



## Submission No 21

### **Inquiry into Australia's relationship with India as an emerging world power**

**Organisation:** Department of Foreign Affairs and Trade

**Contact :** Mr Paul Grigson  
First Assistant Secretary

**Address :** R G Casey Building  
Canberra ACT



**Australian Government**

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**Department of Foreign Affairs and Trade**

**SUBMISSION TO THE JOINT STANDING COMMITTEE ON FOREIGN  
AFFAIRS, DEFENCE AND TRADE**

**INQUIRY INTO AUSTRALIA'S RELATIONSHIP WITH INDIA AS AN  
EMERGING WORLD POWER**

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## **TERMS OF REFERENCE**

The full committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine and report on Australia's relationship with India as an emerging world power with particular reference to:

- trade and tourism including investment opportunities;
- the defence relationship;
- the strategic possibilities for both nations resulting from increasing globalisation and regional imperatives.

## SUMMARY

Economic growth, expanding military power and a more pragmatic foreign policy are propelling India towards major power status with increasing influence in our region.

As an emerging world power, India's importance to Australia is growing. Existing bilateral relations have never been in better shape and the areas in which the two countries engage are expanding beyond strictly bilateral interests to include issues with regional and global resonance.

Trade and investment –important drivers of bilateral relations –are growing quickly and could accelerate further, given our potential to help meet the Indian economy's fast-growing energy and resources needs and other complementarities in the infrastructure, food processing and services sectors. People-to-people links, particularly in education and tourism, are expanding, underpinned by an active public diplomacy program.

As India's economic weight and military strength grow, its influence in the region will deepen. India's regional engagement – with the region's major powers as well as regional institutions – will have a significant influence on our strategic environment. In addition, India will be an important interlocutor on counter-terrorism, UN issues, trade policy and the environment.

## **India as an emerging world power**

Sustained high economic growth and progressive economic reforms, expanding military capabilities and a more pragmatic foreign policy orientation are propelling India toward its long-held ambition of being – and being recognized as – a major regional and global power.

India's foreign policy is based increasingly on careful national-interest calculations, rather than ideology – as had been substantially the case earlier. India has become, or has credible aspirations to becoming, an integral member of the **foreign and security policy** institutions that shape the regional and global order, including the UN Security Council and the G8. It is also a member of the East Asia Summit and the ASEAN Regional Forum.

A strong and increasingly cooperative relationship between India and the United States is an important consequence of India's rise to prominence and a key factor in the United States's South Asia policy. Growing US-India strategic convergence has the potential, over time, to play an important part in helping maintain strategic stability in Asia.

India has made engagement with North East and South East Asia an explicit priority under its "Look East" policy, which also encompasses Australia and New Zealand. The future development of India's relationship with China will be a key influence on stability in East Asia and the development of regional architecture. Both are important—and largely complementary—trading partners. Japanese business is renewing interest in India as an investment destination. Korea is also a large investor.

India has been active in courting closer ties with both ASEAN and its individual member countries. India currently has or is negotiating regional trade agreements with a number of ASEAN countries and with ASEAN itself: the India-Singapore Comprehensive Economic Cooperation Agreement; the Framework Agreement on Comprehensive Economic Cooperation between India and ASEAN; the Framework Agreement for establishing Free Trade between India and Thailand; the Joint Study Group to explore the feasibility of a Comprehensive Economic Cooperation Agreement between India and Malaysia; and the setting up of a Joint Study Group to explore the feasibility of a Comprehensive Economic Cooperation Agreement between India and Indonesia.

India is the predominant power in South Asia and the leading player in the South Asian Association for Regional Cooperation. India's individual relationships with its immediate neighbours are important to it. India's relationship with Pakistan – both of which countries are nuclear-armed – is the key to South Asian stability.

Underscoring India's emergence as a world power is its high **economic growth** trajectory, which in recent times has stabilised around 7 or 8 per cent a year. There is growing confidence, despite numerous challenges, that India's high growth will be sustained. Double-digit growth could be achievable, provided reforms are not stymied by political difficulties.

India is unusual among low-income developing countries for the significance and growth of its services sector. While industry's share of GDP has remained rather static since 1990, at a relatively modest 20 per cent, services have become increasingly important. Over the post-reform period, services have grown on average by 7.5 per cent a year and now account for around 60 per cent of GDP. Services exports, accounting for almost 40 per cent of India's total exports of goods and services, have grown by 20 per cent a year over the past ten years, doubling in 2004–05 to be worth US\$51 billion.

The fastest-growing services sectors have had the most exposure to both domestic and international competition. These are business services including IT, communications, financial services, private healthcare, and biotechnology. Conversely, sectors that have been subject to little liberalisation, such as legal services and accounting services, have tended to perform poorly.

### **Australia and India : overview of the bilateral relationship**

By the standards generally used to measure bilateral relations (high-level political visits, trade and investment flows and interaction between communities and business), the Australia-India relationship has never been in better shape.

The Prime Minister's recent visit to India (5-8 March 2006) has lifted the bilateral relationship to a new level, cementing leader-to-leader ties. During the visit, Mr Howard witnessed the signing of a Trade and Economic Framework, a Civil Aviation Agreement and Memoranda of Understanding (MOUs) on Defence Cooperation, Customs and Biotechnology. The Prime Minister also announced a new \$25 million bilateral research program aimed at increasing Australia's engagement with India in science and technology through collaborative research.

The structural underpinnings of the bilateral relationship have been consolidated via a series of ministerial visits. The frequency of other ministerial or senior-level visits to India, at both a federal and a state level, is growing. Over the last 12 months, there have been visits from the Ministers for Immigration and Multicultural Affairs, Communications, Information Technology and the Arts, Tourism and Small Business, Foreign Affairs, and Agriculture Fisheries and Forestry.

There have also been a number of senior-level visits at a state level, including visits from the Premiers of Western Australia and South Australia. It will be important to maintain a steady rhythm of visits and other exchanges throughout the coming year.

We have a regular Foreign Ministers' Framework Dialogue between our respective Foreign Ministers (the last was held in June 2005) and a Joint Ministerial Commission between our Trade and Commerce Ministers (last held in May 2005).

At the officials' level, bilateral relations are underpinned by sound and diverse institutional structures, including regular Senior Officials' Talks and a Strategic

Dialogue (last held in New Delhi in February 2006). Senior officials from DFAT, AQIS, DITR and ONA have visited India recently, as have a range of senior-level defence personnel.

In addition, a series of bilateral joint working groups promote progress in key economic sectors, for instance minerals and energy.

### **The implications for Australia of India's emergence as a world power**

India's significance for Australia is increasing. Its economy has been growing rapidly since the early 1990s and is predicted by some economists to become the world's third-largest (in purchasing power parity terms) by the end of the current decade, behind the United States and China. India possesses nuclear weapons, one of the world's largest armed forces (1.3 million) and the largest navy in the Indian Ocean, with growing reach and sustainability beyond the littoral waters of the Subcontinent. India is important to Australia in its own right but it is also important because of its growing ability to project its influence in South East Asia and the Pacific.

#### *Strategic possibilities: bilateral*

Australia and India share a common colonial heritage (English, adherence to parliamentary democracy, the Common Law tradition and cricket), economic complementarities and a common interest in the security and stability of the Indian Ocean and the Asia Pacific region. There is however considerable competition for India's attention. Australian government and business interests will need to be astute in promoting to India the benefits of cooperation with Australia.

Although the range of areas in which Australia and India engage is expanding steadily, **trade and investment** are at the core of the relationship. Two-way trade in goods and services totalled \$9.4 billion in 2005, an increase of 26 per cent from the previous year. In 2005, India overtook Indonesia to become Australia's 12th largest merchandise trading partner. Australian merchandise exports to India reached just over \$6.9 billion in 2005. As our sixth largest merchandise export market in 2005, India is now ranked higher than the United Kingdom and Taiwan and has grown faster than any of our other top 30 markets over the past five years. While merchandise exports predominate, the role of services is growing. Australia exported \$937 million worth of services to India in 2005, up 39 per cent from the previous year. Australia had a \$651 million services trade surplus with India in 2005. In comparison, Australia's merchandise surplus was about \$5.7 billion.

Australia's capacity to supply the expanding energy and other needs of India's fast-growing economy, and the consumer demands of India's burgeoning middle class, position Australian exports to India to continue to grow strongly. Australia is one of India's largest overseas investors, with close to \$1 billion approved for around 140 joint ventures. Indian investment in Australia is also worth around \$1 billion, the majority of which has been directed to the mining, fertilizer and pharmaceutical and information and communications technology industries. India



stands to benefit from Australian investment in areas such as infrastructure development (for example, airports, ports and roads), food processing (for example, elements of the supply chain such as cold storage and value adding through food processing) and services (for example, health, education, biotechnology, software development, legal services).

The importance of Australia's economic relationship with India has been underscored by the signing of a bilateral Trade and Economic Framework (TEF) in March 2006. The aim of the TEF is to provide a government-to-government structure for promoting future economic development in key areas including energy and mining, infrastructure development, information and communication technology, services, agriculture and biotechnology. The two sides agreed that the TEF should be sufficiently broad-ranging to reflect the scale and importance of the relationship, deliver mutually beneficial outcomes and be consistent with, and supportive of, both countries' objectives in the WTO.

**Energy and resources cooperation** is a key area of strategic significance, with India searching for new sources of energy and resources to underpin its rapidly growing consumer and industrial demand. Australia is well-positioned to partner India in this area, through exports of minerals (including gold, iron ore, bauxite, copper) and fuels, energy investment opportunities in Australia and collaboration in areas of common interest such as new mining technologies.

Coal continues to be one of our most important exports to India—worth \$2.2 billion in 2005. Given the significant role Australian exports of coking coal play in India's large steel industry, the importance of coal as one of the mainstays of our trading relationship is unlikely to diminish. Institutional links between the coal industries in Australia and India are also deepening: a Coal and Mining Forum was held in February 2006, focusing on trade, investment, regulation, sustainable mining and technology.

In addition to coal, India has shown strong interest in Australia as a potential supplier of LNG.

The Prime Minister and Mr Downer have made clear there are no current intentions to change Australia's longstanding policy of selling uranium only to countries that are party to the Treaty on the Non-Proliferation of Nuclear Weapons and with which we have a bilateral safeguards agreement.

Underscoring the bilateral economic relationship are deepening people-to-people links, particularly in education and tourism. **Education** is a key area of bilateral engagement, facilitated by strong government-to-government links and institutional cooperation. Australia has emerged as a major destination for Indian students who are drawn to the high-quality and cost-competitiveness of an education in Australia. India is currently the second largest market for Australian education. Indian enrolments in Australia have increased at an average annual rate of around 35 per cent since 2003. There are currently around 28,000 Indian students studying in Australia. The Department of Education, Science and Technology has made India a high priority country and is represented at the Australian High Commission in New Delhi. A

bilateral MOU on Education and Training Cooperation was signed in 2003.

As with education, **tourism** is an area of growing importance. Visitor arrivals from India are expected to increase at an annual average rate of 11 per cent over the next 20 years to reach 220,000 in 2015 and 550,000 in 2025. Australia is positioning itself to capitalise on this growth through its Emerging Markets Strategy, launched by the Minister for Tourism and Small Business in December 2005. The strategy identifies gaps in Australia's capacity to service demand from India and makes a number of recommendations for maximising future growth. Tourism has also been facilitated by QANTAS's resumption of a direct service to Mumbai in September 2004. A bilateral MOU on Tourism Cooperation was signed in 2002.

**Public diplomacy** plays a central role in promoting a positive and sophisticated image of Australia in India and ensuring influential Indians understand Australia's priorities and concerns. Australia's principal vehicle for public diplomacy in India is the **Australia-India Council**, which was established by an Order-in-Council on 21 May 1992, implementing a key recommendation of the July 1990 report of the Senate Standing Committee on Foreign Affairs, Defence and Trade's on Australia's relations with India. The AIC receives funding through the International Relations Discretionary Grant Program and is supported by a Secretariat located in the Department of Foreign Affairs and Trade.

The main function of the AIC is to complement and support official government-to-government exchanges with India. The AIC initiates and supports activities that either raise awareness or promote the relationship through visits, exchanges and institutional links in the following broad thematic areas: the arts (including film and literature); education, society (including health and sport), science, technology and environment, and public awareness/public policy. A significant second-track dialogue supported by the AIC, in partnership with the Australian Strategic Policy Institute, is the Australia-India security roundtable. The AIC also supports Australian commercial objectives in India. It is giving particular attention to the emerging complementarities between Australia and India in the management of sports and major events (a focal point being the Commonwealth Games in Delhi in 2010).

The AIC is partnering the Australia International Cultural Council in its activities in India (November 2005 – early 2007). *AusArts: Celebrating Australian Art and Culture* is a two year cultural program that will showcase the diversity of Australian culture through major events in India focusing on art exhibitions, high quality drama, jazz, design, film, literature and other art and cultural events across India.

#### *Strategic possibilities: regional and global*

India has made it clear that it sees itself as having a stake in our region. Its **relations with the region's major powers**, notably China and the US, and to an extent ROK and Japan, will be important in shaping our broader strategic environment. Australia has close ties with India and each of the other major players in our region. We are therefore well-placed to have an influence on the shape of their interactions with one another.

India and Australia share important **regional strategic interests** as littoral states of the Indian Ocean with interests in maritime security in the Indian Ocean, counter-terrorism, and peacekeeping. Bilateral defence ties will be strengthened through the MOU on Defence Cooperation signed during the Prime Minister's recent visit to India. The MOU will provide an institutional framework for the development of the defence relationship, emphasising cooperation in the areas of strategic dialogue, personnel exchanges and maritime cooperation.

**Counter-terrorism** is one of the Australian Government's highest priorities. India is an important counter-terrorism ally, particularly given its own experience in grappling with terrorism. An MOU on Cooperation in Combating International Terrorism, signed in 2003, is facilitating closer cooperation between immigration, intelligence and law enforcement agencies and should serve as an institutional basis for further cooperation.

India's influence on the formative processes of **East Asian regionalism** is growing. India is actively seeking to increase its engagement with ASEAN in recent years under its "Look East" policy. This culminated in India's participation in the first East Asia Summit (EAS). India acceded to the Treaty of Amity and Cooperation (TAC) and signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN at the second ASEAN-India Summit in Bali in 2003. India views the EAS as a significant regional grouping and a means of pursuing stronger ties with Asia. India also engages with its region through its membership of **other forums** such as the South Asian Association for Regional Cooperation, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, the Mekong Ganga Corporation and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). Australia is also a member of IOR-ARC.

India aspires to play a much greater role in the **United Nations** and is working with others to achieve permanent membership of the Security Council.

Australia and India have worked cooperatively on **Commonwealth** issues. Ethnic Indian representation in the Fijian Government has been an issue engaging the attention of both countries. India is due to host the Commonwealth Games in 2010 and has been interested in Australia's experience in organising the Melbourne Games and the Sydney 2000 Olympics.

India and Australia work regularly together in the **WTO**, and have jointly participated in key small group meetings on agriculture such as the Five Interested Parties and, more recently, the Group of 6 (US, EU, India, Japan, Brazil and Australia). India is a key member of the G20 (group of developing countries focusing on agricultural negotiations) and is keen to see liberalisation in developed countries. Like Australia, India has offensive interests on services issues. It seems to acknowledge that the major developing countries such as Brazil and itself will need to make a contribution if the Round is to be brought to a successful conclusion.

Cooperation with India will also be important on **environmental** issues. In particular, India and Australia are cooperating on climate change through the Asia Pacific Partnership on Clean Development and Climate and a senior Indian delegation helped

ensure a positive outcome to the inaugural Ministerial Meeting in Sydney in 2006.