



**Australian Government**  
**Department of Foreign Affairs and Trade**

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Dr Margot Kerley  
Committee Secretary  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
Department of the House of Representatives  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600

Dear Dr Kerley

I am writing to you to provide an updated submission from the Department of Foreign Affairs and Trade to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into Australia's relationship with India as an Emerging World Power. This submission has been authorised by the Minister for Foreign Affairs, the Hon Stephen Smith MP, and the Minister for Trade, the Hon Simon Crean MP.

Australia is committed to taking its relationship with India to a higher level and engaging India on a strategic, long-term basis. Visits to India by the Minister for Trade, Mr Crean, in January 2008 and the Minister for Foreign Affairs, Mr Smith, in September 2008 underlined the Government's firm commitment to increase collaboration substantially in a wide range of areas.

I trust that this submission will be helpful to the committee in its deliberations.

Yours sincerely

Dr Lachlan Strahan  
Assistant Secretary  
South and West Asia Branch



**Australian Government**

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**Department of Foreign Affairs and Trade**

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

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

**SEPTEMBER 2008**

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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. While existing bilateral relations are good there is significant potential for further growth. The two countries have begun to engage beyond bilateral interests to issues with regional and global resonance but more can be done in these areas.

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. To help capture these opportunities, Australia and India are exploring the feasibility of a bilateral free trade agreement which could further boost trade and investment links. 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, United Nations 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 recognised as – a major regional and global power.

India's foreign policy is based increasingly on national-interest calculations at the same time retaining an important commitment to a rules-based international order. It has also become increasingly outward-looking following the end of the Cold War, particularly after the adoption of key domestic economic reforms in the early 1990s. 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 United Nations Security Council (UNSC). Australia supports India's permanent membership of the UNSC and its inclusion in APEC when the membership moratorium ends. India is also a member of the East Asia Summit and the Association of South East Asian Nations (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 element in the United States' foreign policy. Growing US-India strategic convergence has the potential, over time, to play an important contribution to 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 course of India's relationship with **China** will be a key influence on stability in East Asia and the development of regional architecture. They are important – and largely complementary – trading partners. **Japanese** business interest in India as an investment destination is increasing. Negotiations on a Japan-India FTA are well advanced. **South Korea** is already a large investor.

India is developing its relations with **ASEAN** and its individual member countries. It 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 (**SAARC**), which has now invited Australia to become an Observer. India regards its individual relationships with its immediate neighbours as important and its relationship with Pakistan – both nuclear-armed countries – as a key factor in South Asian stability.

Underscoring India's emergence as a world power is its high economic growth, which

has stabilised over the last few years around 7 or 8 per cent a year. Like other nations, India has however been adversely affected recently by higher international food and oil prices, as well as the global credit crisis. There is growing confidence, despite numerous challenges, that India's high growth will be sustained, particularly if further economic reforms are undertaken.

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 relatively modest (29 per cent in 2007-08), 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 52.8 per cent of GDP. Services exports, accounting for 36 per cent of India's total exports of goods and services, have grown by 19 per cent a year over the past ten years, growing nine-fold to US\$85 billion in 2007.

The **fastest-growing services sectors** have had the most exposure to both domestic and international competition. These include IT, communications, financial services, private healthcare, and biotechnology.

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

Australia is committed to taking its relationship with India to a higher level and engaging with India on a strategic, long-term basis. Visits to India by the Minister for Trade (Mr Crean) in January 2008 and the Minister for Foreign Affairs (Mr Smith) in September 2008 underlined the Government's firm commitment to substantially increase collaboration in a wide range of areas. During Mr Smith's visit, India agreed to take the level of relations to a strategic partnership and work towards this objective. This is a term that India uses to characterise its most important bilateral partnerships, including with the United States, the European Union, China and Japan.

India has also indicated that it is committed to moving the relationship forward. Seven Indian Ministers visited Australia in the first half of 2008 (the ministers for trade and commerce, science and technology, civil aviation, steel, food processing, youth affairs and sport, and external affairs) highlighting the breadth and depth of existing and potential economic links.

Major high-level meetings in 2008 have included the Joint Ministerial Commission, co-chaired by Mr Crean and India's Minister for Commerce and Industry, Kamal Nath, in May and the Foreign Ministers' Framework Dialogue, which Mr Smith co-chaired with Indian Minister of External Affairs, Pranab Mukherjee, in Canberra in June.

The Joint Ministerial Commission covered the WTO Doha Round, as well as key regional and bilateral trade issues. Mr Crean and Mr Nath witnessed the signing of a Memorandum of Understanding (MoU) on intellectual property cooperation and welcomed new bilateral dialogues and exchanges on economic policy and competition policy. They also agreed to established a bilateral CEO Forum.

At the June 2008 Foreign Ministers' Framework Dialogue, Mr Smith and Mr Mukherjee agreed on a number of new initiatives, including up to \$10 million over

the next five years under Australia's development assistance program to facilitate public sector linkages between the two countries, launching a bilateral water dialogue and forming a new Joint Working Group on Visa, Consular and Passport Matters. The Ministers also signed two treaties, one on extradition and the other on cooperation in criminal law matters.

There have been a number of senior-level visits at a State level in 2008, including visits to India by the Premier of South Australia and the Deputy Premier of Western Australia. It will be important to maintain a steady rhythm of visits and other exchanges throughout the rest of 2008 and beyond.

At the officials' level, bilateral relations are underpinned by regular Senior Officials' Talks and a Strategic Dialogue (last held in Canberra in February 2008). Senior officials from DFAT, Treasury, AQIS, Department of Resources, Energy and Tourism, AusAID and CSIRO have visited India in 2008, 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, education and science.

### **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 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, 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. While the Australian Government and Australian business interests will need to be astute in promoting to India the benefits of cooperation with Australia, Australia has made a good start in gaining India's attention.

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 \$13.3 billion in 2007. In 2007, India was Australia's 10th largest merchandise trading partner. Australian merchandise exports to India reached \$9.3 billion in 2007. Our sixth largest merchandise export market in 2007, India was also Australia's fastest growing major export market for both goods and services over the last five years. While merchandise exports predominate, the role of services is significant. Australia exported \$2.1 billion worth of services to India in 2007 .



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, indicate our exports are likely to continue to grow strongly. Australian investment in India rose by 98 per cent to \$2.3 billion in 2006 (foreign direct investment was around \$80 million of this). Indian investment in Australia is low, at \$608 million (including portfolio investment) in 2006. 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 agreement in August 2007 to undertake a joint government-level study into the merits of a **bilateral free trade agreement** (FTA). Australia's strongly growing economic relations with India could be boosted by an FTA by easing barriers to Australian trade and investment.

Terms of Reference for the study were agreed in April 2008. They allow for a comprehensive study covering goods, services and investment without exceptions. They also make explicit reference to a range of cross-cutting issues that would be important in any FTA negotiations such as intellectual property, competition policy, government procurement, the movement of service providers and sanitary and phytosanitary measures. Good progress has been made through three Joint Study Group (JSG) meetings (New Delhi on 17 April, Melbourne on 21 May and New Delhi on 11-12 August 2008). The Australian Trade Minister, Mr Crean, and India's Minister for Commerce and Industry, Mr Nath, agreed that the JSG should aim to present its joint report to governments by the end of 2008. India has drawn attention to traditionally sensitive areas, particularly its agriculture sector. Australia has said it seeks high-quality truly liberalising FTAs.

There has been strong public support from Australian businesses and state and territory governments for an FTA. More than 45 public submissions have been received. Many have pointed to barriers to doing business in India, but are equally keen to find ways to overcome them and improve or gain access to such an important potential market through an FTA which achieves commercially-meaningful outcomes for Australian exporters and investors.

**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 \$2.4 billion in 2007. 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.

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

The Australian Government's policy remains that Australia will supply **uranium** only to those countries that are parties to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), and with which Australia has a bilateral safeguards agreement. Nor will Australia supply nuclear-related dual-use items to non-NPT parties for use in civil nuclear programs. India is not a party to the NPT. The Australian Government supported both India's recently concluded safeguards agreement with the International Atomic Energy Agency (IAEA) and a consensus decision by the Nuclear Suppliers Group (NSG) to adopt a statement on civil nuclear cooperation with India, enabling civil nuclear supply to India by those NSG Participating Governments that choose to do so. In forming Australia's position, the Government took into account non-proliferation considerations and the strategic importance of the issue for India and the United States.

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. India is currently the second largest market for Australian education. There were 65,377 Indian enrolments in Australia in the year to June 2008. The Department of Education, Employment and Workplace Relations regards India as 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.

India is Australia's fastest growing **tourism** market with visitor numbers increasing by 22.5 per cent for the year ending June 2008, compared to the previous financial year. The Tourism Forecasting Committee predicts the Indian market will continue to grow at an annual average rate of 16.8 per cent over the 2006-2016 forecasting period to reach 397,000 visitors in 2016. Tourism Australia (TA) has increased its marketing activities in the India market, with a focus on creating a stronger brand presence and refreshing consumer perceptions of Australia as a holiday destination. This involves public relations initiatives, targeted online content and promotional activities. TA has plans to open an office in Mumbai by the end of 2008.

**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** (AIC) 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 from the Department of Foreign Affairs and Trade and the International Relations Discretionary Grant Program. It is supported by a Secretariat located in the Department.

The AIC promotes people-to-people links in key areas and complements official government-to-government exchanges with India. It 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 and 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 Lowy Institute, is the Australia-India Roundtable. The AIC also advances Australian commercial objectives in 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 United States, and also Japan, South Korea and ASEAN countries, will be important in shaping our broader strategic environment. Australia has increasingly close ties with India and each of the other major players in our region.

Australia values India's increasing **strategic importance in our region** and its important role in contributing to stability in the Indian Ocean and South and Central Asia. India shares common concerns with Australia, both as a democratic nation with interests in maritime security in the Indian Ocean, as well as in combating regional and global terrorism. In recognition of our common interests, Australia and India signed a defence cooperation MoU in 2007. At the June 2008 Foreign Ministers' Framework Dialogue, Mr Smith and Mr Mukherjee welcomed the decision to establish regular chief of defence force level talks. Ongoing defence engagement with India includes senior level visits, joint working groups, and education and training exchanges. Australia is also pursuing increased defence cooperation in the areas of counter-insurgency, peace-keeping, maritime security and counter-terrorism.

**Counter-terrorism** is one of the Australian Government's highest priorities. India is an important interlocutor on terrorism issues and faces a serious terrorist threat. In 2003 we concluded a Counter-Terrorism MoU with India, establishing a Joint Working Group on Counter-Terrorism (CT) and Immigration. Our CT dialogue covers regional terrorist groups and developments in Afghanistan, Pakistan and Bangladesh. A more practical focus on bilateral CT engagement, in the areas of intelligence, border security and visa issue, defence and terrorist financing and money-laundering, has begun to show results.

India's influence on the formative processes of **East Asian regionalism** is growing. India has been 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. India acceded to the Treaty of Amity and Cooperation 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 (SAARC), 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 and was invited in 2008 to become an observer at SAARC meetings. There is significant resonance with

Gandhi's vision for the international community in the Australian Government's concept of an Asia Pacific Community. The International Commission on Nuclear Non-proliferation and Disarmament established by Australia and Japan includes a Commissioner from India (Brajesh Mishra, National Security Adviser to former Indian Prime Minister Atal Bihari Vajpayee). The Commission's main aim is to reinvigorate global nuclear non-proliferation and disarmament efforts.

India is a key player in the multilateral system and it will remain important to engage India on key global issues, including climate change and non-proliferation. Australia and India have worked cooperatively on **Commonwealth** issues. 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 together in the **World Trade Organization (WTO)**, in particular in the Doha Round of trade negotiations. India and Australia are major players in the Round and members of a key negotiating group, the G7 (which comprises the United States, European Commission, Brazil, India, China, Japan and Australia).

Engagement with India on **environmental** issues is another important dimension of the relationship. India is a key country in international climate change negotiations. Australia and India reaffirmed during Foreign Minister Smith's visit to India in September the need for an effective global response to climate change and their commitment to the UN Framework Convention on Climate Change. In particular, India and Australia are cooperating through the Asia Pacific Partnership on Clean Development and Climate. Australia and India have also recently agreed to establish a bilateral dialogue on water policy issues.