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India-Australia: Moving beyond the Periphery

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Abstract

India and Australia have traditionally been at the periphery of each other's foreign policy. However, with the recent high level ministerial meetings, clearly the two countries are now trying to engage each other with reinforced vigour. The recent agreement to begin formal negotiations for a Comprehensive Economic Cooperation Agreement (CECA) has given much needed impetus for stronger bilateral relations. This paper discusses India-Australia relations against the backdrop of the proposed CECA.

The year 2011 witnessed a resuscitation of India and Australia relations with India's Minister of External Affairs S.M. Krishna's visit to Melbourne for the Australia-India Foreign Ministers' Framework Dialogue on 20 January 2011. The Minister discussed bilateral, regional and global issues of mutual interests with his Australian counterpart, Kevin Rudd.² India's Minister for Commerce and Industry, Anand Sharma subsequently visited Canberra in May 2011. The three-day visit not only resulted in the agreement to begin formal CECA negotiations but also signalled a renewal of bilateral interest between India and Australia on all fronts.

As early as August 2007, India and Australia had decided jointly to embark on a feasibility study in pursuit of a free trade agreement (FTA) between the two countries. The Joint Study

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² 'Joint Statement of Australia-India Foreign Ministers' Framework Dialogue', *Ministry of External Affairs, Government of India* (20 January 2011), <http://meaindia.nic.in/mystart.php?id=530517077>. Accessed on 18 May 2011.

Group submitted its recommendations in May 2010 and after a year the start of CECA negotiations have now been officially announced. The first round of the CECA talks is scheduled to be held in June 2011 in New Delhi. The CECA is aimed at liberalising and broadening the base of merchandise trade, removing non-tariff trade barriers that impede trade in services, and facilitating two-way investments between the two countries.³

The trade ministers also discussed other areas of engagement including double taxation, social security and film co-production agreements. Following his meeting with Australian Trade Minister Craig Emerson, Anand Sharma met the Australian Prime Minister Julia Gillard and five other senior Australian Cabinet Ministers. During the meeting, the ministers announced the setting up of a Chief Executive Officers' (CEO's) forum which would be co-chaired by Naveen Jindal from India and Lindsay Fox from Australia. The first meeting is expected to take place this year.

Bilateral economic and trade engagement in the past has been limited to commodities and mineral resources such as coal, copper, nickel and gold. However, with the improving dialogue between officials from both the countries, relations are now expanding beyond trade to political and strategic engagements with cooperation in international forums

Trade Relations

In 2009-10, India became Australia's third largest export market after China and Japan, while Australia is India's eighth largest trading partner.⁴ The two-way trade has been growing at an average of 25 per cent over the last five years. With CECA in place, bilateral trade will double from US\$20 billion to US\$40 billion over the next five years.⁵ In 2009-10, Australia's share of India's imports was 3.5 per cent. Australia exported about 8.1 per cent of its total exports to India and imported around 0.9 per cent of its total imports from India. The trade balances, continue to be strongly skewed in favour of Australia primarily due to India's demand for natural resources.

Despite the trade deficit, the overall growth in India-Australia trade underscores the importance and strength of the bilateral relation. Trade in services between the two countries has also increased. India's service exports to Australia moved upwards from US\$123 million in 2000 to US\$519 million in 2008. India's main services exports to Australia are computer

³ 'India- Australia CECA Pathway to Closer Economic Integration: Anand Sharma', *Press Information Bureau, Government of India*, <http://pib.nic.in/newsite/erelease.aspx?relid=72106>. Accessed on 19 May 2011.

⁴ For trade details see, Ministry of Commerce, India, <http://commerce.nic.in/eidb/iecnttopn.asp> and the Department of Foreign Affairs and Trade, Australia, <http://www.dfat.gov.au/geo/fs/inia.pdf>. Accessed on 24 May 2011.

⁵ Sujay Mehdudia, 'India, Australia to announce launch of FTA negotiations', *The Hindu* (11 May 2011), www.thehindu.com/business/Economy/article2009259.ece. Accessed on 18 May 2011.

and information services, and tourism. Main Australian service exports to India are education, education-related travel and tourism. Indian investments in Australia are growing and high profile investors such as Aditya Birla Group, Reliance, Tatas, Adani Group, Lanco Infratech, Infosys, Satyam Mahindra, Tata Consultancy Services (TCS) and Hindustan Computers Limited (HCL) have expanded their presence in Australia.

Other Engagements

While it may seem that these bilateral engagements gained significant momentum only in 2011 the India-Australia Joint Ministerial Commission was in fact established as early as 1989 with twelve meetings to date. The two countries have also signed the Bilateral Investment Promotion Agreement (BIPA) in 2000. The BIPA will now be realised under the proposed CECA which can provide a more liberal investment environment. In 2009, India and Australia signed an agreement to elevate the bilateral relation to a 'strategic partnership'. Under the agreement, Australia and India issued a Joint Declaration on Security Cooperation to ensure closer and more regular collaboration. In 2008, the two countries signed a series of MoUs (memoranda of understanding) ranging from defence cooperation, exchange of customs, information and communications technology, combating international terrorism to cooperation in water resource management, science and technology, air services and intellectual property. The parties pursued closer collaboration with the initiation of the first biennial Australia-India Energy and Minerals Forum held in Perth in 2010. This set the stage for stronger ties, building on the five strategic Action Plans (on coal, new and renewable energy, mining and minerals, power, petroleum and natural gas) that was agreed upon in 2008.

Unresolved Issues

The relationship is, however, riddled with problems, and unresolved issues of the past can sabotage the current progress.

In its quest for clean energy, India has signed the US-India Civil Nuclear Cooperation and in active pursuit of similar deals with several countries. Civil nuclear cooperation with Japan was aggressively pursued but delayed because of Fukushima. Inevitably, the ban on uranium exports from Australia to India continues to be the bone of contention, causing delays in CECA negotiations. Australia has refused to sell nuclear material to India because the country has not signed the Nuclear Non-Proliferation Treaty (NPT). The uranium issue has become a 'barometer of trust in the relationship' for India and 'a thorn in Australian government policy'. Australia's minority government is under pressure to sell uranium to

India for civilian use as it does with China and Russia to allay Indian misperceptions of Australia 'tilting China's way'.⁶

Despite the urgency to resolve the issue, the discussions during the trade ministers' talks in May 2011 did not address the sale of uranium. Australia's opposition party, however, had called for the inclusion of the issue in the negotiations, ahead of Anand Sharma's visit to Canberra. Opposition trade spokesperson, Julie Bishop made the rallying call, 'They should take the opportunity to open negotiations for the sale of Australian uranium to India,'.⁷

India's balance of trade (BOT) could have been a fudge factor in the bilateral equation but this has not found an early resolution. India's trade imbalance with Australia is the second largest with any of its trading partners. Indian authorities have often sought wider access to Australia for exporting information technology, pharmaceuticals, fruit and vegetables to reverse the deficit. Australia, however, has already opened its markets with tariff rates and other trade restrictions which are among the lowest in any OECD (Organisation of Economic Co-operation and Development) country. The challenge is for Indian manufacturing and services sectors to penetrate the Australian domestic market and successfully compete with imports from other countries, especially China.

Another thorny issue in the recent past was the spurt in crimes against Indian students studying in Australia. During his visit to Australia earlier this year, S.M. Krishna and his Australian counterpart noted the measures taken by the Australian government in 2010 to address concerns over the safety and well-being of Indian students in Australia. They agreed that significant progress has been made while acknowledging the ongoing engagement in the education sector, including the Joint Working Group on Education and the Australia-India Education Council. Further, the annual Education Minister's dialogue will be held in India in September 2011.

Moving Ahead

While the start of CECA negotiations may be a crucial step in Indo-Australia relations, the two countries need to forge a partnership beyond trade and economics. In this regard, the positive interactions between the two countries in international and multilateral forums can foster stronger bilateral ties. Last year, Australia's Foreign Minister, Kevin Rudd, had expressed Australia's strong support for India's bid to a permanent seat on the United Nations Security Council (UNSC) as well as its membership to the Financial Action Task Force.

⁶ Rory Metcalf, 'Breaking Down Old Barriers', *The Times of India* (24 January 2011), http://articles.timesofindia.indiatimes.com/2011-01-24/edit-page/28369717_1_uranium-sales-security-cooperation-natural-partners. Accessed on 18 May 2011.

⁷ Peter Veness, 'Talk uranium with India: opposition', *The Chronicle* (11 May 2011), www.thechronicle.com.au/story/2011/05/11/discuss-uranium-in-india-talks-oppn. Accessed on 20 May 2011.

Both India and Australia are members of the G-20, the Commonwealth, the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), the Association of Southeast Asian Nations (ASEAN) Regional Forum, the Asia Pacific Partnership on Climate and Clean Development. They are both active members of the East Asia Summit (EAS). Both countries have also been cooperating as members of the Five Interested Parties (FIP) in the World Trade Organization (WTO). Australia is an important player in APEC and supports India's membership to the organisation. Australia has been admitted as a South Asian Association of Regional Cooperation (SAARC) observer since 2008.

While they share similar interests at the international front, Australia's stand on India's membership of the world's four non-proliferation export control regimes, namely, the Wassenaar Arrangement, the Nuclear Suppliers Group (NSG), the Australian Group, and the Missile Technology Control Regime (MTCR) remains unclear. Members are required to fulfil several requirements such as becoming a signatory of the NPT, adherence to chemical and biological weapons conventions (CWC and BWC), legally-based domestic export control system, membership to one or more of the five nuclear weapon free zones, maintenance of national export control lists which includes all the items on the list of these multilateral regimes, and other similar yardsticks.

Regarding the above, India has legislated the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act in June 2005, fulfilling its obligations under the UNSC Resolution 1540. The resolution requires United Nations member states to enact domestic legislation to better account for weapons of mass destruction materials and technology. The list of items on India's Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) list was also upgraded to include those present in the NSG and the MTCR lists in July 2005.⁸ Not only does India enjoy a 'clean' waiver, accorded to it by the NSG on 6 September 2008, it also has the US' support for membership into the said forums. Further, NSG has decided to include India's request for membership when it holds its annual meeting in the third week of June this year.⁹ The only roadblock for India's participation in the said forums is its non-membership in the NPT.

Meanwhile, the successful negotiations and implementation of the CECA and other proposed initiatives may well put substance into the words of Australian Minister for Foreign Affairs, Stephen Smith, who said in the parliament last year: 'The era of inactivity and even neglect is over'.¹⁰ If Prime Minister Manmohan Singh accepts his Australian counterpart's invitation to attend the Commonwealth Summit in Perth in October 2011, it would be the strongest

⁸ The SCOMET controls the sale and trade of dual-use technologies.

⁹ Sandeep Dixit, 'NSG to include India's request for membership as special agenda item,' *The Hindu* (25 May 2011), <http://www.thehindu.com/news/national/article2045985.ece>. Accessed on 26 May 2011

¹⁰ Stephen Smith, 'Ministerial Statement on the Australia-India Relationship', *Ministry of Foreign Affairs, Australia* (9 February 2010), www.foreignminister.gov.au/speeches/2010/100209_australia_india.html. Accessed on 19 May 2011.

indication that indeed the `era of neglect is over'. All the more, if he chooses to combine it with an official bilateral visit as a next crucial step for strengthening ties. If so, this would be the first visit of an Indian Prime Minister to Australia in the last 25 years.

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