
UNIT 9 INDIA

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9.1 INTRODUCTION

To which part of the world does Australia belong? It is not very clear if we can consider Australia to be in our part of the world. It is true that the Indian Ocean laps the shores of both our countries. Arising out of their shared democratic values, they have a common interest in justice, fair play and human rights. India's relations with Australia has seen a definite turn for the better especially after the visit to India of Prime Minister John Howard in the year 2000. Interactions at the people to people level are also increasing. Number of tourists visiting each others' countries is increasing. Australia has also become the second favoured destination for Indian students seeking higher education. These students fit in well in the wonderful multicultural society of Australia and take back with them rich experiences. The Indian diaspora in Australia, a highly professional and respected group, with their commitment to Australia and cultural and family links with India provide an important bridge between our two countries. Visits of Indian cultural troupes, singers, painters as also of film crews for the shooting of dance and song sequences and special effects for Indian films have also increased.

Thus interactions at all levels - political, official, academic, business and cultural – have now resumed with increased dynamism reinvigorating the relationship. A major transformation in the relations of India and Australia is that they no longer view each other in terms of economic potential only but also as regional and strategic partners. India and Australia now seem to be poised to become partners in progress in the years ahead. India and Australia share many things in common. Both the countries are members of the Commonwealth, have similar institutions of parliamentary democracy, legal, financial and government institutions, free and vibrant press, speak the same language and are Indian Ocean littoral States. We are active members of the Indian Ocean Rim - Association for Regional Cooperation, ASEAN Regional Forum and dialogue partners with ASEAN.

This unit seeks to explore the extent of this relationship between India and Australia by examining the political, economic and strategic areas of cooperation between the two countries.

9.2 OBJECTIVES

After reading the unit, you should be able to understand:

- the dynamics of political relations between the two countries during the Cold War. How the relations between the two were influenced by the fact that , Australia was an ally of the US and India adopted a non-aligned policy with tilt towards the Soviet Union;
- political, diplomatic and strategic relations between them since the end of Cold War, as Australia started taking a relatively independent posture in international relations and India initiated its new 'Look East' policy towards the East Asian Region;
- the growing Australia-India Economic relations in the field of trade and investment particularly the growing number of joint ventures;
- the evolution of Australia-India security concerns in the region as both the countries are members of Indian Ocean Rim Associations for Regional Cooperation (IOR – ARC); and
- the divergence of their perceptions on some crucial security issues such as Australia's hostile reaction to India's nuclear tests at Pokharan in May 1998 .

9.3 POLITICAL AND DIPLOMATIC RELATIONS

India - Australia relations can be traced back to late 18th Century and early 19th Century with shipment of coal from Sydney to Calcutta. This was followed by export of horses from New South Wales. Full diplomatic relations between our two countries is much more recent but still dates back to more than 50 years. While Australia has good relations with India, there is not as much political weight or substance to their equation as perhaps both countries would like.

9.3.1 Relations during the Cold War Period

Post- independent India's worldview contrasted sharply with the Australian outlook. India with its experience of colonialism was anti-imperialistic whereas Australia was considered to be an extension of the British Empire. Even ideologically, Australia was more influenced by the West. During the Cold War years, India preferred the middle way of non-alignment, not taking the side of either of the super powers whereas Australia supported and allied with the United States of America and a strong stalwart member of the western alliance through the Cold War. That was one of the main issues in the relations between the two countries. It is also said that Prime Minister Jawaharlal Nehru and Robert Menzies, the Australian Prime Minister during the 1950s and the first half of the 1960s, did not have a very friendly personal relationship. Thirdly, up and until the 1990s, India had a relatively closed economy, which was not very conducive for doing business.

Thus national interests, temperament and culture made the two countries pursue a foreign policy with different geo-strategic goals and perceptions, distancing the two nations. During the rule of Robert Menzies, Australia was closer to Pakistan as they found it easier to interact with them. The closeness was also a result of Pakistan being a member of the South East Asia Treaty Organisation (SEATO) also known as the Southeast Asia Collective Defense Treaty. SEATO was created as a result of the West's policy of containment at the time of the Cold War and to oppose further Communist gains in Southeast Asia. Also Australia's attempts to mediate in the Kashmir issue and the anti-India stance in the United Nations were not looked at favourably by India.

Relations between the two countries did improve under the regime of Prime Minister Indira Gandhi who even visited Australia in May 1968 but did not ever reach very friendly levels.

9.3.2 Relations after the End of the Cold War

The end of the Cold War brought new life to Australia's relations with India. India had already felt the need for reform and taken some measures to liberalize its economy in the late 1980s. Around the same time

Australia was feeling a little overwhelmed by US influence over its policies. Australia felt the need to be more independent in its thinking in terms of its foreign policy and economy. It also felt pressured by the need to establish better economic relations with its neighbours and with countries in the Asia Pacific region. Prime Ministers Bob Hawke and Rajiv Gandhi in 1986 also laid the ground work for Australia-India trade relations by establishing various economic bodies like the Australia India Business Council (AIBC) which is still active. Both countries began to shed the old images of each other and to focus on new areas of common interest.

India's 'Look East' policy in the early 1990s was a step in the right direction as it helped bring the countries closer. Australia too began to recognize India's emergence as a regional power and in 1992 the Australia-India Council (AIC) was established. This was followed by India setting up the India-Australia Council (IAC) in 1997. In 1996, Australia launched '*Australia-India: New Horizon*' promoting Australia in India as part of its wider strategy to intensify Australia's links with South Asia. It was aimed to show the best of Australia to key Indian decision-makers and opinion leaders. In addition to a business program, a high profile cultural program presented the best of Australian performing and visual arts, film and literature to give Indians a much clearer picture of contemporary Australia. *New Horizons* also covered education, science, and technology, tourism, the environment, and sport. By 1997 the Indian Ocean Rim-Association for Regional Cooperation was set up (IOC-ARC).

Even though this evolving new relationship received quite a setback in 1998 with India's nuclear explosions, the visit to India by Australia's Prime Minister, John Howard, in July 2000, opened a new phase in relations of the two countries. There were further visits in 2000 and in the following years by Australia's ministers for Foreign Affairs, Trade, Immigration, Education, Science and Training, Information Technology, Communications, and the Arts. In March 2006, Prime Minister John Howard visited India again. Six agreements were signed during the visit including a Memorandum of Understanding (MoU) on Customs Cooperation, a Trade and Economic Framework, an Air Services Agreement, MoU on Defence Cooperation, MoU on Cooperation in Biotechnology and a Letter of Intent on the Establishment of India-Australia Strategic Research Fund. Although Howard declined the Indian Prime Minister's request for uranium exports but did not rule out a policy change in the future. All of these visits have fostered momentum in the bilateral political relations.

After the end of the Cold War, countries are building relations on a more objective basis without any of the old ideological fractious influences. Countries have to be more practical. Now there are agreements on education, information technology, trade and on counter terrorism, which makes India a good partner for Australia. But these meetings are not held simply to go through the diplomatic motions but because they are important to both countries. Australia is more comfortable with India's foreign policy today than they were 30 years ago. While these links are important, for governments the *realpolitik* or economics is going to be the key.

Australia is the 12th biggest economy in the world, and India with a billion people is liberalising. In economic terms the two economies mean more to each other. Moreover, in strategic terms, they have a common interest in the Indian Ocean region. They are both members of the Indian Ocean Rim-Association for Regional Cooperation, East Asia summit, and the ASEAN Regional Forum. This is where the India-Australia relationship is changing.

However, this is not to say that Australia is not interested in anything else except economic and strategic relations. Australia does have a political interest in India. This is to see that India remains a democracy. This provides mutual institutional access and understanding which helps in the conduct of foreign policy. It is only on the basis of this understanding that further economic and strategic links are possible.

9.4 ECONOMIC RELATIONS

Australia's economic interest in India is obvious as has been stated in the previous section. Australia's interest is in an economy which could become a major trader globally in the coming years. Ever since India started liberalization of its economy in the early 1990s, business has become free to capitalize on the strength of the Indian economy: its large reserves of natural resources, a thriving private sector, its highly skilled and educated cheap labour, a large market and a well developed institutional framework including a good legal system. These are undoubtedly the major attractions for Australia towards India.

Australia and India have recently signed a Trade and Economic Framework (TEF). The TEF promotes strategic cooperation in areas including: energy and mining; infrastructure development; information and communication technology; services; agriculture; inspection and quarantine; and biotechnology. It also promotes dialogue on questions of regional and multilateral trade, including those at the WTO on which Australia and India have already worked together as members of the Five Interested Parties in the Doha round.

9.4.1 Trade

Australia's trade with India has varied a lot over the years. Trade with India reached a peak in 1930s, declined and then reached another peak following India's independence. However, since then, importance of Australian trade with India declined and has only now started to increase again from the decade of the 1980s. The reasons for these fluctuations in trade can be easily pin-pointed as corresponding to the period of colonial rule in India; the Cold War phase (when trade declined); and the post-Cold War period (when trade has started to revive). In the last decade trade has reached a high increasing almost by three times from A\$ 1047 million in 1991-1992 to A\$ 2834 million in 2001-2002. India's exports to Australia seem to be increasing more than India's imports to Australia. Principal items of India's exports to Australia consist of textile and clothing; chemicals and related products; leather goods; engineering products; gems and jewellery; processed food etc. From Australia, India imports coal; cooking coal; mining equipment; copper; base metals and ores; diamonds; wheat; software; automotive components etc.

Two-way trade in goods totalled \$8.2 billion in 2005, with India overtaking Indonesia to become Australia's 12 th largest merchandise trading partner. Australian merchandise exports to India reached \$7 billion in 2005, 5.0 per cent of total merchandise exports. As 6th largest merchandise export market in 2005, India has overtaken the UK and Taiwan and has grown faster than any of the other top 30 markets over the past five years.

Top Australian exports to India - 2005		Top imports from India - 2005	
Item	Value (A\$mill)	Item	Value (A\$mill)
Non-monetary gold	2,989	Pearls and gems	92
Coal	2,224	Jewellery	49
Copper ores	527	Iron, steel articles	41
Wool	142	Floor coverings	35

Source: Australian Government, Department of Foreign Affairs and Trade, *India Country Brief—June 2006*

The trade relationship is dominated by merchandise trade, although the role of services is growing. Australia exported \$1,032 million worth of services to India in 2005. While this only represents 2.8 per cent of Australian service exports, new prospects continue to emerge in sectors such as ICT, biotechnology, education, tourism, health, film and insurance. Imports of Indian services totaled \$82 million in 2005.

9.4.2 Foreign Direct Investments

Australia is India's eighth largest overseas investor, with over \$1 billion approved for around 140 joint ventures (source: Federation of Indian Chambers of Commerce and Industry). This investment covers manufacturing, telecommunications, hotels, minerals processing, food processing, oil and gas and the automotive sector. An example is the recent joint venture announced between BlueScope Steel and Tata Steel which will take ownership of rollforming and pre-engineered building manufacturing facilities at a cost of A\$100 million. Australia is the ninth most important destination for Indian foreign direct investment (source: Invest Australia). An example of this investment is the agreement reached between the Western Australian Government and the Oswal group to build the world's largest ammonia plant (valued at \$630 million). This follows investment by Birla and Sterlite in copper resources in Queensland, Western Australia and Tasmania. The top Indian software firms - Tata Consultancy Services, Satyam, Infosys, Pentasoft and HCL - are represented in Australia and have a small but growing market presence.

9.4.3 Joint Ventures

As has already been stated, Australia is India's 8th largest overseas investor. Many joint ventures between India and Australia have been approved by the Indian government since 1991. Indian information companies have entered Australia with several of them opening their offices to better service Australian business and organisations. Some of these are NIIT, HCL, TCS, Pentasoft, Wipro, Satyam, Infosys etc.

Australian firms also have a growing presence in India both in ICT and other sectors including the support of infrastructure development. Australian ICT firms such as ANZIT, AttraInfotech, ADC Krone, Modular Mining Systems and Surpac Software are well established in India.

While all figures point towards an absolute growth in India-Australia trade and an increase in India's importance for Australia and vice-versa in the post-Cold War years, there are a few points to be kept in mind:

- 1) There has been an increase in India-Australia trade, but this increase has been relatively small when compared to other Asian states especially China, Japan, Korea and Japan in North-east Asia.
- 2) It may be pointed out that while India's market reforms and liberalization have created new opportunities for cooperation with Australia, it is region-specific. In other words, economic reform in India is not the same for all regions. Some states are identified by Australia as market priorities vis-à-vis others – Gujarat, Karnataka, Maharashtra and Tamil Nadu.
- 3) Furthermore, there is still not enough incentive in India to fully open India's market and economy to the world. India's tariffs continue to be much higher than those in many of the Asian economies and Australia is still uneasy about India's economic development taking place within the parameters of government intervention.
- 4) Also, India's 'Look East' policy is more concerned with Association of South East Asian Nations (ASEAN) rather than keeping Australia as the only priority.

9.5 STRATEGIC AND SECURITY RELATIONS

This section attempts an analysis of the evolution of India-Australia relations in respect of their strategic security concerns. Australia has felt unsafe ever since the Second World War and its foreign policy ever since then was dominated by preventing states that were potentially intimidating from gaining the right to enter the region. To fulfill this aim, Australia had entered into an alliance with the United States to control and neutralize any threats. This has been very different from India which after achieving independence tried to chart its own independent foreign policy reflected in its support of non-alignment.

Traditionally different linkages of Australia and India have affected their ability to deal with strategic issues of interest. For instance, Australia was not supportive of India's entry into the Asia Pacific Economic Cooperation (APEC) and wanted to include Pakistan as a member of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) to which India was opposed. For Australia, the most important states guaranteeing national security are China, Indonesia, Japan and United States. This is followed by relations with other ASEAN states and South Korea. India's importance as a partner came well after these countries though it is being increasingly felt that there is considerable scope to broaden relations with India (Department of Foreign Affairs and Trade, *In National Interest: Foreign Trade and Policy*, Canberra, Commonwealth of Australia, 1997).

Australia is not comfortable about many of India's security concerns and requirements. The large size of India's armed forces and its defence expenditure was a matter of concern. However, in the early 1990s, the Australian Government acknowledged that India's military build-up while it enhanced its power projection capability in the South Asian region did not constitute a threat to the security of Australia or South-east Asia. What was required was openness and dialogue to allay fears that may arise from time to time.

India on its part was unhappy with Australia's sale of 50 Australian Mirage aircrafts to Pakistan in 1990. India was critical of the military leadership of Fiji and looked towards Australia to exert its influence to revoke

the Fijian Constitution which it said was racially biased. India was also not happy about Australia airing its concern about India's naval build up.

However, what was most damaging to the relations between the two countries was Australia's reaction to India's Pokhran II nuclear tests conducted in May 1998. Australian Foreign Minister Alexander Downer said in a statement on May 14, 1998: "Australia has and will continue with vigour to use regional and international forums to make clear Australia's opposition to Indian nuclear testing..." He also referred to the "wilful disregard" of world public opinion shown by India by going in for a second round of testing. This brought forth the contentious issue of nuclear non-proliferation between the two countries. The fear in Australia was that by crossing "the nuclear Rubicon", India was likely to set in motion a destabilizing new arms race on the subcontinent and elsewhere. While both India and Australia are supportive of a nuclear weapons free world, they have differing views on Comprehensive Test Ban treaty (CTBT). India has very consistently opposed any discriminatory and non-comprehensive regime. India also questions the presence of an "exclusive" club of declared nuclear powers and has refused to ratify the Nuclear Non-Proliferation Treaty (NPT). India was thus surprised by Australia's response to these tests. The Australian government immediately announced the removal of defence adviser and annulment of other defence related cooperation and immediately deferred bilateral defence relations with India. It suspended non-humanitarian aid as well as ministerial and senior official visits. Australia was at the forefront conveying its disapproval of India's nuclear testing. This reaction of Australia has been explained as showing support of US foreign policy priorities and insensitivity towards Asia.

Australian views with regard to India's "outrageous acts" in May 1998 puzzled India. For, Australia had until the 1960s supported development of nuclear weapons industries in the United States and had also pursued one of its own. Now Australia had the support of the United States and had no immediate regional power threatening its security. Australia's reaction reflected insensitivity to understanding the security requirements of India which feels somewhat threatened by China and Pakistan in its immediate neighbourhood.

Even now, in his visit to India in March 2006, Prime Minister John Howard stuck to his stand on Australia not supplying uranium to countries which are not party to the Non-Proliferation Treaty (NPT). However he also made it clear that Australia would wait and watch America's reaction to India. If the United States and India agree on a uranium deal then India's civilian nuclear facilities would come under international inspections, making it easier for Australia to consider India's request for uranium.

9.6 CONCLUSIONS

India is set to play a significantly greater role in the global economy over coming years. This will have economic consequences for Australia as India becomes a more important trading partner. There are also likely to be implications for Australia's international economic diplomacy. For Australian foreign policymakers South Asia has — not surprisingly — tended to rank behind North East Asia, South East Asia and the South Pacific in relative importance, leaving the region as something of a "poor cousin". Now, however, the end of the Cold War, India's shift to a more outward oriented growth model, and the growing economic and strategic importance of India in the world, have all increased the scope for engagement, while also boosting India's relative importance to Australia.

The move towards closer bilateral relations was temporarily derailed in 1998, when international sanctions were imposed following India's decision to conduct a series of nuclear tests at Pokhran. But relations began to improve again with the visit of Australia's Deputy Prime Minister and Minister for Trade to India in February 1999, and full normalisation was signalled by the visit of the Australian Prime Minister in July 2000.

The shifting balance of economic weight in the world will lead to changes in the structure of international economic policymaking. This process of global reorientation will provide opportunities for Australia to work with India and other Asian economic powers in efforts to increase the region's representation in key international economic bodies like the IMF.

Thus Australia aims to be a partner for India as it looks to the future and there is no doubt that it seeks to extend these achievements. While there are many possible areas for cooperation between India and Australia, four main potential ones may be mentioned.

Education: Australia aims to be a destination of choice for students wishing to pursue education overseas. Education cooperation offers benefits to both sides and ultimately lifts standards of living in both countries. Australia has in recent years emerged as a major destination for Indian students studying abroad, who recognize the high quality and cost-competitiveness of Australian education services. More than 10,000 Indian students are studying in Australian educational institutions, with potential for further significant growth. Australia is now one of the top three destinations for Indian students.

Economy: Liberalisation and market growth should allow Australian firms to invest profitably in the Information Technology (IT) sector, health, education, biotechnology, environmental services and media and entertainment sectors.

Traditional economic sectors: Of these sectors – manufacturing, mining, infrastructure and agriculture – mining currently is the most promising for Australian firms.

Environment: Australia supports a major World Bank capacity-building project in India relating to climate change. This project builds on existing bilateral cooperation in this area, including a solar-powered project, and ties in well with the interests of Australian industry. Australia can help India learn about world-class water and waste water management technologies.

9.7 SUMMARY

During the Cold War period relations between India and Australia were not very warm. Three main reasons cited for this are 1) India's policy of non-alignment as against Australia's support for the United States; 2) the cold personal relationship of the two Prime Ministers Jawaharlal Nehru and Robert Menzies in the 1950s and 1960s; and 3) the closed economic policy of India. Apart from that differing national interests, temperament and culture made the two countries pursue a foreign policy with different geo-strategic goals and perceptions, distancing the two nations.

With the end of the Cold War, relations between the two countries improved. India started liberalizing its economy and Australia too felt the need for an independent foreign policy. While relations between India and Australia are bound to be based more on economic and strategic common interests, Australia does have political interest in India to see that it remains a democracy so that it provides the basis for furthering common economic and strategic interests.

Ever since India started liberalization of its economy in the early 1990s, business has become free to capitalize on the strength of the Indian economy: its large reserves of natural resources, a thriving private sector, its highly skilled and educated cheap labour, a large market and a well developed institutional framework including a good legal system. These are undoubtedly the major attractions for Australia towards India. In the last decade, Australia's merchandise trade with India has increased. Australia is India's eighth largest overseas investor covering manufacturing, telecommunications, hotels, minerals processing, food processing, oil and gas and the automotive sector. Many joint ventures too have been approved by the Indian government and Indian information companies have entered Australia with several of them opening their offices to better service Australian business and organisations: Some of these are NIIT, HCL, TCS, Pentasoft, Wipro, Satyam, Infosys etc.

However, India and Australia's security concerns have been quite divergent even traditionally. The large size of India's armed forces and its defence expenditure was a matter of concern. However, in the early 1990s, the Australian Government acknowledged that India's military build-up while it enhanced its power projection capability in the South Asian region did not constitute a threat to the security of Australia. However what was most damaging to the relations between the two countries was Australia's intense disapproval of India's Pokhran II nuclear tests conducted in May 1998. Australian views with regard to India's "outrageous acts" in May 1998 puzzled India. For, Australia had until the 1960s supported development of nuclear weapons industries in the United States and had also pursued one of its own. India felt that Australia was being insensitive to India's security requirements whereas Australia felt that India should sign the NPT. However

there has been a softening of Australia's attitude towards India. Even though Australia has still not agreed to grant India's request for supply of uranium, they have resumed bilateral talks and are being very cautious in the approach.

Australia aims to be a partner for India as it looks to the future as India is set to play a significantly greater role in the global economy over coming years. The future for India-Australia relations thus seems bright.

9.8 EXERCISES

- 1) Describe the changes in the political and diplomatic relations of India and Australia after the end of the Cold War.
- 2) What are the main areas of economic cooperation between Australia and India?
- 3) What have been the main reasons for India and Australia not seeing eye to eye on the nuclear issue? Is the stance taken by the two countries on nuclear proliferation completely divergent?
- 4) What could be the possible areas for future collaboration between India and Australia?

9.9 SUGGESTED READINGS

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