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Thinking outside the box with India



Differences in Australia and India's history, strategic perspectives, size, wealth and culture create many challenges for the relationship. In practice it will largely be incumbent on Australia to overcome these challenges and think more innovatively about its engagement with India.

In many ways Australia and India are the odd couple of the Indian Ocean region. For decades, divergent geopolitical perspectives, ideological differences and weak economic links led them to look past each other. Although history gave the two countries a shared language, similar civil and political institutions and, of course, a love of cricket, this history often seemed to divide them as much

as bring them together. But major changes in our region – the emergence of India as a major economy and military power and the rise of China – are bringing the two countries together more than ever before. The challenge for Australia will be in finding new ways of engaging with India that reflect India's unique perspectives.

Over the last decade or so, Australia and India have been engaging more than ever before. A procession of Australian leaders has visited India to push the relationship, arguing that the countries were “natural partners” and should become “strategic partners”. The Indian response to Australia’s enthusiasm has generally been quite tentative and cautious, although the current government of Narendra Modi has shown a greater understanding of the value of Australia as an important strategic partner, alongside other non-traditional partners in the Asia Pacific.

Australia has aspired to build a comprehensive relationship with India, including building an economic partnership resembling Australia’s economic partnerships in East Asia. But in practice the engagement has had a heavy focus on defence and security, often driven by shared concerns about China. There is still a degree of scepticism on both sides about the relative importance of the relationship. Although perspectives are slowly changing, many in Delhi still see Australia as a country that is too small, too wedded to the US alliance and too economically dependent on China to be a priority strategic partner for India. For their part, many in Canberra continue to see India as a country strong on rhetoric and too weak on execution to be a dependable regional partner for Australia. In short, both governments still struggle to prioritise the relationship among other important relationships in the region.

It would be easy (and true) to say that both countries need to work harder to understand each other’s perspectives. But in a relationship between a country of 1.25 billion people and one of 23 million, it will largely be up to Australia to think innovatively about its engagement with India if it really wants to build a comprehensive strategic, security and economic relationship.

Challenges in building an Indo Pacific strategic partnership

Australia began to see India as an important strategic partner around the turn of this century, and its evolving perspectives on India are now intimately linked to Australia’s strategic reorientation towards the Indo-Pacific. The idea of an Indo-Pacific “strategic arc” running from the north Pacific to West Asia means that, for the first time in our history, India is squarely within Australia’s strategic vision. This reinforces the importance of India as a key regional partner that could one day rank alongside Australia’s traditional partners in Asia.

Shared concerns about the rise of China and the regional balance of power have been an important driver of the relationship. For Australia, perceptions of India’s importance have only increased with China’s growing assertiveness. From India’s perspective, too, Australia is increasingly recognised as an important partner as it builds new security relationships across the Indo-Pacific to balance China. But there are also many other shared concerns beyond China that are driving the security relationship, including:

- Maritime security, especially in the Indian Ocean.
- Security of sea lines of communication and freedom of navigation.
- Security and stability of Southeast Asia.
- Opposition to violent extremism.
- Australia’s value as a politically stable source of resources for India.
- Australian recognition India will be a major power in a multipolar region.

But while the two countries have many shared strategic and security interests, there are also considerable constraints in the relationship, reflecting their quite different political traditions. India may no longer pursue the rhetoric of nonalignment, but the goal of strategic autonomy remains a core objective for most Indian policy-makers. In contrast, Australia sees its alliance with the United States as a virtual prerequisite for

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national independence and as an important means of enhancing its regional influence. Indeed, if strategic autonomy is part of India’s national DNA, then strategic collaboration is part of Australia’s. These differences in strategic outlook are compounded by quite different views about hierarchy and status in international relations. In contrast to Australia’s relatively egalitarian middle-power view of the world, India tends to be highly sensitive to questions of hierarchy

and can be demanding that others recognise its privileged status as a major power.

Australia has been actively pushing a closer defence and security relationship with India for more than a decade. Although it has often been slow progress, two developments have given this greater traction.

The first was Australia's agreement in principle to export uranium to India, which many in Delhi saw as almost a threshold issue in the relationship. Second

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was the election of the Modi government in 2014 which allowed India to move beyond some of the ideology of non-alignment that has long constrained India's Congress Party governments. Soon after his election, Modi visited Australia to sign a Framework for Security Cooperation. In 2015,

the Australian and Indian navies held their first substantive bilateral exercises for at least 50 years, which was followed by a small special forces exercise in 2016. In the future, we will likely see the continued, if gradual, expansion in training exercises between the Australian and Indian armed forces.

But we should also be careful in allowing some of the rhetoric about the relationship to outrun the reality – in practice, defence cooperation remains quite thin. Although there are many potential opportunities for the armed forces to work together in training and operations, the two countries still need to find concrete projects to build a culture of cooperation. India, in particular, does not yet consider Australia to be an important defence partner in comparison to major partners such as the United States, Japan, Russia, Israel and France. If Australia wants to build a substantive defence relationship it will probably be up to it to move beyond its normal comfort zone and try to work with India in ways that may have not been previously contemplated. Australia needs to better leverage its geography and regional relationships. For example, should Australia try to draw India into Australia's existing or new defence coalitions in Southeast Asia? Should Canberra encourage India to make use of Australian training areas in northern Australia, potentially with other regional partners? Should Australia offer to share information and even facilities with India as part of a cooperative system of maritime domain awareness?

Rethinking the economic relationship

For a decade or more, many inside and outside Canberra have assumed that economics would be a central part of a new relationship with India. The lure of a market of 1.2 billion people, now growing at almost 8 per cent a year, is not a difficult story to sell. According to this story, India (at last!) is now following the path of East Asian economies

in previous decades and might even one day become another China.

But most of the rosy predictions for the Australia-India economic relationship have not come to pass. Bilateral trade with India grew quickly in the first decade of this century, reaching around A\$19 billion in 2008, but growth has since stalled, totalling only A\$20 billion in 2015 (which compares with A\$150 billion in Australia's bilateral trade with China in the same year).¹ This made India Australia's 10th largest trading partner, after Malaysia. The experience on bilateral investment hasn't been much better. Many Australian resource companies,

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in particular, are keen to invest in India but are largely locked out of the market.

For Canberra, the antidote to languishing trade and investment was to gain better access to the Indian economy through

a preferential trade agreement, just as it has done in recent years with Japan, South Korea and China. But Canberra's efforts over the last decade to put in place a trade agreement with Delhi have not been successful. Despite years of negotiation, a Comprehensive Economic Co-operation Agreement (CECA) with India remains elusive and there is little likelihood that an agreement will be finalised any time soon. Even if a CECA is realised, it is unlikely to reap the benefits some have suggested, and would probably lead to little if any reduction in tariffs on Australian exports. A CECA might facilitate investment and trade in services, although even in those areas there would be limited immediate gains.

The biggest reason for lack of progress on a comprehensive trade agreement is that, unlike Australia, Indian decision-makers have simply not drunk the Kool-Aid of free trade. We in Australia sometimes tend to forget that free trade is not uncritically accepted as a good thing in every corner of the globe. Although Modi might be pro-business, his government and India's powerful bureaucracy have little attachment to free trade and are largely sceptical about its benefits for India. Indian negotiators still generally see trade in zero sum terms meaning that they fiercely seek to protect the Indian markets from imports. Indian decision-makers also have a limited view of the economic benefits that Australia might bring to India.

¹ Australian Department of Foreign Affairs, Trade Statistics. <http://dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data.aspx>

In practice Australia has done itself few favours in aggressively pushing for a trade agreement in the face of unenthusiastic Indian trade negotiators.

Australia's approach to economic engagement with India seems to reflect optimistic assumptions about India's readiness to open all its doors to the global economy. Would we have expected, say, China to enter a comprehensive free trade agreement with Australia 20 years ago, or was it necessary to wait until China reached a level of economic development where Beijing perceived the value of trade liberalisation for driving domestic economic reform? Australia's approach with India may have also reflected an assumption that India will follow a development path that looks more or less like the paths followed by Australia's major economic partners in East Asia. India is certainly seeking development through building its manufacturing sector and reducing many of the impediments to doing business there, but development is unlikely to be primarily export-led and it will likely try to keep trade barriers high. In addition, Australia should also not make the mistake of thinking that India necessarily gives high priority to a comprehensive

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relationship with Australia, or that it regards the benefits of a close economic relationship in the same terms as does Australia.

In short, Australia may need to approach its economic relationship with India quite differently from other Asian economic partners. Australia will need to be more innovative in thinking about how to best use some of its comparative advantages with India, including relying more on services, technology and Australia's large and well

educated Indian community. Australian businesses must also be more prepared to operate in what may be a relatively difficult and risky environment.

Challenges in engaging with India

Australia has rightly identified India as a key new partner along the Indo-Pacific strategic arc running from northern Asia to west Asia and it has committed significant diplomatic resources to comprehensively engage with India. There are very good geo-strategic reasons to believe that India may one day become one of Australia's most important partners in Asia. But that will not happen naturally. Differences in Australia and India's history, strategic perspectives, size, wealth and culture create many challenges for the relationship. In practice it will largely be incumbent on Australia to respond to and overcome these challenges – and this will require Australia to decisively move beyond the box and think more innovatively about its engagement with India. Some key challenges include:

Engagement in defence and security: Despite growing strategic convergences, practical defence and security cooperation is very thin in comparison with Australia's other partners. Australia needs to think about what convincing steps it could take to encourage India to take greater security responsibilities in the region, consistent with Australia's own activities. This could include partnering with India in new coalitions in Southeast Asia, encouraging India to make use of Australian training facilities, perhaps with other regional partners, and offering information and facilities to improve India's maritime domain awareness.

Economic engagement: Australia needs to move past some rosy assumptions and understand that its economic relationship with India may look quite different from its relationship with major East Asian partners. This will require Canberra to move beyond the box of free trade and focus on areas of comparative advantage and technologies that are of real interest to India. This will require Australian companies to take on India's difficult and risky business environment and build in businesses for India's domestic market.

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Image courtesy of Ellis Cowan.