

DEVELOPMENTS IN AUSTRALIA-INDIA RELATIONS: THE ODD COUPLE OF THE INDO-PACIFIC

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India and Australia have the potential to become important strategic partners in Asia as part of a coalition that could help manage the changing balance of power in the region. But while India and Australia share many strategic interests, both countries still have a lot to learn about how to get along with each other. Some might even see them as the odd couple of the Indo-Pacific. This paper looks at recent developments in the relationship in the areas of security, politics and economics, and the prospects for a closer partnership under the new Modi government.

Congruent Strategic Interests

Many analysts see the strategic interests of Australia and India as ‘essentially congruent’¹ and there certainly seems to be considerable scope to develop closer economic, political and security relations. But a strategic partnership between will not necessarily come easy – it will require a sustained political commitment from both sides to overcome longstanding differences in perspectives.

For much of their history as independent states, the relationship between Australia and India has been cordial but somewhat distant. During the Cold War and after, the relationship was characterised by periods of indifference interspersed with occasional political irritations. Australia and India share a language, British-style institutions and a democratic tradition, all of which could underpin a shared strategic outlook. But in practice the colonial link often served to divide just as much as it has united them.²

India’s economic growth and the changing balance of power in Asia have now created a new dynamic in the relationship. Australia and India’s strategic interests are now aligned as never before. These include shared concerns about the role of China, the management of maritime security across the Indo-Pacific and the security and stability of our region generally. In 2009, Prime Minister Rudd told an audience in New Delhi that India and

Australia were 'natural partners' and should become 'strategic partners'.³ That may not have yet been achieved in substance, but there is certainly a new-found openness on both sides to engage and move beyond the ideological differences of the past. The process of serious relationship building is really only just beginning: over the last decade or so the two sides have engaged as never before, but cooperation now needs to move into a more concrete phase. The election of the new Modi government may provide an opportunity to move the relationship to a new level.

A new economic partnership

The economic relationship between Australia and India has long been quite weak, which has contributed to an overall lack of political alignment over the last 65 years. Australia's biggest economic partners are in northeast Asia, where it feeds resources and energy to the economies of China, Japan and South Korea, and this in turn has led to large-scale bilateral investments. In contrast India's economy, which was largely closed to external trade and investment for many decades, is still in the process of opening up, and this has restricted the opportunities for economic engagement.

Assuming that India's economy will be opened up further under a Modi government, it is likely that in coming years India will become one of Australia's largest customers for resources and energy. The two economies can be seen as complementary in both economic and strategic terms. From Australia's standpoint India represents a huge and growing export market and an opportunity to provide greater balance Australia's economic relationship with China. For India, Australia represents a politically stable and reliable source of energy and resources to help fuel its economic growth, as well an important new market for exports. There are considerable opportunities to further develop two-way trade and a far stronger investment relationship

There has been significant growth in trade over the last decade and in 2012-13, bilateral merchandise and services trade stood at A\$16.6 billion (although the value of exports to India had dropped considerably over the previous year). Australian exports are

concentrated in coal, gold, copper and education services and overall India is now Australia's fourth largest export customer after China, Japan and South Korea. But the balance of trade is heavily in favour of Australia, which could be a potential source of tension.

The investment relationship remains relatively undeveloped and the lack of substantial investment links could make the economic relationship potentially fragile. Australian resource companies, for example, which are among the largest and most technologically advanced in the world, are very keen to participate in the Indian resource sector, but have found themselves largely locked out by restrictive Indian investment rules. There is growing interest among some Indian companies in resource-based investments in Australia as part of vertical integration strategies. This includes some very large acquisitions in Queensland's Galilee coal basin, which could become Australia's largest coal project. However, the entire project is looking increasingly uneconomic and seems unlikely to proceed in the near term if at all.

A Comprehensive Economic Cooperation Agreement (CECA) between India and Australia has been under negotiation for some time. With the recent finalisation by Australia of free trade agreements with Japan, South Korea and China, the Abbott government has turned its attention to the Australia-India CECA and hopes to make significant progress this year. The potential gains are huge. According to a 2008 feasibility study, the CECA, if it had been adopted then, would yield a gain to Australia of A\$43 billion over the period 2010-20 (in 2008 net present value terms) and a gain to India's real GDP of A\$46 billion.⁴ The finalisation of the India-Australia CECA would therefore represent a big step forward in creating the conditions for much closer economic and political relations.

A new political and security partnership

The political and security relationship has also developed considerably over the last decade - although for reasons somewhat apart from the economic relationship. This broadly reflects a convergence of strategic perspectives, particularly as a rising India looks to assume greater responsibilities across the Indo-Pacific and as many states in the region, India and Australia

included, have become increasingly concerned about China's strategic ambitions. The 2006 US-India nuclear deal also removed some of the ideological roadblocks that long inhibited a closer political engagement between Delhi and Canberra.

Over the last decade, the security engagement between the two countries has gained considerable momentum. Several bilateral agreements on security-related matters have been signed, including a 2003 agreement on terrorism, a 2006 memorandum of understanding on defence cooperation, a 2007 defence information sharing arrangement, and agreements on intelligence dialogue, extradition, and terrorism in 2008. In November 2009, Australia and India announced a Joint Declaration on Security Cooperation, intended to set out shared strategic perspectives and create a framework for the further development of bilateral security cooperation. The Security Declaration is a non-binding declaration of principles and understandings, which establishes a bilateral framework for further cooperation in security matters.⁵ The Declaration was a notable step in establishing a framework to further develop the security relationship, including the formalisation of regular consultations and dialogues between foreign ministers, senior military and diplomatic representatives, and joint working groups on maritime security operations and counter-terrorism and immigration. Australia has signed similar Declarations with Japan and South Korea and India has a similar Declaration with Japan – which reflects a growing web of security relationships among middle powers of the Indo-Pacific.

These formal agreements have underpinned greater engagement between India and Australia on security-related matters over the last 5-10 years. Bilateral defence and security dialogues currently include:

- Meetings of Australian and Indian Foreign Ministers: Held annually since 2001 pursuant to the India-Australia Foreign Ministers' Framework Dialogue (FMFD).
- Meetings of Defence Ministers: These have been held at relatively regular intervals, but not annually. The meetings have mostly been held in India, but in June 2013 Indian Defence Minister A. K. Antony visited Australia for the first time.

- Annual Defence Policy Talks: These talks have been held since 2010 at level of the Additional Secretary (India) and Defence Secretary – Strategy (Australia).
- Regular visits of Service Chiefs: Australian and Indian Service Chiefs meet their counterparts around once a year.
- Australia-India Maritime Security Operations Working Group (established in 2006).
- Regular staff talks between senior officers of the navies (held annually), air forces (which was supposed to be annual, but recently moved to a biennial basis) and armies (held biennially).
- A 1.5 Track Strategic Roundtable (held since 2001) and a 1.5 Track Defence Strategic Dialogue (held since 2012), hosted by Australian and Indian think tanks.

These dialogues have brought India and Australia into sustained contact at political, bureaucratic and military levels as never before. Many would see these dialogues as an important step in itself, although from an Australian perspective they still often appear to lack real substance or follow-through on the Indian side. This probably reflects general constraints in the Indian political and bureaucratic processes more than anything specifically to do with Australia. It seems that some in the Indian bureaucracy are still not fully comfortable with the idea of defence cooperation with other countries. As a result, the Indian services, particularly the navy, are frequently frustrated by bureaucratic roadblocks from developing closer relationships with their counterparts, including with Australia.

But these developments, as important as they are, should also be viewed against the missed opportunities and challenges over the last decade. In the security dimension, one important missed opportunity for a broader security engagement between India and Australia was the so-called “Quadrilateral” initiative in 2007. This involved a proposal by Japanese Prime Minister Shinzo Abe for a formal security dialogue among Japan, the U.S., India, and Australia. The initiative sparked a strongly negative reaction from Beijing, which claimed it marked “the formation of a small NATO to resist China”⁶ and each of the putative partners (including Japan) became increasingly hesitant about it. But it was Australia, under Prime Minister Rudd, that first publicly backed away from the proposal. Canberra was concerned about China’s reaction to the proposal, but it was also concerned that the arrangement

might effectively replace the Trilateral Security Dialogue among the U.S. Japan, and Australia, which Australia regarded as a key forum for coordination among the Pacific allies.

For several years, nuclear issues were also a considerable irritant, slowing the development of the relationship. Although Australia supported the approval of the U.S.-India nuclear deal by the Nuclear Supplier's Group in August 2008, it continued to refuse to supply uranium to India for several years because it was outside the international non-proliferation system. It was feared that making a special exception for India, which is not a signatory to the Nuclear Non-Proliferation Treaty, might seriously undermine international non-proliferation norms. While India did not need Australian uranium, having secured supplies elsewhere, New Delhi saw this prohibition as indicating a lack of commitment to the relationship and a refusal to acknowledge India's great power status. But a change in Australia's uranium policy in 2011, and the impending finalisation of uranium supply arrangements, has largely removed this impediment to the relationship.

Overall, while the relationship appears to have a lot of potential, concrete developments in the relationship – particularly in the security dimension – are occurring very slowly. Many observers do not consider that bilateral dialogues yet have a great deal of substance and, importantly, engagement at an operational level remains thin.

Cooperation in international forums

A convergence in strategic perspectives has also led to nascent political and diplomatic cooperation between Australia and India on the international stage. Over the last couple of years the two have been increasingly working together towards the development of multilateral economic, political and security institutions in Asia that are 'balanced' (i.e. not unduly dominated by China). This has included increasing cooperation between them in groupings such as the East Asia Summit and the ASEAN Regional Forum.

In the Indian Ocean region, India and Australia have been cooperating in further developing the activities of the Indian Ocean Naval Symposium (IONS), a biennial meeting of naval

chiefs of Indian Ocean states. They have also been making considerable efforts to give fresh life to the Indian Ocean Rim Association (IORA - formerly called IOR-ARC), including through adding maritime security issues to that organisation's brief. While there will always be significant limitations on the effectiveness of IORA, largely due to the extreme diversity of its members, both India and Australia recognize the importance of developing an effective regional organization in which they and other key states play an active role.

Many believe that there is considerable scope for more concrete security cooperation between India and Australia in the maritime realm, and organisations such as IORA and IONS could be a key focus for this. This includes cooperation in areas such as maritime policing (piracy and maritime terrorism, illegal fishing, people trafficking etc) and Humanitarian and Disaster Relief (HADR), anti-terrorism, local capacity building and in maritime domain awareness. Southeast Asia would be a natural focus for cooperation given their common interests in that region, but there is also the potential for cooperation elsewhere, for example, among the Indian Ocean islands.

There may also be scope for India-Australia cooperation at a global level, including on issues such as nuclear non-proliferation and disarmament, and in various weapons non-proliferation regimes. These include the so-called Australia Group (a grouping of some 41 states and international organisations that collaborate to prevent the abuse of dual-use technology and materials for chemical and biological weapons programmes). Other important export control regimes aimed at non-proliferation include the Nuclear Supplier Group (a grouping of some 47 states that supply nuclear materials and technology), the Missile Technology Control Regime (a grouping of 34 states to prevent the proliferation of missile technologies with a range above 400 kilometres) and the Wassenaar Arrangement (an informal arrangement among 41 participating states aimed at non-proliferation of conventional arms and dual use goods). Australia is chair of the Australia Group and an active member of the other regimes. India is currently not a member of any of these groupings, which represents a significant anomaly in the international arms control system.

In 2010, President Barack Obama signalled U.S. support for bringing India into the various export control regimes. Rory Medcalf of the Lowy Institute argues that Australia's role in the Australia Group, in particular, can give it some leverage to assist India in this respect. The Australia Group may be a logical place to begin India's formal entry into the global export control network, because it is not connected to any residual sensitivities about nuclear issues.⁷ Given India's massive chemical industry and the growing biotechnology sector, the absence of India from the export control regime is unsustainable.

The participation by India in such groups may also require changes in New Delhi's attitudes towards such regimes. India has long opposed the nuclear non-proliferation system, which it argued unfairly discriminated against it. India also previously opposed other export control regimes based on the argument that they were part of a western policy of denying technology to India and other developing countries, however that perspective is changing over time.

People to people ties and public opinion

People-to-people ties between Australia and India have historically been quite weak. This has not been helped by the fact that the Indian community in Australia is relatively small compared with other immigrant communities including from China and other countries in East Asia. But this is changing, driven among other things by a huge increase in young Indians studying in Australia, and in 2011-12 India became the largest single source of immigration to Australia. Australia will no doubt feel the growing political and economic influence of its Indian community in coming years.

Public opinion is also becoming an increasingly important factor in the relationship. In 2009, muggings of several Indian students in Melbourne led to hostile reports in the Indian media, which caused decision-makers in Delhi to slow down further developments in relations. Despite these controversies, the Indian public now appears to see Australia in favourable terms and as an important potential partner for India. According to the Australian Lowy Institute's 2013 poll of Indian public opinion on foreign policy issues,⁸ when Indian

respondents were asked to rate the warmth of their feelings to various countries on a 1-100 scale, Australia was rated fourth at 56, ranking behind only the U.S. (62), Singapore (58) and Japan (57), but well ahead of other Asian or African states. When Indians were asked what countries India should be more like, Australia was rated second (at 60% of respondents) only after the U.S. (78%). A slightly lower level of respondents (56%) thought that Australia would be a good partner for India in the Indian Ocean. These findings seem to demonstrate that there is popular support for closer relations with Australia.

While political and other controversies between India and Australia should be expected to arise in the future, the increase in people-to-people ties between India and Australia bode well for a more mature and resilient relationship between the two countries.

Challenges in developing the relationship

But despite these developments and opportunities, it must be recognized that the relationship still presents considerable challenges.

One structural issue is the inherent difficulty in building a productive relationship between an emerging power with great power aspirations such as India and an active middle power such as Australia. Australia is neither a major power nor a small state. In the last decade or so, India has made significant progress in developing closer security relationships with major powers such as the United States and Japan and it has also developed security partnerships with small states such as Singapore, Mauritius and Maldives.⁹ It has relatively less success in developing security and defence relationships with middle powers, especially an activist middle power such as Australia.

As yet, there is little understanding that each is a crucial element in the other's security. Some in New Delhi still do not see Australia as not an 'independent' strategic actor due to its alliance with the United States. Why deal with Canberra when one can deal with Washington? This view may be on the decline, but there is still little sense that India should take Australia's opinions into consideration, particularly when making judgments about

China or the Indian Ocean. Australia still needs to make the case that it should be seen as an indispensable partner to India.

Australia and India also have quite different traditions and instincts about security collaboration which may inhibit security cooperation. In contrast to Australia's instincts to join international coalitions, India's instinct is to oppose multilateral security cooperation except under the clear banner of the United Nations. Cooperation, particularly operational cooperation, carries with it an ideological taint that India's strategic autonomy will be undermined.

Another major factor is China. While China is a key factor bringing Australia and India together, both have also been cautious about allowing the relationship to be perceived as anything that might resemble anti-China coalition. There are also some differences in perspective. Canberra tends to be more open than Delhi to the idea of facilitating a role for China as a legitimate stakeholder in Indian Ocean security. While Australia is concerned about China's assertiveness in the South China Sea, Australian analysts have tended to treat Indian claims about the nature and extent of Chinese involvement in the Indian Ocean region with a degree of skepticism. Whereas some in India may see strategic benefit in having the capability to control China's sea lanes of communication, Australia arguably has a greater interest in creating opportunities to facilitate China's role as a responsible stakeholder in the Indian Ocean.

Where does all this leave prospects for greater strategic cooperation? Although there are many shared interests and opportunities, a closer relationship will require sustained political will in both Canberra and New Delhi to overcome differences in their political and strategic cultures and develop a better understanding of each other's perspectives. For India, in some ways, Australia represents a difficult case. Australia's close relationship with the United States still creates political unease among some in New Delhi. On the other hand, Australia, could be a useful partner for India in leveraging its reach. In the longer term, New Delhi may find that a good working relationship with Australia may ease the way for India's broader strategic aspirations.

The new Modi government

The election of Narendra Modi as India's Prime Minister could have significant consequences for the relationship. It is widely expected that Modi's pro-business views will help revive India's economy, which would add vigour to the India-Australia's economic partnership. Modi built much of his reputation for economic development based on trade and investment, and this is likely to be central to Modi's plans to revive India's economy. This may be good news for the prospects for the Australia-India CECA.

Modi has not expressed any public opinions about India's relationship with Australia, but the indications are that new BJP government is likely to be more realist in orientation and less institutionally bound to India's Nehruvian rhetoric of non-alignment as compared with its predecessor. This may create opportunities for Australia to press for more concrete cooperation, particularly in maritime security.

One BJP policy that could have more direct impact on the bilateral relationship is the idea of India crafting a 'web of alliances' to boost its international weight. It is not yet clear what this may mean in practice, but it does stand in contrast with the Congress party's rhetorical attachment to non-alignment. India is now in the process of crafting an alliance network in all but name with Indian Ocean states such as Sri Lanka, Maldives, Seychelles and Mauritius and is also paying much greater attention to its defence relationships with Bangladesh and Myanmar.

India must now pay much more attention to its security relationships with key middle powers of the Indo-Pacific – and in practical terms Australia should be a prime candidate here. Commentators such as C.Raja Mohan have called for India to be part of a "middle power coalition" across the Indo-Pacific, which would have a relationship with Australia at its core, but also include partners such as Japan and Indonesia.¹⁰ Such a strategy could be an attractive way for India to leverage its regional influence. A Modi government is likely to have greater ideological freedom than the previous government to develop closer security

relationships with Australia and other middle powers. But it is not clear yet whether the Modi government will have sufficient reason to move beyond traditional thinking and develop comprehensive strategic partnerships with Australia and others.

¹ Rory Medcalf and Amandeep Gill, *Unconventional partners: Australia_India cooperation in reducing nuclear dangers*, Lowy Institute Policy Brief (Sydney: Lowy Institute for International Policy, 2009).

² For a fuller discussion of the history of the Australia-India strategic relationship, see Meg Gurry, *India: Australia's neglected neighbour? 1947-1996* (Griffith, Centre for the Study of Australia-Asia Relations, 1996); and David Brewster, *India as an Asia Pacific power* (London: Routledge, 2012).

³ Kevin Rudd, 'From fitful engagement to strategic partnership', Address to the Indian Council of World Affairs, New Delhi, 12 November 2009.

⁴ Australia-India Joint Free Trade Agreement (FTA) Feasibility Study, available at <http://www.dfat.gov.au/fta/aifta/Australia-India-Joint-FTA-Feasibility-Study.html>

⁵ For a detailed discussion of the Australia-India Security Declaration, see "The Australia – India Security Declaration: the Quadrilateral redux?" *Security Challenges*, Vol.6, No.1 (Autumn 2010), pp.1-9.

⁶ Sun Cheng, "A Comparative Analysis of Abe's and Fukada's Asia Diplomacy", *China International Studies*, No.10, Spring 2008, pp.58-72.

⁷ Lisa Curtis, Walter Lohman, Rory Medcalf, Lydia Powell, Rajeswari Pillai Rajagopalan and Andrew Shearer, *Shared Goals, Converging Interests: A Plan for U.S.–Australia–India Cooperation in the Indo–Pacific*, The Heritage Foundation, Lowy Institute and Observer Research Foundation, 3 November 2011.

⁸ Rory Medcalf, *India Poll 2013 - Facing the future: Indian views on the world ahead*, Lowy Institute for International Policy & Australia India Institute, 2013.

⁹ For a discussion of the India-Singapore security relationship, see "India's Security Partnership with Singapore," *Pacific Review*, Vol.22, Issue 5 (December 2009), pp. 597 – 618.

¹⁰ C.Raja Mohan, "Indo-Pacific Balancing Act: In search of a middle power coalition" speech at the Lowy Institute, Sydney, 9 October 2013. <http://www.lowyinstitute.org/news-and-media/audio/indo-pacific-balancing-act-search-middle-power-coalition-c-raja-mohan>