

AIIA Policy Commentary

## Looking West: An Indian Ocean Perspective

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# **Minister for Foreign Affairs the Hon Stephen Smith MP**

## **Paper presented at the launch of ASPI's report: "Our Western Front: Australia and the Indian Ocean"**

**Perth, 31 March 2010\***

"[...] That the Indian Ocean region is of critical strategic importance to Australia is substantially underappreciated.

The countries of the Indian Ocean rim are home to more than 2.6 billion people, almost 40 per cent of the world's population. The Indian Ocean is the third largest body of water in the world. Australia has the largest maritime jurisdiction of any Indian Ocean country. The security of its waters goes to the heart of Australia's national interests. Indian Ocean shipping routes are vital to Australia's economic interests, particularly for the energy and resources that meet rising demand in the Middle East, India and China.

Despite its importance, Australia has, regrettably, neglected the Indian Ocean region. This has not always been so, but it has certainly been the case in the recent past.

In the Asia-Pacific Century when economic, political, military and strategic influence is moving to our part of the world, this has to be rectified. We need to look west, as well as east.

In Western Australia we have long appreciated that Australia is a country with significant Indian Ocean as well as Pacific interests. As the gateway to Australia for this region, we understand that our economic strength reflects our willingness and success in engaging with the fast-growing economies and major markets to our west.

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\* [http://www.foreignminister.gov.au/speeches/2010/100331\\_our\\_western\\_front.html](http://www.foreignminister.gov.au/speeches/2010/100331_our_western_front.html)

For this reason I am delighted that Perth will host the Commonwealth Heads of Government Meeting next year. In making this announcement I said that "Australia is an Indian Ocean rim country and Perth is an Indian Ocean rim capital". An Indian Ocean CHOGM will be an important opportunity for the region. It will bring unprecedented focus on the challenges and opportunities of this region.

### **Strategic Issues**

The presence of large and growing naval powers, as well as transnational security issues including piracy, requires that we put the Indian Ocean alongside the Pacific Ocean at the heart of our maritime strategy and defence planning.

The proportion of world energy supplies passing through critical transport choke points, including the Straits of Malacca, the Straits of Hormuz, and the Suez Canal will increase in the coming years. The Defence White Paper noted that the Indian Ocean already ranks among the busiest highways for global trade and it will become a crucial global trading thoroughfare in the future, particularly in energy.

For these reasons Australia has become a member of the Indian Ocean Naval Symposium (IONS), an initiative of the Indian Navy. The symposium's aim is to cooperate on regional maritime concerns in an area where security architecture is limited.

We are also working in key areas where ASPT's report notes that there are emerging risks and challenges which require our attention and careful management, such as climate change, combating piracy, management of fisheries and other natural resources.

There is no doubt that there is a lot more to be done.

We need, for example, to examine the architecture of the region. The Indian Ocean Rim Association for Regional Cooperation, known as IOR-ARC, is the region's largest grouping. Its interests are as diverse as

its broad membership. There are many issues that IOR-ARC members could work collaboratively on, including fisheries management, disaster management, education, tourism, and agriculture. As a founding member, we look forward to working with the IOR-ARC Chair and other members to increase the relevance and focus of its activities.

One issue on which countries in this region are working closely together is in the development of an Indian Ocean Tsunami Warning and Mitigation System. Australia holds the vice chair of the group within UNESCO charged with developing this vital system. Last year, the joint Australian Tsunami Warning Centre began providing bulletins to regional centres in the Indian Ocean. This initiative built on Australia's longstanding engagement in disaster management, mitigation and preparedness, particularly in the Asia-Pacific region.

Now, Australia, through Geoscience Australia, is talking with countries in the Gulf to explore opportunities for cooperation, particularly on issues like disaster warnings, as earthquakes in one region could cause tsunamis in another, including in the Gulf.

Rapid population growth and infrastructure challenges in many Indian Ocean rim countries, combined with climate change, could intensify natural resource and food security pressures in coming years, such as depleting vital fish stocks and lowering agricultural production.

Australia is working with others on the important fisheries issues. The Indian Ocean Tuna Commission was set up in 1996 to provide a regional fisheries framework for commercially valuable tuna and billfish, amid concern the resources are being over-exploited. The total catch in the Indian Ocean has increased dramatically over the past 20 years, reaching more than 1 million tonnes, or 26 per cent of the global tuna catch in 2007. The trend in increasing catches has continued despite the implementation of two international instruments designed to protect highly migratory or straddling fish stocks, the UN Fish Stocks Agreement and the UN Convention on the Law of the Sea.

In short, there is a need, and much scope, for closer and more effective cooperation on a range of significant issues.

It is clear that much can be accomplished when the region comes together to cooperate — the aftermath of the 2004 Boxing Day tsunami is evidence of that.

This leads to an important point. While Australia's foreign and trade policy focus has traditionally been oriented towards the Asia-Pacific, since it came to office the Government has established a more comprehensive approach that recognises the diverse regions of the Indian Ocean rim and Australia's interests in closer Indian Ocean engagement. This has meant forging stronger relations within the region in a targeted way: strengthening our bilateral relationships with key regional countries on one hand; and upgrading our engagement with regional groupings on the other.

## **South Asia**

I want to set out the progress we're making right across the sub-regions of the Indian Ocean rim, starting with our neighbours in South Asia.

The Australian Government has made enhancing foreign and trade policy with South Asia a priority. As a result of closer engagement, Australia has been invited by the South Asian Association for Regional Cooperation, the SAARC, to participate as an observer. Australia will be represented at the SAARC Summit for the first time in Bhutan next month, in April this year. SAARC will present an important opportunity for Australia to engage South Asian governments annually at the highest levels and enhance cooperation through practical and mutually beneficial regional projects.

Australia's bilateral relationships with all the countries of South Asia have also grown in breadth and depth, from India, Sri Lanka and Pakistan to Bangladesh, Nepal and the Maldives.

The Government has done much to progress our relations with India. It is clear that India is once again assuming the influence reflecting its economic size and strength, its strategic weight and its rich history. We have elevated our relationship with India to the front line of our bilateral relationships. We both understand that there is much we can do together to tackle the challenges of the 21st century.

Through our new strategic partnership, announced by Prime Minister Rudd and Prime Minister Singh in November last year, we are taking advantage of our convergence of interests and our shared wish to play a constructive role in world affairs. Australia and India have finalised a Joint Declaration on Security Cooperation and are pursuing a feasibility study into a possible free trade agreement between Australia and India.

My visit to India earlier this month, my third as Foreign Minister, was aimed at strengthening our strategic partnership and included discussion our Strategic Partnership, on the Commonwealth Games and safety of Indian students.

Pakistan is a strategically important country. It is critically located at the intersection of South Asia, Central Asia and the Middle East. It has the second largest Muslim population in the world, and on current projections will overtake the larger Muslim population of Indonesia by mid-century.

What happens in Pakistan directly affects the security of the region and Australia's long-term national interests. It has a significant bearing on our ability to make progress in Afghanistan, where about 1550 Australian troops are deployed.

Since the Government came to office, it has increased its engagement with Pakistan. This is a key example of our growing proactive engagement in the Indian Ocean region.

I visited Pakistan in February 2009 — the first visit by an Australian Foreign Minister in more than a decade — to enhance bilateral relations and urge decisive action by Pakistan to dismantle extremist networks.

Pakistan faces complex and urgent security, economic, humanitarian and political challenges. The threat of terrorism and extremism has become so severe that even President Zardari himself has described it as a threat to Pakistan's very existence. Australia recognises the sacrifices and loss of life made by the Pakistan Government, military and people as they stare down terrorism.

As a founding member of the Friends of Democratic Pakistan, Australia is strongly committed for the long term to support and work with Pakistan as a partner to strengthen its security, economy and its democracy. Australia has doubled the number of Australia-based training positions for Pakistani defence personnel to more than 140 places and doubled our development assistance to total \$120 million over the period 2009-2011.

As I outlined in my Ministerial Statement to Parliament this month, Australia is promoting strengthened humanitarian and diplomatic support for the people of Sri Lanka. We are working with Sri Lanka to meet its political and humanitarian challenges and to "win the peace" after decades of military conflict. We have responded generously to the humanitarian challenges facing Sri Lanka. We are committed to working with Sri Lanka to build a peaceful and prosperous future for all Sri Lankans.

We are also working together with Sri Lanka and other countries in the region to address the issue of people smuggling, both bilaterally and through groupings such as the Bali Process on People Smuggling, Trafficking in Persons and Transnational Crime.

Looking further west across the Indian Ocean to the Gulf region, Australia shares a commitment to stability and economic growth with



the six Gulf countries. We also cooperate on strengthening regional and international security and countering the threats posed by terrorism and piracy.

We work closely with the Gulf Cooperation Council, the premier regional body. Australia wants to strengthen further our relations with the Gulf Cooperation Council. To that end, Australia and the GCC have agreed to hold a regular Foreign Ministers' Strategic Dialogue, the first of which we expect will take place this year.

Australia's engagement with the GCC — our ninth largest trading partner in 2008-09 — is underpinned by growing trade and people-to-people links, and shared interests in regional stability. To maximise the potential of our economic relationship, Australia is negotiating a free trade agreement with the GCC.

We have also taken important steps to re-engage with the nations of Africa, reflecting that, for too long, Australia has not given Africa the priority it deserves. Until recently, the Australian private sector had been quicker to recognise the economic importance of Africa than our public sector. Today, more than 150 Australian minerals and petroleum resources companies, many from here in Western Australia, have interests in more than 40 African countries, with current and prospective investment estimated at \$20 billion. Australia's trade with Africa is also growing, with two-way trade valued at close to \$5 billion.

There are important strategic, geopolitical and economic reasons for enhancing our engagement with Africa. We are focusing on economic, social and political interests that we can advance together, with African nations comprising an important and growing influence in multilateral fora.

The Australian Government is committed to broadening and deepening our engagement with Africa, bilaterally, regionally and through the African Union. Over the past two years, we have set about

- enhancing our political and diplomatic engagement

- promoting trade and investment
- addressing peace and security challenges in Africa, including by supporting efforts to combat piracy off the coast of Somalia, and
- delivering targeted development and humanitarian assistance.

Since taking office in 2007, Australia has established diplomatic relations with another 10 countries in Africa. We have also expanded our diplomatic missions in Abuja, Accra, Cairo, Harare and Nairobi. We've used high-level visits in both directions to further our common interests and strengthen cooperation on pressing global challenges.

In January 2009, for example, it was my privilege to be the first Australian Foreign Minister to address a meeting of the African Union Foreign Ministers' Executive Council Meeting in Addis Ababa. And in January of this year I became the first Australian Foreign Minister in more than seven years to visit South Africa, a country which remains by far our most important economic partner in Africa.

For more than 35 years Australia has enjoyed particularly strong relationships with the key South East Asian groupings and institutions. In 1974 we became ASEAN's first official dialogue partner. Australia was also a founding member of the ASEAN Regional Forum in 1994 and of the East Asia Summit in 2005. These bodies continue to play a central role in promoting regional security, regional prosperity and regional economic integration.

Importantly, last year Australia, New Zealand and ASEAN concluded negotiations for a landmark free trade agreement, which came into effect on 1 January 2010. Covering more than 610 million people and a combined GDP of over A\$3 billion, AANZFTA is the largest FTA Australia has entered into. It is also the most comprehensive FTA that ASEAN has signed, eliminating tariffs on 90-100 per cent of tariff lines for all but the three least developed parties to the FTA.

Australia's bilateral relationships with Southeast Asian countries are among our most comprehensive and important.

Indonesia merits a special mention, not least because the Indonesian archipelago occupies a crucial strategic location in the eastern part of the Indian Ocean. The visit to Australia by Indonesia's President earlier this month underscored just how much our bilateral relationship with Indonesia has developed in recent times. Today, ours is a mature partnership between two robust, open democracies that increasingly see the world in similar ways.

Our common interests with Indonesia offer opportunities to work closely together in regional and global forums for our common good, from APEC to the EAS to the WTO and the G20. Moreover, our areas of cooperation are expanding quickly. They now encompass climate change, defence relations, counter-terrorism and people-smuggling, strong economic links, growing people-to-people ties and Australia's largest development partnership.

Ladies and gentlemen, on the day I was sworn in as Foreign Minister in December 2007, in my first speech as Foreign Minister I said that Australia needed to look West. I said that when the sun sets in the West, it sets on the Indian Ocean, not the Pacific.

The Government has made significant progress in terms of our strategic engagement with our neighbours and countries to our West. We know there's a lot more to do, and that includes in and with IOR ARC. [...]"



**Julie Bishop MP, Deputy Leader of the Opposition and  
Shadow Minister for Foreign Affairs**

**Address to the Australian Institute of International  
Affairs ACT Branch**

**“A View from Perth: Australia and the Indian Ocean Rim”  
Canberra, 2 June 2010\***

“[...] The importance of the Asia Pacific region is well understood by most Australians for it has been a key focus of our trade and diplomatic efforts for decades, and particularly since the Second World War. Dominated by the United States economically and militarily, the Asia Pacific has also been an important focus for us due to the growth of the economies of Japan, China, South Korea and the ASEAN countries.

In recent times Prime Ministers Hawke, Keating and Howard have all made significant efforts to work closely with nations of the Asia Pacific. Prime Minister Rudd’s first major foreign policy foray was to announce his vision for an Asia Pacific community, based on a European Union model. While he has since walked away from his original concept, the Prime Minister’s focus remains on the Asia Pacific.

Without dwelling on the merits or otherwise of this approach, it is fair to say that successive Australian governments have acknowledged the importance of the Asia Pacific region.

From Perth, we see things from a slightly different perspective, as we do on so many issues! My electorate of Curtin has as its western boundary the Indian Ocean. As I watch the sun set in the west or run along the beach in the mornings – and that is a ritual performed by thousands of Western Australians along our western coastline – I am

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[http://www.aiia.asn.au/index.php?option=com\\_docman&task=doc\\_details&Itemid=30&gid=467](http://www.aiia.asn.au/index.php?option=com_docman&task=doc_details&Itemid=30&gid=467)

conscious that looking north and west we share the shores of the India Ocean with its remarkably diverse array of neighbouring countries.

It is fair to say that most Western Australians are acutely aware of the significance of the Indian Ocean and the nations that sit around the rim of that ocean. It is also fair to say that this strategically important ocean often only makes it into the consciousness of many Australians only when they read of the latest boat of asylum seekers making it to Christmas Island or Ashmore Reef.

For us in the West, it is more than just geographic location, it is a state of mind. It is my view that the Indian Ocean Rim will become increasingly important to Australia's economic prosperity and national security in the decades ahead.

A recent report from the Australian Strategic Policy Institute (ASPI), titled "Our Western Front: Australia and the Indian Ocean", describes the Indian Ocean as Australia's "ocean of neglect" that is "rediscovered" every 15 years or so.

The Indian Ocean Rim encompasses huge diversity taking in nations of Africa, the Middle East, South Asia, South East Asia, Australia and island states. The ASPI report observes that the Indian Ocean is a sea of troubles, with many areas of conflict, military build-up, nuclearisation and the world's worst hot spot for piracy, which is not monopolised by Somali pirates by any means.

Some Indian Ocean nations are among the most developed in the world and five are members of the G20. Others are among the poorest nations of the world, some deemed "failed" states. Economic interests and priorities vary considerably. Religious, political and cultural diversity is a feature of the region.

Despite the differences, the challenges and the apprehension, it is also an area of enormous and growing opportunity.

Let me run around the Rim and make a few observations about some but not all of the nations who may have an impact on our future: Australia enjoys good relations with most nations of the Eastern Indian Ocean notably Indonesia, East Timor, Singapore, Malaysia, Thailand, Cambodia - with the exception of Burma.

So in no particular order:

Relations with Singapore are deep and long standing, particularly for Western Australians, who often choose to travel to Singapore for business and leisure rather than cities on Australia's east coast. A flight from Singapore to Perth is only a little longer than a flight from Sydney to Perth. Despite its relatively small population and land mass, Singapore's outstanding economic and trade performance has made it an influential participant in many global and regional forums. In terms of trade, Singapore is our 6th largest two-way trading partner.

Thailand has been a very popular destination for Western Australian tourists – I have made numerous tourist visits to Thailand. However, it is in the midst of a period of political instability, and despite recent dire predictions of civil war, it appears that the situation has stabilised at least temporarily. My office has been in contact with Australians on the ground in Bangkok during the riots and the military action against the red shirts. One businessman observed that while the red shirt leaders had been arrested and their barricades dismantled, the underlying causes of the conflict have not been addressed. Some predict political tensions within months between the poorer people of Northern Thailand and the so-called elites of Bangkok.

Australia has maintained good relations with Malaysia for many decades, being among the first nations to establish diplomatic ties with Malaysia after independence in 1957. With the third largest economy in South-East Asia, Malaysia is also Australia's 11th largest two-way trading partner. Relations are broad and deep, including long-standing links through educational exchange, defence and security cooperation. Several members of the Malaysian Government Cabinet have been

educated at Australian universities further strengthening greater understanding between our two countries.

With regard to East Timor, Australians feel a deep and ongoing sense of commitment to East Timor, arising from the circumstances of 1975 when the Indonesian armed forces took control of the country. Years of struggle and resistance ensued, culminating in the 1999 referendum in support of independence. As East Timor remains one of the poorest nations on earth, Australia has been, and will remain, a significant supporter of East Timor and there is most certainly bipartisan support for that to continue for the foreseeable future.

Indonesia, our most significant close neighbour, is a rising economic and strategic regional power. As a democratic state with the largest Muslim population in the world, it has the potential to be a significant bridge between the Islamic and western world. With President Obama's pending visit to Indonesia this month and his personal ties with the country, the United States is expected to continue to pursue a deeper engagement with Indonesia.

During his recent visit to Canberra President Yudhoyono spoke with Tony Abbott and with me about the opportunities to build greater understanding between our nations. President Yudhoyono, a great friend of Australia, agreed that much more could be done to promote stronger people to people links. There have been tensions at the government level from time to time over East Timor, terrorist attacks on Australians and Australian targets, the flow of asylum seekers through Indonesia to Australia, and issues around West Papua and this has led to tensions of varying levels. However, we both recognise and respect the mutual benefits that will flow from closer ties.

In geographic terms, the countries of the Northern Indian Oceans include Bangladesh, India, Sri Lanka and Pakistan.

India, the world's largest democracy with the world's second largest population, and a predominantly Hindu nation, is playing an



increasingly important role in the region. Currently bi-lateral relations with India have been strained over the attacks on Indian students in Australia, over the Rudd Government's ongoing refusal to sell Australian uranium to India for its civilian nuclear energy needs and earlier over the response of the Howard Government to India's nuclear weapons tests of the late 1990s.

Some researchers believe that relations between India and Australia have been mixed since the years of tension between Prime Minister Menzies and Prime Minister Nehru. University of Adelaide academics Peter Mayer and Purnendra Jain describe that time as a "clash of titans" due to the legendary strength of the personalities of the two leaders, and their fundamental differences of opinion on many issues during the early years of India's independence.

There may be some truth to the depth of the historic tensions from India's perspective, given that since 1951, there have been three visits to India by Australian Prime Ministers for every one visit to Australia by an Indian Prime Minister. Prime Ministers Hawke, Howard and Rudd have visited India, some more than once. The last visit by an Indian Prime Minister was nearly 25 years ago, in 1986, when Prime Minister Rajiv Ghandi was welcomed to our shores.

There have been lost opportunities and given our shared values and interests, economic, political and strategic, there is vast potential to be realised if we recognise that we are in fact natural partners and friends. Western Australians are extremely conscious of the potential. Successive Western Australian Governments have made India a focus of their trade and investment strategies.

While the recent controversy over Indian student safety in Australia is deeply regrettable and everything possible must be done to stop the attacks, it is important to note that there are increasing opportunities for great two-way educational ties. There is currently legislation before the Indian Parliament that would allow foreign universities to establish campuses in India. Even though the bill has not yet passed the

Parliament, already the United States Assistant Secretary of State for South and Central Asian Affairs Robert Blake, has spoken in recent days about what he described as this “very important draft bill” from the perspective of American universities. I am confident that its importance will not be lost on the universities in Western Australia. In passing I note that as far back as 1990, a Centre for Indian Ocean Studies was established at the University of Western Australia.

As for Sri Lanka, since the days of the Colombo Plan there have been strong educational ties with Australia. Sri Lanka is emerging from a traumatic period after decades of bitter and violent civil war. In the aftermath of the final bloody battle about 12 months ago, I made a speech to our Parliament urging the Sri Lankan Government to ensure it sowed the seeds of long-term peace, and avoided action that would plant the seeds of another conflict. The peace is a work in progress.

Pakistan, currently in the eye of the storm as its government battles to retain control of the nation and restrict the influence of radicals, is also critical to our considerations. Australia is deeply engaged in the conflict in Afghanistan and Pakistan is critical to the efforts of the international force attempting to bring peace, stability and democratic government to the people of Afghanistan.

During my visit to Afghanistan in 2009, our soldiers made me keenly aware of the ability of militants to freely cross borders into Pakistan, and use its remote regions as hiding places and staging areas for operations. The consequences of failure to control extremism in either Afghanistan or Pakistan are too terrible to contemplate.

Last in my Northern Indian Ocean countries is Bangladesh, which has almost 160 million people living in a nation smaller than the state of Victoria. With most people struggling to live on less than \$1 per day, the nation struggles to deal with development challenges, natural disasters and ongoing political instability. I will speak more about Australia’s foreign aid priorities but I believe that Bangladesh should be a greater

priority for Australian foreign aid given that in 2009/10 Australian aid support to Bangladesh will be just over \$60 million.

To the North Western region of the Indian Ocean are the waters that adjoin the Persian Gulf and arguably the world's most important waterway, the Strait of Hormuz, through which passes almost 40 percent of the world's crude oil and refined petroleum products. Little wonder that any military tensions in this region that threaten shipping through that Strait sends shock waves around the world.

The major sea routes across the Indian Ocean link the world's main economic centres. With more than 30 percent of Australia's exports coming from Western Australia, the security of the sea lanes to our north and west are of critical concern to us.

Heading directly west from my electorate are a number of nations of eastern Africa which make up the western Rim of the Indian Ocean and of which are increasing interest to Australian mining companies, for example, for investment and development opportunities. Australia, and Western Australia in particular, has the potential to be the major supplier of energy to our region not only Asia but the Indian Ocean.

Now I won't enter this evening into the heated debate over the Rudd Government's super tax on Australia's mining and resource sector, suffice to say the Coalition opposes it on the grounds that it will do irretrievable damage to our mining and resources sector and the Australian economy. So if I have made that clear, and on the assumption that this punitive additional tax on mining will not proceed and our sector remains internationally competitive, I will make the following observations.

We cannot of course predict with any certainty that China will continue to grow at current levels. However, any slow down in China, for example, may be offset by increasing demand for our resources from India, Indonesia and other nations of South-East Asia.

Japan will continue to be one of our biggest trading partners.

According to the Australian Bureau of Resource Economics, exports of iron ore, (97 percent of which come from Western Australia), grew from just over 100 million tonnes per annum in 1989 to 156 million tonnes in 2001 – an increase of 50 percent over 12 years. Iron ore exports increased to almost 240 million tonnes by 2005, and more than 360 million tonnes in 2009 – an increase of 50 percent in just 4 years.

While it will take some time for the world economy to fully recover from what our Reserve Bank now calls the North Atlantic crisis, the demand for infrastructure in China, India and other expanding economies means there will be demand for steel for many years to come. If the super tax on mining tax does not proceed, the outlook for iron ore appears to have good long-term prospects, and the outlook for our energy sector should be equally promising.

The International Energy Agency (IEA) is forecasting strong global growth in demand for energy in coming decades. The latest World Energy Outlook Report predicts there will be a 40 percent increase in overall energy demand by 2030, based on current trends. The report forecasts that more than 90 percent of that increase will come from non-OECD countries, with China and India accounting for the vast bulk of the increase. The IEA also predicts that the world will continue to rely on fossil fuels for more than 75 percent of its energy needs for the foreseeable future. Excluding the petroleum sector, it predicts that there will be a 76 percent increase in demand for electricity. Demand for coal is forecast to increase by over 50 percent and demand for natural gas by over 40 percent.

However, even with this huge expansion in demand, the IEA forecasts also assume that 1.3 billion people worldwide will still not have access to electricity.

With billions of people living in our Indian Ocean region, Western Australia can safely assume – as matters currently stand – that demand for our energy sources will continue to grow for decades at least.

For all the reason that I have outlined, I believe that Australia needs a formal strategy to build stronger ties with the nations of the Indian Ocean. My quick summary of existing relations with a number of the key countries reveals the extent of the challenge.

The ASPI report noted that there have been sporadic revivals of interest in organisations such as the Indian Ocean Rim Association for Regional Cooperation. Yet there needs to be a greater focus on bilateral relations that focus on trade and investment, defence and security, sustainable development and issues of common interest including the management of the Ocean fisheries.

Given the unlikelihood of an Ocean-wide forum, Australia should work with key countries that are geographically close and strategically important.

The Coalition, if elected, intends to implement a formal strategy to build stronger relations among Indian Ocean Rim nations, building upon our current advantages, and focusing on three main pillars of engagement – defence, diplomacy and development.

The ASPI report I referred to earlier raises serious concerns about the important economic infrastructure associated with our iron ore exports and increasingly with the offshore natural gas developments on the North-West Shelf and beyond. The report recommends the establishment of a more permanent naval presence in our North-West to ensure these installations are more secure, particularly in this era of transnational terrorism. As well as making strategic sense, it would also complement a vision of many Western Australians of more population centres in the north of our state to take advantage of the space, resources, water and proximity to growing markets in the region.

It is true that our Special Air Services Barracks are situated on our Indian Ocean coastline. But a stronger defence presence in the north of our state would assist in giving greater security to the Indian Ocean with opportunities for greater ongoing cooperation and support to continue the fight against terrorism and extremism in the region.

The Indian Ocean is currently well known for being a haunt of Somali pirates, which has led to several nations dispatching warships to the region to guard their vessels. There have been several encounters that have led to fatalities.

This Ocean will continue to grow in strategic importance, particularly as India's economy grows and Africa's development gathers pace. United States dominance in the region will have to accommodate growing influence from India and China in particular. Naturally, the United States will negotiate with nations individually and it was disappointing that the Rudd Government cancelled the US-India-Japan-Australia Quadrilateral Initiative.

However, Australia can play an important strategic role.

A recent paper by India's National Maritime Foundation argues for a significant increase in the level of naval cooperation between our two navies. The paper observes that Australia and India are "natural maritime partners," and points to the fact that India currently has joint exercises with the United States, United Kingdom, French and Russian navies, and undertakes coordinated patrols with the Indonesian and Thailand navies. Mutual advantages would come from intelligence sharing, building maritime awareness, improved regional security and more, according to the Foundation. And it is encouraging to note that Australia and India signed a Joint Security Declaration late last year.

In placing a much stronger emphasis on bilateral relations in this region to build stronger links through diplomacy, the effort should be focused initially on India and Indonesia, and working with those nations

to support a broader Australian engagement in their spheres of influence.

In relation to India, for example, the Coalition has promised to restore the in-principle agreement to sell uranium to India. The Government cannot sustain an argument that countries such as India must do more to reduce its contribution to global greenhouse gas emissions and then effectively deny India access to uranium to enable it to expand the form of energy that would reduce its emissions.

Development through a more effective and targeted foreign aid program will be a key focus of our engagement efforts in the region. There have serious concerns raised in recent weeks about the effectiveness of Australia's foreign aid program, the vast bulk of which is administered through the Government agency AusAid. Our aid program should ensure that it does not create dependency, and that it supports development enabling the people of recipient nations to independently manage their own affairs without external support.

For the past 12 months the Coalition has been raising concerns about the Rudd Government's foreign aid program and priorities. The Australian National Audit Office last year raised a number of serious issues about AusAID's over-reliance on highly paid consultants and on AusAID's ability to properly manage large increases in aid. Overall there are concerns that Australia's foreign aid is not getting through to the people who need it most.

The Australian people are extremely generous but public support for a massive foreign aid program depends upon aid being delivered effectively and efficiently. I have been deeply concerned by recent revelations in the media, questioning for example the effectiveness of the use of highly paid consultants in the field of aid delivery. The Australian National Audit Office found that AusAid spends double the proportion on highly paid consultants compared with the OECD average. There have also been numerous example of aid being used to fund questionable

activities that are not likely to improve the standard of living of people in developing countries.

The Coalition intends to hold an independent inquiry into Australia's foreign aid program to ascertain whether the tax payers are getting value for money, to reconsider our priorities and determine better ways of delivery effective aid. We are of the view that Australia's aid effort should be focused primarily on our region – including a greater effort in the Indian Ocean Rim. It will be our aim to ensure our foreign aid budget is used to ensure that people in developing countries are able to improve their standard of living and they become self sufficient in the long term.

The Coalition has repeatedly raised concerns about the Rudd Government's diversion of aid funding to countries outside our region in pursuit of the campaign for a temporary seat on the United Nations Security Council.

I have held regular meetings with NGOs, church-affiliated and other organisations that work on the ground to deliver aid in developing countries in our region. It is clear to me that there are better ways of utilising the expertise and local knowledge and capacity of NGOs, church groups and others who train and employ local people. We can work harder to expose waste and corruption with more transparency yet still cut the red tape and stifling regulations that deter many from doing their best in effective aid delivery.

Defence, diplomacy, development. If elected, any Coalition government of which I am a part will maintain a strong and enduring focus on the Indian Ocean Rim and build relations to the point where it can no longer be said that this is the neglected ocean. [...]"



## The Maritime Domain – The Key to Looking West

### Dr Sam Bateman\*

The Indian Ocean region (IOR) is attracting greater strategic and political attention, and much of that focus is on the maritime domain. In a much quoted article last year, Robert Kaplan argued that the Indian Ocean will be centre stage for the challenges of the twenty-first century.<sup>1</sup> In a later piece, Kaplan said the maritime dimension is the key element of the future geo-politics of the Indian Ocean.<sup>2</sup> Stephen Smith, the Minister for Foreign Affairs and Trade, observed recently that the security of the waters of the Indian Ocean “goes to the heart of Australia’s national interests”.<sup>3</sup>

Geo-political differences are becoming very evident in the IOR, particularly between India and China. India aspires to dominate the region while China is strongly cultivating its regional economic and strategic links, including the establishment of a support network for possible naval operations, enabling it to aspire to deny the region to

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<sup>1</sup> Robert D. Kaplan, “Center Stage for the Twenty-first Century”, *Foreign Affairs*, March/April 2009, Vol. 88 Issue 2.

<sup>2</sup> Robert Kaplan, “Power Plays in the Indian Ocean: The Maritime Commons in the 21<sup>st</sup> Century”, in Abraham M. Denmark and James Mulvenon, eds, *Contested Commons: The Future of American Power in a Multipolar World*, Washington: Center for New American Security, January 2010 (available for download at: <http://www.cnas.org/node/4012>)

<sup>3</sup> Stephen Smith, Minister for Foreign Affairs and Trade, “Future Directions International: Launch of the Indian Ocean Dialogue”, Remarks given at Government House, Perth, 6 July 2010, published as *Indian Ocean Dialogue Paper*, Vol. 1, No. 2, 14 July 2010, p. 2.

India.<sup>4</sup> Energy is a major driving factor in the geo-politics of a region that includes a large proportion of the world's reserves of oil and gas. The presence of untapped reserves largely explains the keen interest of extra-regional powers in the region.

There is an important message here for Australia: we must give greater attention to the Indian Ocean. We are a major stakeholder in affairs of the IOR, including its security and stability. Australia has a larger area of maritime jurisdiction than any other IOR state.<sup>5</sup> Our greatest challenges with protecting borders, offshore sovereignty and sovereign rights are in the Indian Ocean. We have extensive offshore interests in the ocean with strategically important island territories, vital sea lines of communication (SLOCs), and hugely valuable offshore oil and gas reserves. The Cocos and Keeling islands, in particular, have great strategic value, although we currently make little use of them.

Additionally, Australia has an extremely large search and rescue region (SRR) in the Indian Ocean in which we have responsibility for people in distress at sea. This area stretches half way across the ocean from the West coast, and from south of Sri Lanka to Antarctica.

Despite these extensive interests, Australia has seriously neglected the IOR in favour of Pacific and East Asian interests. It is time now to redress this situation and look West rather than focusing on the North and East. In doing so, maritime issues offer fertile ground for regional cooperation. They should figure prominently in our pursuit of increased regional engagement. They are central to Australia's Indian Ocean policy.

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<sup>4</sup> Daniel J. Kostecka, "The Chinese Navy's Emerging Support Network in the Indian Ocean", *China Brief*, Vol. X, Issue 15, 22 July 2010, p. 3.

<sup>5</sup> Sam Bateman and Anthony Bergin, *Our Western Front: Australia and the Indian Ocean*, Strategy Paper, Canberra: Australian Strategic Policy Institute, March 2010, p. 12.

## **Maritime Issues**

In addition to common interests in economic development, security and trade, the Indian Ocean itself is a major mutual concern of IOR coastal and island states. Maritime issues are a compelling common interest. The ocean has rich fish stocks, but they are seriously under-managed and largely exploited by non-Indian Ocean countries. Arrangements for managing the ocean and its resources are under-developed, both in comparison with the Pacific Ocean, where maritime issues are addressed through working groups established by APEC, and in the Central and South Pacific, where problems are dealt with through several agencies established under the Pacific Islands Forum, notably the Forum Fisheries Agency (FFA) and the Pacific Regional Environmental Protection Programme (SPREP). The IOR lacks a regional grouping akin to APEC or the Pacific Island Forum.

The Indian Ocean is the world's third largest body of water with several unique characteristics. Unlike the Pacific and Atlantic Oceans, it is enclosed on three sides by land masses. As a consequence, oceanic currents in the Indian Ocean reverse during the year in a way that does not occur in the other major oceans. The strong through-flow of water from the Pacific to the Indian Ocean through the Indonesian archipelago is another factor which has a strong impact on oceanographic conditions in the latter ocean. Unfortunately, however, the thorough marine scientific research to analyse these factors fully and to assess their implications has not been undertaken.

While traditional security risks are looms large in the IOR with tensions and conflict both in the Middle East and Indian sub-continent, the region also faces extensive non-traditional security threats. These include climate change and possible rising sea levels; transnational crimes (particularly piracy, drug and arms trafficking and people smuggling); food shortages and famine; illegal, unregulated and unreported (IUU) fishing; and maritime natural hazards, such as tsunamis, cyclones and floods. All these threats have a significant maritime dimension.

Piracy and armed robbery at sea are a significant maritime security problem in the IOR. While most recent attention has focused on the area around the Horn of Africa, attacks on ships also occur elsewhere down the East African coast, and on ships anchored off ports in South Asia. Some resurgence of incidents in and around the Malacca and Singapore straits has also occurred recently.

Maritime terrorist attacks are a threat in the IOR due to the presence of extremist groups and the incidence of piracy in the region. The terrorist attack in Mumbai in November 2008 showed the risks of terrorist attack from the sea if coastal waters are not secure. Key access routes to the Indian Ocean, such as the Malacca and Singapore straits, the Strait of Hormuz and Bab el Mandab, have dense shipping traffic where potential targets are readily available to terrorists. The recent incident in the Strait of Hormuz involving an explosion onboard the large Japanese oil tanker *M. Star* may have been the result of a small boat suicide mission by a terrorist group linked to Al Qaeda.<sup>6</sup>

Illegal trafficking in arms, drugs and people are all evident to some extent in the IOR, as well as illicit commerce in other contraband, such as liquor, cigarettes and wildlife. Most of this illegal trade is conducted by sea. These activities are all manifestations of transnational organised crime, and dealing with them requires cooperation between regional countries.

IUU fishing is a serious problem in the IOR.<sup>7</sup> Increased demand and the depletion of fish stocks elsewhere in the world have led to more fishing in the Indian Ocean and an increasing presence of fishing vessels from outside the region. The involvement of these vessels is facilitated largely because there is no effective regime for regional fisheries management. The Indian Ocean Tuna Commission (IOTC) is ineffective as a regional fisheries management organisation.

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<sup>6</sup> Lara Setrakian, "Alarming Conclusion: Oil Tanker Explosion was Terror Attack", *ABC News*, 6 August 2010, <http://abcnews.go.com/Blotter/International/al-qaedas-strike-global-oil-supply/story?id=11341918>

<sup>7</sup> Bateman and Bergin, *Our Western Front*, p. 29.

Marine natural hazards arise through climate change, tropical storms, tsunamis and other severe oceanic conditions. Southeast Asia and other parts of the IOR are prone to these catastrophes, and scientific findings suggest that the intensity and frequency of disasters arising from these hazards is increasing. There is a need for increased research and cooperation to improve the region's ability to predict and manage natural disasters associated with these hazards.

### **Strategic Interests**

Australia's 2009 Defence White Paper makes the assessment that the "Indian Ocean will have greater strategic significance in the period to 2030"<sup>8</sup> and, accordingly, our "Defence planners will need to focus increasingly on the operating conditions and demands of this region".<sup>9</sup> Instability in the region, including more overt competition between the rising powers of India and China, is not in Australia's interest.

Offshore oil and gas developments on the continental shelf off northwestern Australia are major strategic interests for Australia. They are central to our future prosperity and security. Despite their vulnerability, their importance is underappreciated in our national strategic planning. Western Australia is growing into a regional and global energy hub with the growth of Karratha and Port Hedland as the "Pilbara cities" and new ports and other towns in the Northwest. These vital elements of critical national infrastructure are located on Australia's strategically exposed western flank a long distance away from existing Australian Defence Force (ADF) main bases near Darwin and Perth. Despite the assessments in the 2009 Defence White Paper of the strategic importance of the Indian Ocean, Australia has limited defence facilities to support operations in the region.

The RAAF 'bare bases' at Learmonth (about 1200 kilometres from Perth) and Curtin (about 1000 kilometres from Darwin) are rarely

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<sup>8</sup> Australian Government (2009), *Defending Australia in the Asia-Pacific Century: Force 2030*, Defence White Paper, Canberra: Department of Defence, para. 4.43, p.37.

<sup>9</sup> Defence White Paper, para. 6.43, p. 52

activated these days. They were developed over three decades ago to provide support for maritime, air and land operations in ‘Defence of Australia’ scenarios popular in our national defence planning at the time. The operations of the Army Reserve regional force surveillance in the Pilbara and the Kimberley regions have been reduced in recent years due to budgetary restrictions. The RAN has no bases or depots between Perth and Darwin, and the ADF could be slow in responding to an offshore contingency in the Pilbara region.

This decline in defence activity in the West suggests some lack of appreciation in Canberra of just what is occurring off the West coast. As the Immigration Minister, Senator Chris Evans, pointed out at the *In the Zone* conference in Perth in November 2009, the rest of Australia doesn’t get it when it comes to developments in Western Australia.<sup>10</sup> The long-term objective should be to increase the Defence presence in the West. This would help demonstrate Australia’s interest in the Indian Ocean and support the development plans of the Australian and Western Australian governments for new ports and towns in the West and Northwest.

There will be arguments against the development of new Defence facilities in the Northwest on grounds of cost and the ability of the ADF to deploy rapidly if necessary.<sup>11</sup> A new base is contrary to the current intention to reduce the size and costs of the Defence estate. However, that was a consideration for military bases and facilities established many years ago, mainly in the Southeast of the continent, in different strategic circumstances. It fails to recognise the growing strategic importance of the Indian Ocean and the growing national infrastructure in a region that was previously considered a remote area, and of relatively little strategic interest.

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<sup>10</sup> Jennifer Hewett, “The boom the west has to have”, *The Weekend Australia*, 14-15 November 2009, Inquirer, p. 5.

<sup>11</sup> Bateman and Bergin, *Our Western Front*, p. 60.

## Prospective Maritime Initiatives

The Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) is the largest regional grouping at present. It is focused on economic and trade issues, but is not well supported by its constituent members, with the Seychelles actually withdrawing from the association in 2003. Australia has been nominated to Vice Chair the group for 2011-2012 and plans to work with India as the IOR-ARC Chair to rejuvenate the association.<sup>12</sup> The IOR-ARC may provide the foundations in the longer-term for a regional forum where IOR security issues might be addressed, including confidence-building measures and preventive diplomacy.

Maritime issues, particularly IUU fishing, oceans management, cooperative marine scientific research, piracy and the management of marine natural hazards, should be included on a broader agenda for the IOR-ARC. The forum might contemplate an Indian Ocean Declaration setting out broad principles of oceans management similar to the 2002 Seoul Oceans Declaration for the Pacific Ocean agreed by Asia-Pacific oceans-related ministers in 2002.<sup>13</sup>

Prospective maritime initiatives that Australia might take in the IOR include those in the areas of maritime security cooperation, fisheries management, maritime safety, marine scientific research, people smuggling by sea and the mitigation of marine natural hazards. These initiatives might be launched on a region-wide basis, at a sub-regional level or bilaterally depending on the particular issue. All are major issues, yet only one receives even a semblance of public interest, and none have seen significant progress since the problems were first identified.

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<sup>12</sup> Stephen Smith, Minister for Foreign Affairs and Trade, "Future Directions International: Launch of the Indian Ocean Dialogue", p.2.

<sup>13</sup> The Seoul Oceans Declaration is available at:  
<http://www.apecsec.org.sg/virtualib/minismtg/minmtgocean2002.html>

Naval operations to counter piracy off the Horn of Africa are an example of the benefits of maritime security cooperation. India has promoted the Indian Ocean Naval Symposium (IONS) to foster cooperation between navies and coast guards in the IOR. This deserves support from Australia. In the longer-term, measures to develop a common framework for protecting SLOCs might be possible.

Fisheries management should be a priority area for our regional engagement. Australia has relevant expertise and could invest more effort in ensuring that cooperative fisheries management arrangements in the Indian Ocean are effective. We might also assist with building the capacity of selected regional countries for fisheries management, and EEZ management more generally.

Keeping sub-standard merchant ships off the ocean is an important element of marine safety. This is largely achieved through the regime of Port State Control (PSC) under which port states are able to verify that ships entering their ports are complying with required standards of safety, maintenance, crewing and marine environmental protection. Unfortunately this regime is not working well in the IOR. The Indian Ocean Memorandum of Understanding (MOU) on PSC is supposed to provide the regional framework for this regime, but many important regional countries are either not fulfilling their obligations under the regime or are not parties to the MOU. As a consequence, sub-standard ships are common in parts of the region, including around the Horn of Africa, where such vessels are more vulnerable to hijacking by Somali pirates than well-found and well-operated ships. Australia might take the lead in rectifying this situation by taking steps towards making the Indian Ocean MOU more effective.

The Indian Ocean is the most under-researched of all the world's oceans. Political differences have inhibited marine scientific research in the past. However, there is a close link between oceanographic conditions and regional weather patterns, and better oceanographic knowledge would markedly improve climate research with benefits for all IOR countries, including providing the ability to predict severe weather events, such as



cyclones and periods of drought. With better oceanographic knowledge of the Indian Ocean, it may have been possible to predict the recent disastrous floods in Pakistan, thus providing the opportunity for better preparations to be made in advance to mitigate the consequences of this appalling natural disaster.

Improving marine scientific research in the region is essentially a cooperative activity and there is much scope for improvement in this regard. The Western Indian Ocean is at present better organised for cooperative marine scientific research than the East Indian Ocean yet oceanographic conditions in the eastern part of the ocean are a key driver of oceanographic conditions in the ocean generally. There is scope for Australian leadership in fostering marine scientific research in the IOR, especially in the eastern part of the ocean.

These are just some of the initiatives that Australia might take to enhance maritime security and oceans management in the IOR, and to engage constructively in the region. They exploit the common interest of Indian Ocean coastal and island states in the maritime environment, its resources and security. While there is growing concern for the future stability of the region, the maritime domain offers the potential to develop important “building blocks” for establishing regional cooperation and dialogue that would contribute to a more stable region.



India's Rise  
**Dr Ian Hall\***

The rise of India has attracted far less political, media and scholarly attention than the rise of China, but it is in many ways more remarkable. Since the end of the Cold War, India's economy and its foreign policy have been transformed. Between 1970 and 1990, India's average annual rate of GDP growth was only 2.1%, not even enough to keep up with its yearly population growth rate of 2.2%. Between 1990 and 2008, by contrast, average growth was 4.7%, out-stripping its population growth of about 1.7%. During the 2000s, India's economic growth rates accelerated. In the famous Goldman Sachs BRICs Report in 2003, India's GDP was predicted to grow at an average rate of 5-6% over the next 30 to 50 years.<sup>14</sup> So far, India's actual performance has exceeded even that optimistic prediction. The average rate of growth in fact remained consistently above 6% during the 2000s, with a peak figure of 8.6% recorded in the second quarter of 2010. The BRICs Report predicted that at 5-6% growth India's economy would be bigger than Japan's by 2032, making it the third largest economy in the world after the United States and China. If India continues to grow at its present rate, however, we can expect it to pass that milestone somewhat sooner, probably in 2027 or 2028.

India's rise is extraordinary because it is not only fast but also unexpected. In 1991, India was arguably at its lowest ebb since independence. It faced an imminent financial crisis caused by excessive borrowing and a chronic lack of foreign exchange, as well as longer term economic malaise brought about by fifty years of bureaucracy and state socialism. With the collapse of its tacit ally the Soviet Union, India found itself bereft of reliable partners among the major powers. In the

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<sup>14</sup> Dominic Wilson and Roopa Purushothaman, 'Dreaming with BRICs: The Path to 2050', *Goldman Sachs Global Economics Papers* No: 99 (2003), online at: <http://www2.goldmansachs.com/ideas/brics/book/99-dreaming.pdf> (accessed 14 June 2010).

West, India was widely considered a ‘basket-case’ – to use Stephen Cohen’s blunt term – and a truculent one too.<sup>15</sup> During the Cold War India’s policy of non-alignment and Third World solidarity, combined with its commitment to economic self-sufficiency and import substitution, had antagonized American and Western European policy-makers. It also created a lasting legacy of mistrust on both sides, with many in the Indian political elite arguing that much in the West – especially US capitalism – was inimical to India and to Indians.

In the early 1990s, India moved fast to address its economic woes. Narasimha Rao’s government – inspired by the then Finance Minister, Manmohan Singh – took a \$2.2bn emergency loan from the IMF, devalued the rupee, and moved to deregulate parts of the economy and to privatize a number of state enterprises. India also began to open the door to foreign direct investment (FDI), which previously had been tightly controlled, and to reduce barriers to imports by cutting tariffs and red-tape. More slowly and more warily, India also began to change the course of its foreign policy, to overcome its estrangement from the West and to reorient its relations with the rest of Asia. This transformation occurred in stages.

India’s first response to its predicament was to ‘Look East’ through seeking better political ties with China, Japan and South East Asian states, as well as greater foreign direct investment (FDI) from those countries.<sup>16</sup> This policy made much sense. From the point of view of national security, improved relations with China – with which India had fought a border war in 1962 and which is allied to Pakistan – were, and remain, essential. In strategic terms, closer ties with Japan and South Korea were also desirable, in case relations with China turned sour and because both are important sources of aid and FDI. When it came to ASEAN, the emphasis was more on trade, investment and migration. In 1992, India became a Dialogue Partner of ASEAN and in 1996 a

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<sup>15</sup> Stephen P. Cohen, ‘India: No Longer a Large, Exotic Basketcase’, *Financial Times*, 15 August 2007, online at: [http://www.brookings.edu/opinions/2007/0815india\\_cohen.aspx](http://www.brookings.edu/opinions/2007/0815india_cohen.aspx)

<sup>16</sup> Rajiv Sikri, *Challenge and Strategy: Rethinking India’s Foreign Policy* (New Delhi: Sage, 2009), pp. 112-129.

member of the ASEAN Regional Forum, with the aim of negotiating a Free Trade Agreement with the ASEAN states. In 2005 India also participated in the inaugural East Asia Summit in Kuala Lumpur.

India's second response to its post-Cold War malaise was far more contentious. In 1998 the Bharatiya Janata Party-led National Democratic Alliance government of Atal Bihari Vajpayee moved to test five nuclear devices at Pokhran, a site in Rajasthan where India had earlier staged a 'peaceful nuclear explosion' in 1974. Though condemned by some at the time as an act of nationalist folly, there had been from the early 1990s substantial bipartisan support for India to become a fully nuclear-armed state. The Congress-led government of Narasimha Rao had earlier planned to carry out similar tests in 1995, but detection of these preparations by US surveillance satellites and a concerted American diplomatic effort led to their postponement. Despite this setback, the logic for India's nuclearisation remained strong. Unlike other major non-nuclear states, like Germany, Japan, or, indeed, Australia, who benefit from US 'extended deterrence', India did not fall under a nuclear-armed ally's security 'umbrella'. It could not guarantee that if it was subjected to a significant conventional or nuclear attack, a commensurate response would be forthcoming. With potential adversaries – Pakistan and nuclear-armed China – on either side, and without any sign that the 'official' nuclear weapons states were willing soon to fulfill their obligation under the Nuclear Non-Proliferation Treaty (NPT) to disarm, the argument for India's nuclearisation was compelling.<sup>17</sup>

Despite the shock and condemnation with which the tests were initially met in the West, India's move has brought it dividends.<sup>18</sup> While India is still not recognized as an 'official' nuclear weapons state, its possession of nuclear weapons has been tacitly accepted by both the US in the

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<sup>17</sup> For a discussion, see C. Raja Mohan, *Crossing the Rubicon: The Shaping of India's New Foreign Policy* (New York: Palgrave, 2003), pp. 1-28.

<sup>18</sup> For an American view of the immediate aftermath written from the point of view of a key insider, see Strobe Talbott, *Engaging India: Diplomacy, Democracy and the Bomb* (Washington: Brookings, 2004).

civilian nuclear agreement it negotiated with India in 2005 and by the wider international community as signalled by the 2008 decision of the Nuclear Suppliers' Group to waive the normal restrictions required by the NPT on the trade of nuclear technologies with states that are not signatories to the Treaty. Since 2008, India has succeeded in concluding civilian nuclear deals with both Canada (for the supply of uranium) and the United Kingdom (for technological cooperation, research and development). Indeed, it is reasonable to suggest that India's nuclearisation has served as the principal vehicle for the improvement of its relations with the West, at least in so far as the tests shook Western states out of their complacency about India's standing in world politics and forced them to engage with India in a more serious manner.

India's third response was to begin to liberalise its international trade. Like India's attempts to deregulate parts of its domestic economy, this process has been slow and somewhat painful, and remains far from complete. Since 2000, India has negotiated a series of bilateral free trade agreements (FTAs), beginning with other South Asian states but moving progressively further abroad. In 2004, it also agreed to a multilateral South Asia Free Trade Agreement (SAFTA), though it has not yet ratified the treaty. In 2009, India signed the most extensive of these FTAs with the ASEAN member states, and in 2010 it began discussions as to the feasibility of an India-Australia deal. Negotiations for an India-European Union agreement are also ongoing. While India has shown enthusiasm for such bilateral agreements, two caveats need to be entered. The first is that India has been keen in all of these agreements to continue to protect certain industries and to restrict the import of extensive lists of products into India. In this context, 'free trade' does not mean unlimited trade in all goods and services; rather, it implies a far more selective process of liberalisation. Second, India's positive attitude to bilateral deals has not translated into an equal enthusiasm in multilateral trade negotiations. In the present Doha round of world trade negotiations, begun in 2001 and still far from a conclusion, India has played a negative role by joining with other developing states to effectively veto agreement because of their particular objections to Western states' agricultural subsidies.

The last major shift in India's foreign policy since 1991 concerns its ever-intensifying search for raw materials, especially for energy resources.<sup>19</sup> This endeavour has entailed building and maintaining new relationships with some states with which India might not otherwise wish to be close. It also has introduced some additional tensions into India's relations with that other rising power, China. Indian diplomats have been very active in forging contacts with states in the Arabian Gulf, from where about 70% of India's oil is imported, but they have also been keen to build links with African producers like Nigeria and Sudan, with resource-rich Central Asian states including Kazakhstan and Tajikistan, and with emerging Asian producers like Vietnam and Myanmar. India continues to have close links to the Islamic Republic of Iran, despite that country's nuclear ambitions, and much to the distress of US and European policy-makers.

Together, India's economic rise and its new foreign policy have made it a key player – if not always a constructive one – in global governance. The indispensability of India has been recognised in a number of ways resulting in a renewed US effort to engage New Delhi, begun under President George W. Bush and continued under President Obama, and by India's inclusion in the Group of 20 (G20) and almost every major international summit of the past decade. And in stark contrast to the way China's rise has been treated, India's emergence as a global power has been enthusiastically received by opinion-formers and commentators like *Newsweek International* editor Fareed Zakaria or the BBC's Daniel Lak. The United States is keen not just to engage India, but to make it a strategic partner – rendering India 'The Ally', to use Zakaria's terms, to China's 'The Challenger'.<sup>20</sup> Some commentators even suggest that India is poised to become 'Asia's America' – a 'liberal superpower' with a

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<sup>19</sup> For an overview, see Ligia Noronha and Anant Sadarshan, *India's Energy Security* (London: Routledge, 2008).

<sup>20</sup> See Fareed Zakaria, *The Post-American World and the Rise of the Rest* (Harmondsworth: Penguin, 2009), especially pp.129-166.

global reach that serves as a beacon for democracy throughout its region and the wider world.<sup>21</sup>

These predictions may come true, but India presently faces too many obstacles to the realisation of such visions to assert them with any confidence. Three sets of obstacles stand out: the political, the economic and the diplomatic. India consists, as Zakaria rightly observes, of a strong society with a weak state. India's federal government has nothing like the power of the Chinese state to mobilise human and financial capital and its state governments exercise considerable autonomy from the centre. India's bureaucracy is notorious for its inefficiencies and its public life is blighted by corruption. Moreover, its political, business and intellectual elites are far more divided and far less capable of concerted collective action than China's leaders have hitherto shown themselves to be. India's democracy is often described as 'vibrant', but its politicians are fractious and its political parties deeply divided. Religious, ethnic and linguistic differences are commonly exploited for political advantage and some parties even maintain de facto militias that can be mobilised to lethal effect.<sup>22</sup> Caste distinctions continue to play a prominent, if highly controversial, role. Last, but by no means least, India continues to endure very high levels of political violence within its borders, from the Muslim militancy in Jammu and Kashmir to the Maoist 'Naxalite' insurgency in the 'Red Corridor' that stretches from Bihar in the north to Andhra Pradesh in the south.

The weakness of the Indian state is reflected in its uneven ability to put in place the infrastructure necessary for the country's economic development. India lags far behind China, for example, in power generation. At present, India's coal, gas, hydroelectric and nuclear stations produce only about 150 gigawatts of power compared to China's figure of close to 900 gigawatts. Only about half of India's roads are sealed – a major issue in a country subject to monsoon rains – and

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<sup>21</sup> Daniel Lak, *India Express: The Future of the New Superpower* (New York: Palgrave, 2008).

<sup>22</sup> See Martha C. Nussbaum, *The Clash Within: Democracy, Religious Violence and India's Future* (Cambridge, Mass.: Harvard University Press, 2007).



almost all roads are single-lane, making congestion a significant problem as the amount of traffic rises fast. India's railways have suffered from years of under-investment and are as a consequence prone to delays and accidents. The picture is brighter for India's airports in the major centres, many of which having been re-developed in the past decade to cater for the rapidly growing numbers of domestic air travelers making use of India's burgeoning low-cost airline sector.

These indicators illustrate just how far India has to go even to catch up with its Asian neighbours. The raw economic data confirm this view. In 2008 the World Bank calculated India's per capita GDP at just US\$1017, considerably behind China's US\$3267 or Malaysia's US\$8209, and on a rough par with Djibouti (US\$1030) and Uzbekistan (US\$1023). Even when these figures are recalculated to better reflect purchasing power, they are still unimpressive. India's per capita Gross National Income adjusted for purchasing power parity was only US\$2930 in 2008, compared to China's US\$6010 or Malaysia's US\$13,740. And with India's inflation rate now running at near 10% per annum and the food inflation rate running at closer to 20%, the purchasing power of ordinary Indians is falling fast.

India does poorly, too, on the UN's Human Development Index (HDI). In 2009, India was ranked 134<sup>th</sup> out of 182 states included in the study, a considerable distance behind China in 92<sup>nd</sup> place. Throughout the 2000s India has done consistently badly in the HDI reports on indicators such as adult literacy, female life-expectancy and school enrolment. As a consequence, and despite its economic and diplomatic rise, India has not improved its standing in the HDI rankings. Whereas China has leapt from 98<sup>th</sup> place in the table in 1999 to 92<sup>nd</sup> in 2009, India has remained much where it was, coming in at 132<sup>nd</sup> place in 1999 and 134<sup>th</sup> in 2009. These figures do mask improvements in human development in India, but they also demonstrate that the quality of life for most Indians has only improved at the same rate as the quality of life of others in similar predicaments in other developing countries.

India's government has moved to address some of these issues, but progress is often slow. The Right of Children to Free and Compulsory Education Act of 2009, for example, aims to force India's states to fulfill their obligation to provide free local primary education for all. Optimists think that India will succeed in lifting its adult literacy rates above 90% by 2020, but pessimists point out that education spending in India remains low. Private investment in schools is filling some gaps, but again progress is limited. The availability of capital across the board in India has improved markedly in the past decade as savings rates rise in line with increases in wages. Some predict that gross domestic savings will reach some 35% of GDP by 2020, but again these figures are well short of those seen in China, where savings rates of 50% of GDP have been common in recent years. Lastly, and even after two decades of economic liberalisation and deregulation, India remains one of the hardest places in the world in which to do business, ranking 133 out of 181 states in the most recent World Bank survey.<sup>23</sup>

These domestic challenges are compounded by India's challenges abroad. Its relations with states in its immediate region are uneven and fraught. There are signs of progress with Pakistan following the recent foreign ministers' meeting, but past improvements in that relationship have often been derailed by border skirmishes or terrorist atrocities. India's close ties to the military regime in Myanmar and with Iran's present leadership, on the other hand, risk provoking Western ire for uncertain gains. India is on far surer ground with states outside South and West Asia. With Russia, India has renewed links of considerable advantage, with Moscow able to facilitate access to energy resources and to military equipment that India would struggle to acquire elsewhere on the same easy terms. With the United States, India is arguably in an even stronger position. Presidents Bush and Obama have done little to disguise their intention to aid India's rise, despite considerable reservations in New Delhi about the implications that this process might have. India's elite is torn between those who hanker for an 'independent'

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<sup>23</sup> World Bank, 'Ease of Doing Business Index' 2009

<http://data.worldbank.org/indicator/IC.BUS.EASE.XQ/countries/latest?display=default>

approach to foreign policy that holds the US at arms-length and those who would prefer an the US' embrace to the Chinese alternative.<sup>24</sup>

India's rise is remarkable, but it is not without problems, both for Indians and the rest of the world. Whether the state can continue to produce the conditions for sustained growth is questionable. So too is its capacity to address the internal divisions that produce such high levels of communal violence. Equally, whether the West can draw India into the existing structure of global governance remains doubtful. India's diplomacy is notoriously negative: India is prone to walk away from deals even when they are clearly in India's interests, partly to avoid criticism at home and partly to avoid entanglement in norms and rules the government fears will curb its future freedom of movement. India's rejection of the NPT, the Doha deal of 2008, and the draft agreement at the Copenhagen climate change talks in 2009 testify to this pattern of behaviour. As the world's biggest democracy and as a state widely admired throughout the developing world as a reliable partner, gaining India's agreement to major elements of global governance is critical. The challenge for the West is to build India's trust: to convince India that the system is more than the sum of its parts and that as a rising giant of world politics it has a meaningful and lasting part to play in setting the rules for the future.

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<sup>24</sup> I discuss this further in 'The Other Exception? India as a Rising Power', *Australian Journal of International Affairs* (forthcoming 2010).



# **The Australia-India Bilateral Relationship – Understanding its Past to Advance in its Future**

## **Dr Auriol Weigold\***

### **Overview**

We are all too aware of the on-again, off-again nature of the Australia-India bilateral relationship. It has become characterised over time by neglect and blame as an outcome of foreign policy differences. An appreciation of the limits such differences imposed in the past might usefully preface Australia's bilateral initiatives when a new Government takes office and once again focuses on an India centered in our vision, rather than peripheral to it.

This paper will look briefly at the legacy left by Prime Ministers Menzies' and Nehru's foreign policies, based on their individual national values and priorities, demonstrated across the 1950s and beyond, and consequent policy divergences to a point that signaled only the unlikelihood of a high level bilateral relationship emerging.<sup>1</sup> Arguably this legacy continues to interrupt any sense of continuity that recent Australian governments, notably the Rudd Government, have striven for.

A review of Australia's policy actions that have attracted blame from India, followed often by periods of neglect by both nations, show a pattern that has persisted. A substantial, strategic move that elevates Australia's standing in India may offer the means to construct the meaningful relationship with India that both sides of Australian politics envisage, moving out from trade, aid and soft power agreements.

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<sup>1</sup> Menzies-Nehru research was supported by the Australian Government under an Australian Prime Ministers Centre Fellowship, an initiative of the Museum of Democracy located at Old Parliament House, Canberra.

## **The legacy – personal and political**

The good start made by Prime Minister Chifley in the two years between India's independence and Menzies' election left Nehru hopeful of a productive relationship. This hope was quickly dashed by the personal hostility that rapidly developed between Menzies and Nehru, and devolved over subsequent decades into episodes of blame by both nations for policy blunders, followed by neglect and withdrawal aptly described as "diplomatic frost", and a gradual climb back to the customary low-level engagement.

The personal dimension was fuelled by Menzies' lack of interest in India and Asia more broadly. He could not see the relevance for his country of the early wave of new postcolonial nations. This was given expression in a number of ways that merit mention before examining the more substantial problem of foreign policy divergence.

Menzies' lack of interest is well substantiated by his Foreign Minister, R.G. Casey, his High Commissioner in India during the 1950s; Walter Crocker, Australian international relations scholars such as John Burton who wrote about Australia's absence from the Asian-African Bandung Conference in 1955; and contemporary academics and historians such as Alan Watt and Gordon Greenwood.

Menzies' strong, consistent and vocal opposition to India, as a Republic, being allowed to remain in the Commonwealth was drawn out over more than two decades in speeches and in his publications, and most clearly indicated his sense of loss of the Old White British Commonwealth and resentment of the newcomers.

The pattern of bilateral initiatives that emerged across the decades since Menzies' retirement has been uneven and, apart from extended economic activity since the liberalisation of India's economy at the start of the 1990s that has continued apace, the passage of time has not yet led to deep connections.

Menzies remark in his Memoir *Afternoon Light* that “Occidentals” had difficulty in comprehending India<sup>2</sup> was mirrored in India’s lack of understanding of Australia. Cultural misunderstanding was a two way street, aptly explained by Meg Gurry: “policy makers are people too and carry pictures in their heads about other people ... [that] somehow get cranked into the process of policy making”.<sup>3</sup>

### **Divergent foreign policies**

The ongoing failure to achieve substance and continuity in India’s and Australia’s bilateral relationship led to the different foreign relations commitments of India and Australia at the start of the Cold War and their continuing divergence over time.

There have been spikes of interest in India from Australia since 1947. The 1990s are a case in point. The focus was primarily economic, and while people to people contact continued, cultural misunderstanding persisted. With the election of the Howard Government the overt interest disappeared, although economic engagement again expanded.

There was another strong spike of interest in India in 2009, discussed below.

To briefly visit the reverse side: India’s interest in Australia at the government level arguably has not re-emerged in a major way since the pre-Menzies years apart from economic ventures, aid and trade. The exception is when there is a major problem – for example the still-current Indian student debacle, and Australia’s refusal to sell uranium to India. What may be called India’s neglect of Australia has been interrupted by “good” or “bad” initiatives by our government, demanding responses.

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<sup>2</sup> Robert Menzies, *Afternoon Light* (Ringwood, Penguin, 1967), p. 92.

<sup>3</sup> Harold Isaacs, *Scratches on Our Minds* (New York, M.E. Sharp, 1980, p. xxxviii, cited by Meg Gurry, *India: Australia’s Neglected Neighbour? 1947-1966* (Queensland, Griffith University, 1996), p. 93.

Thus India responds more than initiates. The explanation probably lies in the reality that India has, and always had, bigger fish to fry than Australia. This became clear from the 1950s and on, when India's foreign policy placed the country on a world stage.

Menzies and Nehru were political giants. Their terms ran concurrently from Menzies' election in 1949 to Nehru's death in 1964, an extraordinarily long time, not equalled by other Commonwealth Prime Ministers of the period.

India's foreign policy, forged from the onset of the Cold War, has been dominated by non-alignment and peaceful coexistence ideals in contrast to Australia's commitment to powerful friends in a western oriented alliance.

During Nehru's period in office, his international interests were in acting as a broker between great and emerging powers and promoting his "One World" ideals. He stated that: "we should not align ourselves with other power blocks. We can be of far more service without doing so ...".<sup>4</sup> This proved to be the case in India's independent advice to other Commonwealth countries and the United Nations over issues such as the recognition of Communist China, the Korean and Indo-Chinese wars, interaction with Russia, the Suez Canal crisis and South Africa's apartheid policies that led to its withdrawal from the Commonwealth.

Thus Nehru conceived non-alignment both as a "principle", that of exercising autonomy in international affairs, and as a "mechanism", that of trying to create an area of peace outside the bipolar power structure of his period.<sup>5</sup>

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<sup>4</sup> *India's Foreign Policy: Selected Speeches, September 1946 -April 1961, Jawaharlal Nehru* (Bombay, The Publication Division, Ministry of Information and Broadcasting, Government of India, 1961), p. 47.

<sup>5</sup> Navnitna Chadra Behera, 'Re-imagining IR in India' in *International Relations of the Asia-Pacific* (Oxford, Oxford University Press, 2007), p. 5.



Australia, on the other hand, was, and is, prepared to participate in collective measures to “prevent and remove threats to the peace”.<sup>6</sup> As a nation with a small population in the post-war years, it relied for its defence and security agreements - as it still does - primarily on the United States, as demonstrated in its 1950’s determination to secure ANZUS and the now defunct SEATO.

Today India remains nominally unaligned, a position steeped in its history and tradition - and carefully observed officially - while India’s new foreign policy has allowed India “the luxury of converting the slogan ‘non-alignment’ into an ‘independent’ foreign policy”.<sup>7</sup>

This is not to say that India has no bilateral or multilateral agreements. The Indo-US Nuclear Agreement is seen as a bilateral agreement and not an alliance with the United States; India supports building infrastructure in Afghanistan but is not joining other nations in sending troops; and India’s continued relationship with Iran, which the United States has discouraged, are evidence of its present independent, non-aligned policies. More broadly, India’s “Look East” policies have seen it engage regionally, including with Australia, in acquiring energy supplies and in more traditional security measures, focusing on the Indian Ocean littoral.

As noted, Australia’s foreign policy has not shifted from its primary reliance on the United States, backed up by regional and multilateral security agreements. The Foreign Minister, Stephen Smith, stated in April 2008 “We are a regional leader. We are not, however, a powerhouse. Regional and multilateral institutions work well for a nation like Australia. Working internationally to strengthen the mechanisms of international order helps underpin Australia’s safety and prosperity”.<sup>8</sup>

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<sup>6</sup> R.G Casey, *Friends and Neighbors* (Michigan State University Press, 1968) p. 16.

<sup>7</sup> C. Raja Mohan, *India’s New Foreign Policy Strategy* (Draft Paper presented in Beijing, May 2006), p. 8 (my numbering).

<sup>8</sup> Foreign Minister Stephen Smith, 9 April 2008, “A Modern Australia for a New Era”, Speech to Australian Strategic Policy Institute, Canberra (available online)

In contrast to India, Australia is bound by its treaty obligations, although they are no longer the barrier to engagement with India that they were when the Baghdad Pact and other multilateral security pacts including SEATO were signed, and vehemently objected to by Nehru.

If today the substance of foreign policy divergence has collapsed, what are the remaining barriers to Australia and India achieving the substantial Strategic Level Partnership that former Prime Minister Rudd aspired to when he settled for re-badgeing and extending agreements already in place in November 2009?

### **Blame and Neglect**

Perhaps the key reason for the uneasy relationship today is the long-held habit of each blaming the other for policy decisions or events with any perceived or adverse impact followed by periods of neglect.

While Australia no longer neglects India – it is the prime initiator of most attempted engagements - what may be called a blame-game still persists within the relationship and surfaces with alarming frequency. This too leads back to Menzies, with Nehru identifying reasons to be critical of Australia.

India's reaction to the effects of the discriminatory White Australia policy on migration has deep roots. In anti-colonialist India it was seen as “blatant selfishness, typical of a colonial power”,<sup>9</sup> that view gathering strength as Australia's post-war migration was ramped-up.

The White Australia Policy's effect has rolled forward across decades of Australia-berating, recently a response to John Howard's statement in December 2003 about pre-emptive strikes, called racist by India because the targets were likely to be non-western. Most recently the botched charges against Mohamed Haneef and the Indian media's assertions that

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<sup>9</sup> G. Greenwood & N. N. Harper (eds), *Australia in World Affairs 1950-1955* (Melbourne, F.W. Cheshire, 1957), pp. 265

the Haneef case and the bashing of Indian students in Australia were racially based have boosted anti-Australian sentiment among the Indian population. Early examples include Menzies suggestion in 1957 that Australia might send forces to Kashmir and the Australian statement on that matter to the United Nations Security Council, considered hostile by India.<sup>10</sup>

The reaction against Australia's selling of Mirage fighter jets to Pakistan in 1990, adding Pakistan to the bilateral tensions, also emerged during the Menzies-Nehru years. In 1954, Australia supported the United States supplying military aid to Pakistan and was accused by India of favouring Pakistan and creating a possible source of conflict within the Commonwealth. This argument stretched into the inclusion of Pakistan in the Baghdad Pact and SEATO.<sup>11</sup>

Australia has had less occasion to blame India for its actions. The most strident episode in recent years was the overblown reaction to India's nuclear tests in May 1998 when John Howard was Prime Minister, a reaction that reverberates still. It came to the fore after India's nuclear agreement with the United States where Australia was left the outsider in India's burgeoning nuclear commerce.

Towards the end of Australia's 2010 election campaign, India is noting unfavourably Australian indications from both sides of politics that student visas will be limited in number and scope, reducing the opportunities for cross-cultural understanding. At the same time, cricket, the staple of Australia-India complementarity, is a point of contention. India and other Afro-Asian cricketing nations fear the

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<sup>10</sup> *Selected Works of Jawaharlal Nehru*, Second Series, Vol 37, 22 Feb – 30 Apr 1957. Talk with Australian High Commissioner, 12 Apr 1957, pp. 103 and 435-36.

<sup>11</sup> *Selected Works of Jawaharlal Nehru*, Second Series, Vol. 26, 1 June – 30 Sept 1954. Nehru to Menon on conversation with Casey, p. 346.

possibility that John Howard might remain Australia's nomination for the position of Vice President of the International Cricket Council.<sup>12</sup>

### **Centering India: the Rudd Government and the Bilateral Relationship**

Two policy shifts in Australia in 2008 - the reversal of the Howard Government's agreement to sell uranium to India and the badly orchestrated downplaying of the quadrilateral talks with the United States, India, Japan and Australia - and failed to meet Indian expectations and saw a dip in the relationship. Allowed to come to fruition, either could have contributed to what might be called a strategic partnership. Instead they led to a renewed wariness in India about Australia's intentions.

The Rudd Government's ambitious election goal to take Australia's relationship with India to forefront of Australia's international partnerships remains only partly realised and has been dogged by India's displeasure. Nonetheless it has pushed neglect aside and demanded an Indian response.

At Australia's initiative, the bilateral relationship was declared a strategic level partnership by both Prime Ministers on 12 November 2009 in New Delhi. This drew together under one umbrella their pre-existing ties to Asian regional bodies including the G20. Australia also reaffirmed its support for India to become a member of the Asia Pacific Economic Cooperation (APEC) and take a permanent seat on the United Nations Security Council.

The strategic level partnership, expands economic links and affirms cooperation already under way on climate change, water, energy, and knowledge that builds on the successful Australia-India Strategic Research Fund. These affirmations are just that: confirmation or

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<sup>12</sup> For Australian examples see Brian Stoddart "John Howard and Australia: India and the World", 6 Jul 2010 and Rohit Revo, "Who should be Australia's ICC representative?" 27 Jul 2010, <http://asiapacific.anu.edu.au/blogs/southasiamasala/>

extension of existing agreements on practical non-strategic issues rather than new steps forward.

Also on 12 Nov 2010, Prime Ministers Rudd and Singh signed a Joint Declaration on Security. Similar in approach to the Strategic Level Partnership statement, the Security Agreement “affirmed”, “recognized” and “reiterated” previous agreements to create a “comprehensive framework for the enhancement of security cooperation”.<sup>13</sup>

Impressive as Rudd’s initiatives are, Rory Medcalf, a Lowy Institute analyst, argued that strategic ties between India and Australia “keep falling short of expectations” and that despite impressive growth in economic areas and awareness of the challenges both nations face, “what is proving elusive is a relationship of genuine collaboration and candour”.<sup>14</sup>

While Kevin Rudd said of these announcements “every effort must be availed to take these ties to a higher and meaningful level, including from the strategic perspective”, neither the Strategic Level Partnership nor the Joint Declaration on Security includes conventional “strategic” elements such as an energy agreement or a defence pact.<sup>15</sup> Prime Minister Rudd continued

I want to see us be ambitious in the relationship, to forge a genuine strategic partnership underpinned by strong economic, energy and security frameworks that deliver lasting mutual benefits for our peoples and for the peoples of this great region of the 21st century Asia.

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<sup>13</sup> Media releases, 12 Nov 2009, <http://www.pm.gov.au/node/6323> and <http://www.pm.gov.au/node/63234>

<sup>14</sup> Rory Medcalf, “A Plan for Australia India Strategic Ties”, p. 4.

<sup>15</sup> Kevin Rudd, Address to the Second Australia-India Roundtable, co-hosted by the Indian Council of World Affairs and the Lowy Institute, New Delhi, 12 November 2009.

By contrast, the Indian Prime Minister in the joint statement on 12<sup>th</sup> November last year took the opportunity to return to a contentious issue in conveying the “high priority” that the Indian Government attaches to the safety and security of the Indian community in Australia, including students, signaling that this issue was not resolved.

The incoming government should focus on further developing the nations’ complementary interests across the range of fields referred to in the Joint Statements, and addressing the cultural misunderstandings that frequently block the way forward. In this way some future Australian *faux pas*, attracting Indian ire, may be avoided reducing the opportunities for blame to be cast.

Given that Australia has excluded itself from the civil nuclear agreements so many nations are concluding with India, Australia - despite its wish for a visionary strategic partnership - may have reached the highest level of official agreements achievable between the two nations at this time.

Forging a “genuine strategic partnership”, in Rudd’s words, may have to await the inevitable decision to sell uranium to India, or an agreement with elements of alliance on Indian Ocean security. Something dramatic will be needed to change the dynamics of the Australia-India bilateral relationship to something approaching Rory Medcalf’s “relationship of genuine collaboration and candour”.

# **The Flag Follows Trade in Australia's Relations with Africa**

## **Roger Donnelly and Benjamin Ford\***

‘Trade follows the flag’ is the adage often used to sum up the idea that foreign relations between countries tend to precede – and pave the way for – commercial relations. But it is not always thus. As Foreign Minister Stephen Smith has noted: ‘Until recently, the Australian private sector has been quicker to recognise the economic importance of Africa than has the public sector. This has particularly been the case for the mineral resources industry.’<sup>1</sup>

The Minister was referring to a boom in resource investment that began in 2002. By 2008 actual and prospective investment by Australian companies in Africa approached \$20 billion and contracts won by Australian mining engineering companies reached \$4 billion.<sup>2</sup> Scores of countries were involved, and included Mozambique, an important new coal frontier, and Guinea, seen by some as ‘the next Pilbara’.

Yet whilst this boom was going on, Australian diplomatic engagement remained negligible. As late as 2008, Australia had only five diplomatic posts in the 45 countries of Sub-Saharan Africa: Ghana, Kenya, Nigeria, South Africa and Zimbabwe – all Commonwealth or former

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\* The authors are expressing their own views, not those of EFIC (the Export Finance & Insurance Corporation), where they work as economists.

<sup>1</sup> Stephen Smith, ‘Australia and Africa: Looking to the Future’, 19 March 2010 [www.foreignminister.gov.au/speeches/2010/100319\\_australia\\_and\\_africa.html](http://www.foreignminister.gov.au/speeches/2010/100319_australia_and_africa.html).

<sup>2</sup> Donnelly, R and Ford, B, *Into Africa: How the Resource Boom is Making Sub-Saharan Africa More Important to Australia*, Lowy Institute Paper 24, Sydney, 2008, [www.lowyinstitute.org/Publication.asp?pid=870](http://www.lowyinstitute.org/Publication.asp?pid=870).

Commonwealth members.<sup>3</sup> And the proportion of Australian bilateral aid allocated to Africa was only around 3%.<sup>4</sup>

What touched off the boom in Australian resource investment? A confluence of three factors: improved African ‘fundamentals’, ‘stronger for longer’ commodity prices and a global savings glut.

The period from about 2000 on saw a continent-wide outbreak of better economic management, foreign investment deregulation and debt relief. In the background, conflict resolution, peace settlements and democratisation had been going on even longer. Together, these developments made many countries distinctly more hospitable places in which to invest than previously. The Congo (DRC), Mozambique, Sierra Leone, Angola, Liberia, Cote d’Ivoire, Sudan and Uganda are prominent instances. At the same time, commodity prices were rallying under the influence of brisk demand from ‘Chindia’ and low interest rates. Finally, an increasing global supply of saving relative to investment was driving down interest rates on world capital markets and creating a situation of ‘too much capital chasing too few investments’.

As political risk and the cost of capital went down and commodity prices went up, many previously uneconomic projects began to look as if they would pay. With their competitive strengths in exploration, engineering and mining, many Australian companies rushed in to take advantage of the emerging opportunities. By our calculations, Australian companies are now the third largest spenders on mineral exploration in Africa after South African and Canadian companies. And there are now more Australian mineral ventures in Africa than on any other continent.

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<sup>3</sup> Department of Foreign Affairs and Trade, Submission No. 46, *Inquiry into Australia’s Relationship with the Countries of Africa*, 2010, [www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf](http://www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf).

<sup>4</sup> Australian Agency for International Development, Annual Report, 2007-08, Commonwealth of Australia, Canberra, 2008, [www.ausaid.gov.au/anrep/rep08/pdf/anrep07\\_08.pdf](http://www.ausaid.gov.au/anrep/rep08/pdf/anrep07_08.pdf) and Australian Agency for International Development, Submission No. 47, *Inquiry into Australia’s relationship with the countries of Africa*, 2010, [www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf](http://www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf).



For a while, the global financial crisis looked as if it could bring the boom to an abrupt end. Following the collapse of the Lehman investment bank in September 2008, world credit markets froze and share and commodity markets slumped. Companies began to mothball and cancel projects in an effort to conserve capital. The mood was captured by a *Financial Times* headline of 31 October 2008: “MINING CHIEFS LEFT IN STATE OF SHOCK BY BRUTALITY OF REVERSAL.”

But in mid-2009 commodity prices recovered quickly with the resumption of growth in resource-hungry Asia. Companies rapidly revived projects they had shelved only just before.

In fact, our 2008 estimate of a \$20 billion stock of actual and prospective investment now looks to be an underestimate. There have been subsequent commitments and investment that could boost this number considerably. To give just one significant recent instance: BHP Billiton reportedly signed a \$US3 billion deal in June with Liberia to develop an iron ore mine.

What issues does this investment pose for Australian foreign policy?

The answer might be ‘few’, if two conditions held. First, if the African countries in which Australian companies are investing had agreeable investment climates in which foreign and domestic investors are treated equally and predictably. Second, if governments outside Africa stood aloof from investment by ‘their’ companies in Africa. Australian investors could then be left to get on with pursuing their own commercial interests, and Canberra could likewise pursue its established foreign policy priorities in Asia and the US.

But these conditions don’t hold. For a start, African political risk remains high, for all the recent improvement. Investors are often treated in a discriminatory and arbitrary manner, even sometimes a violent one. Woodside, Anvil Mining and Rio Tinto are just three companies that

have fallen victim to African ‘political risk events’. Woodside has had to book a \$A233 million loss on a Mauritanian investment. In the Congo (DRC), Anvil Mining has been affected by conflicts with artisanal miners and clashes between the Congolese army and rebels. Rio is at loggerheads with the military junta in Guinea, which has taken away half of its giant Simandou iron ore concession.<sup>5</sup>

Second, Australian companies are finding themselves in competition with state-owned and state-backed companies on a quest for ‘energy security’ and ‘resource security’. These companies compete with diplomatic and financial support from their foreign ministries, treasuries and eximbanks. China is the prime example: its modus operandi is to do big resource-for-infrastructure deals. The World Bank calls these ‘Angola-mode’ deals,<sup>6</sup> after a 2004 arrangement in which China Eximbank lent Angola \$US2 billion for infrastructure and Angola agreed to supply China with 10,000 barrels of oil per day. Other countries that are backing ‘flag-bearing’ companies in what they see as ‘strategic’ resource investments include India, the Gulf countries, Korea, Brazil, Malaysia, Russia and Japan.

For the most part, resource companies, even big rich ones, have to take this African political risk and ‘strategic’ competition for concessions and contracts as a given. A company can temper and counter these impediments to a small extent by being a ‘good corporate citizen’ which gains a ‘social licence to operate.’ From all accounts, Australian investors in Africa are striving to be such good citizens. However hard they strive, though, their influence will be limited.

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<sup>5</sup> Baker, R and May, J, ‘Woodside drill deep into an African money pit,’ *The Age*, 5 July 2008; Burgis, T, ‘Behind the wrangle for Guinea’s minerals,’ *Financial Times*, 5 July 2010.

<sup>6</sup> World Bank, ‘Building Bridges: China’s growing role as infrastructure financier for Africa,’ *Trends and policy options*, No. 5, 2008, [siteresources.worldbank.org/INTAFRICA/Resources/Building\\_Bridges\\_Master\\_Version\\_wo-Embg\\_with\\_cover.pdf](http://siteresources.worldbank.org/INTAFRICA/Resources/Building_Bridges_Master_Version_wo-Embg_with_cover.pdf)

In contrast, Canberra has diplomatic and financial levers at its disposal to influence and persuade African governments and other governments backing their companies in Africa. And if it succeeds, even to a marginal degree, there could be net benefits for Australian companies, and by extension the Australian nation, in the form of lower political risk, less unfair competition and consequently more profitable investment. That is the nub of the case for having ‘the flag follow trade’ into Africa.

In *Into Africa*<sup>7</sup> we argued for five ‘flag-follows trade’ policy initiatives:

- Providing political and diplomatic support to companies suffering unfair treatment or competition, perhaps partly through some additional diplomatic posts
- Negotiating bilateral investment treaties with African governments that contain protection for Australian investors and dispute settlement mechanisms
- Supplying bilateral aid to targeted African countries to win goodwill that would support Australian commercial interests
- Urging and helping African governments to improve their investment climates and to treat all investors in a non-discriminatory manner
- Urging and helping governments engaged in strategic competition for resources to sign and honour international agreements, such as those in the OECD, WTO and Berne Union (the international association of export credit agencies and exim banks), which limit the subsidisation of exports and investment

Some of these suggestions are now being pursued by the government (though needless to say, Canberra hasn’t looked to us for its lead). The government has been adding staff to its existing posts. It has appointed a new honorary consul to Mozambique and is considering additional consulships. It hasn’t concluded any bilateral investment treaties yet, but some are possible, if there is a push from investors for them and a willingness by African governments to negotiate. The government has

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<sup>7</sup> Donnelly and Ford, op. cit.

also boosted its aid to Africa by more than 60% between 2007-08 and 2009-10, and distributed that aid more liberally to more than 30 countries this year, a number that rises to 40 when multilateral and regional aid is counted. In an initiative to double the number of African scholarships and awards to more than 250, it plans to offer mining fellowships, including some to resource-rich West African states. Finally, through its Australia-Africa Partnerships Facility Australia will provide technical assistance in the area of resource sector governance and public sector management. All these recent initiatives build upon an earlier one to encourage governments from developing countries to join the Extractive Industries Transparency Initiative, a fiscal transparency initiative under which governments agree to disclose what they receive from mining companies (and investors agree to publish what they pay).<sup>8</sup>

Is that enough? Too little? Too much? Is the flag now commensurate with the trade? Several remarks can be made here.

First, the tilt hasn't been significant. Even after the recent initiatives, Australian diplomatic representation remains scanty and aid allocation low.

Second, other big strategic commercial players in Africa put Canberra's efforts into the shade. This is obviously the case for the market-dominating players such as China. But it is also true of the less strategic, more commercial ones like Brazil. President Luis Inacio 'Lula' da Silva has made 11 tours of Africa during his presidency, visiting 26 countries.

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<sup>8</sup> Department of Foreign Affairs and Trade, Submission No. 46, *Inquiry into Australia's Relationship with the Countries of Africa*, 2010, [www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf](http://www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf) and Australian Agency for International Development, Annual Report, 2007-08, Commonwealth of Australia, Canberra, 2008, [www.ausaid.gov.au/anrep/rep08/pdf/anrep07\\_08.pdf](http://www.ausaid.gov.au/anrep/rep08/pdf/anrep07_08.pdf) and Australian Agency for International Development, Submission No. 47, *Inquiry into Australia's relationship with the countries of Africa*, 2010, [www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf](http://www.aph.gov.au/house/committee/jfadt/africa%2009/subs/Sub%2046.pdf).

And the number of Brazilian embassies in Africa has doubled to 34 in the past seven years.<sup>9</sup>

Third, resource investment isn't the only consideration that justifies Canberra looking westward to Africa. There are obviously other considerations substantiating a westward tilt, including a wish to enlist African help on issues such as climate change, trade liberalisation and UN reform.<sup>10</sup>

These three remarks might suggest that Canberra needs to do more. But there are some other considerations working in the opposite direction.

The first one is: Australia is not China or India; that is, a resource-poor-and-hungry country that needs to be anxious about energy and resource security or commodity price rises. Therefore, its foreign commercial policy arguably needs to be different. In *Into Africa*, we went further, arguing that even the big strategic players need to be careful not to 'put money into insecure and unprofitable mines in unstable countries where they are prone to expropriation and sabotage'. In other words, one needed to treat sceptically the larger claims for 'resource diplomacy', clever as that sounds: it can end up being economically draining rather than rewarding.

Second, state-supported companies don't inevitably clash with Australian companies in the competition for new resources. They remain a threat, but there is scope for cooperation as well. Two examples illustrate the point: a tie-up between Sydney-based miner Riversdale with three 'BRIC' steelmakers, India's Tata, Brazil's CSN and China's Wuhan, to develop a large coal deposit in Mozambique; and a joint venture between Rio Tinto and China's Chinalco to help finance the development of the massive Simandou iron ore deposit in Guinea.<sup>11</sup>

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<sup>9</sup> Reuters, 'Brazil's Lula ends final African tour with new deals,' 8 July 2010, [www.reuters.com/article/idUKLDE6671Q420100708](http://www.reuters.com/article/idUKLDE6671Q420100708)

<sup>10</sup> Department of Foreign Affairs and Trade, op. cit.

<sup>11</sup> Lapper, R, 'China invests \$1bn in Mozambique coal,' *Financial Times*, 24 June 2010; O'Keefe, W.M., 'Riversdale signs agreements with Chinese venture partners for the

On balance, we feel that if Australian investment in difficult countries continues apace the foreign policy priority that Australia places on Africa may need to rise still further. But this should be a natural evolution rather than a strategic goal.

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development of the Zambeze Coal Project,' Riversdale media release, 24 June 2010 ;  
McNamara, W, 'Chinalco and Rio sign \$1.35bn Guinea deal,' *Financial Times*, 29 July  
2010.