expanse of Indian Ocean shoreline this country has and the significant natural resources that exist not far inland from our sparsely populated coast.

The Geographic and Political Status of the Indian Ocean Region

The Indian Ocean in size is the third largest in the world, behind the Pacific and the Atlantic, some 73.3 million square kilometres. The perimeter of the Ocean is formed by Africa, the Gulf States, South Asia, South East Asia, Australia and Antarctica and includes the following countries:-

Africa

- Egypt
- Ethiopia
- Kenya
- Mozambique
- Somali Democratic Republic
- South Africa
- Sudan
- Tanzania

Australia

Middle East and Gulf States

Arab Republic of Yemen
Bahrain
Iran
Iraq
Kuwait
Oman
People's Democratic Republic of Yemen
Qatar
Saudi Arabia
United Arab Emirates

Island States

Comoro
Democratic Republic of Madagascar
Maldives
Mauritius
Seychelles

South Asia

Bangladesh
India
Pakistan
Sri Lanka

South East Asia

Burma
Indonesia
Malaysia
Singapore
Thailand

There are strategically important islands and territories in the region, namely the French Territory of Afars and Issas, Re-union Island, Socotra Island and the British Indian Ocean Territories including Diego Garcia.

The ethnic composition of the nations of the Indian Ocean region is varied and includes Africans, Arabs, Indians, Chinese, Malays, Indonesians and Europeans. The religious diversity of these peoples is demonstrated by Hinduism, Islam, Buddhism and Christianity being practiced as the predominant faiths.

Over 1,300 million people live in the region, one third of the world's population and just as there is diversity in race and religion the same contrast is readily visible in the economic and political conditions.

Many of the so-called Third World countries are to be found in the Indian Ocean littoral on varying levels of economic development and no country's economy is free from problems. Australia and South Africa possess the most developed economies in the region but are faced with inflation, unemployment and spiralling wage demands. The regional nations of South East Asia have ever increasing populations which coupled with international trade and economic factors serve to inhibit the development of their economies, although some steady progress is discernible, especially in countries where exports of natural resources have been promoted. In South Asia and East Africa, shortfalls in food production, rapidly growing populations as well as world increases in the cost of imports have slowed economic progress.

Conversely the oil producing states of the Gulf are enjoying a new found wealth brought about by the much higher price they now obtain for their oil exports to the world market. As an example Kuwait in 1971-72 earned \$US99.5 million from oil sales and this rose to \$US670.9 million in 1974-75. Saudi Arabia for the same period increased its oil revenues from \$US1,944.9 million to \$US22,573.5 million.

An overall assessment of the region reveals that the wealthy nations are few and the developing and least developed are many. The problems that afflict the poorer nations, such problems as rapid population increases, problems in food production and distribution, a dependency on imports for essentials and a general widening of the gap between the developed and the least developed, harbour a warning and serve as an indicator for the region's potential as a crisis area, not only within its own boundaries, but also in global dimensions.

The countries of the Indian Ocean littoral are not a cohesive group sharing a culture distinctive to the region. There are many States who have adopted for their borders the boundaries set by former colonial rulers or post colonial political events, having little regard for the ethnic groups that may have been divided by the demarcation. For many of the countries of the Indian Ocean littoral independent statehood is a post World War II phenomenon. In some instances the newly acquired independence was asserted in many different ways and there were cases where relations with former colonial rulers suffered, in other cases a policy of non-alignment was espoused and is to this day. The non-aligned nations seek to maintain their sovereignty and at

the same time establish relations with other nations that further their growth and development on a mutual basis without being identified as allied to a particular external political association. Other nations have aligned themselves with external powers for economic benefits and security, but as past events have shown such alliances can be tenuous and without any guarantees of permanency.

Assessments of Individual Littoral and Related States

The statistical information shown in Table I has been compiled to demonstrate the diversities in area, population and gross national product of individual states in the region. Table II provides details of the monetary value of Australian trade with Indian Ocean littoral states for the period 1972-75. Following Tables I and II is an assessment of economic and political factors in littoral states on a country by country basis.

TABLE I
COMPARISONS OF AREA, POPULATION AND GNP OF THE
LITTORAL STATES

Country	Area sq. km. '000	Population '000	GNP US Dollars '000,000	GNP per head US Dollars
South Africa	1221	24936	31403 (1974)	1259
Mozambique	783	8519		
Tanzania	941	14758	1738 (1973)	118
Kenya	583	12912	2288 (1973)	177
Somalia	638	3090		
Ethiopia	1222	27400	2020 (1972)	74
Afars and Issas	22	200		
Yemen PDR	337	1630		
Yemen Arab Rep.	200	6470	780 (1974)	121
Saudi Arabia	2150	6000	24725 (1974)	4121
Oman	311	750		
Qatar	4	180		
United Arab Emirates	83	350		
Bahrain	0.662	260		
Sudan	2504	17320	2143 (1971)	124
Egypt	998	36420	7533 (1972)	207
Kuwait	18	739	3886 (1972)	5259
Iraq	438	10765	3553 (1971)	330
Iran	1648	32500	44000 (1974)	1354
Madagascar	587	7929	1086 (1972)	137
Mauritius	2.040	846	343 (1973)	406
Seychelles	0.280	58		
Maldives	0.298	129		
Comoro Islands	2.236	295		
India	3288	586266	57700 (1973)	98
Pakistan	804	70260	10876 (1974)	155
Sri Lanka	656	13374	3182 (1974)	238
Bangladesh	143	74991	6325 (1974)	84
Malaysia	330	11450	6728 (1973)	588
Singapore	0.588	2250	4136 (1973)	1838
Burma	678	30170		
Thailand	514	41023	9069 (1973)	221
Indonesia	2027	127586	15369 (1973)	121
Australia	7683	13388	72156 (1974)	5390

Sources: Europa Yearbook, Europa Publications, London, 1976.
United Nations Yearbook of Statistics, 1974.
IMF Financial Statistics, September 1976.

TABLE II
AUSTRALIAN TRADE WITH LITTORAL STATES
 \$A'000

COUNTRY	1972/73	1973/74	1974/75
<u>South Africa</u>			
Exports to	95,102	89,665	98,975
Imports from	20,621	36,629	43,930
<u>Mozambique</u>			
Exports to	5,553	1,236	2,162
Imports from	1,483	2,273	2,452
<u>Kenya</u>			
Exports to	3,326	2,769	9,920
Imports from	1,866	2,045	1,913
<u>Tanzania</u>			
Exports to	3,717	6,192	10,454
Imports from	3,895	8,113	3,789
<u>Somalia</u>			
Exports to	30	90	1,324
Imports from	-	2	4
<u>Ethiopia</u>			
Exports to	440	585	1,440
Imports from	109	502	1,110
<u>Saudi Arabia</u>			
Exports to	13,697	24,315	27,863
Imports from	20,206	53,169	171,136
<u>Yemen, Arab Republic</u>			
Exports to	3,108	5,382	6,095
Imports from	-	-	-

COUNTRY	1972/73	1973/74	1974/75
<u>Yemen (PDRY)</u>			
Exports to	204	1,039	1,315
Imports from	1,768	13,204	26,092
<u>Oman</u>			
Exports to	2,865	5,560	8,810
Imports from	-	-	-
<u>Qatar</u>			
Exports to	2,171	3,669	4,436
Imports from	5,575	31,798	6,767
<u>United Arab Emirates</u>			
Exports to	11,461	11,408	21,804
Imports from	4,323	404	9,177
<u>Bahrain</u>			
Exports to	13,541	14,897	24,706
Imports from	30,119	52,552	97,290
<u>Sudan</u>			
Exports to	953	307	1,022
Imports from	426	378	1,622
<u>Egypt</u>			
Exports to	40,889	76,401	134,753
Imports from	167	4,554	345
<u>Kuwait</u>			
Exports to	15,760	18,496	30,830
Imports from	30,230	98,937	118,618
<u>Iraq</u>			
Exports to	1,882	14,952	44,899
Imports from	20,410	38,000	92,519

COUNTRY	1972/73	1973/74	1974/75
<u>Iran</u>			
Exports to	25,791	38,944	116,528
Imports from	18,488	35,914	76,796
<u>Pakistan</u>			
Exports to	7,122	7,969	86,496
Imports from	4,576	12,282	5,386
<u>India</u>			
Exports to	37,396	99,300	83,361
Imports from	31,678	52,876	57,790
<u>Bangladesh</u>			
Exports to	11,800	33,700	42,400
Imports from	6,200	9,700	7,600
<u>Sri Lanka</u>			
Exports to	10,950	15,390	45,148
Imports from	9,620	9,448	12,834
<u>Burma</u>			
Exports to	2,146	2,262	9,203
Imports from	219	230	220
<u>Thailand</u>			
Exports to	35,900	50,600	49,400
Imports from	7,100	9,900	16,200
<u>Malaysia</u>			
Exports to	97,216	117,637	194,448
Imports from	38,445	69,565	58,798
<u>Singapore</u>			
Exports to	131,800	147,700	208,400
Imports from	40,100	82,100	126,900

COUNTRY	1972/73	1973/74	1974/75
<u>Indonesia</u>			
Exports to	74,623	106,467	175,257
Imports from	13,597	16,550	18,692
<u>Madagascar</u>			
Exports to	254	71	219
Imports from	268	376	533
<u>Mauritius</u>			
Exports to	5,839	6,635	10,041*
Imports from	12	174	538
			*Preliminary
<u>Seychelles</u>			
Exports to	-	-	4,300
Imports from	-	-	9
<u>Re-union Island (Fr.)</u>			
Exports to	149	302	215
Imports from	23	26	20

Source : Department of Overseas Trade,
Canberra, June 1976.

South Africa

South Africa has a developed economy based on its mineral wealth and agricultural capacity. The downturn in the world's economies has been felt in South Africa. The main exports are diamonds, gold, sugar, cereals, iron, copper and wool. The principal imports are motor vehicles and electrical and non-electrical machinery. There have been pressures from time to time to extend trade sanctions against South Africa, provoked by international feeling against apartheid but the sanctions have not been endorsed by the United Nations; South Africa continues to trade with the United Kingdom, the Federal Republic of Germany, the U.S.A. and Japan as its principal trading partners.

Australia's share of the South African market is relatively small. The Australian Government has discontinued official promotion of trade and investment in South Africa, restricting the activities of the Trade Commissioner Office to the provision of basic marketing information and assistance to Australian exporters. Australia has diplomatic relations with South Africa.

South Africa occupies a position of great strategic significance by its location near the Cape of Good Hope. It has made its naval base at Simonstown available to all friendly powers but as yet none have availed themselves of the offer. The decision by the United States to develop Diego Garcia is welcomed by South Africa and its attitude to the superpowers' naval presence in the Indian Ocean is anti-Soviet. South Africa has diplomatic relations with the United States but not with the Soviet Union.

Recent events in South Africa suggest that an internal crisis is developing. There is also a possibility of external involvement should an internal crisis develop but it seems likely that it will be indirect. The lack of support internationally for South Africa's apartheid policies deprives it of active support from the Western nations. The importance of its mineral wealth and its strategic location cannot be ignored and would concern the West if these resources were no longer available to them. It is to be hoped that a solution to South Africa's internal problems can be achieved by moderation being exercised from within and by constructive external influences.

Mozambique

Mozambique's workforce is employed mainly in agriculture and fishing and it is currently relying on agricultural products for its exports. Manufacturing industries are at an early stage of development. The European Economic Community is Mozambique's principal trading area both as a source of imports and as an export market. Portugal, Japan, the U.S.A. and South Africa are the other major traders. Australia's imports from and exports to Mozambique are almost equal in monetary value and consist of cashew nuts and tobacco as our imports, tallow, wheat, motor vehicles and parts as our exports. We have no diplomatic or trade representatives in Mozambique, but Australia has made an offer of food aid to Mozambique.

Mozambique became independent in June 1975 after almost five hundred years of Portugese rule. The National Front for the Liberation of Mozambique (FRELIMO) became the ruling party and

although in control of the government it does not have the support of the majority of the population. FRELIMO assumed the government following its role as the prime mover in the fight for independence. In government it promotes socialistic principles with the creation of communes and the nationalisation of private property. Deficiencies in the bureaucracy and economic disruption have caused some disaffection in the more developed south, but the socialistic measures have won some support in the north. The current border clashes with Rhodesia point to a possible period of unrest and instability for Mozambique.

Mozambique received assistance from the Soviet Union during its struggle for independence. Mozambique has been critical of the United States' policies on Indian Ocean matters and has diplomatic relations with the Soviet Union but not with the United States.

Tanzania

Tanzania has predominantly an agricultural economy and is a major importer of petroleum and manufactured goods. Consequently world inflation has caused a balance of payments problem. Agricultural productivity has not increased markedly so the Government is directing new investment into the more productive sectors such as mining and manufacturing. Tanzania's main exports are agricultural products while imports include crude oil, machinery, grains, medical and pharmaceutical products. China, the U.K., Japan and West Germany are the main suppliers to the Tanzanian market. Tanzanian exports are to the U.K., the U.S.A., Hong Kong, India and West Germany.

Australia regards Tanzania as an important market for wheat, construction equipment and machinery and imports sisal, coffee and cotton in return. Australia has diplomatic relations with Tanzania but no resident trade representation. Trade matters are handled through the Trade Commission in Kenya.

Tanzania as a non-aligned nation has criticised the military presence of the superpowers in the Indian Ocean and sees this presence as an attempt to establish a military hegemony in the Ocean. In particular Tanzania has been critical of the extension of U.S. facilities on the island of Diego Garcia. Tanzania has diplomatic relations with the United States and the Soviet Union.

Kenya

Although most of Kenya's people live on the land at subsistence level and agriculture provides more than half of its exports, Kenya has been able to develop industrially to the extent of being one of the most developed African states. Again world inflation has slowed this development and a drought with a drop in agricultural output has led to a downturn in economic growth. Kenya imports crude petroleum for refining, machinery, transport equipment, fertilisers and paper products in the main, while exports include coffee, tea, meat, distillate fuels and cement. The main sources of Kenya's imports are the U.K., Japan, Iran, West Germany and the exports are to the U.K., West Germany, the Netherlands and Zambia.

Australia's exports to Kenya are mainly tallow, petroleum and petroleum products. The balance of trade is markedly in Australia's favour, our imports are principally pyrethrum extracts, sisal and coffee. Australia has diplomatic and trade relations with Kenya. Kenya's relations with Uganda have been strained over Uganda's claim to areas of western Kenya, harassment of Kenyan nationals in Uganda and Kenya's ability to interdict supplies such as oil to Uganda. The raid on Entebbe airport caused Uganda to accuse Kenya of complicity. The two countries are now seeking a settlement of these differences and a return to normal relations by December 1976. Kenya's relations with Somalia are not cordial and it is concerned over the development of military facilities in Somalia by the Soviet Union.

Non-alignment is the principle of Kenya's foreign policy and although a recipient of substantial economic aid from the U.S.A. it voices general concern over the superpower build up in the Indian Ocean. Privately Kenyans recognise the need for a United States naval presence in the Indian Ocean to match that of the Soviet Union. Both the United States and the Soviet Union have diplomatic relations with Kenya.

Somali Democratic Republic

The economy of Somalia is dependent on livestock herding which provides the livelihood for 60% of the country's population. Agriculture is confined to the small areas that receive sufficient rainfall and an important element of the Government's agricultural policy is to develop state farms. Somalia's principal exports are livestock, bananas, hides and skins and imports include

cereals, machinery, transport equipment, chemicals and textiles. Japan, the EEC, Italy, China and the U.S.S.R. are Somalia's principal suppliers of imports, its principal markets are Saudi Arabia, Italy, the EEC and Kuwait.

Australia exports flour, butter and machinery to Somalia and imports fish and fish products and the balance of trade is heavily in Australia's favour. There is no bilateral trade agreement with Somalia, it is not a member of G.A.T.T. and Australia is not actively promoting trade other than trade publicity in magazines widely circulated throughout Africa. Australia has no diplomatic relations with Somalia.

Politically Somalia is prominent in the Indian Ocean region by virtue of its alignment with the Soviet Union. Somalia has been a recipient of Soviet aid since 1961. Somalia preferred a Soviet offer of military aid to a joint U.S., West German and Italian limited offer. Soviet military aid far exceeds Somalia's needs. In 1974 the Soviet Union and Somalia signed a Treaty of Friendship and Co-operation which makes provision for "training of the Somalian military personnel and in the mastering of weapons and equipment delivered to the Somalian Democratic Republic for the purposes of enhancing its defence potential". Article 9 of the Treaty reads:

"Should situations arise posing a threat to peace or violating peace, the High Contracting Parties shall without delay come into contact and consult each other with the aim of removing the emergent threat or restoring peace".

The Committee received in evidence the contention that Saudi Arabia has offered to replace Soviet aid with Saudi Arabian to achieve a Soviet withdrawal from Somalia. This offer was not pursued, the reasons given were that the Soviet presence acts as insurance while the fate of the Territory of Afars and Issas is undecided and while the French navy remains active off the Somali coast. Another reason suggested was that the United States intervened and wanted Soviet facilities in Berbera retained as justification for the expansion of Diego Garcia. There have been no official Somalian pronouncements over Diego Garcia, it can be assumed that Somalia opposes the facility. Somalia has diplomatic relations with the United States and the Soviet Union.

Ethiopia

Ethiopia is dependent almost entirely on agriculture and livestock raising and the Government is placing emphasis on developing this sector. As a recipient of large inflows of aid, in particular from the U.S.A. and the high world price of coffee, Ethiopia has some foreign reserves. However expenditure on armaments makes heavy inroads into these reserves. Ethiopia has arranged to purchase defence equipment for all segments of its armed forces from the United States over a five year period.

Ethiopia's main export markets are the U.S.A., West Germany, Italy and Japan and the commodities are coffee, pulses, hides and skins. Italy, Japan, West Germany, the U.S.A. and other EEC countries are the principal suppliers of Ethiopia's imports of motor vehicles, industrial machinery, aircraft and petroleum products.

Australian trade with Ethiopia is generally balanced and Australia exports mainly wheat and coal and imports coffee, fruit, vegetables and textiles. Australia has diplomatic relations with Ethiopia, the Ambassador in Kenya is accredited on a non-resident basis. Australia has a trade correspondent in Ethiopia responsible to the Trade Commissioner in Kenya.

After the overthrow of Emperor Haile Selassie Ethiopia has been ruled by a group of military generals. The crippling drought during the last few years has imposed additional strains on the economy and even with the influx of relief aid Ethiopia is faced with long term hardship. Internal political uncertainty is compounded by strained relations with Somalia especially over the French Territory of Afars and Issas which provides Ethiopia's only railway link to the sea at the port of Djibouti. Ethiopia acknowledges that there is a need for the United States to match the Soviet Union's naval presence in the Indian Ocean. The United States and the Soviet Union have diplomatic relations with Ethiopia.

French Territory of Afars And Issas

The Territory is small, and its economy is bolstered by the presence of French military forces and the tax concessions available to overseas companies registered there. The indigenous population has few other sources of income, a large proportion is made up of nomadic camel and goat herders.

The capital, Djibouti, a deep water port situated in the Gulf of Aden has gained strategic importance with the

reopening of the Suez Canal. The Territory is peopled by the Afars, ethnically linked to Ethiopia and the Issas who are Somalis. There are fears of a major civil war erupting between the Afars and the Issas, the former supported by Ethiopia, the latter by Somalia. The Territory is vital to Ethiopia as it provides the only rail link from Djibouti to Addis Ababa, the route for most of Ethiopia's trade. The approaching independence of the Territory is of concern to France and there is strong pressure from elements within the Territory for France to leave behind a military force to ensure that hostilities do not erupt. Independence is planned for late 1976 or early 1977.

People's Democratic Republic of Yemen (PDRY)

Most of the country is arid with few agriculturally productive areas. It is an importer of crude oil, foodstuffs and clothing from Japan, the U.S.A., the U.K. and the Gulf States. Exports include cotton, hides, dried fish, rice, coffee and refined petroleum, to the U.K., Japan, Thailand, Canada and Australia.

The balance of trade between the PDRY and Australia is heavily in its favour with Australian exports of wheat, butter and cheese valued at over \$A1 million, and we import petroleum products in excess of \$A26 million. Australia has no diplomatic relations with or trade representation in the PDRY.

The PDRY maintained close ties with the Soviet Union but has now expelled its Soviet military advisers and has improved its relations with its neighbours, notably Saudi Arabia.

The PDRY has diplomatic relations with the Soviet Union but not with the United States. In 1975 the Soviet Ambassador was expelled after criticising the proposed visit of the World Bank President. Another Soviet Ambassador was expelled in March 1976 for Yemeni dissatisfaction with the activities of the Soviet Cultural Centre, and a replacement has not been appointed. The PDRY has called for the demilitarization of the Indian Ocean. The reopening of the Suez Canal has increased the importance of its main port, Aden, and consequently its importance in Indian Ocean affairs. The facilities of the port of Aden are available to both naval and merchant shipping. Soviet vessels also make use of the open sea anchorages off the strategically located island of Socotra.

Arab Republic of Yemen

The Republic is densely populated and about one million Yemenis live abroad providing a significant contribution of foreign exchange, especially from Saudi Arabia. The Arab Republic of Yemen maintains close relations with Saudi Arabia, and the economy generally depends on foreign aid particularly from Arab countries.

The country is fertile with abundant rainfall in the central highlands, consequently agriculture is the main activity and over 80% of the workforce is engaged in agricultural employment. The principal exports include cotton, coffee, skins and salt and the major export markets are the U.S.A., Japan and Singapore. Imports consist of mainly foodstuffs supplied from the U.S.A., Japan and France.

Australia does not import goods from the Republic but exports wheat and dairy products. Australia has no diplomatic relations with or trade representation in the Republic.

Diplomatic relations are maintained with the U.S.A. and the Soviet Union. The Republic opposes superpower intervention in the Indian Ocean and seeks to promote solidarity in the region to resist external pressures. It is however, tolerant of the U.S. naval presence.

Saudi Arabia

Saudi Arabia is a monarchy. Petroleum is the basis of the country's economy. Pastoral and agricultural activities provide employment for the bulk of the workforce which has approximately a 13% component of immigrant workers. As the world's largest oil exporter and owner of the largest oil reserves it is estimated that its annual income is in excess of \$A20,000 million. This vast income has enabled the Government to embark on plans to diversify the economy away from its total dependence on oil in the course of a five year plan 1975-80.

Oil is virtually the only export from Saudi Arabia and its global significance was dramatically demonstrated during the 1973 oil crisis. Fortunately Saudi Arabia has acted as a moderating influence within the Organisation of Petroleum Exporting Countries. Saudi Arabia is an importer of foodstuffs, machinery, building materials, textiles and clothing.

Australia has diplomatic and trade representation in Saudi Arabia and exports wheat, dairy products and meat, while importing crude oil from Saudi Arabia. Although no bilateral trade agreement exists between Australia and Saudi Arabia a strong promotional campaign is aimed at that market and the prospects for a bilateral agreement are being investigated.

The port of Jeddah is on the Red Sea and the stability of the Indian Ocean region is of concern to the Saudi Arabian government. The United States has close commercial ties with Saudi Arabia but no formal treaty commitments. The United States has provided a substantial number of military advisers for whom the Saudi Arabian Government pays. Saudi Arabia has diplomatic relations with the United States but not with the Soviet Union. Saudi Arabia opposes superpower intervention in the Indian Ocean and desires to promote solidarity among the Gulf States to resist external pressures. It is however, tolerant of the United States naval presence in the Indian Ocean.

Oman

A small Sultanate, it has modest oil supplies which provide 90% of the government's revenue. All of Oman's expenditure is for domestic purposes with plans to build up industry and agriculture.

Australia exports a variety of products to Oman including mutton, wheat, dairy products, motor vehicles and machinery. There are no imports from Oman. Australia has no

diplomatic or trade representation in Oman.

Dhofar, the southern region of Oman, has been the scene of an on-going insurgency involving China, then Cubans on the side of the insurgents. Varying reports indicate that with the help of British officers and a sizeable Iranian expeditionary force the insurgency has been quelled, but counter claims from the rebels deny this. Oman has diplomatic relations with the United States but not with the Soviet Union. Although opposed to superpower intervention in the Indian Ocean, Oman is tolerant of the United States naval presence.

Qatar

Qatar is a small independent sheikdom relying on oil as the main revenue earner. With this income the Government is broadening the country's industrial base. Developments such as an iron and steel project, a petrochemical plant, and a liquid gas project are planned. Imports are foodstuffs, industrial machinery and motor vehicles, the principal suppliers being Japan, the U.K., and the U.S.A. Qatar's main exports are oil and fertilisers mainly to the U.K., France, Italy and the United Arab Emirates.

Australia's main exports to Qatar are electrical machinery and foodstuffs and our imports are petroleum and petroleum products, with the balance of trade in Qatar's favour. Australia has no diplomatic relations with or trade representation in Qatar.

Qatar has diplomatic relations with the United States but not with the Soviet Union. Qatar like a number of other Gulf states is opposed to superpower intervention in the Indian Ocean but is tolerant of the United States naval presence.

The United Arab Emirates

Seven member states form the union, namely Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain, Ras al Khaimah and Fujairah.

The economy of the United Arab Emirates is based on oil and the resulting revenue has turned them into one of the chief financial centres in the area. Abu Dhabi and Dubai are the chief oil producers and they have undertaken large development projects including liquified natural gas plants, water desalination, electric power plants, cement factories, an aluminium smelter and networks of roads and bridges. Generally government sponsored development activity is not widespread throughout the union, most of it is undertaken by the individual Emirates. The main export markets for oil are Japan, West Germany, the U.K. and the U.S.A. Principal imports are machinery, clothing, household goods and foodstuffs from Japan, the U.S.A. and West Germany.

Australia's exports are in the main foodstuffs, iron and steel and machinery, while petroleum is our import from the Emirates. Australia supported the admission of the United Arab Emirates into the United Nations in 1971 and since then diplomatic and trade relations have increased significantly. In March 1976

the Australian Ambassador in Jeddah was accredited as non-resident Ambassador to the United Arab Emirates.

The United Arab Emirates have diplomatic relations with the United States but not with the Soviet Union. The Emirates support the need for solidarity among the Gulf states to resist external pressures but are tolerant of the United States naval presence in the Indian Ocean.

Bahrain

Bahrain is a small independent nation and the Government is active in the country's private enterprise system, developing the economy through the extension of basic infrastructure and participating in large projects. Oil is the main item of export, primarily to Japan, and textiles, non-electric machinery, cereals and non-ferrous metals are also exported to Saudi Arabia and the United Arab Emirates. The development of the economy is directed at making Bahrain a regional and financial centre.

Australia has developed extensive trade relations with Bahrain, supplying 10% of its imports, mainly inorganic chemicals, wheat and dairy products. Australian imports from Bahrain consist of petroleum products and the balance of trade is heavily in Bahrain's favour. Bahrain has consular and trade relations with Australia, and is interested in Australia as a source for technical training, improved livestock and agricultural management. Australia has trade and consular representation in Bahrain and it is also an important stopover on the Qantas route to Europe.

Both the United States and the Soviet Union have diplomatic relations with Bahrain and it provides facilities for the stationing of the United States' MIDEASTFOR naval units under an agreement signed in 1971.

Sudan

Sudan by virtue of its coastline on the Red Sea is involved with Indian Ocean issues, more so since the reopening of the Suez Canal. Port Sudan provides its opening to the sea.

The superpowers have no formal treaty arrangements with Sudan but aid is received from China and the Western countries. The 1970's have been eventful for Sudan in foreign affairs, in 1971 the Soviet Embassy and Soviet military advisers were expelled having been blamed for being behind an attempted left wing coup. In 1973 relations with the U.S.A. deteriorated when the US Ambassador and other diplomats were murdered by Black September guerillas, but relations appear to be improving now.

Australia's relations with Sudan are cordial based on trade and aid. The Australian Ambassador in Cairo is also accredited to Khartoum on a non-resident basis. Australia has provided food aid to Sudan to overcome domestic shortages. Sudan has diplomatic relations with both superpowers and has not made any strong pronouncements on the superpowers' naval presence in the Indian Ocean.

Egypt

Egypt's role in Indian Ocean affairs is one of major strategic significance because of its control of the Suez Canal. The 1970's have been turbulent years for Egypt, it signed in 1971 a treaty of friendship and co-operation with the Soviet Union; in 1973 the Yom Kippur war with Israel further aggravated stability in the region; in 1975 the Suez Canal was reopened and in 1976 Egypt unilaterally abrogated the 1971 treaty with the Soviet Union. Egypt has now approached Arabian states in an attempt to secure aid to overcome its economic problems and has signed a military protocol with China for military aid, primarily the supply of spare parts. The reopening of the Suez Canal has not seen sea traffic return in the same volume as prior to its closure. When the Canal reopened in June 1975 a daily average of 11 ships transitted the Canal compared to 68 before its closure. A target of 60 ships per day had been set for December 1975 but by May 1976 the daily average was 54 ships. The Canal is still vulnerable in an unstable area and the size of many of the ships now in use is too great to negotiate the Canal, consequently much of the oil tanker traffic continues to use the Cape route from the Arabian oil countries to Europe. Currently only about 25% of the world's tankers are small enough to use the Canal. When the Suez Pipeline becomes operational (from the town of Suez to the Mediterranean) it will reduce the traffic having to use the Cape of Good Hope.

Australian trade with Egypt is very much in Australia's favour, Egypt buying about one third of its imports of wheat from

Australia. In return Egypt exports cotton and rice to Australia. Since 1970 the Australian Wheat Board has sold 7 million tonnes of wheat to Egypt under an agreement negotiated that year. A new contract signed in October 1975 for the calendar year 1976-78 provides for the terms and conditions of sale to be negotiated annually and reviewed quarterly. Australia has diplomatic relations with, and trade representation in Egypt.

Egypt has diplomatic relations with the United States and the Soviet Union and supports the Zone of Peace proposal for the Indian Ocean.

Kuwait

Kuwait is an Emirate with an economy almost totally dependent on oil as the source of revenue, and being oil rich, with a small population the country has one of the highest per capita incomes in the world. The Kuwait Government is embarking on projects to diversify the economy and reduce the dependence on oil. Incentives such as soft loans are offered to establish new industries. Industry is offered low rentals and cheap electricity, gas, water and port facilities. The principal trading partners are Japan, the U.S.A., West Germany and the U.K. Kuwait has diplomatic relations with both superpowers.

Australia has growing trade relations with Kuwait, the main exports being foodstuffs and some manufactured goods. Our imports are petroleum and petroleum products. There is no bilateral trade agreement but both are members of G.A.T.T. and Australia has in recent years been active in holding trade

displays and in sending trade missions to Kuwait. Australia has diplomatic relations with Kuwait with the Australian Ambassador in Saudi Arabia being accredited to Kuwait on a non-resident basis. Australia's trade interests are also represented from the Mission in Saudi Arabia.

Iraq

Iraq is the fourth largest oil producing nation, after Saudi Arabia, Iran and Kuwait. Oil is the major revenue earner for Iraq but agriculture employs over 50% of the workforce. As with other oil producing countries in the region the Government has undertaken development projects to diversify and reduce dependence on oil. The socially oriented policies include rapid growth, full employment, equality in education and income distribution. Other programs include resources control, land reform and rural development. Iraq's principal suppliers of imports are the Soviet Union, Britain, France and Japan while exports go mainly to Middle East states and the Soviet Union. Australia has diplomatic relations with Iraq and the Australian Embassy was opened in Baghdad in September 1976. Australia also has trade relations with Iraq.

Trade with Australia is weighted in Iraq's favour, our principal exports being foodstuffs, agricultural machinery, motor vehicles and parts. Again petroleum and petroleum products are our imports from Iraq. There is strong potential for developing stronger commercial ties with Iraq as well as using Australian expertise in irrigation and livestock farming development projects. Iraq has made considerable use of selective

oil price cuts while Saudi Arabia and Kuwait have made only one cut in the price of heavy crude oil in November 1975.

Iraq's armed forces are large and Soviet equipped but are not projected into the Indian Ocean. Iraq is concerned with the security of the Gulf area and is working on overcoming traditional rivalries and antagonisms with its neighbours but relations with Saudi Arabia remain distant. Iraq's 1972 Treaty of Friendship and Co-operation with the Soviet Union does not contain the same Article 9 provision concerning action to remove military threats as do the Soviet Union's treaties with India and Somalia. Iraq has diplomatic relations with the Soviet Union and the Belgian Embassy looks after United States interests. Iraq supports the Soviet Union's naval presence in the Indian Ocean.

Iran

Iran, is the second largest oil producing nation in the Gulf, after Saudi Arabia. Oil is the main source of income for Iran and the nation's development projects have been financed from oil earnings. In recent years the economy underwent rapid growth and after experiencing a slowdown and a deficit brought about by reduced oil demand, increased import costs and inflation, has now overcome that deficit in its balance of payments. Iran has argued against price cuts for oil but in March and June 1976 slight cuts were made to overcome reduced world demand. As a result oil revenues recovered and the substantial 1975 budget deficit had by July 1976 been overcome to show a current account surplus of \$US2,600 million. Apart from oil Iran's traditional exports are carpets, cotton and

dried fruits. West Germany, the Soviet Union, the U.S.A., Japan and the U.K. are Iran's major markets. In 1975 Iran's imports almost doubled, the main items being machinery, iron and steel, chemicals, pharmaceuticals and motor vehicles from West Germany, Japan, the U.S.A., the U.K., the Soviet Union and France.

Iranian and Australian trade relations are well established with good prospects for growth. Australia has a bilateral trade agreement with Iran, signed during the Shah's visit in 1974 and maintained through a system of committees aimed at promoting trade between the countries. Our major items of import are petroleum, textiles, ores and chromium concentrates from Iran. In return Australia exports wheat, live sheep, mutton, wool and chemicals to Iran, with the balance of trade being in Australia's favour. A joint venture company AUSTIRAN has been established to export Australian agricultural products and Iran has also expressed an interest in obtaining bauxite/alumina and uranium for the expanding Iranian industrial sector. Australia also has diplomatic relations with Iran.

Iran has developed into a regional power and there are strong indicators that this development is continuing. The armed forces have been strengthened by massive purchases of arms from the U.S.A. and Western Europe as well as limited purchases from the Soviet Union. It is important for Iran to have stability in the Gulf, the region and the Indian Ocean and the Shah has stated that if this cannot be achieved with the co-operation of other countries in the region, it will have to act unilaterally.

In 1964 Iran with Turkey and Pakistan formed the Regional Co-operation for Development plan and so far progress has been made in agreement on transport, trade, industry, social and cultural matters. Iran has declared that the R.C.D. is open to all countries of the region but Pakistan is apprehensive about the possibility of India joining.

In May 1976 the Shah of Iran while in Saudi Arabia gave an interview stating his nation's policies on the superpower presence, the security of the region, Iran's role in the region and the Zone of Peace in the following manner:-

"We share the view that no outside power should be present in this area in the Persian Gulf. It should be outside the rivalry of the other countries and for that the littoral states of the Persian Gulf must co-operate for the safety, the security, the stability of the region. We are on our part ready to co-operate as closely as the other countries of this region want from the closest alliance to the loosest form of collaboration. But I cannot hide from you that we cannot take any chances. The freedom of navigation in that stretch of water and free passage in the Straits of Hormuz for us is vital. It is really our jugular vein
So Iran has decided to be so strong as to be able to secure the stability of the region, if necessary, alone. But we would prefer obviously to co-operate with all the other countries of the region even on an equal footing.

Beyond the Persian Gulf there is the Sea of Oman, then the Arabian Sea, then the Indian Ocean. All these seas are the continuation of each other. Our policy is to have the Indian

Ocean as the zone of peace. We wish that the two big powers will not show their presence with their warships and their military and physical presence. But again this will be only possible when all the countries of the Indian Ocean region will either become strong enough to assure the security of the entire Indian Ocean region by themselves. So a future understanding between all the riparian states of the Indian Ocean or at least all the countries who have a shore on the Indian Ocean will have to be reached. But two years ago or one and a half years ago, I proposed even a common market or commonwealth of the Indian Ocean countries in the sphere of economy. We have started; we have close relations with Pakistan and India; we have started also with Indonesia, we are ready to do it with all countries of the Indian Ocean region including and maybe now especially, the African countries having shores on the Indian Ocean. This is a long-term policy obviously. In the meantime, we are always, then, following the policy of advocating for the Indian Ocean to become a zone of peace and a de-nuclearized zone".

The importance to Iran of the Straits of Hormuz was demonstrated in June 1970 when Iran claimed the islands of Abu Musa and the Greater and Lesser Tumbs, (which belonged respectively to Sharjah and Ras al Khaimah (both of which became members of the U.A.E.)). In December 1971, the Sheikh of Sharjah agreed to share the island of Abu Musa with Iran, and the Greater and Lesser Tumbs were taken by force. Iran has been developing Abu Musa and the Tumbs as military bases to ensure, it claims, freedom of passage through the Straits of Hormuz.

Iran has diplomatic relations with the United States and the Soviet Union. In October 1976 Iran is reported as having signed a nuclear co-operation agreement with France involving France in building two nuclear reactors near Abadan at a cost of \$A900 million.

Democratic Republic of Madagascar

Madagascar is an independent large island state with an economy that is heavily dependent on agriculture with 80% of the workforce engaged in rural work. Madagascar hopes to be self-sufficient in food production within the next few years. The Government's development plans are directed at improving agriculture through rural reforms based on traditional communes and co-operatives.

World inflation and oil price increases have had a detrimental effect on the country's balance of payments but it has been successful in securing aid from France, the EEC, the World Bank and the United Nations.

The principal exports from Madagascar are coffee, meats, fish, sugar, sisal and petroleum products. Crude petroleum, iron products, transport equipment, rice and wheat products are the main imports. France, the U.S.A., West Germany, Japan and Italy are Madagascar's principal trading partners.

Australia has limited trade relations with Madagascar importing vanilla, gelatine, dried beans and cloves, while exporting agricultural machinery, non-electrical machinery and

foodstuffs to Madagascar. Australia has diplomatic relations with Madagascar with the Australian Ambassador in Tanzania being accredited to Madagascar on a non-resident basis.

Politically the island has had a turbulent period in the 1970's. A revolution in 1972 began with civil unrest and a military junta, Marxist in ideology but neither pro-Soviet nor pro-Chinese is in power. In 1972 the revolutionary regime expelled France from its base at Diego Suarez and broke off diplomatic relations with South Africa and Israel. Madagascar has diplomatic relations with both the United States and the Soviet Union but shows no intention to make its facilities available to either. Madagascar has been generally critical of United States activities in the Indian Ocean particularly the expansion of its facilities on Diego Garcia.

Mauritius

An island state, it became independent from Britain in 1968 and has remained in the Commonwealth. The economy is tied to sugar production which accounts for 89% of exports and provides employment for 28% of the labour force. Improved world sugar prices have helped the economy but in return rising world prices for imports have also given the island an inflation problem. Unemployment is high, 7.5% of the labour force. In an attempt to overcome these problems the Government has established the Mauritian Export Processing Zone to encourage overseas investment in Mauritius. The main exports are sugar, clothing, electrical components for office machines, processed diamonds, synthetic stones and fish products. Imports are cereals,

petroleum products, textile yarns, machinery, iron and steel. The principal markets for exports are Canada, the U.K., the U.S.A. and Iran. Imports come principally from Britain, South Africa, China, Iran and Australia.

Australian trade with Mauritius is expanding with several Australian firms establishing themselves there. Mauritius exports tuna and pet foods to Australia and imports foodstuffs and a variety of manufactured goods, with the balance of trade heavily in Australia's favour. Australia has diplomatic and trade relations with Mauritius. The Australian Ambassador in Tanzania is also accredited to Mauritius and an Australian Trade correspondent and Marketing Officer handle trade affairs.

Mauritius is very strategically based in the Indian Ocean and has a non-aligned foreign policy. The British military presence in Mauritius ended in March 1976 when the Vacoas telecommunications facility was vacated by the British. Mauritius has entered into agreements with the Soviet Union to provide airline facilities for transfers of fishing fleet crews and port facilities for the Soviet fishing fleet and will accept port visits from both superpowers' naval vessels. Mauritius has diplomatic relations with the United States and the Soviet Union but as a non-aligned nation does not favour superpower rivalry in the region.

The Seychelles

The Seychelles, a group of 92 tropical islands off the east coast of Africa, became independent in June 1976 having

formerly been a British territory. The islands depend on agriculture for basic food requirements but also import foodstuffs. Coconuts are the main export and it is planned to develop tourism as an important industry. Britain is to give financial aid and technical assistance to develop the economy in the first two years of independence. Exports from the Seychelles go primarily to Pakistan, the U.S.A. and France. Imports of foodstuffs, mineral fuels and manufactured goods come in the main from the U.K., Kenya, South Africa and Singapore.

Australian trade with the Seychelles is primarily the export of foodstuffs, in particular rice, flour and dairy products, imports consist of spices and tortoise shells. Australia has no diplomatic relations or trade representation in the Seychelles.

The Seychelles Government has stated that it is not prepared to grant military base rights on the islands to any foreign nation. The Seychelles has diplomatic relations with the United States and the Soviet Union and while it wishes the Soviet naval presence to be matched by the United States, it hopes that no further rivalry will result.

The Republic of the Maldives

The Maldives, a group of 2,000 islands and atolls south of India is an independent republic. The islands' location is close to one of the major shipping lanes in the northern half of the Indian Ocean. The Maldives have no formal commitments

with any of the superpowers but if the former British staging post at Gan is offered to other nations it will be of particular interest not only to the superpowers but also to regional powers because of its strategic location.

Comoro Islands

Formerly a French territory, have recently become independent, with the exception of the island of Mayotte which chose, after a plebiscite to remain under French rule.

The Comoros are among the least developed nations and have no significant ties with the superpowers. The islands are more linked with African and Arab states and profess to be non-aligned.

India

India is the most populous and militarily strong littoral state in the Indian Ocean region but with an economy that is subject to shortages in foreign exchange and substantial internal pressure on resources.

After a series of adverse years for agricultural production the past year has seen record harvests in food grain production and general price stability in the country. Industry has also shown significant production increases in such items as coal, steel and cement and India now ranks 12th amongst the world's industrialised nations.

India has an overseas trade deficit, needing to import crude petroleum, wheat, machinery and fertilizers, mainly from the U.S.A., Iran, Japan, the Soviet Union and the U.K. Exports are jute and cotton manufactures, tea and leather. India's major markets are Japan, the U.S.A., the Soviet Union and the U.K. The continuing balance of payments problem makes India heavily dependent on overseas borrowing. In 1975/76 India has been forced to borrow for the third successive year for balance of payments financing. The borrowing included \$US375.6 million in oil credits from OPEC and \$US241.2 million from the International Monetary Fund Oil Facility. Consequently the debt service ratio which had decreased from 29.5% in 1970-71 to 17.8% in 1975-76 is expected to rise to 18.8% in 1976-77. India's total indebtedness as at March 1975 was \$US11,770 million.

India and Australia have significant trade relations with Australia exporting wheat, wool and minerals to India and importing woven cotton fabrics, hessians, tea, machinery and cashew nuts. A Trade Agreement between Australia and India was signed in August 1976. The Agreement provides for a most-favoured-nation treatment in goods exchanged and the encouragement of industrial co-operation between Indian and Australian enterprises. In 1974-75 Australian exports to India amounted to \$A83.3 million and imports from India to \$A57.7 million.

Australia has diplomatic relations with India as well as far reaching relations covering aid, cultural, scientific and trade agreements.

The 1970's have been troubled years politically for India. In 1971 the Indo-Pakistan war erupted, the outcome leading to the creation of Bangladesh and a strained relationship which has improved recently. In May 1976 India and Pakistan signed an agreement to restore diplomatic relations, severed in 1971. The agreement also made progress in restoring air and rail links, extension of trade and detainee repatriation. The Kashmir issue, however remains unresolved.

India and the Soviet Union signed a Treaty of Peace, Friendship and Co-operation in 1971, effective for twenty years, in which Article (IX) provides that in the event of a threat to either by a third country, they 'shall immediately enter into mutual consultations in order to remove such threat and to take appropriate effective measures to ensure peace and security of their countries'.

Relations between India and China have been strained since their war in 1962 but in April 1976 it was announced that full diplomatic relations would be resumed. China has been critical of India over Kashmir and Sikkim and has maintained close relations with Pakistan, supporting that country in the 1971 Indo-Pakistan war.

Internally India is currently in the midst of a political crisis, the National Congress has passed a resolution recommending that the emergency be continued to counter the danger of external and internal subversion. Parliament in January 1976 voted to extend the life of the lower house for a further year, thereby deferring elections at least until

February 1977. Legislative proposals have been put into effect for the centralisation of executive power, limits on the jurisdiction of the High Courts, removal of Constitutional rights and controls on political activity.

India has diplomatic relations with both superpowers but opposes their involvement in the Indian Ocean and supports the Zone of Peace proposal. India has been critical of the United States facilities on Diego Garcia but has made no mention of Soviet activities in the region.

Pakistan

Pakistan, is basically an agricultural economy with the main crops being wheat, cotton and sugar cane. Manufacturing industries are mainly cotton, textiles, cement and fertilisers. Pakistan is heavily reliant on external aid. The aid funds are to assist with the development program and substantial amounts are provided by the oil producing Middle East states. Textiles are the major exports along with leather and furs and the principal markets are Hong Kong, Indonesia, the U.K. and Japan. Cereals, petroleum, machinery, transport equipment, iron and steel are the main imports with the U.S.A., Japan, West Germany, the U.K. and Saudi Arabia the principal suppliers.

Pakistan is also a member of the Regional Co-operation for Development scheme which after a meeting in April 1976 reviewed its aims and decided to establish a free trade area and an investment and development bank under a treaty redefining the alliance and placing it on a legal basis, to be known as the "Treaty of Izmir".

Australia's exports to Pakistan consist mainly of wheat, \$A71.7 million out of a total exports sales of \$A86.5 million in 1974-75. Some iron and steel and wool are also exported and it is hoped that our exports can be diversified by contracts to supply the industrial development projects being undertaken with aid funds. Imports from Pakistan amounted to \$A5.4 million, being in the main woven cotton fabrics, clothing, wool and animal hair. Australia has diplomatic and trade relations with Pakistan. A slight element of strain came into our relations with Pakistan when we were quick to recognize Bangladesh but relations have since improved.

Pakistan's relations with India are improving and Pakistan has recently established diplomatic relations with Bangladesh. Both the United States and the Soviet Union have diplomatic relations with Pakistan. Pakistan was originally a supporter of the Zone of Peace but now links the realisation of the proposal with the achievement of a nuclear non-proliferation agreement in the region. Pakistan has traditionally enjoyed good relations with the United States and while relations with the Soviet Union have occasionally been strained they are generally correct.

Sri Lanka

Sri Lanka the second largest island nation in the Indian Ocean is predominantly an agricultural economy but not self sufficient in food production. Its export earnings come from tea, rubber and copra but are not adequate to balance the increased cost of world imports, leaving Sri Lanka with acute foreign exchange shortages. Major export markets are the U.K.,

China and Pakistan. The main imports are foodstuffs, mineral and chemical products from the U.S.A., Japan, France and China.

Australian exports to Sri Lanka are flour, wheat and dried milk while tea is our main import. The balance of trade is markedly in our favour although our export volumes are uncertain in the face of subsidised EEC competition. Australia has diplomatic relations with Sri Lanka and trade affairs are handled by a Marketing Officer at the Australian High Commission.

Internal politics are unsettled, the 1971 insurgency has left the United Front Government with continuing fears of a recurrence. A new constitution was adopted in 1972 and so far the coalition has resisted opposition attempts for an election due after a five year term of office. In 1975 the key industries of tea, rubber and coconut growing came under government control. The economy continues to be the biggest problem with limited growth and high unemployment.

Politically Sri Lanka is one of the non-aligned group of nations and the initiator of the Indian Ocean Zone of Peace proposal at the 1964 Cairo Non-Aligned States conference and subsequently at the U.N. It has no defence ties or treaties with the superpowers and maintains correct relations with both. Sri Lanka is critical of both superpowers' naval presence in the Indian Ocean.

Bangladesh

A newly founded nation, Bangladesh came into existence

after the Indo-Pakistan war of 1971. Fundamentally an agricultural economy, Bangladesh produces jute, rice, sugar, wheat and tea with the large scale industry being government controlled jute and cotton mills. Economic progress has been severely hindered by natural disasters and political turmoil and therefore it depends very much on foreign aid and long-term loans. A lack of basic raw materials and managerial expertise are limiting development and even the good harvests in 1976 are no guarantee for prolonged improvement.

Australian trade with Bangladesh consists of exports of wheat, iron and steel and imports of jute from Bangladesh. Australia has good relations with Bangladesh based on the political support for Bangladesh in 1971 and Australian aid. Bangladesh is the third highest recipient of our aid after Papua and New Guinea and Indonesia. Australia maintains diplomatic relations with Bangladesh and trade matters are handled by a Marketing Officer at the Embassy.

Initially Bangladesh had close relations with the Soviet Union because of the latter's support during the 1971 war and assistance after the war on such undertakings as the clearing of Chittagong harbour. Bangladesh also reacted against the Chinese and United States support for Pakistan in the 1971 war. Relations between the United States and Bangladesh improved in the latter period of Sheikh Mujibur Rahman's Government and those with the Soviet Union cooled. The overthrow of that Government in August 1975 and subsequent coups in November of that year have clouded these alignments. China has established a diplomatic mission in Dacca. The Soviet Union in turn has

been critical of recent events in Bangladesh. Relations with India have deteriorated with Bangladesh accusing India of involvement in border incidents and no settlement over the sharing of the Ganges River waters has been reached. Bangladesh has asked for the dispute to be placed on the agenda of the UN General Assembly and Australia is supporting the request.

Bangladesh has diplomatic relations with both superpowers and as a supporter of the Zone of Peace proposal it has been balanced in its criticism of the superpowers' naval presence in the Indian Ocean.

Malaysia

Malaysia's economy has been developing soundly and the ability to market its exports successfully has enabled it to avoid the serious effects of the world wide recession. The major exports from Malaysia are rubber, timber, tin and palm oil, the principal markets being Singapore, Japan and the U.S.A. The main imports are transport equipment, foodstuffs and mineral fuels; the principal suppliers are Japan, the U.S.A., the U.K. and Singapore. In 1975 Malaysia had a trade surplus and a recent increase in export commodity prices indicates improved trade prospects.

Malaysia is one of Australia's major regional trading partners based on a Trade Agreement exchanging preferential treatment on certain goods, mutual protection against dumped or subsidised competition for Malaysian tin and rubber and Australian wheat. Australian exports to Malaysia are in the

main sugar, wheat, manufactures, foodstuffs and minerals. In return Malaysia exports timber, crude rubber, textiles and fish preparations to Australia. Australia has diplomatic relations with, and trade representation in Malaysia.

Malaysia is one of the five member nations of the Association of South East Asian Nations which has developed into an effective regional forum with which Australia has close relations. Malaysia is very conscious of regional security and in 1976 established diplomatic relations with Vietnam and Cambodia. Malaysia as a member of ASEAN subscribes to the Zone of Peace, Freedom and Neutrality proposal advocated by the association in 1971 for South East Asia.

There is increasing concern and publicity in Malaysia over the continuing problems created by communist insurgents. Although the Communist Party of Malaysia is factionally divided into three its guerilla and terrorist activities are able to undermine public confidence and engage Government forces and resources. The activities of the C.P.M. are not considered a credible military threat to the Government. Malaysia is a member of the non-aligned movement. Malaysia has diplomatic relations with both superpowers and is critical of their naval presence in the Indian Ocean. Especially the United States facilities on Diego Garcia have been singled out for criticism.

Singapore

The island of Singapore has developed in a relatively short period into one of the most prosperous and industrialised

countries in Asia. It has become a manufacturing, assembling, servicing and distribution centre, in addition it is the entrepot port for neighbouring countries. Singapore has built up new industries such as shipbuilding and repair, petroleum refining, electrical machinery and electrical components. Over 50% of Singapore's domestic output is for export and consequently the economy is subject to world trading fluctuations which in recent years have caused a drop in export sales especially to Japan and the U.S.A., Singapore's main markets. Tourism is also an important revenue earner for Singapore.

Australia's trade with Singapore is considerable with machinery, wheat, sugar, iron and steel as our main exports and petroleum, machinery and clothing as our principal imports. Australia maintains diplomatic and trade relations with Singapore.

Singapore is located near one of the main thoroughfares between the Indian and Pacific Oceans, the Malacca Straits. Its location makes Singapore a very convenient port of call for ships of both superpowers in transit from one ocean to the other. Singapore along with Malaysia and Indonesia is concerned with the heavy use made of the narrow Malacca Straits by the constant line of large oil tankers from the Middle East to Japan, in particular over the damage that could be caused to their shorelines if oil spillage occurred.

Singapore is a member of the non-aligned movement. Singapore has diplomatic relations with the United States and the Soviet Union and supports the ASEAN concept of a Zone of Peace, Freedom and Neutrality.

Burma

Burma has abundant agricultural and forestry potential, however internal problems such as bad seasons, insurgency, a breakdown of the economic infrastructure and inefficient acquisition of rice crops, have limited development. Rice is the most important crop but declining exports and inefficient management of crops may turn Burma from a rice exporting country into a rice importer in the near future. A continuing balance of payments problems has restricted imports to all but essential items and consumer goods shortages have caused rationing and black marketeering. Manufacturing industry has been nationalised and is concentrated on processing primary products. Exports are rice, timber and cereals and have remained static over recent years. The main markets are Japan, Sri Lanka, Singapore and the U.K. Imports are motor vehicles, textiles and machinery, principally from Japan, the U.K. and West Germany.

Trade with Australia is very limited and in Australia's favour. Exports to Burma consist of coal and tallow, imports from Burma are almost exclusively teak timber. Australia has diplomatic relations with Burma and a Marketing Officer at the Embassy handles trade matters.

The military government of Burma is strictly committed to a policy of neutrality to preserve its independence, sovereignty and territorial integrity. Burma is pursuing relations with Laos because of its common border and with Vietnam because it regards Vietnam as a growing influence in the region. Burmese-Thai relations are not cordial and Burma's

relations with the other members of ASEAN are only developing slowly. Relations with China have improved but the continued support by China for the Burmese Communist Party places their relationship on a tentative basis. Burma has diplomatic relations with both superpowers but no close ties with either.

Japan and West Germany provide significant economic assistance to Burma. Australia provides aid to Burma under the Colombo Plan in the form of equipment and places in Australian academic institutions to Burmese students.

Thailand

The economy of Thailand is generally regarded as resilient but as with other economies it is subject to the influence of world inflation and the rising cost of oil and other raw materials. Thailand has taken measures to attract foreign capital and investment to stimulate the economy. Exports from Thailand are cereals, rubber and tin while imports are petroleum, machinery, basic metals and chemicals. Thailand's major trading partners are Japan, the U.S.A., West Germany and the Netherlands.

Australia's trade with Thailand is balanced in our favour but negotiations for a bilateral trade agreement are at a stalemate. Our principal exports to Thailand include machinery, foodstuffs, minerals, chemicals and motor vehicles. In return we import timber, textiles, gemstones and clothing. Australia has diplomatic relations with Thailand.

Thailand has in the 1970's revised its foreign policy in an effort to adjust to the changed circumstances in South East Asia. It is not a member of the non-aligned group of nations but its actions in recent years have in effect established a posture of non-alignment. United States forces have been withdrawn from Thailand, relations with China and Cambodia have been formalised and Thailand acknowledges that the Soviet Union's participation in South East Asian affairs is required for peace and order in the region. Thailand is also working to establish correct relations with Laos and Vietnam, but differences remain. Thailand has diplomatic relations with the United States and the Soviet Union and agrees in principle with the Zone of Peace proposal.

Domestic issues in Thailand in recent years have had an unsettling effect. The Government has not been stable, being harassed by dissident worker and student groups, and rivalries among the multiplicity of parties in the National Assembly. A series of elections have resulted in coalitions forming a government. In October 1976 Thailand returned to military rule, three years of parliamentary government having failed to solve internal strife. The military rulers are avowed anti-communists and this now casts doubts on future relations with Thailand's neighbours. The activities of communist insurgents are spreading disquiet and unrest in the country areas and involving government forces on an increasing scale. Insurgency activities may well be stepped up in response to Thailand's new military government.

Indonesia

Indonesia is a nation rich in natural resources but beset by economic and social problems which have to date restrained its full development potential. Indonesia is an exporter of oil, timber, rubber, tin, palm oil and coffee but a downturn in demand for its exports and repayment of Pertamina's (the state owned oil corporation) short term overseas loans has severely drained foreign exchange reserves. The main markets for Indonesia's exports are Japan, the U.S.A. and Singapore. Major imports include raw materials, capital goods and consumer goods, from Japan, the U.S.A., West Germany and Singapore.

Indonesia ranks twelfth in Australia's major markets with wheat our main export. Motor vehicles, machinery, iron and steel and foodstuffs are other major items. Our main imports from Indonesia are tea, coffee, rubber and timber. Since the discovery of oil in Australia our imports of Indonesian oil have been minor but if Australian production remains static oil could again become an important import. Australia has full diplomatic and trade relations with Indonesia.

In comparison to a number of the littoral states of the Indian Ocean, Indonesia in the 1970's has enjoyed relatively stable external relations. Relations with the superpowers are established and Indonesia is a recipient of aid from both. Publicly Indonesia supports the Zone of Peace proposal. Indonesia has not moved to resume diplomatic relations with China, frozen since 1967. Again like Singapore, Indonesia is vitally interested

in the outcome of the Law of the Sea Conference in particular the rules governing passage through straits and archipelagos.

Australian-Indonesian relations are sound, although there have been differences of attitude, for example East Timor. There is a fundamental understanding for co-operation and good relations in the long term.