

Associate Paper

20 May 2014

Australia-India Strategic Relations: The Odd Couple of the Indian Ocean?

Dr David Brewster
FDI Associate

Key Points

- The Australia-India relationship has come a long way over the last decade, but it will require significant political will on both sides to give it more substance.
- Bilateral trade has blossomed in recent years, although two-way investment is still relatively undeveloped. A free trade agreement is under negotiation that would provide major benefits to both countries.
- There have been important developments in the political-security relationship over the last decade. There has been a significant expansion in dialogues but concrete co-operation is still nascent and needs more substance.
- India's new government under Narendra Modi may create opportunities for the relationship. This could potentially include co-operating in the development of a new "web of alliances" in the Indian Ocean region.

Summary

India is often identified as one of Australia's key new strategic partners in Asia. While they have many shared 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 Indian Ocean region. This paper looks at recent developments in the areas of security, politics and economics, and prospects for the relationship under the new Indian government led by Narendra Modi.

Analysis

Many analysts see the strategic interests of Australia and India as “essentially congruent” and there certainly seems to be considerable scope to develop an economic partnership and to enhance co-operation in the political-security arena. But a strategic partnership will not 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 may share a language, British political institutions and a democratic tradition but – beyond the cricket pitch – these have rarely served to bring them together.

India’s rise and the changing balance of power in Asia have created a new dynamic in the relationship. The strategic interests of Australia and India are now aligned as never before, including shared concerns about the role of China and the security and stability of the 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”. There is certainly a new-found openness on both sides to engage and move beyond the ideological differences of the past. That process of engagement, however, is only just beginning: over the last decade or so the two sides have engaged as never before, but co-operation now needs to move into a more concrete phase. The election of a new government in New Delhi 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 relatively weak, contributing to the lack of political alignment over the last 60 years. But India is now becoming 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. 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, by 2012-13, the bilateral merchandise and services trade stood at \$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 India is now Australia’s fourth-largest export customer after China, Japan and South Korea. The balance of trade is heavily in favour of Australia and is likely to remain so for the foreseeable future, which could be a potential source of tension.

The investment relationship remains extremely undeveloped. There is growing Indian interest in resource investments as Indian companies pursue vertical integration strategies.

This includes some major acquisitions in Queensland's Galilee coal basin, which could become Australia's largest coal mine project. Unfortunately, however, the entire project is looking increasingly uneconomic and seems unlikely to proceed in the near term, if at all. Many Australian companies are also keen on making investments in the Indian resources sector, but are largely locked out by restrictive Indian investment rules. The lack of substantial investment links makes the economic relationship potentially fragile.

A Comprehensive Economic Co-operation Agreement (CECA) has been under negotiation for some time. With the finalisation of Australia's free trade agreements with Japan, South Korea and China, the Abbott Government is now turning 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 \$43 billion over the period 2010-20 (in 2008 net present value terms) and a gain to India's real GDP of \$46 billion.

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 responsibility in the Indian Ocean region and further afield and becomes increasingly concerned about China's strategic ambitions. The 2006 US-India nuclear deal also removed some of the ideological roadblocks that inhibited India from engaging with a close US ally.

In November 2009, Australia and India made a Joint Declaration on Security Co-operation, which established a framework for the further development of bilateral security co-operation (Australia has similar declarations with Japan and South Korea). This has further facilitated a major expansion of bilateral political-security dialogues over the last decade, including regular consultations and dialogues between foreign and defence ministers, senior military and diplomatic representatives and joint working groups on maritime security operations, counter-terrorism and immigration.

These dialogues have brought India and Australia into sustained contact at the political, bureaucratic and military levels as never before. Many would see dialogues as important steps in themselves, although, from an Australian perspective, they often appear to lack real substance or follow-through on the Indian side. This generally reflects constraints in the Indian political and bureaucratic processes more than anything specifically to do with Australia.

Strategic convergence has led to nascent political and diplomatic co-operation 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) and they have been co-operating in trying to resuscitate the Indian Ocean Rim Association (formerly known as IOR-ARC). There may also be scope for co-operation in international groupings on issues such as nuclear non-proliferation and disarmament.

Many believe that there is considerable scope for more concrete security co-operation between India and Australia, particularly in the maritime realm. This includes such areas as maritime policing (piracy and maritime terrorism, illegal fishing and people trafficking, for example) and Humanitarian and Disaster Relief (HADR), anti-terrorism, local capacity-building and maritime domain awareness. South-East Asia would be a natural focus for co-operation given the two countries' common interests in that region, but there is also the potential for co-operation elsewhere, for example, among the Indian Ocean islands.

Challenges in Developing the Relationship

Despite these developments and opportunities, the relationship still presents considerable challenges. Australia's refusal to supply uranium to India acted as drag on the relationship for some years and was taken by many in New Delhi 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 progress in the negotiation of uranium supply arrangements has largely removed this impediment to the relationship.

But there are still other hurdles in building the strategic relationship. 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 that is inherently important to India nor a small and useful "gateway" state, such as Singapore.

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 an "independent" strategic actor due to its relationship with the United States, giving rise to the notion of '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. Other than as a potential energy supplier, Australia still needs to make the case that it should be seen as an indispensable partner to India.

India is also quite sensitive about the recognition of its major power status, including its leading role in the Indian Ocean region. This was at the core of India's irritation at Australia's uranium export policy. But Australia may not easily accede to the idea of "India's Ocean". While Australia is keen to co-operate with India as a major regional power, it will seek to extend US predominance in the Indian Ocean for as long as possible, while also maintaining its position as one of the major naval powers on the littoral. Australia will likely seek to mould India's ambitions in the Indian Ocean, so that India does not disregard the legitimate security concerns of littoral states and extra-regional powers.

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

Another major factor is China. While China is a key factor in bringing Australia and India together, both have also been cautious about allowing the relationship to be perceived as anything that might resemble an anti-China coalition. There are, however, also some differences in perspective. Canberra tends to be more open than New 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 scepticism. Whereas some in India may see strategic benefit in having the capability to control China's sea lines 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 the prospects for strategic co-operation? 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. India, in particular, is only beginning to recognise Australia as a useful partner. For India, in some ways, Australia represents a difficult case. Australia's close relationship with the United States still creates political unease 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

Narendra Modi, leader of the Hindu nationalist Bharatiya Janata Party (BJP), will soon be sworn in as India's next Prime Minister, but the consequences for the bilateral relationship are not yet clear. Little is known of Modi's foreign policy views other than his apparent penchant for Hindu nationalism and his pro-business attitude. He recently commented that he would follow the foreign policies of the previous BJP-led government under Prime Minister A.B. Vajpayee. If that is any guide, then the new government is likely to be more realist in orientation and less institutionally bound to India's Nehruvian rhetoric of non-alignment and strategic autonomy as compared with the previous government.

Indeed, there are reasons to believe that Modi's election will probably be good for the relationship. It is widely expected that Modi's pro-business views and the BJP's relative economic liberalism (at least domestically), will help to revive India's economy, which would be good news for Australia's exports. Modi built much of his reputation for economic development in the state of Gujarat on international trade and investment, although his party's commitment to free trade agreements is not at all clear. Media reports on Modi's likely post-election economic advisors do indicate that foreign investment and trade will likely be central to his policies to revive India's economy. This may be good news for the Australia-India CECA.

Modi has not expressed any opinions about India's security relationship with Australia. As noted, however, a BJP government may be generally more relaxed than the previous Congress government about aligning itself with new partners. This may create opportunities for Australia to press for more concrete co-operation, particularly in maritime security.

Some are concerned that India might become much more assertive than under previous governments, possibly leading to regional instability. These include reports that the new government may revise India's "no first use" nuclear policy, which could increase strategic instability in South Asia. Although that would be a matter of concern, it should be noted that the policy has evolved since it was initially adopted in 1998. India initially declared that there would be no first use of nuclear weapons against anyone but, a few years ago, the policy appeared to have changed to one only of no first use against non-nuclear states. Any revision of the policy has since been unequivocally denied by Modi, who pledged to follow the policy put in place by the previous Vajpayee BJP government; indeed, this is a "clarification" that may actually create more confusion than it was intended to solve.

That is not to say that the new government may not tinker with other aspects of India's nuclear posture, including the size of its nuclear stockpile or even the development of tactical weapons. With Pakistan's nuclear arsenal now surpassing that of India and delving ever further into tactical nuclear weapons, there should perhaps be no surprise that India may consider updating its nuclear posture. A change in India's no first use policy may not directly affect the relationship with Australia (after all, the US never had a "no first use" doctrine). But a change in India's nuclear posture, if handled badly, could damage India's reputation as a mature and restrained nuclear power, and that would be of concern to Australia.

Another BJP policy that could have more direct impact on the bilateral relationship, and possibly create opportunities for Australia, is the idea of India crafting a "web of alliances" to boost its international weight. It is not clear whether there is a real intention to act upon this policy, but it does stand in contrast with the Congress party's rhetorical attachment to non-alignment. In reality, India is now in the process of crafting an alliance network with Indian Ocean island states such as Sri Lanka, Maldives, Seychelles and Mauritius.

But India must now pay much more attention to its security relationships with key middle powers of the Indian Ocean and Asia-Pacific regions – and, in practical terms, Australia should be a prime candidate. The Modi Government is likely to have greater ideological freedom than its predecessor to develop closer security relationships with Australia and other middle powers, such as Indonesia or Malaysia (although these may be constrained by the Islamic factor). It is not clear yet whether the China factor will give the Modi Government sufficient reason to move beyond India's traditions and develop comprehensive strategic partnerships with Australia and others. Regardless, Australia should position itself to potentially take advantage of new strategic thinking in New Delhi.

About the Author: Dr David Brewster is a Visiting Fellow with the Strategic and Defence Studies Centre, Australian National University, a Fellow with the Australia India Institute and Senior Maritime Security Fellow with the Indian Council on Global Relations. His books include *India as an Asia Pacific Power*, which explores India's growing security relationships and ambitions in the Asia-Pacific. His most recent book, *India's Ocean: the Story of India's Bid for Regional Leadership*, examines India's strategic aspirations and relationships in the Indian Ocean region.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

Published by Future Directions International Pty Ltd.
80 Birdwood Parade, Dalkeith WA 6009, Australia.
Tel: +61 8 9389 9831 Fax: +61 8 9389 8803
E-mail: lluke@futuredirections.org.au Web: www.futuredirections.org.au