CHAPTER V
RESPONSE FROM THE SOUTHWEST PACIFIC

Regions acquire strategic significance not because of their inherent characteristics but by being caught up in great power rivalry. The end of the second world war brought about the end of the British domination but heralded the American domination. Often, it is argued that the Southwest Pacific during the pre-war and post-war period has remained an area of relative insignificance in world politics.¹ This is not true. The area was always important politically, as well as, strategically but it was not called so by western critics. It was always believed and truly so, that after all it was within the western system of alliance. Peace and security of the Southwest Pacific were always subjected to threats from the Germans, French, British, Dutch and the Americans during different periods of history. It was also subjected to the same territorial process as Europe, and found itself apportioned to new metropolitan alliances.

During the 1970s and in fact during the 1980s, it is argued that the region has assumed significance. Two reasons have been given for it:

- the Soviet Union, China and Japan have joined the major powers which already have interests in the region;

- the internal response from the Southwest Pacific as a result of most countries gaining independence is threatening to tear down the old structures.²

The purpose here is not to play down the importance of the above two developments. Rather, it is to point out that the region was as significant at any point of time in history as it is now. Unfortunately, the international politics after the Second World War took a turn that polarised the world into the Soviet and American blocs. In the case of the Southwest Pacific, because of the absence of the Soviet power the USA perceived no threat to the region's peace and security. But whether the same perception was shared by the Southwest Pacific nations, is doubtful.


² Gregory E Fry, "Regionalism and International Politics of the South Pacific". Pacific Affairs, Fall 1981, pp.2-3.
During their colonial domination, they may not have effectively expressed what they felt over nuclear tests by France, and America, and exploitation of their fisheries resources, but after having achieved political independence, they have overwhelmingly given expression to their pent up feelings. In fact, they have never felt secure, and their economic and territorial security was always in danger. True, from the western standpoint, there was nothing to bother about during the 1950s and 1960s as (a) the region was firmly under the control of the United States and its allies and there was absence of ‘threat from Soviet Bloc’ (b) countries in the region were politically not independent.

**Domestic Political Compulsions**

However, when the island nations achieved independence in the 1960s and 1970s, their primary concern lay with achieving economic security and nation building. They took their independence seriously and were concerned to establish that it meant something. For the first time the islanders had the right to deal directly with third powers, without consulting or receiving permission from their masters. Otherwise western colonising states had grown accustomed to taking their domination for granted, and to imposing their will on the region without bothering much about the wishes of local population.

The independence brought to fore the whole generation of leaders with no personal memories of the Second World War and the close co-operation between the island people and the west during that period. They had an exposure

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3 ibid., p.159.

4 Richard Herr taking cue from the events of Grenada in 1983 has tried to argue that these island microstates would not be able to cope with the demands of sovereignty and may ultimately become a source of tension in the region, “Microstates Sovereignty in the South Pacific: Is Small Practical?”, *Contemporary Southeast Asia* vol.10, no.2, September 1988, p.1.

to anti-imperialist and non-aligned third world ideologies. As an American diplomat has observed, because of this generational change, "the comfortable past, 'taken for granted' biases of most Pacific island states towards the interests of the ANZUS partners is becoming history".6

Now that they have gone through the 1980s and are well into the 1990s, the question uppermost in the minds of these new leaders is, given the strategic importance of the Pacific any threat to the domestic political stability in any one state in the region does pose a threat, directly or indirectly, to the stability of other states in the region.7 Therefore, one of the important tasks of these states is to resolve outstanding internal political issues which have potential for outside interference. These domestic political issues - in the case of Fiji and Papua New Guinea - are constitutional and secessionist movements.8 It should be worthwhile to briefly discuss them here as they have rocked the region during the later half of 1980s and have the potential for foreign powers' interference, thus threatening the peace and security of the whole of the Southwest Pacific.

FIJI - Constitutional Problems

The current military backed government in Fiji presents a serious threat to the region's peace and security for a number of reasons. Firstly, it has set a dangerous precedent that may be followed in other states. Secondly, Fiji has recently entered into relations with a number of newly found allies (among them France, China, Israel, Malaysia, Indonesia) which appeared to show a special interest in Fiji under military rule. Although the Fijian authorities deny that the French aid is tied to the condition of adopting a soft line on New Caledonia, it should be noted that Gaston Flosse made two visits to Fiji following the first and second


7 Hegarty and Polomka, n.5, p.30.

military coups, and made the first offer of aid to the military government installed after the second coup. The first bilateral aid agreement between Fiji and France is worth $18 million.\(^9\) The French government has also offered to finance a naval base in Fiji.\(^{10}\) China has signed a F $10m interest free loan apparently for the construction of a convention centre in Suva and to help improve rural water supplies.\(^{11}\) All of these forms of assistance were negotiated at a time when Fiji’s traditional aid-givers had cut off relations with Fiji and withdrawn aid in response to the military coups. These new relationships may have wider implications for the region. Thirdly, continuing instability in Fiji is likely and could provide external powers which have interests of their own, with a ready pretext for intervening militarily to ‘stabilise’ a situation perceived as more broadly threatening.\(^{12}\) There is finally a remote but not altogether inconceivable possibility that Fijian troops, which form the largest of the Pacific island defence forces after Papua New Guinea and which - due to peace keeping commitments in the middle-east and to military assistance by the US, are equipped with and trained to use modern sophisticated arms - could become proxy for external forces and intervene to ‘stabilise’ a neighbouring island state.\(^{13}\)


\(^{10}\) *Fiji Times*, 12 June 1989.

\(^{11}\) *Radio Australia*, 19-20 April 1990.

\(^{12}\) Hegarty and Polomka, n.5. A US Naval ship, USS Robert E Peary, visited Suva harbour in late July - the first US ship to do so since the coups. Its presence was protested by the Fiji Anti-Nuclear Group (FANG), but was granted access. FBIS-EAS, 28 June 1989.

\(^{13}\) See Table 2 & 3 in Appendix IV for defence forces in Fiji and Papua New Guinea Alves Dora, in a paper prepared for the Heritage Foundation in 1985, made a revealing comment when discussing President Reagan’s ‘appreciation’ of Fiji’s ‘responsible role in world affairs’ - viz. its contributions ‘to UN peacekeeping forces in Sinai(sic) and Afghanistan and support for US actions in Grenada and permitting the visits of US navy ships’ - which Alves says, was rewarded with the US’s commitment of $400,000 military aid in 1985 for training and purchasing M-16 Az’s for the Fiji Army. She commented “While Fiji remains non-aligned (sic), well-equipped Fijian forces would contribute greatly to regional stability”. See *Backgrounder* (Heritage Foundation, Washington) No.34, 28 August 1985, p.2.
The roots of Fiji's contemporary problems - which recently culminated in two military coups in 1987\textsuperscript{14} and thereafter, in adoption of racially discriminatory constitution on 25 July 1990 - lie in the constitutional matters which remained unresolved at the time of independence in 1970.\textsuperscript{15} As generally happens with incipient states emerging from colonial tutelage to have their constitution made by their departing colonial masters, Fiji's 1970 constitution was drafted thousands of miles away in London.\textsuperscript{16} This was, of course, with the concurrence of local leaders. It probably holds the record as the only Constitution of the British Commonwealth that was passed in the shortest time. The norm in the Commonwealth is for the constitution-making process to extend over many years. British, however, were in no mood to do that, as they were no longer interested in the complexities of Fijian social structure.\textsuperscript{17} Conditioned by the attitudes deriving from the concept of nationalism (that was derived from the disruption of the pre international order of medieval Christendom, and seen as a projection on a collective plain of the Renaissance spirit of adventurous and self-assertive individualism) British lacked the insight born of the living experience of belonging to a fragmented order of society. Such insight is, however, necessary for the understanding of psychological factors that condition the limited loyalties (primordial or otherwise) of small societies such as Fiji.\textsuperscript{18}

Fiji's social order was highly decentralised at the point of European contact. The existence of many dialects as also many cultures attests to the strong regional affiliations that persist even today.\textsuperscript{19} The dawn of the colonial

\textsuperscript{14} In this connection see Owen Wilkes, "Possible Foreign involvement in the Fiji Military coup", Wellington Pacific Report, (Wellington, September 1989).

\textsuperscript{15} See Discussion paper on Fiji Draft Constitution, Fiji Independent News Service, (Sydney, 1989), pp.4-6.


\textsuperscript{17} W.P. Morrell, "Britain in Pacific Islands", (Oxford, 1960), Ch.II.

\textsuperscript{18} J.M. Ward, British Policy in the South Pacific (1786-1893) (Sydney, 1948), Ch.II.

era induced or obliged sections of these inward looking Fijian communities to turn their focus to the outside world. With the incidentally improved systems of communication it became possible for some people who had never been in contact with one another to venture beyond the confines of their immediate environments and to begin to mingle with others. The integration started to take place. For this, readjustment in the society was absolutely necessary, which obviously needed time. Time was needed not only for culturally divergent Fijians to understand one another but also to comprehend the ways of colonial masters, just as colonial masters needed time to understand the fragmented order of Fijian society. Unfortunately, no time was given for any of these things to happen. And as happened in the countries with background of British colonialism, a unitary Constitution was formulated, which was, of course, easier to understand and easier to operate than its federal counterpart. In the Fijian case the unitary form has miserably failed during the seventeen year rule of Mara's Alliance. It is here that the root cause of problems of present day social order of Fiji lies. One of the important tasks of constitution is to provide a stable and just social order founded on mutual respect and freedom of citizens. Unfortunately, the Fiji Constitution 1990 rather than being an improvement over 1970 Constitution is a further deterioration. Its provisions are highly racist, contrary to all norms of a democratic society.

There are four major factors which have proved to be the bane of Fijian Constitution right since 1970 and upto 1990. Among them the first is military. The central problem of the 1970 and 1990 Constitutions is the importance given to the role of military. The 1990 Constitution calls Fijian military by the name of 'Republic of Fijian Military Forces' (RFMF) and has given it immunity from "criminal and civil responsibilities" in respect of the commission of any offence.  

20 ibid.

21 Australia and New Zealand, however, in a significant reversal of their earlier policy supported the new constitution in the recently held 21st South Pacific Forum meeting in Port Villa. *Time* (New York), 13 August 1990, p.42.

The essence of military problem is that army is substantially a Fijian army in a society where two groups - Fiji-Indians and Fijians - form the majority.\textsuperscript{23} Besides fighting in the Pacific campaign and the Second World War Malayan campaign and now as the UN Peace Keeping in Lebanon and Sinai, the army has intervened at the request of the colonial government in times of constitutional crisis in the past, notably in the disturbances after Suva riots of December 1959 and in the cane fields of western Viti Levu frequently.\textsuperscript{24} In 1987, army made a \textit{coup d'état} against the Constitutionally elected government. Thus the role of the army in Fiji has been either to support the allied strategy or to meddle in internal politics of the country, whereas it should be limited to repel the external aggression.

The second factor is the exaggerated role given to the Chiefs as happens in a feudal social structure. In the new constitution the chiefs have been given an extra-ordinary role. The Senate will consist of 24 Fijians who shall be appointed by the President on the advice of the Bose Levu Vakaturaga (the Great Council of Chiefs); one Rotuman appointed by the President; and 9 members appointed also by the President. It is also provided in the new Constitution that the President and the Prime Minister have to be from indigenous Fijian community.\textsuperscript{25} So one can see that the Upper House will have members virtually nominated by the Chiefs.

Third factor is government’s control over economic resources of Fiji. To what extent should government control these resources is debatable. Agricultural land is the main economic resource of Fiji. Most of this land is under the control of the government. The Constitution of 1970 and 1990 have protected this land by providing that Fijian land and their customary rights over that can not be altered by

\textsuperscript{23} According to population estimates released by the Bureau of Statistics, Suva, in November 1989 the indigenous Fijians now outnumber Fiji’s Indian population by about 14500. The country’s total population was estimated at just over 727,000, \textit{Focus on Fiji}, December 1989, a \textit{Newsletter} of Ministry of Information, Fiji, p.3.


\textsuperscript{25} Fiji Constitution 1990, p.74.
any of the two Houses of Parliament. By a legislation enacted in 1966 the Indians were given land on a 30 years' lease which expires in 1996. These leases may not be renewed further as has been evident from the tenor of speeches made by Rabuka and the nature of the new constitution. Thus, the Fijian Indian farmers are left with no other alternative but to work as daily wage labourers.

The fourth factor, that is, the predominantly communal franchise had been the major drawback of the 1970 Constitution. But at least it provided 10 national seats each to Fijian-Indians and Fijians on cross voting basis out of 52 seat House of Representatives. The rest 12 each to respective two communities were on communal basis besides 3 to general communal and 5 to general national roll. This seat arrangement did provide to some extent the opportunity for multi-racial harmony. But the 1990 constitution has totally done away with national roll on cross voting basis. In its place it has introduced now a fully communal system of voting whereby the Fijian Indians would vote for 27 seats and the Fijians for 37 entrenching the racial divide constitutionally on a permanent basis.

The Fijians regard the present franchise essentially a device to preserve their title to their lands, which they have been induced to fear might be swept away under the rule of a Fiji Indian party. But here it should be reminded that at the time of adoption of 1970 Constitution it was conceded that additional weightage should be allocated to the Fijian interests. The device through which this was to be ensured was a second chamber, i.e. a Senate in the national parliament. The power of the Senate resided not only in the representation of superior numbers of Fijians, but in the amending procedure which entrenched Fijian interest by requiring consent of the Fiji Great Council of Chiefs on matters related

26 ibid., p.74.

27 Transcript of Mahendra Chaudhari’s interview on TV New Zealand, 15 July 1990.

28 Fiji Constitution, n.25.

29 The Fijians were reluctant for independence because the Indians outnumbered the Fijians. Part of the reason why they acceded to independence was a provision in the Fiji Constitution that Fijian Affairs Ordinance could not be amended without a three-fourth vote of the Senate. Fiji Constitution, 1970, section 68.
to Fijian land and custom. Unfortunately, the question of communal franchise is related to the question of land rights. There was no question of Fijian land rights being taken over by the Fijian-Indian given the powerful role of the Senate in the Constitution.

Papua New Guinea - Secessionist Tendencies

In the case of Papua New Guinea, two most likely causes of domestic instability are the Irian Jaya dispute between Papua New Guinea and Indonesia and secessionist threats by regions or provinces within the country. The Irian Jaya border has long presented a problem to Papua New Guinea’s leaders because it has caused tension since the Dutch territory was incorporated into Indonesia in 1969. The Melanesian opposition to Indonesian rule, the Organisasi Papua Merdeka (OPM), makes free use of Papua New Guinea as a sanctuary, and border incidents involving Indonesian troop incursions across the frontier have occurred frequently (at least on three separate occasions in 1988). There is considerable sympathy for the Melanesian cause in Papua New Guinea and considerable Indonesian resentment of that sympathy. While the OPM is neither a coherent nor a formidable force, it could, conceivably have the effect of producing a serious crisis between Indonesia and Papua New Guinea. Under agreement with Indonesia, those who cross the border from Irian Jaya (or west Papua) into Papua New Guinea must be turned over to Indonesian authorities and not harboured by local communities. The fact that kinship and traditional exchange relationships have long existed between Melanesians on either side of the border and that these

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30 Since the 22 member Senate included 8 Senators who are appointed on the advise of the Great Council of Chiefs, it was impossible to amend the Fijian Affairs Ordinance without the consent of the majority Senators. To make doubly sure the Constitution also provided that a “Bill for an Act of Parliament ... (The Fijian Affairs Ordinance) a provision that effects Fijian lands, customs or customary rights” must have the concurrence of at least 6 of these nominees of the Great Council. Fiji Constitution, 1970, Sections 45 and 68.

31 FEER, 30 November 1989, p.32.

32 FEER, 17 August 1989, p.32.
continue to defy recognition of the border, makes border crossing a frequent occurrence. The presence of the UN High Commission for Refugees in the country does alleviate the situation considerably. But should the war in Irian Jaya escalate and public sympathy for the 'rebels' translate into covert or informal assistance, there could well be serious repercussions for the security of the region.

Apart from Irian Jaya problem, Papua New Guinea is beset by a bewildering array of problems. In fourteen years of independence, there have been sixteen no-confidence motions against the government. Although Parliament is elected for a five year term, no government since independence has been able to survive for a full term. There is little ideological motivation in Papua New Guinea party politics. Like a number of Pacific island states, politics in Papua New Guinea is characterised by strong individuals with personal followings, rapidly shifting coalitions. Namaliu's Pangu Pati, with around 32 seats in parliament, is in coalition with five other minor parties. There have been too many and too frequent defections and additions, as well as, cabinet reshuffles to this coalition.

Today Papua New Guinea is faced with the prospects of secession. Long standing internal problems have been brought to a head by the violent and secessionist landowners' insurrection on the island of Bougainville. The Bougainville crisis has been brewing since the mining contract was first negotiated before independence in the early 1970s with one of the major problems being the disparity between the 58 per cent of profit going to the national government through dividends and taxation, compared with 5 per cent to the provincial government and one per cent to the landowners. The mine, one of the largest in the world, which at its peak was providing 17 per cent of the national budget and 45 per cent of Papua New Guinea's export earnings, was closed down by the militants in May 1989. 19 per cent owned by the government and 54 per cent by the Australian mining company CRA, Bougainville Copper Ltd (BCL) produces 2.5 per cent of the world's copper. Its permanent closure will have a

33 Terence Wesley-Smith, "Lost Melanesian Brothers: The Irian Jaya Problem and its Implications for Papua New Guinea", Pacific Studies, vol.10, no.3, July 1987, p.44. See also FEER, 30 November 1989, p.34.
37 ibid.
particular impact on Japanese and South Korean smelters which have long term contracts for its copper concentrate. Despite the new agreement announced by the Prime Minister Rabbie Namaliu, there are no signs that the mine would reopen. This will have serious implications for Papua New Guinea's economy. Under the new agreement, worked out in a series of forums involving the company, the national and provincial governments and the landowners, the national government will take only 10 per cent equity, while retaining its legal rights to 30 per cent in any future projects. The land owners and provincial government can acquire up to 10 per cent of equity from the government's share - in this case that would amount to all of it - and the national government will provide funding for 4.9 per cent of this, to be repaid from profits. Distribution of royalties will be 28% to the landowners and 72% to the provincial government. In addition the national government will pay a yearly grant to the provincial government of 1% of royalties out of taxation in a move to try to shift more benefit to the area in which the mine is situated. The company will provide all infrastructure and facilities for the workers, and give local people first priority in employment and contracts for supplies and services.  

It should be clear now that the issues mentioned above in the case of Fiji and Papua New Guinea have the potential to attract foreign powers' involvement. Resolution of these issues is the foremost task of these countries after independence. In recent years, both Fiji and Papua New Guinea have openly expressed their intent to widen the range of their diplomatic contacts with the outside world.  

38 FEER, n.35, pp.22-23.  

39 In October 1989, Foreign Minister, Michael Somare said that Papua New Guinea wanted to establish diplomatic relations with 100 nations by 1990. He said that the government was giving consideration to establishing ties with countries from Eastern Europe, Middle East, Africa, Latin America and the Asia-Pacific region. The 100 nation goal, however, was not reached but diplomatic relations with Cuba were established in October 1989. A parliamentary delegation also visited Beijing for the first time in March 1989. Following the 1988 invitation of the Prime Minister Namalieu, negotiations are going on for Soviet mission in Port Morseby. It has been stressed that the main interest of the Soviet Union was in developing trade contact. FBIS - EAS, 31 March, 21 August, 17 October and 25 October, 1989.
Australia and New Zealand - Social and Economic Basis of Security Policy

There are as such no domestic political issues which would put pressure on the government of these two countries to chart their own course of action. Nevertheless, international and regional political and economic environment has been forcing them to revise their priorities. Nixon Doctrine of 1969 cautioned that all the US allies should prepare themselves for any level of contingency and they should not take US intervention for granted. The ANZUS treaty also does not guarantee any military support. All it speaks of is to consult only in the event of a threat or attack.

However, it is economics more than politics that has antagonised Australia and New Zealand because their market orientation is closely linked with countries in the European Community and the United States. Any significant development in the latter will have its impact on the former. Therefore, it would not be wrong to conclude that the unification of the European market in 1992 will have its serious repercussions on the economies of the Southwest Pacific. So far the Common Agricultural Policy of the EEC has had the effect of depressing international prices which also led the United States to embark on its own subsidisation program. In fact, the US decided to retaliate against the EEC’s subsidies and trade barriers by adopting similar tactics. One of the most important one has been US farm policy which since the 1970s has led to over-production of domestic output while insulating domestic markets from international competitive forces. The Export Enhancement Policy of 1985 authorizes the US government to target foreign markets where the EEC subsidised farm products hold a significant market share. In these markets US grain exporters are encouraged to offer discounts on grain purchases. Unfortunately, many of these


target markets also happen to be major purchasers of grain from non-EEC sources specially Australia. For example, a sale of 5 lakhs metric tons of US soft red winter wheat in September 1985 to Egypt at US $20 per ton below world market prices caused great consternation in Australia, as Egypt was Australia's biggest wheat customer in 1984-85. Australia has, however, again started sale of wheat to Egypt in 1990 at close to the world market price of around US$ 140 a tonne. In October 1985 a similar US contract with North Yemen forced the Australian Wheat Board to cut $12 a ton from its own contract for 110000 tons. In the summer of 1986, the US again sold wheat below market prices to the USSR and sugar to China at roughly one-third the price paid to US farmers.

Unlike the United States, the Australian agricultural policies under both the Fraser and Hawke governments have eschewed the use of farm subsidies, relying more on a free market approach and bilateral negotiations with foreign governments to gain market access. This approach until recently has been fairly successful. In early 1985, the government persuaded Japan - a major market for Australian beef - to adopt a gradualist approach in providing US access to its domestic market for beef, thus reducing the threat of losing market share. Hawke also convinced the EEC to refrain from selling subsidised meat in certain Asia/Pacific markets where Australia is the established supplier. Certainly some of this success must be attributed to Australian farmers who continued to be among the world's most efficient producers, incurring the lowest costs and giving the government a stronger negotiating position. Also, a significant devaluation of the Australian dollar during the 1984-86 period helped maintain the country's price competitiveness. Similarly, the Lange government in New Zealand abolished most price supports for farm products as part of its economic deregulation policy. New Zealand's 14000 dairy farmers depend almost entirely on world market prices for

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47 ibid.

48 FEER, 21 September 1989, p.86.
their income. In 1984-85, for example, 85 per cent of the country’s total production of lamb and mutton, 75 per cent of beef, 93 per cent of wool and 85 per cent of dairy products were purchased by foreigners. The EC happens to be the important market for New Zealand. However, the Community’s farm and export subsidy policies have created a havoc for New Zealand farmers. Given the limited range of exports, the country is particularly vulnerable to fluctuations in world agricultural prices. The New Zealand Dairy Board and its Chairman, Dryden Spring, has put the blame chiefly on the EC. “New Zealand’s dairy industry cannot survive on prevailing international prices. Our problems are not caused by commercial or economic factors. They are caused by overseas governments, mainly the European Commission, producing more than they can eat and dumping the surplus at low prices on international markets”, he says.

The new US farm bill has contributed to some further declines in international grain, meat and dairy prices and has resulted in increased calls for protection by the domestic farming blocs in both Australia and New Zealand.

These developments cannot help but affect bilateral strategic relationships. Today, the whole alliance structure based on American economic and military support is under serious criticism in Australia. New Zealand has gone to the extent of developing its trade and economic relationships with the USSR. In Australia too, the traditional European markets are losing grounds. Europe’s share of Australia’s exports which was as high as 62 percent in the early 1950s, fell to under 20 per cent in the early 1980s. Even United States supposed to be the closest ally of Australia could not improve much, generally being in the vicinity of 10 per cent of total exports since the early 1950s. The United States took 11.7 percent of exports in 1986-87. Faced with failure of GATT talks under the auspices of Uruguay Round, coupled with a perceptible shift of


50 Monthly Abstract of Statistics, Department of Statistics, New Zealand.

51 Financial Times, n.46.


centre of economic activity towards the Pacific, the countries in the Southwest Pacific, specially, Australia and New Zealand are concerned about the future of world trade. Separate studies on improving trade links with East Asia are under way in Australia and New Zealand. The governments of New Zealand, Australia and Canada are to fund studies into establishing a free trade pact between the three. The idea is intended to stimulate East Asian countries into considering dismantling barriers which hamper trade with the three Commonwealth countries.\(^5^4\) Australia lately has been strengthening also its links with developing countries in Southeast Asia. It introduced the system of tariff preferences in 1966 and since then it has eliminated quotas and further expanded commodity coverage, improved preference margins, particularly during the 1976 and 1979 major reviews by the government. Australia’s trade preference schemes, however, have not led to substantial increases of the ASEAN imports.\(^5^5\)

**Nuclear Issues**

Besides domestic political and economic compulsions discussed above, the issue which has been of most serious concern to the Southwest Pacific governments in recent times is the nuclear use of the area. There are two aspects of this problem. (1) French nuclear tests and (2) the visit of US nuclear ships.

The ability of the US forces - specially the Navy - to exercise with its allies in peacetime and to support them in any contingency requires free movements through the Southwest Pacific. Familiarity with the area’s waters is perhaps the necessity in the United States point of view, and for that purpose the use of ports and airfields is desirable. As a matter of principle, the United States neither confirms nor denies the presence of nuclear weapons on any military ship or aircraft.\(^5^6\)

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\(^{54}\) **FEER**, 15 December 1988, p.106.


The election of the Labour government in 1984 under Prime Minister David Lange brought back a policy opposed to nuclear-capable ship visits. The result was that all the United States' obligations to New Zealand under the ANZUS remain suspended. However, the treaty remains in place and the mutual obligations under it between Australia and the United States and between Australia and New Zealand are intact. In fact, the present government in New Zealand has argued in favour of non-nuclear adherence to the ANZUS treaty which nowhere specifically mentions any nuclear commitment. The American sanctions have aroused national sentiment in support of the New Zealand non-nuclear policy so that even a Conservative National Party Government might have difficulty reverting to a policy of accepting ship visits.

57 The United States requested permission for the USS Buchanan to visit on 21 January 1985, which the Prime Minister refused. Kevin Clements, “New Zealand’s relations with the UK, the USA and the Pacific” Alternatives 1985 p.592. In February 1985, the United States cancelled some twenty seven combined exercises and cut off the sharing of intelligence information. When those measures failed to move Wellington to change its policy, Secretary of State Shultz told Lange in June 1986 in Manila that the US would no longer come to New Zealand’s aid in the event of war. Malcom MacIntosh, Arms Across the Pacific: Security and Trade Issues, (London, 1988), p.79. See also USIS East Asia and Pacific wireless File No.154, 11 August 1986, Secretary of State, Shultz, Opening Statement at San Francisco Conference.


60 This was a policy of Labour government which was voted out in October 1990. For details of New Zealand non-nuclear policy see Ramesh Thakur, In Defence of New Zealand: Foreign Policy Choices in the Nuclear Age, (Westview, Boulder, 1984), pp.54-55, 100, 120, 136-37, 188-90.

61 In this context, it should be mentioned that there is greater degree of public sympathy or support for nuclear ship visits in Australia. Opinion polls in Australia and New Zealand confirmed this view. The reason for this are historical. For details on opinion polls see David Campbell, Social basis of Australia and New Zealand Security Policy, Peace Research Centre Monograph, no.5, (Canberra, 1989).
Labour Party re-election in August 1987 assured that the nuclear ship ban policy will not be soon rescinded or changed. Recent elections in New Zealand have brought back National Party to power. However, it has announced that it would continue New Zealand's anti-nuclear policy.

The New Zealand's policy of making its territory a nuclear-free zone and the public support for it is probably a result both of the relatively small need for the nuclear protection and the frustrated reaction of a middle-sized power at the lack of progress in super power arms control and apparent resumption of the arms race.

Australia too has a strong anti-nuclear movement and a policy of not permitting nuclear weapons on its territory but the government accepts plane and ship visits which might involve nuclear weapons in transit. However, in a statement to the Parliament, in September 1983, the then Australian Minister for Foreign Affairs, Bill Hayden (now replaced by Gareth Evans), defended his government’s decision to review the ANZUS alliance on the grounds that '1983 was not 1952'.

So many changes have occurred in the Pacific area since the treaty was ratified in April 1952 that it seemed a reasonable question to ask whether the terms of Australia’s basic security treaty concluded over 30 years ago, continued to serve Australia effectively in the 1980s.

New Zealand's Non-Nuclear Policy

The New Zealand's stance can be appreciated by reference to Galtung’s framework for an index of relative security. Galtung reasons that nations can achieve greater security "only by gradually dislodging from being pawns of the super powers". He suggests that the relative security of nations can be judged by the extent to which they:


64 ibid.
1. decouple from superpower strategies

2. adopt non-aggressive defense policies

3. pursue policies of invulnerability

4. adopt active peace policies.

New Zealand policy seems in agreement with these principles of security. The pursuit of greater security by the New Zealand government can be seen to follow each of these principles to some degree. In the first place, New Zealand has moved decisively to decouple itself from superpower strategies by announcing that it seeks nuclear defense from no state and that it will not be involved with nuclear weapons deployment. Secondly, New Zealand is no longer involved with the Pacific Rim defense strategies prescribed by the United States and has moved to redeploy its armed forces closer home. Thirdly, New Zealand’s geographical position and its very considerable capacity as a food producer give it a certain degree of invulnerability. Fourthly, it seeks to play a more constructive role in international fora on peace and disarmament issues.

It is sometimes suggested that New Zealand’s non-nuclear policy is based on a belief that it can shelter far behind the perimeter of Western alliance and enjoy the best of both worlds: Freedom by virtue of its isolation to shirk the burden and obligations of alliance relationships while yet continuing to draw upon its benefits. However, it is neither the reason for nor the purpose of the policy. New Zealand has a record of shouldering its share of the collective burden of the Western world in military conflicts over the years.65

When the New Zealand first thought of itself as a separate nation concerned with its own security, distances between countries of the Pacific Basin were vast and technology was just beginning to span them. In the 1880s when Europe was balancing its internal power relationships within the concert system, New Zealanders perceived a threat from distant Russia and looked to Britain as the imperial protector of its sea lanes.66 In 1923, the Attorney


is based on the recognition that in the nuclear age national security cannot be permanently assured through separate and diverse policies. It can be attained only through co-operative efforts. The task before the New Zealand’s non-nuclear policy is to build positive relationship between nations based on co-operation and not on the threat of mutual annihilation.71

South Pacific Nuclear-Free Zone Treaty

The Treaty of Rarotonga, or the South Pacific Nuclear Free Zone Treaty was signed by eight members of the South Pacific Forum on 6 August 1985.72 A previous attempt to produce a treaty in South Pacific Forum was made by New Zealand in 1975 in an effort to stop French testing at Mururoa and Japanese dumping of nuclear waste in the Pacific.73 The treaty has been the first arms control treaty signed since 1979, and as such should be seen as a positive step towards limiting the spread of nuclear weapons in the world. Treaty prevents any signatory manufacturing, acquiring, possessing or having control over any nuclear explosive device. Parties to the treaty undertake not to permit nuclear weapon testing in their territory and not to take any action to assist or encourage the testing of any nuclear device by any state.74

73 The French presence continues to provoke reactions such as that which came to the Labour Party Conference in 1980, when it proposed that:
“support and encouragement should be given in the independence movements of French Polynesia and other French Pacific territories - in particular by supporting and bringing the issues involved before the UN Committee on Decolonisation and encouraging exchange of visits with leading members of the movements.”
74 South Pacific Nuclear-free Zone Treaty, Article III, V, VI. See also, Table 1 in Appendix IV for the presence of nuclear weapons-related facilities in the Southwest Pacific.
A number of considerations can now be identified which, though not likely to result in an abrupt break-up of regional strategic consensus, nevertheless, point to greater strains in the future. Regional politics is bound to become more heterogeneous as states with the French and American political administrative traditions join a regional community whose members share a common British institutional heritage. The concept of a nuclear free zone arose from the desire to disengage on their own terms, from the nuclear madness of the major powers. Since the Atom Bombs on Hiroshima and Nagasaki ended the Pacific war, the region has been used to develop nuclear weapons. The US began testing in 1946 over Bikini Atoll in the Marshall islands and over the next six years till it exploded its first hydrogen bomb in 1952, some 66 tests were carried out. Now, the US has moved to Johnston Attoll, south of Hawaii. Britain also conducted an extensive programme of atmospheric tests in the Pacific in 1963. France remains the only state which continues its nuclear tests in the region. An impression has been created, mainly by Australia, that it is the obstinacy of French which needed to be curbed and the signing of the treaty of the Rarotonga was mainly the collective response of the people of the Southwest Pacific against the growing threat from the French nuclear testing. The architects of the 1983 Australian SPNFZ proposal, therefore,

75 See Half Life, (1985), a film by Dennis O’ Rourke and Associates Film makers Pvt.Ltd., GPO Box 199, Canberra. The film reveals the effects of the US nuclear tests on the lives of the inhabitants of the Marshall islands.

76 In the recently held 21st South Pacific Forum meeting in Port Vila, Vanuatu, the main issue of concern of the South Pacific leaders was the destruction of chemical weapons by the US in the Johnston Atoll. See Time, (New York), 13 August, 1990, p.42.

77 In fact, the Southwest Pacific countries felt betrayed over the signing of the Treaty. Jioji Kotobalavu, a Fijian scholar commented, “have we not learnt from the nuclear-free zone Treaty where, on the initiative of one or two of the member countries we were all encouraged to proceed with the idea of an international legal sanction? We were all assured that the Americans and the French would be happy; the island countries were attracted by the idea of the Convention, in the hope that an international convention would encourage the French to cease their nuclear testing. What has the Convention achieved for the island countries? Only the embarrassment that the French and the Americans have refused to sign.” See Polomka, n.5, p.28.
took care to avoid pitfalls that were not covered by New Zealand's 1975 proposal. In order to avoid arousing US opposition, Australia gave repeated assurances on transit rights, port calls and continued adherence to existing security agreements. The Australian government presented its SPNFZ proposal as a political 'concept' aimed at furthering the objectives of arms control within the provisions of Non-Proliferation Treaty. The main objective is to establish a broadly endorsed regime to oppose French testing as well as to ban dumping and acquisition, storage or deployment of nuclear weapons. There is no prohibition, however, on the existing nuclear weapons and weapons related involvement of the nuclear weapons states and so the current program of port calls and other arrangements that support the military posture of nuclear powers in the region is left undisturbed. The right of transiting nuclear weapons through SPNFZ was left open.78

All this was done because a great importance is attached to the attitude of the United States which is supposed to be crucial for the security of the Southwest Pacific states. However, the US on its part stated its position in a different manner. While not opposed to Nuclear Free Zones in principle, the US stated that it would only support those that, inter alia, were regionally comprehensive, did not disturb 'necessary' security arrangements and capable of adequate verification.79 There were also other considerations which further influenced American attitudes. As the US maintains strategic installations and other security links with ANZUS allies, it stood to be more disadvantaged by a nuclear free zone than its strategic adversaries. Also, no doubt, the US concern was heightened by assertive attitudes of its ANZUS partners in the early 1970s. The Labour governments of Australia and New Zealand declared their opposition to port calls by nuclear ships, attempted to follow more

78 Thakur, n.60, pp.170-71.

79 For a full discussion on the US position see: US Congress, House, Committee on Foreign Affairs. The South Pacific Nuclear Free Zone. Hearings and markup before the Committee on Foreign Affairs and its sub-Committee on Asian and Pacific Affairs on H. Cons. Res. 158 100th Congress, 1st Session, 12 June and 15 July 1987. The Bush Administration in 1989 undertook a review of the US position on adherence to the SPNFZ protocols. Although no decisions have been made public, testimony by senior US officials before Congressional Committees in mid-1989 made clear that the 1987 decision is likely to be reaffirmed.
include all militarily significant states in the region."\textsuperscript{83} Besides, the boundaries of the SPNFZ include a vast area of ocean over which the treaty signatories do not have jurisdiction.\textsuperscript{84} It includes the French territories which will fall outside the jurisdiction of the treaty unless France signs. An important respect in which the SPNFZ treaty differs with the world's first nuclear weapon free zone treaty, the treaty of Tlatelalco, is that in the later the zone is designed primarily to encompass the continental landmass. In the Southwest Pacific by contrast, territorial lands are typically specks in an ocean vastness and the SPNFZ treaty does not have jurisdiction into the high seas beyond the territorial waters of each states.\textsuperscript{85}

Despite shortcomings and weaknesses, the treaty is a step in the direction of fulfilling the task of world peace. It is an important adjunct in the arms control talks, and shows a genuine desire of the people of the South Pacific to move towards complete disarmament.

Apart from nuclear issues, there are other issues of common concern that have brought the countries of the region together and have prompted them to take some regional initiatives.

**Regional Initiatives**

These regional issues are fisheries, security co-operation, trade and economic issues. Concerns about these issues have been expressed time and again but they became more pronounced during the 1970s and 1980s when an urge was felt throughout Southwest Pacific to manage its own affairs. This urge is contained in the 'Pacific Way' a policy which immediately appealed to many Pacific countries.

\textsuperscript{83} Comprehensive study of the question of Nuclear Weapon Free Zones in all its aspects, Special Report of the Conference of the Committee on Disarmament (New York, UN General Assembly Official Records, 1975), 30th Session supplement No. 27A.

\textsuperscript{84} Thakur, n.60, p.167.

Commission that was established in 1947 involving metropolitan France, USA, UK, the Netherlands, was concerned primarily with the social and economic development of the territories under the control of member countries. By the 1960s, a number of territories, led by Fiji, had become disillusioned with the slow pace the Commission was making towards devolving powers to the territories themselves. At the 1965 South Pacific Conference, Mara surprised fellow indigenous leaders as well as delegates from external powers, by proposing that the work programs of the SPC should be formulated by countries of the region first, leaving the colonial governments in the role merely of ratifying and funding what had been approved by those destined to benefit from the various projects. The assertion of Pacific traditional values and its associated position, the rejection of western values, has been increasingly evident at such regional conferences. In due course, Mara's proposal became reality; the South Pacific Conference became the plenary organ of the SPC.

Thereafter, the launching of South Pacific Forum provided the 'Pacific Way' with a clear institutional home.

South Pacific Forum

The South Pacific Forum is the gathering of the heads of governments of the independent and the self-governing states of the South-west Pacific. Member countries are Australia, New Zealand, Cook Islands, Niue, Fiji, Papua New Guinea, Kiribati, Soloman Islands, Marshall islands, Tonga, Federated States of Micronesia, Nauru, Tuvalu, Vanuatu, Western Samoa. It provides an opportunity for informal discussions to be held on wide range of common issues and problems and meets annually or when issues require urgent attention. The Forum has no written constitution or international agreement governing its activities nor any formal rules relating to its purpose, membership or conduct of meeting. Decisions are always reached by consensus. Despite physical and cultural differences between different members of the South


89 Membership changes are drawn from South Pacific Forum Communiques: the Fifth (1974), the Sixth (1975), the Eighth (1977) and the Ninth (1978).
Pacific Forum, there is unity among them. The Forum has now widened its discussions to include French nuclear tests, decolonisation, shipping, civil aviation, trade promotion, telecommunications, bulk purchasing and fish resources. It has taken a series of steps to meet the practical needs of the islands.\footnote{“South Pacific Forum”, *Current Notes on International Affairs*, vol.42,(Canberra) August 1971, p.21.}

- It has established the Pacific Forum Line, which provides reliable shipping services for a number of member states.

- It has set up a Forum Fisheries Agency which has negotiated a Treaty with the USA on tuna fishing in the area.

- It has negotiated a trade agreement called SPARTECA, under which products exported from Forum island countries have duty free and unrestricted access to New Zealand (and almost unrestricted to Australia).

- And the Forum is now making serious efforts to deal with the increasing complex environmental problems of the South Pacific.

- South Pacific Bureau for Economic co-operation (now renamed SPF secretariat) was set up to discuss ways of increasing economic co-operation in the region.

**SPEC**

An economic arm of SPF, the South Pacific Bureau for Economic Co-operation (SPEC) was set up to discuss ways of increasing intra-regional trade and co-ordinating export possibilities.\footnote{Agreement establishing the South Pacific Bureau for Economic Cooperation, Article III. See also “Third South Pacific Forum : Final Communique”, *New Zealand Foreign Affairs Review*, vol.22 no.9, September 1972, p.26.} The functions of SPEC include:

a. identification of opportunities for modification of trade patterns in the light of the objectives of regional trade expansion;

b. exploring ways in which industrial and other development could be rationalised using the concept of regional enterprise;
c. investigating scope for free trade among the island member countries;

d. Establishing an advisory service on sources of technical assistance, aid and investment finance; and

e. assisting in co-ordinated action on regional transport.\(^{92}\)

SPEC has been quite active in the region, inter alia, in the fields of bulk purchasing, more effective aid, regional telecommunications, revitalization of the banana industry, packaging and marketing aspects of the South Pacific banana industry, regional shipping and civil aviation, the regional trade and development, regional survey of agricultural pests and diseases and in the formal establishment of the Pacific Forum Line and the Forum Fisheries Agencies. In 1974, the Bureau absorbed the functions of the Pacific Islands Producers Associations (PIPA).\(^ {93}\)

Following a study of the trade relations and industrial development in the region, SPEC co-ordinated and assisted island countries in negotiating the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA), to redress the trade deficit of the island countries with Australia and New Zealand. It is a non-reciprocal agreement under which Australia and New Zealand offer duty free and unrestricted access or concessional access for specified products originating from the developing island member countries of the Forum.\(^ {94}\)

SPEC has also undertaken an investigation into the prospects for closer economic co-operation between members, market surveys in the Japan and the USA, and surveys on regional industry, the harmonization of industrial incentives. It provides support for national trade promotion and trade information services, and in 1984 presided over the formation possibilities of bulk

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\(^{92}\) For a detailed listing of SPEC activities see SPEC, *Director's Annual Report*, 1973/74 to 1977/78.


\(^{94}\) See *South Pacific Regional Trade and Economic Co-operation Agreement*, A Reference Handbook for Forum Islands Exporters, Forum Secretariat, Suva, Fiji.
purchasing and regional crop insurance of the Pacific Islands Association of Chambers of Commerce to promote contacts between organisations in the private sectors.

**Forum Fisheries Agency (FFA)**

From the Southwest Pacific islands’ point of view, another significant development was the placing of territorial sovereignty rights to individual governments of 200 nautical miles of Exclusive Economic Zone under the 1976 Law of the Sea Convention (See map in appendix III). This represents an area of 6mn.sq. miles of Pacific islands. It became now an added responsibility for the island states to look after their sea bed resources which the United States and other powers continued to exploit even after the UN treaty. This was a very important factor in straining relations between the people of the region and the metropolitan powers.\(^95\) Relations with United States were strained when PNG in 1982 and Solomon islands in 1984 seized American tuna boats for poaching.

In 1977, therefore, the South Pacific Forum decided in Port Moresby to have the SPEC convene a meeting with a view to setting up a regional fisheries agency.\(^96\) The ‘Port Moresby Declaration’ envisaged that the new agency would join together the island countries so that they would have co-ordinated policies with which to face the distant water fishing nations.\(^97\) The role given to FFA accords with the aims set out in the ‘Port Moresby Declaration’. The main functions of the organisation according to the Article 7 of the Convention are as follows:

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\(^{95}\) The Economist, 16 November 1985, p.27. See also Barbara Johnson and Frank Langdon, “The Impact of Law of Sea Conference upon the Pacific Region: Part I and Part II”, Pacific Affairs, Spring 1978, pp.68-69.


- collect, analyse, evaluate and disseminate to parties relevant statistical and biological information with respect to the living marine resources of the region and in particular the highly migratory species;

- collect and disseminate information concerning management procedures, legislation and agreements adopted by the countries both within and beyond the region;

- collect and disseminate information on prices, shipping, processing and marketing of fish and fish products;

- provide, on request, technical advice and information, and assistance in the development of fisheries policies and negotiations and assistance in the issue of licenses, the collection of fees or in matters pertaining to surveillance and enforcement;

- establish working arrangements with relevant regional and international organisations, particularly the South Pacific Commission.98

In addition to regional institutions which influenced Pacific leaders to support regional integration, there are other international organisations and bodies, which, while not primary motivating influences as such, nevertheless, facilitate the development of regional consciousness and regional identity, and therefore, form an important basis for the promotion of cooperation.

There has been growing international recognition that developing island states form a special category sharing development problems. This recognition became evident at UNCTAD III in May 1972. Following a recommendation of the Conference, a panel was set up to examine the special problems faced

98 ibid. For detailed discussion on fisheries in South Pacific see Geoffrey Waugh, *The Development of Fisheries in the South Pacific Region With Reference to Fiji, Solomon Islands, Vanuatu, Western Samoa and Tonga*, NCDS, Islands/Australia Working Paper No. 86/2, Research School of Pacific Studies, (Canberra).
by the developing island countries. The issue was further discussed at UNCTAD IV in 1976 where a series of recommendations concerning special assistance for developing island countries were put forward. The UN General Assembly subsequently requested the various UN agencies to incorporate the recommended actions within their programs. The UN General Assembly, in its thirty-third session urged:

"... the United Nations organizations concerned, in particular the United Nations Development Programme and the Regional Commissions, to give attention to programmes of regional and sub-regional co-operation in respect of developing island countries".

United Nations Development Program (UNDP) has been evincing strong interest in the region. The first inter governmental gathering took place at Suva in 1979 to consider UNDP assisted regional projects, thus initiating a continuing program in consultation with the Pacific countries. The ongoing regional programs have subsequently been reviewed in consultation with ESCAP and other concerned organisations. They include ongoing projects on development of fisheries, livestock and root crops, mineral investigations, training in telecommunications, rural development, small scale

99 United Nations Economic and Social Council, Special economic problems and development needs of geographically more disadvantaged developing island countries, E/5647, 27 March 1975.


102 UN General Assembly Resolution A126, 33rd Session.

103 V Vithal Babu and A C Vyas, Strategies for trade expansion between India and South Pacific. (New Delhi, 1984), p.20.
Setting the Pacific Way in an ideological context, he asserts, quoting Kautsky, that "in a third world context, the term ‘nationalism’ is not usually used to refer to a movement based on common roots, ‘traditional’ affinity or shared culture. In essence it refers to anti-colonial movements (sic. which) have incorporated diverse cultural groups united in their opposition to a ‘common enemy’." He sees 'Pacific Way' as a response to 'western intrusion' into Pacific life. "This intrusion", he however emphasises, "occurred and continues to occur, through the impact of missionaries, tourists, colonial administrations, the media, schools and universities. If there had been no such intrusion, then it is unlikely that a 'Pacific way' would now be promoted". Perhaps there would have been no need to promote 'Pacific Way' then. The need, indeed, was felt to correct the wrongs perpetrated by the western intrusion, as expressed by the island delegates in 1977 South Pacific Conference, "We don’t like what you have done to our children with your modern money-oriented European educators. We want to return to our old way of living." Speaking of the Pacific Way, Crocombe argues that it is "in part a common reaction to a common century of colonial domination (sic.) it gains strength from a common anxiety about neo-colonial exploitation".

In fact, 'Pacific Way' or 'Pan-Pacific ideology' by now has established itself as a norm of diplomacy. It has served to focus attention on common needs, regional co-operation based on mutual respect, common perception of threat from outside in various meetings and conferences.

Concept of Security

There are so many views which have been expressed in various studies on matters of regional security of the Southwest Pacific. Most recently, David Hegarty and Peter Polomka have aptly summed up the regional security in one letter word, that is, small 's' security instead of big 'S' security of the

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108 ibid. p.228.

109 ibid. p.224.

military kind. They argue that for the Southwest Pacific states, the 1990s will be a crucial decade in which countries in the region will face the challenges of a changed global strategic environment as well as those of increasing domestic, economic and social pressures. It is argued, as discussed earlier, that the new generation of leaders "more self-assertive and self-confident", wants to throw away the traditional thinking largely conforming to western concept of security. The 'new thinking' seeks to cast off the colonial vestiges and stress indigenous values and attitudes. Most importantly, the Southwest Pacific states during the 1990s need 'management of the change', as pointed out by Paul Dibb. He says:

"By that I mean the management of social adjustment that will be necessary as the inevitable opening up of the South Pacific to the external contact continues. Secondly the management of political transition from the immediate post colonial period and the challenges this will pose for the institutional set up at the time of independence. These institutions are already under critical scrutiny and some are under pressure, witness for instance, the threat to the central authority of the Papua New Guinea Government caused by events in Bougainville. Some of the institutions set up in the colonial period have already failed, as in Fiji".

How this change is managed by them would ultimately determine internal security and involvement of external powers in domestic affairs. 'Pacific way' is the best way to manage this change. In the Southwest Pacific, where the key issue is the survival of ministates in a world of overwhelming outside influences, the 'Pacific Way' has pointed towards economic progress after independence by focusing on imperialist neglect as a wrong that needs to be corrected.

\[111\] Polomka, n.5, p.4

\[112\] ibid., p.1.

\[113\] ibid., p.70.
India can forge a meaningful co-operation with the countries in the region. There has been a good deal of appreciation about India’s technological capabilities in various sectors including agriculture, rural development, small and medium industry, science and technology, medical and public health, higher education and management training.

India is a leading country in South Asia and an important member of the Commonwealth. It has the distinction of being the largest democracy in the world. After 40 years of independence, the country is strong and stable politically. English remains the official language and it is used in business, professional and banking circle. The commercial and business law are primarily based on English common law system. Banking is well developed and commercial banking facilities for international trade are very well established throughout the world. India has over the years made remarkable progress in many sophisticated industries like oil refining, petro-chemicals, fertilisers, power generation and nuclear energy and space technology. Now, it is exporter of some of those sophisticated industrial products. Not only is India an exporter now, it is invited by developing countries to lend its relatively advanced technology.


6 Australian Minister for Foreign Affairs and Trade, Mr Gareth Evans emphasised this point in an address on SAARC on 26 October 1990 at Monash University, Melbourne. Financial Express, New Delhi, 3 December 1990.

7 However, importance of other Indian languages most notably ‘Hindi’ and Indian culture for business and politics has been emphasised in S N Mukherjee, “Academics Role in Doing Business with India”, a paper presented in a Seminar on “Doing Business with India”, organised by Centre for Indian Studies, University of Sydney and Australia-India Business Council on 11 November 1988, p.8. The Senate Committee has recommended “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”, Senate Committee Report, n.3, p.x.
To help them with a large reservoir of skilled manpower, vast network of training/research facilities and diversified industrial base, India started its bilateral non-political and non-ideological programme of technical and economic cooperation (ITEC) in 1964. The ITEC programme (i) provides training facilities to nationals of other developing countries in India, (ii) sends Indian experts abroad on deputation, (iii) gifts machinery and equipments, (iv) assists in conducting feasibility studies and (v) undertakes specific projects. In the Southwest Pacific, gifts provided under the ITEC programme, have included agricultural equipment and seeds to Fiji and Tonga. Project completed or under execution under the ITEC programme is Technical Center in Fiji. There are more than 250 joint venture projects in more than 40 countries. 40 of such projects are located in highly developed countries including the US, UK, France, Germany and Switzerland. Southeast Asia has the largest number of projects in cooperation with India. These joint ventures have contributed positively to the development of the host countries.

The industrial sector in India has been showing a remarkable buoyancy for the past few years. The growth rate was 6.7 per cent in 1983-84, 8.6 per cent in 1984-85 and 8.7 per cent in 1985-86. In 1987, it reached a new peak of 9.1 per cent. The momentum is likely to continue. The Indian domestic market also presents a very promising picture to foreign investors. Nearly 90 per cent of the GNP is consumed by the people and the internal demand is growing with the rising

8 Nagesh Kumar, “India’s Economic and Technical Co-operation with the Co-Developing countries”, South South Economic Co-operation: Problems and Prospects, a study of the Research and Information Systems for Non-aligned and Developing Countries (RIS), (New Delhi, 1987), p.186.

9 India Investment Centre, Indian Joint Ventures Abroad as on 31.3.90, (New Delhi), Mimeo. For Indian Joint Ventures in the Southwest Pacific see Table 18 in Appendix I.

10 Nagesh n.8, pp.203-204.

11 Government of India, Ministry of Finance, Economic Survey 1989-90, Chapter on Economic Situation. A FICCI analysis has identified certain growth areas for the Eighth Plan period which are expected to have a compound annual growth rate of 15 per cent and above. These are electronics, chemicals, leather goods, garments and automobiles. Business Standard, (Calcutta), 24 September 1990.
income of the Indian worker.²¹² No wonder there were 957 foreign companies which sought to do business with India in 1986-87. Out of this, there were 189 from the United States, 183 from Federal Republic of Germany, 130 from UK, 111 from Japan, 52 from Switzerland, 58 from Italy, 39 from France, 29 from Sweden, 26 from Netherlands, 6 from Belgium, 7 from Denmark and others came to 122.³

India has, in recent years, offered a number of fiscal incentives and concessions in order to encourage foreign investment.⁴ As a result, total foreign investment approvals have grown from Rs.620 million in 1983 to Rs.3166 million in 1989.⁵ The Reserve Bank of India in its latest annual report has pressed for more foreign investment. It has pointed out that the inflow of foreign investment into India is "very small" at $200 mn a year compared to much higher inflow into other Asian countries.⁶ Import of technology, capital goods

²¹² So fast is the increase in the income of the Indian worker that a recent World Bank study is reported to have recommended reduced benefits and protection "World Bank report for cut in labour benefits"Financial Express dated 16 September 1990. India's middle class, estimated around 20 per cent of the population, is so enormous that by itself it could constitute the fifth or sixth largest country in the world. Statistics show how expenditure on consumer goods has increased substantially. Product and sale of consumer electronics like TVs, radios, tape-recorders, clocks, watches etc., has gone up from Rs.2.5 billion to Rs.24 billion from year 1981 to 1988. The total electronics goods production is up from Rs.8.6 billion to Rs.63 billion in the same period. Asha Modi, "Potentialities in India" Financial Express, 19 September 1990.

³ India Investment Centre, n.9.


⁵ United Nations Centre on Transnational Corporations, Experiences and Expectations of Government of India with respect to Foreign Direct Investments and Technology Transfers, Paper presented to Round Table on Foreign Direct Investment and Technology Transfer in India, 15-16 March 1990, New Delhi, p.3.

and raw materials has been made easier in India to upgrade industry under the new industrial policy. Foreign technology collaboration needs no approval unless there is lump sum payment or royalty exceeds certain limits. Similarly, import of capital goods up to 30 per cent of total plant and machinery cost, and import of raw materials and components up to 30 per cent of the pre-exercise production value, is permitted.\textsuperscript{17}

Liberalisation, decontrol, delicensing are all on the way to create a more open and less protected market. Competition is sought not only within but also outside the country. Foreign companies are invited to invest, produce and export. Repatriation of dividends and earnings is becoming easier. Industrial environment is undergoing radical change. The availability of raw materials and goods is becoming easier. Infrastructure is being created to make industry more viable.\textsuperscript{18}

Viewed from a long-run perspective, the economy seems to have shifted to a higher growth path. The period between 1980-81 and 1986-87 experienced a growth rate of over 8 per cent annually both in terms of output and value added manufactured goods.\textsuperscript{19} Favourable export promotion, especially, since the mid 1980s and the buoyancy in world trade have resulted in improved export performance in recent years. The country is emerging as a global supplier of components and finished products and as an international subcontractor. Opportunities in world markets, especially, of tea, cereals, marine products, leather and leather goods, gems and jewellery, iron ore, textiles and readymade garments, handicrafts, handlooms are ever expanding. New thrust areas, such as electronics, software, engineering goods, chemicals and petrochemicals etc. are receiving increased attention. Exports of leather and leather goods increased from Rs 770 crores in 1985-86 to Rs 1951 crores in 1981-90. Exports of engineering goods have shown a good performance in spite of competition in the world markets and erosion of import capacity of many developing


\textsuperscript{18} An evidence of this is available from the Central Budget 1990-91, which envisages a total central plan outlay of Rs.393 bn. Industry, mining, science, infrastructure and energy together account for as much as for Rs.307 bn. Central Budget 1990-91, Ministry of Finance, New Delhi, Part I, pp.2-3.

\textsuperscript{19} Modi, n.12.
countries which were India's important markets. India's exports of engineering goods went up from Rs 954 crores in 1985-86 to Rs 3321 crores in 1989-90. Gems and jewellery exports rose from Rs 1503 crores in 1985-86 to Rs 5296 crores in 1989-90. Exports of chemicals and allied products went up from Rs 498 crores in 1985-86 to Rs 2158 crores in 1989-90. Similarly, export of marine products increased from 97900 tonnes in 1987-88 to 158500 tonnes in 1988-89. Japan, which is a major export destination of our marine products faced a dull shrimp market, thereby affecting India's exports. Expansion of aquaculture facilities for production of shrimps in the Philippines, Thailand and Indonesia has also exposed India to competition from these countries.20

To diversify the product range the Indian government took steps that can be classified under unilateral, bilateral, trilateral and multilateral categories:

a. Unilateral

Under this category various agencies to promote trade can be put such as export promotion councils for different categories e.g. engineering, textile etc; Trade Fair Authority of India to diffuse information of new markets/products; The Industrial Development Bank of India, EXIM Bank of India, The Export Credit and Guarantee Corporation (ECGC) to finance and provide risk cover.

b. Bilateral

Under this category the initiatives taken are the joint business councils between the business organisations and trade agreements between the two governments.

c. Multilateral

India has also taken initiatives within the multilateral framework to promote trade with developing countries.21


21 Nagesh, n.8, p.197.
Though over the years volume, value and composition of India’s exports have undergone a tremendous change, India has yet to make a headway in tapping new markets for the vast array of industrial consumer products. India’s dependence on the markets of the developed western nations has increased quite sharply over the last decade. The EEC and the US which together accounted for around 33 per cent of India’s exports in 1981 had increased their share to as much as 43 per cent in 1988-89. The share of OECD was 50 per cent in 1970-71, 44.9 per cent in 1984-85 and 55.9 per cent in 1989-90. On the other hand, India’s total trade with developing countries during 1970-83 went up to 39.15 per cent in 1983 from 26.49 per cent in 1970. A significant part of this increase was due to the oil price hike during the period. OPEC countries’ share was restricted to only 6.6 per cent in 1989-90. While exports to countries in the middle east continued to take place, India is likely to lose markets there. This is evident from the Export Credit Guarantee Corporation of India’s (ECGC) recent decision to raise the premiums on export cover. ECGC has also proposed to withdraw the concessional premiums payable on exports to those countries in the eastern bloc with which India has rupee payment agreement. These include the USSR, Czechoslovakia, Romania and Poland. The share of these countries in our exports has declined from around 22 per cent in 1980-81 to less than 17 per cent in 1988-89. The role of the USSR as a trading partner is set to change very substantially. An IIFT study suggested the crucial importance of ensuring increased exports to general currency areas away from rupee currency area.

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23 Nagesh, n.8, p.195.


India’s Foreign Trade Policy

India’s foreign trade policy since the 1950s has been that of import substitution. Though it was considered as a right approach, it was not conducive to an efficient allocation of resources. The main instruments of commercial policy, are categorised under two broad headings - one, those operating through price mechanism and second, those involving direct control. These were, however, applied to support the import substitution. As a result, our exports were concentrated in few commodities and they were not competitive internationally. In 1950-51 about 57 per cent of exports were concentrated in cotton fabrics (19.8%), jute manufacturers, tea (13.5%) and leather and leather manufacture (4.3%). This composition of India’s trade remained till about 1970s. During the 1980s due to several export promotion measures vigorous export drive has enabled to attain high rate of growth in export. Among these measures are liberalisation in trade policies, progressive deregulation of export license and decontrol of many items for exports. The Government also set up export processing zones, though their performance has not been up to the mark.

27 Indian Institute of Foreign Trade, Foreign trade in India’s Development: Performance and Prospects - Backgrounder, New Delhi, November 1988, p.4.
28 The new import policy 1988-91 has enlarged the facility for liberal and license free importation of production inputs by the industrial sector in India. It has added as many as 745 items of raw materials and capital goods etc. to the OGL category which had already been enlarged significantly under the earlier policy, IIFT Backgrounder, n.27, p.15. See also Ashok V Bhuleshkar, “India’s Foreign Trade Policy”, Financial Express, (New Delhi), 14 July 1990.
29 The Comptroller and Auditor General of India in his report on Export Processing Zones tabled in Parliament in August 1989 observed that though the EPZs in the country were set up with a view to rendering export production at low costs, their contribution to the country’s aggregate export remain inadequate. It revealed that the contribution from the EPZs to total exports from the country ranged from 2.597 per cent during 1982-83 to 1987-88. The report pointed out that the net outflow of foreign exchange in hard currency from the Kandla Zone during 1981-82 to 1987-88 was Rs.597.48 crore, but during the same period, there was a nominal net inflow of foreign exchange in hard currency amounting to Rs 9.56 crores only in the Santa Cruz Zone. It further stated that though the imports were mainly from countries in general currency area, exports effected from Madras, Cochin and Falta Zones were mainly to countries in the rupee payment area, Report of the Comptroller & Auditor General of India ending 31 March 1988, No.16 of 1989, Ministry of Commerce, Export Processing Zones, p.5.
If this rate of growth of exports is to be sustained, India will have to look for new markets. It would be appropriate to mention here that the scope is limited when one clearly sees on the horizon the emergence of different trading blocs in the world trading system in the recent past. A major trading bloc is in the making as the European communities will integrate themselves into a single market by 1992. Any barriers or strengthening of bargaining power of this market can have a debilitating effect on our exports. Reforms in USSR clearly indicate that they would like to integrate with European traders group. The inclination of the eastern bloc countries towards market economies is also a clear indication of every likelihood that these countries will also opt for the integration with European Community. India would do well to join the Asia Pacific Economic Co-operation (APEC). It is a pity that so far there are no indications in that regard. In the area of trade and commercial policies, it has been suggested that there should be a shift from non-tariff and quantitative restrictions to tariff-based regulations under an OGL regime. These trade policy measures could be undertaken within the framework of GATT so as to derive the best possible bargains for India's exports in other country's markets. One of such markets is Australia and New Zealand which have shown keen interest in India's progress in economic field including joint ventures.

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30 “Nothing short of a sustained and broad based bargaining by the developing nations can make the western governments see reason. Regional groups can help the process a lot ... While suffering a lot from the protectionism of the North, India has singularly failed to utilise her potential in creating and leading what could be a South Asian economic group. No one questions India's potential in the third world. What is not beyond question is her capacity to create pressures on the North”, editorial “A Cue for India”, Business Standard, (Calcutta), 2 August 1990.


Trading with Australia

India has been a large exporter of jute goods, tea and textiles to Australia for many years and in turn buys wool, metals, tallow and wheat in sizeable quantities. Efforts have been made to enlarge and diversify India’s exports in the field of leather, particularly Kolhapuri chappals, garments, handicrafts and made up textiles, sport goods, light engineering goods and a few chemicals. Australia is a good market for India’s cashewnuts, castor oil, dehydrated onions, pickles, marine products, particularly shrimps and other consumer goods where its labour costs give an edge over other competitors. Indian handicrafts have also become popular in recent years and our carpets and wood carvings could do well in that market. In the field of garments and readymade textiles India faces very severe competition from Pakistan which has made serious inroads into the market and also from Singapore, Taiwan, China, Hong Kong, South Korea and the Philippines.\(^\text{33}\)

Trade links between India and Australia date back to India’s pre-independence era when both the countries were colonies of the British empire. Trade volume at that time was very low. The passing decades also saw no significant expansion in two-way trade as the agrarian structure of both the economies precluded the development of complementarities essential for promotion of trade between the two countries. Two way trade reached A$ 818m in 1988. India only accounts for 1.4 per cent of Australia’s total exports. Australia is similarly small market for India.\(^\text{34}\) (See Table 26 in Appendix I for details on two way trade) Both had been looking westwards for assistance in industrialisation, primarily due to the historical links with Great Britain. However, the growing recognition of the complementarities between the economies of India and Australia and the existence of vast opportunities for expanded levels of trade and economic cooperation have led to the increased interaction and dialogue between the two countries.

\(^{\text{33}}\) India sought the removal of tariff barriers to boost exports of leather goods, handwoven textiles, readymade garments to Australia when the Australian Trade Minister Mr J N Dawkins visited the then Commerce Minister Mr Khurshid Alam Khan in New Delhi. The Hindu, (Madras), 26 October 1985.

\(^{\text{34}}\) Trade and Commercial Development Program for Australia in India. Trade Strategy Branch, Economic and Trade Development Division, Department of Foreign Affairs and Trade, Australia, June 1989, p.17.
in recent years. Since the 1970s trade between the two countries has grown significantly. The 1973 oil prices which pushed up shipping freight rates led to Australia showing greater interests in supplies from the developing countries. For this purpose it introduced a scheme of preferential treatments for imports from these countries. By 1981-82 India’s exports to Australia increased to around Rs. 112 crores and its imports from Australia to as much as Rs. 207.6 crores. Proportionwise, however, while there was some decline in India’s exports viz. the early 1970s position, India’s imports from Australia improved to a little more than 2 per cent of its aggregate imports. India’s exports to Australia increased from Rs. 93 crores in 1982-83 to Rs. 123 crores in 1985-86 and Rs. 164 crores in 1987-88 which means an average growth of a shade less than 14 per cent rise per annum. Similarly, India’s imports from Australia increased from Rs. 326 crores to Rs. 442 crores in 1985-86, showing also about 14 per cent rise per year. By 1987-88, however, imports fell to Rs. 433 crores. The trade balance which has always been in Australia’s favour has also been growing mainly due to the larger imports of cooking coal and wool by India. The current trade pattern suggests that India has increased its exports of primary goods to Australia, while there has been a definite decline in the exports of machinery and equipment. At the same time, the manufacturing sector in Australia has registered a fairly impressive increase in its exports to India, while its exports of primary goods and minerals, except coal, have fallen. Statistics show that Australia’s exports to India (or India’s imports from Australia) suffered a marginal decline of 2.28 per cent between 1985-86 and 1986-87.


36 Trade and Commercial Development Program, n.34, p.45.

37 Australian government’s recent decision to reduce the support price for wool by 20 per cent would further benefit India. This has been done to broaden the demand for Australian wool. See editorial “Not an unmixed blessing”, Financial Express (New Delhi), 2 August 1990. At present Australia’s three largest buyers reduced their purchases - China from 94m Kg in 1987-88 to 59m Kg last year, the Soviet Union from 90m Kg to 70m Kg, and Japan from 174m Kg to 100m Kg partly because stockpiles bought for sale to China were being drawn down for domestic use. Financial Times, (London), 1 August 1990.

38 Trade and Development Program, n.34, pp.45-47.
In 1987 after the establishment of JBC, areas identified for trade with Australia included export of engineering items such as boilers, electric motors, material handling equipment, earth moving and transport equipment, pumps and compressors, transformers, insulators, steel pipes and tubes, business machines, computer software, chemicals including agro-chemicals, heavy duty tyres, handlooms, handicrafts and leather products and import of non-ferrous metals, cooking coal, wool, fishing trollers and diamonds. However, there has been a little progress in tie ups with Australia.

Trading with New Zealand

Trade between India and New Zealand shows a pattern peculiar to dependent economies specializing in primary production, the foreign trade of which is strongly oriented towards the markets of dominant industrial countries. New Zealand’s trade with India forms a very insignificant proportion (less than 1 per cent) of its total trade and has not shown any significant increase during the period in which countries like Japan, China, Korea, Taiwan, Hong Kong and ASEAN have increased their trade sharply. India has been an importer of condensed milk powder, butter and cheese from New Zealand although the imports of these items have tended to decline. The small population of New Zealand is not conducive to establishing large industrial plants in the field of steel and chemicals but a number of assembling plants and medium and small manufacturing units have been set up recently. To the extent that New Zealand has chosen to reduce her dependence on the single market of United Kingdom, its trade with India and other developing countries in the Asia Pacific region may expand in the future. The only limiting factors in the development between the two countries are - one, the fact that Australia and New Zealand are competing economies in respect of production for export over a large range of products and two, that the recent growth of secondary industries in Australia may place Australia in a position of natural advantage as a source of supply of manufactured products by virtue of its geographical contiguity with New Zealand.

41 India Lok Sabha, (Parliament), Debates, Series 9, vol.36, Session 6, 10 April 1987, Starred question no. 617. See also Appendix II.


Early in the present century, India's imports from New Zealand were quite insignificant whereas New Zealand bought from India quite a number of commodities. They in the order of importance were (1) gunny bags and gunny cloth (needed for packing in a pastoral cum agricultural economy) (2) manure (also an essential raw material of livestock and dairy farming) (3) black tea (an essential beverage in a cold country) and (4) non-essential vegetable oil.\(^4^4\) It may also be pointed out that India captured New Zealand's jute market in the early eighties of the last century. The composition and value of India's exports to New Zealand during the war years and the immediate post-war years reflected not only the long-term economic development in New Zealand but also the short period effects of the expansion of its economy in war time. Consequently, the external trade of New Zealand developed rapidly. India's exports to New Zealand show a cyclical trend. The year 1928-29 was like 1923-24 a peak year of India's exports to New Zealand.\(^4^5\) There were substantial increases in exports of consumer goods like tea, coffee, toys and sports goods. A factor which played not an insignificant part in the two-way trade was the preferential tariff. In 1928 one half of the total import from the British empire were admitted free of duty. The preferential arrangement favoured Indian exports as against goods exported from countries outside the British empire in the far east and the Pacific region with one exception that is Australia.\(^4^6\) After the second world war, Indo-New Zealand trade received a further boost. But this time the characteristic feature of trade was that there were large increases in imports from New Zealand mainly import of wool. This, however, tapered off soon due to scarcity of shipping and the increasing risk of shipping losses.\(^4^7\) Rising values in New Zealand's currency of both exports and imports were seen as the reason for increase in India's trade with New Zealand during the 1950s and the most important items of India's exports to New Zealand were jute manufactures, cotton waste and cotton piece goods. It may be seen therefore that India and New Zealand as part of the British empire had fairly good trade and economic relationship.


\(^4^5\) ibid., p.198.

\(^4^6\) ibid., p.193.

\(^4^7\) ibid., p.199.
Now that the two countries are independent and both have felt the need to look away from their traditional markets, there is good scope for future expansion of trade. As one analyses the trends during the 1980s, especially, the later half, it would be noticed that trade between the two countries has been rising especially, New Zealand's exports to India.\(^{48}\) In 1988-89, New Zealand's exports were NZ$ 83.6 million and imports NZ$ 40.5 million. The composition of trade has also undergone a sea change. New Zealand's export to India are dairy products, wool, wood pulp, peas, hides, skins and leather, metal scraps, specialised machinery etc. While it imports a wide variety of items from India, prominent among these is cotton fabrics, apparels, textiles, coffee and diamonds.\(^{49}\) There are two changes from the past, one, jute manufactures does not form the item of import from India any longer and two, the balance of trade is in the favour of New Zealand as against the situation that existed in the beginning of this century when India dominated trade with New Zealand.

Recently, joint efforts have been made to explore ways and means to further trade relations between the two countries. Towards this objective the avoidance of double taxation agreement between India and New Zealand came into force on 3 December 1986. In 1988, to further the co-operation at private sector level, joint business council was set up between India and New Zealand. So far there have been only two meetings. Recently, the Indo-New Zealand Joint Trade Committee identified a number of areas of export interests and joint ventures to foster trade and expand economic co-operation (The list of these items as well as the areas identified for joint ventures are detailed in Appendix II). A background paper of the Indo-New Zealand Joint Business Council has suggested several areas for co-operation for example food processing industry, computer software, electronics and telecommunications, co-operation in energy sector etc.\(^{50}\) New Zealand is a very good market for Indian products, for example, cashewnuts, castor oil, chemicals, sports goods, marine products, spices and pickles, textiles, fancy leather goods, light engineering and other consumer goods. New Zealand is also engaged in improving its communication network and

\(^{48}\) Data provided by the New Zealand High Commission in New Delhi. See also Table 20 in Appendix I.

\(^{49}\) JBC, n.5, pp.6-7.

\(^{50}\) ibid., pp.8-9.
is stepping up its power generation from coal in order to reduce its dependence on crude. India could also fruitfully participate in these programs. A highlight of the March 1989 Joint Business Council meeting in Auckland was to have joint venture for compressed natural gas (CNG) kit which will provide alternative for fuel used in automobiles.\textsuperscript{51} Notwithstanding the work done so far in the area of economic co-operation between the two countries it should be admitted, however, that not much progress has been achieved. Efforts from both the sides have been at the exploratory level but there exists quite a good scope for co-operation as brought out by the background paper.

**Trading with Island Countries**

India's trade with the Southwest Pacific island countries has been quite modest. Fiji is the only country which has over the years imported India's products to some extent.

Indo-Fiji trade has been sluggish over the recent years. In fact, India's imports have been negligible (US$ 22,827 in 1980 and $ 78,632 in 1981) while its exports averaged $6.15 million between 1979 and 1981.\textsuperscript{52} India's exports mainly consisted of cotton, silk and other fabrics, terry towelling, builders' indoor sanitary ware, iron or steel articles, parts of machinery, developed cinematographic films, cosmetics, footwear, clothing, jute bags, sacks, spices, pulses, household utensils, imitation jewellery, musical instruments, tea and machinery. Fiji is a good market for engineering goods, pharmaceuticals and drugs, textiles. The only item of interest on the import side to India is Fijian copra. Obviously, there are no prospects in the field of sugar which India itself exported. Perhaps the long distance is keeping away many Indian businessmen from exploring this potential market. Fiji is a very competitive market but it affords a rich potential which has yet to be explored and developed. There is keen competition from multinational companies of Australia and New Zealand which are involved in trading and retail marketing of a wide variety of goods, besides having a hold on manufacturing and shipping services. It may be mentioned

\textsuperscript{51} Based on the interview with Ms Ambica Sharma of FICCI, New Delhi, 12 November 1990, who accompanied the delegation to Auckland.

\textsuperscript{52} See Table 9 and 10 in Appendix I.
that the Australian government, for instance, gives loans to Fiji businessmen in joint venture participation with Australian companies. Exports from Australia have high reputation of quality products and in most cases the air freight costs from Australia are lower than even the sea freight costs due to station cargo rates. SPARTECA also gives added advantages to the Australian and New Zealand exporters. Other countries like Japan, UK and USA have also been fairly active. It is, therefore, essential that the Indian manufacturers and exporters match in terms of products, price, packaging, after sales service and delivery schedules with their counterparts abroad. It was felt in 1982 that the strategy of technical co-operation between India and Fiji, was specially in relation to Ba district owing to various inherent advantages. For instance, Crown land was available for establishing an industrial zone which could be made available at nominal rental basis. Ba was also known to be capable of providing stable manpower, both skilled and unskilled at wage rates below those prevalent in major urban centres. The Fiji Institute of Technology, Western Divisional Centre is adequately geared to provide technical training without the need for bringing outside specialist. Scope also exists for extended technical assistance to be provided to professionals and researchers of Fijian government, industry and trade.

However, economic options are difficult to exercise in the light of hard political realities. Two recent coups in Fiji have come as an obstacle in the way of future development of economic co-operation with India. It may be hoped that as soon as the normalcy is restored in Fiji, relations between the two countries would be resumed.

The other island country in the region which has shown interest in India's technological capability and development planning strategy is Papua New Guinea. The government of India may be able to provide assistance in the form of expertise so also in providing equipment and machinery for rural development including rural health care, community education, rural transport and water supplies, coastal fisheries etc. There exist prospect for setting up secondary industries for manufacturing household utensils/appliances, office equipment and stationery, automobile accessories and parts, rubber goods, leather and leather

53 Based on an interview with Chris Merchant of South Pacific Branch of Department of Foreign Affairs and Trade in Canberra, on 13 May 1990.

c. to create a class of skilled workers in industrial activities as well as specialists in agricultural pursuits.

d. to enlarge areas of regional and inter-regional co-operation.

The methodology for enabling technical co-operation would by and large be based on the following factors:

(i) identification of viable projects;

(ii) formal agreement with the concerned government on the modalities of technology transfer and provision of finances;

(iii) development of suitable sites for industrial sectors and provision of infrastructural facilities;

(iv) preparation of feasibility reports by competent specialists;

(v) linkage with the concerned governments to decide on management, finance, training and other packages of assistance;

(vi) training of local workers in identical industries in the country undertaking technology transfer;

(vii) supply of machinery, tools, equipment etc. for setting up industry in the host country;

(viii) supply of management for installation, commission and running of plants for a specific period agreed upon;

(ix) in-plant training and handing over the plant to nationals.

Given the above package approach to technology transfer on specific groups of items or lines of production there appears to be adequate scope for technical co-operation between India and the Southwest Pacific countries.

As part of its liberalization program, Indian government has liberalized its policy towards joint ventures and foreign investment in deep sea fishing.
As a first step, the cost of the vessels used by the collaborators would be treated as part of their equity. Secondly, 40% equity norm for foreign collaboration would be replaced on a case by case basis. India can co-operate with island nations in the area of deep sea fishing, in its efforts to increase its marine exports to Rs. 1500 crore by 1995. So far, it has concentrated on US and Japan.

Constraints

The major constraints in trade expansion between India and Australia (and hence between India and Southwest Pacific), as identified by the Trade and Commercial Development Programme for Australia in India, are (a) India's restrictive import licensing regime and foreign exchange limitations for importers (b) virtual absence of bilateral aid program (except with Australia) (c) absence of double taxation agreement (Only New Zealand has double taxation agreement with India) (d) transportation costs, and (e) general lack of business awareness of opportunities.

Shipping Corporation of India is the only Indian shipping line providing service to Australia and New Zealand. It maintains a monthly or 5/6 weekly service from Calcutta and occasionally from Bombay to main Australian ports and the Royal Inter Ocean Lines maintain a regular monthly service from Australia to Bombay. Recently, Senate Committee report complained of "high shipping rates charged by the state owned shipping line on the west coast of India affecting Australian exports." In addition to this, goods have to be transshipped via Singapore which makes it very costly and delays the cargos because this trans-shipment is highly dependent on on-carrying vessels which are either not


59 Trade and Commercial Development Program, n.34, p.18.

60 Recently Shipping Corporation of India discontinued its services to Australia due to recurring losses. There is an effort to resume the services. Financial Express, 17 September 1990.

61 Senate Committee Report, n.3, p.x.
available for on-carryage immediately or even within a reasonable time after cargo is landed at trans-shipment ports or are highly reluctant to carry smaller quantities of cargo offered for carriage in the absence of a stable and long-term carrying arrangement with them. While direct shipping services to these markets are not feasible for want of adequate cargo traffic, there is no doubt that the existing on-carrying arrangements leave much to be desired. It is necessary to overcome and resolve the problems to a more stable and dependable arrangements which lies in the establishment and operation of trans-shipment depots at one or two ports in the Southeast Asian region, lying across the major sea routes frequented by many shipping lines, with heavy conglomeration of traffic and from where trans-shipment services are available on a regular basis.

Another major constraint of increasing our trade with that region has been the quality and cost of our products. Quality is very important so also delivery and packaging. The Australians or for that matter almost all the people in the Southwest Pacific are affluent enough to pick and choose from the best sources. Unless our goods conform to the world standards it may not be possible to make a real breakthrough. If we can keep up with the world standards in designing, quality and packaging and are able to offer goods at international competitive prices, we could hope to obtain a reasonable share of the market which is dominated by Japan and other countries. They have the advantage of well established distribution network, advertising and sales promotion which we as a latecomer have to contend against.

SAARC and SPF

The recent co-operative endeavour which developed into an institutional framework of co-operation in South Asia has potential for strengthening and diversifying its ties with the Southwest Pacific economies. The South Asian Association for Regional Co-operation (SAARC) launched by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka aims at promoting collective self-reliance among the member countries. An Integrated Program of

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62 Babu and Vyas, n.54, pp.51-52.

63 "Made in India image needs a qualitative change", The Economic Times, (New Delhi), 2 December 1990.
scale industry. Sri Lanka can assist in the development of tourism, establishment of export processing zone, setting up of modern lapidary industry, coconut based industry etc. and Pakistan can export cotton textiles. India has a plurality of socio-economic development expertise and technological capability to offer. SAARC countries could have a meaningful dialogue with the developing countries of the Southwest Pacific on the nature and modalities of inter-regional cooperation, especially in respect of implementation of industrial projects already formulated by the Commonwealth Secretariat and SPEC. At the same time, the scope for bilateral trade agreement may also be explored for mutual benefit.

While the relevance of experience and expertise of the South, Southeast and East Asian countries is being widely recognised, and there is an increasing awareness of the need for seeking solutions outside, scope exists for the countries of the Southwest Pacific to learn from India's experience.

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66 ibid., pp.164-69.
warship visits to the Southwest Pacific. Nevertheless, Australians do realize need to review their security requirements under the changed international security order. They no longer rely on ANZUS Treaty of 1951.

The conclusion which can be drawn from these developments is that there is a trend towards greater self reliant foreign and defence policies, that has put national and regional priorities ahead of traditional cooperation with their metropolitan powers. Also, anti-nuclear sentiments are stronger in the Southwest Pacific than anywhere else in the world. In addition to this, the countries in the region, in the wake of changed world economic order, have undergone a process of new economic transition.

In the new world economic order, Western Pacific Region (WPR) has undergone phenomenal growth. Structural change in Japan has been accompanied by moves by the Asian NICs into areas of trade and industrial production previously dominated by Japan (such as textiles and more recently ship building, steel, automobiles and consumer goods). At the same time countries in the region at lower stages of industrial development (ASEAN and to some extent China) are taking the place of the NICs in exporting labour intensive products, suggesting the potential for complementary development between the ASEAN economies and the NICs, similar in scope to that which existed between the NICs and Japan during the 1960s and 1970s. The Southwest Pacific region being so close to these Western Pacific economies could not remain uninfluenced. In fact, the major change in the direction of Australia’s merchandise exports has been the move away from traditional European markets towards the Western Pacific Region. The share of Australia’s exports to the WPR has expanded rapidly from under 20 per cent in the early 1950s to about 55 per cent in the early 1980s. Japan has emerged as the major export market for these countries. But in view of the Japan-US trade war, these countries specially Australia have felt threatened in recent years. Australia competes with US in selling some A$5 bn worth of exports a year to Japan. If Japan discards commercial consideration in favour of political, Australian exports will be vulnerable in a number of key fields - local beef, computer software and whole range of manufactured goods. Already it has lost to the US A$400 mn worth of share of Japanese beef imports. The Japanese claim this is because of the type of beef Australia has to offer, but Australian policy makers suspect that there is a strong element of politics involved.
Indeed, it is the economic more than strategic and security factors that have antagonised Australia and New Zealand. It has been realized by them that the most fundamental of links between economic and political factors in foreign policy, related to the political basis of the international trading system. In the post-second World War period, the GATT was the agency through which most of the world trade was governed. Its main political basis throughout the 1950s and 1960s has been the effort to keep alive the liberalised trading regime. Developed world led by the United States obviously had a stake in keeping alive the liberalised trading system. They are better endowed with physical capital and labour. Its labour is mostly skilled. Understandably, it exported those commodities in which it had comparative advantage in terms of factor endowments. Hence, these nations exported capital intensive commodities while the developing Third World exported labour intensive as it had comparative advantage in labour intensive commodities. The interest of the developed world lies in keeping this assymetrical structure of the world economy. While on the one hand, the developed North gave countless arguments in favour of free trade, it indulged in unfair trading practices whenever it felt the need to do so. The US-EC dispute over agricultural subsidy has put into question the very existence of international free trading system under GATT.

Australia benefitted tremendously from the liberalised system of trade under GATT. In fact, it led the Cairns Group of developing countries in the Uruguay Round of GATT talks to keep the trade in the agricultural commodities liberalised as it had its own interests to protect in the US-EC dispute over agricultural subsidies. Common Agricultural Policy (CAP) of the EEC has had the effect of depressing international prices which also led the United States to embark on its own subsidisation programmes. One of them has been the US farm policy which since the 1970s has led to over production of domestic output while insulating domestic markets from international competitive forces. The Export Enhancement Policy of 1985 authorises the US government to target foreign markets where the EEC subsidised farm products holds its significant market share. In these markets, the US grain exporters are encouraged to offer discounts on grain purchases. Unfortunately, many of these target markets also happen to be the major purchasers of grain from non-EEC sources, specially Australia. For example, the US sale of wheat to Egypt in September 1985 below market prices caused great anxiety in Australia because Egypt was Australia's biggest wheat customer in 1984-85. Examples like this abound, not only in the case of Australia but also in the case of New Zealand. As a result, both have been strengthening links with the developing countries in Southeast Asia. Australia has a system of tariff...
aid and advice of one of reciprocity and recognition of mutual benefits. Under the agreement, Australian budgetary support which at one time was 50 per cent, is to be progressively reduced in a predictable manner.

Even foreign investment has not been able to raise the level of economic activity mainly due to its confining to a particular sector of the island economy, and shortage of skilled manpower. In Papua New Guinea, it remained limited to petroleum and mining while in Fiji it confined to the sugar economy and tourism to a limited extent. Foreign investment in these island economies mainly came from Australia. Its level in 1987-88 in Papua New Guinea and Fiji was A$1803mn and A$57mn respectively. The value of the Australian investment in the rest of the Southwest Pacific was A$520mn in 1987-88.

However, today it is increasingly getting to be difficult for Australia to maintain its commercial profile in the region. Challenges facing Australia include the difficult economic circumstances due mainly to the small narrow economic base of the Southwest Pacific economies; increased competition from New Zealand, Japan, South Korea, China, Taiwan and Singapore; the effects of trade in subsidised agricultural products by the USA and development of import substitution industry in the Papua New Guinea and Fiji assisted by tariff and non-tariff barriers and the weakening of traditional linkages with Australia in some of the islands. Additional factors in Australia’s trade relationship will arise from the possibility of developing in the longer term closer economic relations in the region through broader based agreements. Regional co-operation agreements like South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) and Papua New Guinea and Australia Technical Co-operation Relations Agreements (PATCRA) would have to be more broad-based.

In recent years, regional issues like fisheries, security co-operation, trade and economic co-operation have prompted regional governments to take some initiatives. What is noteworthy about these initiatives is that they have promoted more and more the involvement of local people imbibing in them a spirit of regional identity. In other words, they have promoted ‘Pacific way’ to Pacific problems discarding western modes of conflict resolution. It aims at (a) regional organisations like South Pacific forum (SPF), South Pacific Bureau for Economic Co-operation (SPEC) SPC, FFA etc. and their programs to be in the hands of Pacific states (b) anti-colonial feelings, (c) neo-colonialism to be controlled (d) the Primacy of Pacific cultural values (e) a belief that a Pacific cultural affinity had always existed but had been interrupted by colonial expansion and rivalry.
The 1990s would be a crucial decade in which the countries in the region would face the challenges of a changed global strategic environment as well as that of increasing domestic economic and social pressures. These countries would need, therefore, to manage the change in the decade to come.

It has been surprising as to why India has not approached these countries to help them in their economic development. Of special relevance to these countries may be India's technological capabilities and expertise in small scale industries. Lately, Australia and New Zealand have sought greater co-operation in many economic fields. The recent joint efforts to increase bilateral economic cooperation include establishment of an Indo-Australia JBC, The Joint Trade Committee, Joint Ministerial Commission and Joint Working Group on coal, high level aid consultations to facilitate interaction between business committees, participations in trade fairs, exchange of delegations, and identifications of items and areas for trade expansion. Under the current liberalization programme set out by the Indian government there is further scope of joint venture co-operations and investment. Now that the southwest Pacific nations are independent and have felt the need to look away from their traditional markets, there is good scope for future expansion of trade and exchange of skilled personnels. Even New Zealand has shown interest in India's economic development. There has been noticeable increase in the two-way trade. In 1988-89, New Zealand exports were NZ$83.6mn. and imports NZ$ 40.5mn., up from 1987-88 figure of NZ$ 51.3 and NZ$ 39.0. To further increase this co-operation at private sector level joint business council was set up between India and New Zealand in 1988 to identify areas for economic co-operation. Earlier during 1986 an agreement was signed to avoid double taxation. India can help small Island economies also. Tonga with whom India has had relations in the past and Western Samoa may seek co-operations in the field of small scale industries agriculture & rural development. Similarly, with Fiji, India can once again seek co-operation after the normalisation of relations.

However, their are several constraints in forging meaningful co-operation between India and the Southwest Pacific. These are high transportation costs, lack of adequate shipping facilities, lack of business awareness opportunities, absence of bilateral aid programmes etc. In addition to this markets of the South West Pacific countries are dominated by Japan and other countries which have well established distribution networks, advertising and sales promotion channels. A real breakthrough would be possible if India is able to keep up with the world standards in quality and packaging and is able to offer goods at internationally competitive prices.