Australia’s second sea
Facing our multipolar future in the Indian Ocean

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This report argues that Australia needs a comprehensive strategy for the Indian Ocean that articulates our regional objectives and outlines a whole-of-government approach to the challenges and opportunities presented by the region.

Australia is a major Indian Ocean state. We have by far the longest coastline and by far the largest area of maritime jurisdiction of any country in the region. In one way or another, Australia relies on the Indian Ocean for much of its wealth. In 2016–17, sales of Western Australia’s mineral and petroleum industry alone totalled some $105 billion; in aggregate, around 42% of Australia’s goods exports by value came from Western Australia. A very large proportion of our maritime trade, both exports and imports, crosses the Indian Ocean.

But despite the magnitude of its economic and strategic interests, Australia tends to see itself as an Indian Ocean state only in a secondary sense—literally, the Indian Ocean is Australia’s second sea. We’ve long seen ourselves as principally a Pacific Ocean state, reflecting our history and demography. Indeed, most Australians have probably only seen the Indian Ocean out of the window of a plane, en route to a holiday in Bali or Europe.

Over the past 50 years, Australia has developed sophisticated and successful national strategies for the Asia–Pacific region, using bilateral and multilateral engagement and support for building regional norms and institutions. Australia has also developed a comprehensive strategy for the Southern Ocean and Antarctica, focusing on multilateral cooperation to achieve articulated environmental objectives.

Almost a decade ago, in ASPI’s Our Western Front report, Sam Bateman and Anthony Bergin noted that, unlike for other key regions, Australia has never had a comprehensive strategic, security and economic policy for the Indian Ocean. There’s been little progress since that time.

This is now becoming an imperative. For more than a century, our engagement with the Indian Ocean has taken place in the context of the military predominance of Australia’s great-power allies. This allowed us to pay limited attention to the region. But after several decades of US military predominance, the Indian Ocean is now becoming a contested strategic space.

India is emerging as a major power, with aspirations to play a leading role in the Indian Ocean. China’s Belt and Road Initiative (BRI) also has the potential to fundamentally alter the dynamics of the region, effectively making China a resident power. China’s military presence in the Indian Ocean is growing fast and will continue to grow. On the other hand, US military dominance in the region could be more transient than might be immediately apparent. A significant reduction in the US defence commitment in the Persian Gulf, for example, whether under Trump or one of his successors, could easily create a perceived vacuum that others will race to fill. This could happen much faster than we expect and could be very damaging for the stability of the region.
The Indian Ocean is also a place of significant opportunities. Over the past 50 years, Australia has focused on economic integration with East Asia, but a string of countries on the southern Asian littoral, led by India, are now experiencing high and potentially sustained growth. Other countries in the Middle East and East Africa also have the long-term potential to emerge as major economies. Their progress is far from assured and they’re subject to many risks, but there’s potential for some of them to stabilise and experience sustained ‘breakout’ growth. Australia needs to be ready for that.

It’s no longer ‘business as usual’ in the Indian Ocean. It’s clear that the region has a much more multipolar future that will require Australia to take a much more active role. We can no longer afford to just ‘muddle through’. Priorities remain unprioritised, potential threats might not be properly planned for, and many opportunities are unpursued. Our regional objectives remain unclear. Our economic engagement with some of the world’s fastest growing economies languishes. As this report details, there are compelling reasons why Australia must pursue a more clear and coherent approach towards the Indian Ocean as part of an integrated Indo-Pacific strategy.

This report discusses Australia’s engagement with the region with a principal focus on security threats, particularly in the maritime realm. It makes a series of recommendations about Australia’s policies towards the Indian Ocean, ranging from high-level strategic objectives to concrete policy proposals. Many of the recommendations involving better policy planning or engagement with Indian Ocean partners could be implemented at relatively minor cost. Some, such as maritime security capacity building in the eastern Indian Ocean, would require additional spending, the reprioritisation of resources from elsewhere in the region, or both.
RECOMMENDATIONS

Australia needs a comprehensive plan to manage risks and pursue opportunities in the Indian Ocean

1.1 Australia needs a comprehensive whole-of-government strategy for the Indian Ocean that articulates national objectives and addresses challenges and opportunities. The strategy should:

- be consistent with and contribute to Australia’s Indo-Pacific strategy
- reflect the specific challenges of the Indian Ocean region
- give clear priority to security and economic engagement with selected partners in the eastern Indian Ocean (countries such as Sri Lanka and Bangladesh should be given equivalent priority in Australian foreign policy to that currently given to some ASEAN states)
- reflect Australia’s long-term interests in the development of a multipolar order in the Indian Ocean, where no single power dominates
- lay out steps Australia that should take to promote a ‘free and open’ Indian Ocean that promotes adherence to a rules-based order by local states and extra-regional stakeholders.

Australia should actively respond to the changing balance of power in the Indian Ocean and plan for a more multipolar region

2.1 Australia should continue to prioritise its relationship with India as a key partner in the Indian Ocean. The onus will be on us to find innovative ways of developing the security relationship, which may include:

- partnering in Southeast Asia, along with countries such as Indonesia and Singapore
- making selected Australian military facilities (for example, in Darwin and the Cocos Islands) available for use by Indian defence forces
- working together to enhance regional maritime domain awareness through information sharing, shared services, or both.

2.2 Australia should articulate its preferences for China’s future strategic role in the Indian Ocean. This may include:

- a preference to see the US and India playing leading roles in the Indian Ocean in a way that minimises competition with China
- a recognition that China has legitimate interests in the Indian Ocean and could be encouraged to play a positive role as an extra-regional stakeholder in the regional order, including in regional governance arrangements
- advocating that China’s BRI projects should adhere to international norms
- potentially playing a role in some of China’s BRI projects, including through the Asian Infrastructure Investment Bank.
2.3 Australia should promote Australia–France and Australia–France–India cooperation in the Indian Ocean, including by:
- establishing humanitarian assistance and disaster relief cooperation arrangements similar to Australia – New Zealand – France cooperation arrangements in the South Pacific
- enhancing information-sharing arrangements
- sharing Australian facilities, potentially as part of a reciprocal access arrangement.

2.4 Australia should also promote Australia–India–Indonesia trilateral cooperation arrangements, with an initial focus on cooperation in combating illegal, unreported and unregulated fishing and other transnational maritime security threats in the eastern Indian Ocean.

2.5 The Australian Government should focus on leveraging the world-leading expertise of Australian companies in the design, funding, ownership and operation of private infrastructure as part of its contribution to the free and open Indo-Pacific strategy in the Indian Ocean.

**Australia should build partnerships in the eastern Indian Ocean to address civil maritime security challenges**

3.1 The Royal Australian Navy should increase the regularity of its presence in the Bay of Bengal as part of an expanded commitment to working with the Indian, Sri Lankan and Bangladesh navies. Where possible, naval visits should involve multiple RAN vessels. This may involve the redeployment of naval resources from the western Indian Ocean.

3.2 The Australian Border Force should also substantially increase its engagement activities in the eastern Indian Ocean and potentially coordinate Australia’s security efforts in that region. This may include applying elements of the ADF’s Pacific Maritime Security Program to capacity building with partners such as Sri Lanka, Bangladesh and, potentially, the Maldives. Any assistance, particularly in training and know-how, should focus on the development of national capabilities in maritime domain awareness.

3.3 Australia should join with partners such as India and Indonesia to create a mechanism for cooperation and coordination, specifically among Indian Ocean coastguards. While ideally this could be pan-Indian Ocean, it may be more fruitful to begin with a subset of nations in the eastern Indian Ocean.

3.4 Australia should promote regional cooperation in maritime domain awareness in the eastern Indian Ocean. This should include:
- supporting India’s efforts, under the auspices of the Indian Ocean Rim Association (IORA), to incrementally develop a multilateral pan-Indian Ocean information-sharing arrangement
- providing training and advice to selected partners, such as Sri Lanka, the Maldives and Bangladesh, on the development of integrated national maritime domain awareness systems to allow them to make more effective use of the information already available (this could include the use of Australian companies with expertise in this field).

3.5 Australia should work with Sri Lanka to establish a node for the provision of training in Sri Lanka to assist Sri Lanka and potentially also neighbouring countries such as Bangladesh and the Maldives. This could potentially be undertaken in conjunction with BIMSTEC, the Bay of Bengal regional grouping. Activities could include the provision of law enforcement, counterterrorism and maritime security related training by the Australian Border Force, the Australian Federal Police and other relevant agencies.
Australia must pursue economic opportunities in Southern Asia

4.1 The Varghese report on Australia’s economic strategy for India provides a useful road map for the future economic relationship. The Australian Government should promote and implement that report’s findings.

4.2 Australia should also develop a plan for economic engagement with Sri Lanka as part of building a comprehensive strategic partnership that includes enhanced economic engagement.

Australia should build on its strengths in the ‘blue economy’

5.1 Australia should develop a comprehensive ‘blue economy’ plan for the Indian Ocean and other oceans that includes:
   • an assessment of our strengths and weaknesses in the blue economy
   • an assessment of opportunities and risks in the Indian Ocean blue economy
   • the coordination and prioritisation of the work of Australian Government agencies in this area.

5.2 Australia should develop Perth as the Indian Ocean’s leading science and knowledge hub. In particular, Australia should leverage and expand upon the existing unique marine and climate science initiatives based in Western Australia with the aim of making it a world-class hub for marine science. Strengthening the legal arrangements between the Australian Government and UNESCO would support this opportunity.

Australia should take a leading role in building Indian Ocean institutions that support a rules-based regional order

6.1 Australia should continue to promote the effectiveness of IORA as the pan-regional political group, including through:
   • improving IORA’s organisational effectiveness
   • encouraging IORA dialogue partners such as the US, France, Japan, Britain and Germany to take a more active role in IORA, including by sponsoring maritime security initiatives through the group, such as coastguard cooperation and capacity building in maritime domain awareness.

6.2 Australia should encourage greater Track 2 interactions among analysts in Indian Ocean states. This could include using the Indian Ocean Dialogue as the basis of an Indian Ocean version of the Council for Security Cooperation in the Asia Pacific.

6.3 Australia should pursue closer engagement with the BIMSTEC regional group to enhance our profile in the Bay of Bengal area. This could include seeking observer or dialogue partner status in that group. Key areas for engagement should include maritime security, the blue economy and climate change.
1. THE SECOND SEA: AUSTRALIA’S APPROACH TO THE INDIAN OCEAN AND THE INDO-PACIFIC

For Australia, the Indian Ocean is a region of great threat and opportunity. However, despite having many vital interests there, Australia has long regarded the Indian Ocean as its ‘second sea’. But our relative neglect of the Indian Ocean will change. In coming years, whether we like it or not, we’ll be forced to pay much more attention to the Indian Ocean as part of our broader Indo-Pacific strategy.

Section 1 of this report discusses:

• Australia’s security and economic interests in the Indian Ocean
• Australia’s strategic thinking about that region
• the Indian Ocean and Australia’s evolving Indo-Pacific strategy.

1.1 Australia’s security and economic interests in the Indian Ocean

The Indian Ocean is a vital space for Australia. It’s an ocean on which we depend, in one way or another, for much of our national wealth. It’s the source of many security threats and, perhaps, of great new economic opportunities.

Australia is geographically the largest state in the Indian Ocean. We have by far the largest Indian Ocean coastline (more than 14,000 kilometres, according to international definitions). We also have by far the largest area of maritime jurisdiction of any Indian Ocean state—around 5.9 million square kilometres in the Indian Ocean alone, including an exclusive economic zone (EEZ) of 3.88 million square kilometres and an extended continental shelf of 2.02 million square kilometres (Figure 1).
The distance between the Australian continent and our western neighbours mitigates many concerns about conventional military threats against the Australian mainland. Rather, Australia’s security and economic interests in the Indian Ocean mostly involve the security of trade and other economic interests and transnational security threats.

A large proportion of Australia’s wealth is generated on the western side of the continent and then transported across the Indian Ocean. Over the past two decades, Western Australia has become an important driver of Australia’s economy, and in 2016–17 sales of that state’s mineral and petroleum industry totalled some $105 billion. In aggregate, around 42% of Australia’s goods exports by value (including iron ore, gold, oil, gas, wheat and copper) came from Western Australia. In 2016, Australian iron ore exports (virtually all from Western Australia) amounted to some 808 million tonnes with a value of $53 billion, constituting 41% of total global production. Australia was also the world’s largest exporter of alumina and bauxite with a value of $10 billion, mostly from Western Australia.

The biggest development in the Australian resource sector in recent years has been in liquefied natural gas (LNG). We’re due to become the world’s largest LNG exporter (ahead of Qatar) by around 2020. Most of the gas is extracted from the North West Shelf off Western Australia. As at September 2017, there were some $90 billion worth of new LNG projects committed or under construction in Western Australia.
The location of much of Australia’s natural resources in the west means that a high proportion of our exports cross the Indian Ocean, mostly through the Southeast Asian archipelago. This gives us a vital interest in the security of maritime trade through our northwest approaches and the so-called maritime ‘choke-points’ of the Sunda and Lombok straits in Indonesia.

However, only a relatively small proportion of Australian exports across the Indian Ocean are destined for Indian Ocean states, other than in Southeast Asia. In 2015–16, only around 5% of Australia’s total seaborne exports by volume and 9% by value were destined for South Asia, the Middle East or Africa. But, as is discussed in Section 5 of this report, the proportion of Australia’s trade with the Indian Ocean region, particularly with India, is likely to grow in the future.

Figure 2: Australia’s exports across the Indian Ocean: the concentration of sea traffic near Australian waters

Source: Australian Maritime Safety Authority.

Australia is also highly dependent on the Indian Ocean for the import of energy, particularly petroleum. Unlike many countries, we import only a small proportion of our oil needs directly, but instead import most of our refined petroleum from refineries in East Asia. Around 83% of our total refined petroleum needs are imported (some 53% from Singapore alone), and we’re expected to import some 100% of our needs by 2030. As a result, we’re highly dependent on imports of refined petroleum through the Southeast Asian archipelago and, indirectly, on the shipping of crude oil across the northern Indian Ocean to East Asian refineries (Figure 3). This gives Australia a strong interest in the security of the maritime trading routes across the northern Indian Ocean.
Australia also has obvious interests in the security of its maritime borders on the Indian Ocean. The Indian Ocean is the source of numerous transnational security threats that could affect our territory and our interests in the region. In recent years, one of Australia’s biggest security concerns has been the prevention of unauthorised population movements by sea. As is discussed in Section 3 of this report, Australia has made significant investments in its border force and intelligence infrastructure over the eastern Indian Ocean, which in large part has been focused on so-called ‘irregular maritime arrivals’ from the Indian Ocean.

1.2 Australia’s strategic thinking about the Indian Ocean and the region

The Indian Ocean has been a strategic conundrum ever since Australians started thinking seriously about our regional environment. While we have crucial interests in the Indian Ocean, it’s never been given priority in national policy. This is because for most of our modern history we’ve had the luxury of relying on the dominance of our great-power allies in the Indian Ocean, first Britain, and then the US.

While those alliances have mostly benefited Australia, one consequence has been to deprioritise Australia’s engagement with other Indian Ocean countries. It has also allowed us to largely ‘muddle through’ without developing a comprehensive regional strategy. For the most part, this approach worked. We could generally rely on our allies for maritime security, and few direct security threats emanated from the region. Until the late 1980s, the Royal Australian Navy (RAN) didn’t homeport any major warships on the western side of the Australian continent. Economic opportunities in the region were also long seen as limited. In short, until recently there was no pressing need for Australia to develop strong security or economic partnerships with other Indian Ocean states.
Our approach to the Indian Ocean contrasts sharply with our experience in the Pacific. We’ve long been an active security player in that region and, since the 1970s, we’ve taken up considerable economic opportunities in East Asia. This led Australian governments to promote the idea of the ‘Asia–Pacific’ as a region, as a way of tying ourselves closely to East Asian economies and helping us to find security in a more prosperous region. Australians now have a clear mental map of the Asia–Pacific as a vital space that needs to be addressed through unified policies.

For several reasons, we’re now being forced to change the way we approach Indian Ocean matters. One reason is the decline in the relative power of the US. As discussed in Section 2 of this report, this may presage a much more multipolar future for the region, in which countries such as India and China, as well as Australia and other middle players, will compete and cooperate. We’ll need to plan for this.

A second reason is the evolving nature of regional threats, including maritime security threats. In the past, such threats generally only affected Australia indirectly, but we’re now increasingly being forced to work with regional partners to mitigate threats against us. This is discussed in Section 3.

A third reason arises from growing economic opportunities in the region, which will require us to develop new approaches, different from those that we’ve used in the past. Our economic relationship with India, the world’s fastest growing major economy, has been languishing for more than a decade. Only very recently has a comprehensive plan been developed for economic engagement with India, and it remains to be implemented. However, there’s no clear plan to pursue opportunities with other emerging economies in the region. This is discussed in sections 4 and 5.

Previously, Australia got by without a comprehensive strategy for the Indian Ocean, but that’s now becoming difficult to sustain. Although Australia’s defence and foreign policies in the Indian Ocean are evolving in response to developments in the region, this has not yet coalesced into a whole-of-government approach. Importantly, Australia hasn’t formulated a clear approach towards the changing balance of power in the Indian Ocean or articulated its strategic objectives in the region. We’ve devoted considerable ADF resources to providing maritime security in the western Indian Ocean (including, until recently, having the RAN almost continuously deployed there since 1990), but spent relatively little on building security capabilities and relationships in the eastern Indian Ocean, which is much closer to our shores. Nor have high hopes for economic engagement with India been realised. None of these challenges will be resolved easily, but they do cry out for the articulation of national objectives and the implementation of national priorities.

1.3 The Indian Ocean in Australia’s Indo-Pacific strategy

Australia’s approach towards the Indian Ocean is also being given greater prominence by the Indo-Pacific strategy of successive governments. The ‘Indo-Pacific’ strategic construct, in which the Indian and Pacific oceans are seen as an increasingly interdependent strategic and economic space, is changing the way Australia thinks about its broader region.

Traditionally, the Pacific and Indian oceans have been seen as largely separate strategic spheres. East Asia and the Pacific operated with one set of economic, political and security dynamics, and South Asia and the Indian Ocean with another. Interactions between the two theatres were relatively limited. But this is now changing, led by the expansion of the economic and security interests of countries such as China and Japan into the Indian Ocean and India’s growing role in the Pacific (Figure 4). Japanese Prime Minister Shinzo Abe first highlighted this convergence in a speech to the Indian Parliament in 2007, but Australian policymakers were among the first in the region to realise that these developments needed to be understood and addressed in a holistic way. It was no longer sufficient to put the Pacific Ocean and Indian Ocean theatres in separate boxes in understanding major power interactions, especially in the maritime realm. Australia needed a more unified view of its region.
Figure 4: An Australian perspective of the core Indo-Pacific maritime space

Source: Adapted from Political map of the world, Central Intelligence Agency, January 2015.
The shift in Australian strategic perspectives from one principally focused on the ‘Asia–Pacific’ to a broader view of the ‘Indo-Pacific’ has important implications for our approach to the Indian Ocean. For example, the concept of the Indo-Pacific provides a useful framework for approaching our strategic relationship with India. The development of the Australia–India relationship in recent years reflects not only a recognition of shared interests between the two countries in the Indian Ocean but also much more broadly across the Indo-Pacific. Some other important concerns in the Indian Ocean, such as the security of vital sea lines of communication across the northern part of the ocean, also need to be approached through an understanding of the dynamics among major Indo-Pacific powers right across the Asian littoral.

But, despite its name, the ‘Indo-Pacific’ doesn’t provide an all-encompassing and exclusive framework for Australia’s engagement across the entire Pacific Ocean or Indian Ocean theatres. The ‘Indo-Pacific’, ‘Asia–Pacific’, ‘South Pacific’ and ‘Indian Ocean’ regions are different, if partly overlapping, geographical spaces that we might put together for some purposes, but not for others. Australia will need to work with several regional concepts at the same time.

For one thing, the Indo-Pacific doesn’t involve the agglomeration of the entire Pacific and Indian Ocean regions. Australia’s 2017 Foreign Policy White Paper defined the ‘Indo-Pacific’ as including essentially the northeastern quadrant of the Indian Ocean and the Pacific. From Australia’s perspective, there would be no good strategic reason to combine the entire Pacific and Indian Ocean theatres, including the space from, say, Peru to Madagascar. That wouldn’t be useful or meaningful in practical or policy terms.

Rather, the Indo-Pacific must be primarily understood as more of a functional than just a geographical concept. The Indo-Pacific provides a valuable framework for responding to changes in our strategic environment involving growing strategic and economic interactions between East Asia and the Indian Ocean. It has particular value in understanding strategic interactions among major powers along the Asian littoral and their implications for the region’s sea lines of communications.

For example, the Indo-Pacific concept can be used to give greater coherence to different elements of Australia’s maritime strategy. By linking two of Australia’s most important maritime zones, the concept calls for a systematic strategy that combines Australia’s maritime interests across the Indian and Pacific Ocean regions. The continued rebalancing of the Australian fleet to Fleet Base West in Western Australia (which in coming years will include most of Australia’s new submarine fleet and the forward deployment of Australia’s new air warfare destroyers) should not be measured by Australia’s strategic needs in the Indian Ocean. Rather, that location makes considerable sense for our ability to quickly swing naval resources between the Pacific and Indian Ocean theatres in response to crises. (A glance at the map demonstrates Perth’s relativeproximity to much of the Indo-Pacific littoral.) The ability to quickly move resources right across the region will become increasingly important for Australia and our partners.

So Australia’s Indian Ocean strategy must be consistent with and contribute towards an overall Indo-Pacific strategy, but it can’t just be a subset of an Indo-Pacific strategy. Our Indian Ocean strategy needs to be wider in both geography and scope. The Indian Ocean encompasses a much broader area than is included in Australia’s conception of the Indo-Pacific, including the northwestern Indian Ocean, East Africa and the southern portion of the Indian Ocean. Further, the ‘major power’ strategic concerns that are the focus of the Indo-Pacific also don’t take into account the numerous sub-strategic threats in the Indian Ocean, some of which (such as people smuggling) have been a major security focus for Australia for decades. Nor does the recognition of an Indo-Pacific ‘strategic arc’ mean that Australia should advocate that Indian Ocean governance arrangements should be subsumed into broader ‘Indo-Pacific’ arrangements.

Accordingly, Australia’s strategy towards the Indian Ocean needs to be based on a clear understanding of the specific challenges and dynamics of the Indian Ocean.
But the Indo-Pacific concept does provide some important pointers for Australia’s priorities. One is that Australia needs to prioritise its efforts in the eastern Indian Ocean. The huge size of the Indian Ocean creates real dangers of the diffusion of our limited resources if we were to indiscriminately pursue ocean-wide engagement. Australia’s Indo-Pacific strategy will force us to place particular focus on countries in the eastern half of the region, such as India, Sri Lanka, Bangladesh, Myanmar, Thailand, Malaysia, Singapore, Indonesia and Timor-Leste. Importantly, several of those countries could be the source of significant security risks (such as violent extremism, political instability or significant unregulated population movements) as well as significant economic opportunities. Those risks (and opportunities) will increasingly require Australian agencies to give countries such as Sri Lanka and Bangladesh no less priority in engagement than is currently given to many ASEAN countries. Another way of looking at this is that we need to broaden our concept of ‘Southeast Asia’ to include countries such as Bangladesh and Sri Lanka. There’s in fact no magic in the concept of ‘Southeast Asia’ or the borders of the ASEAN group. Both are relatively recent ideas and both have evolved significantly throughout their existence.

A second implication of the Indo-Pacific concept is the understanding that growing strategic and economic interactions between the Indian Ocean and the Asia-Pacific will, over time, shape the roles of major powers and the governance arrangements in each theatre. This does not, for example, mean that Australia should advocate for the scope of East Asian-centred institutions such as the East Asia Summit to be extended to encompass the Indian Ocean, but it may mean that Indian Ocean institutions need to better reflect the legitimate interests of major East Asian states in the region.

China’s growing presence in the Indian Ocean has considerable potential to disrupt regional relationships and groupings. Some Indian Ocean states may be open to China playing a more active role in the region, while others are likely to resist it. In the future, Australia will need to take a clearer position about its preferences for China’s role in the region. There may be potential for maritime security cooperation in some areas. There could also be benefits for Australia in partnering with China in some BRI projects, for example, in a manner that promotes international norms.

**Recommendations**

Australia needs a comprehensive whole-of-government strategy for the Indian Ocean that articulates national objectives and addresses challenges and opportunities. The strategy should:

- be consistent with and contribute to Australia’s Indo-Pacific strategy
- reflect the specific challenges of the Indian Ocean region
- give clear priority to security and economic engagement with selected partners in the eastern Indian Ocean (countries such as Sri Lanka and Bangladesh should be given equivalent priority in Australian foreign policy to that currently given to some ASEAN states)
- reflect Australia’s long-term interests in the development of a multipolar order in the Indian Ocean, where no single power dominates
- lay out steps that Australia should take to promote a ‘free and open’ Indian Ocean that promotes adherence to a rules-based order by local states and extra-regional stakeholders.
For more than a century, Australia’s engagement with the Indian Ocean has taken place in the context of the military predominance of our great-power allies, which allowed us to pay relatively limited attention to the regional strategic environment. However, after several decades of US military predominance, the Indian Ocean is now becoming a much more contested strategic space, driven by the relative decline in US predominance, the emergence of India as a major power with aspirations to play a leading role in the region, and China’s growing economic and military presence. China’s BRI, in particular, has the potential to fundamentally alter the strategic dynamics of the region by effectively transforming China from a power with a small Indian Ocean presence into a fully resident power. The Indian Ocean almost certainly has a much more multipolar strategic future that will require Australia to take a much more active role. It’s no longer ‘business as usual’.

Issues covered in this section include:

- Australia’s interests in the Indian Ocean balance of power
- building the India relationship
- China's BRI and the Indian Ocean
- new strategic geometries in the Indo-Pacific.

2.1 Australia’s interests in the Indian Ocean balance of power

For most of its modern history, Australia has relied on its ‘great and powerful friends’ as the dominant security providers in the Indian Ocean. The predominance of the Royal Navy in the Indian Ocean and much of the Pacific from the early 19th century helped provide a protective umbrella for Australia’s small population to develop the continent largely secure from external intervention. In the 1970s, the US Navy more or less stepped into Britain’s security role, allowing Australia to devote only limited defence resources to the Indian Ocean. Even up until the 1980s, when the Australian Government decided to pursue a ‘two ocean’ strategy, Australia had virtually no permanent naval presence on the western side of the continent.
However, as a function of our great-power alliances and our interests in supporting a liberal global order, Australia has also long maintained security interests in the Middle East. This has included a virtually continual naval presence in the western Indian Ocean since 1990. This was driven by the series of conflicts in Iraq and the Persian Gulf and more recently by concerns about violent extremism and maritime drug and arms smuggling. Our naval presence in the western Indian Ocean is now primarily a function of Australians’ perceptions of our need to service the US alliance relationship, although it also provides the RAN with valuable experience in working with navies from all over the world. To what extent Australia should continue to prioritise that presence is discussed below.

But the Indian Ocean strategic environment is now changing and becoming much more contested, including as it does the growing presence of several major and middle powers. As the 2016 Defence White Paper noted:

The Indian Ocean has become an important focus for Australian strategic policy in recent years. Vital trade and energy routes for Australia and many of our most important economic partners transit the Indian Ocean … The Indian Ocean region is also likely to become a more significant zone of competition among major powers, with China, India and the United States all increasing their levels of military activity in this region.13

Indeed, the future strategic order in the Indian Ocean is likely to be more multipolar than at any time in Australia’s history. But the coming power transition in the Indian Ocean is unlikely to be as smooth as the handover of power from Britain to the US in the 1970s. The increasingly multipolar nature of the Indian Ocean makes the future regional order uncertain. We’ll need to pay significantly more attention to the Indian Ocean in order to ensure, as much as we’re able, a reasonably favourable strategic environment.
The changing role of the United States

The US is the predominant power in the Indian Ocean and may remain the strongest power for the next 20 years or so, even as its relative lead diminishes. But there are many uncertainties about the US role in the region, and not just those caused by the antics of the Trump administration. Washington's focus in the Indian Ocean is (and always has been) centred on the Persian Gulf, the remainder of the region being of only secondary interest. The US uses the Indian Ocean as a highway to project power into the Persian Gulf region, but it has otherwise shown little interest in helping to build an effective region-wide architecture that could help provide stability and support international norms.

Despite current US military predominance in the Indian Ocean, the transience of its position could quickly become apparent if there were a significant erosion in Washington's credibility as a security guarantor. There's a view, at least among some Indian Ocean countries, that one day the US Fifth Fleet will sail for home from the Persian Gulf. If that occurs, then Washington will be likely to rely on India to assume a much-expanded role in the Indian Ocean region as a leading provider of public goods, operating with US assistance.

The future is inherently uncertain, and it's possible that the Persian Gulf could maintain its importance to the US in coming years, but if technological advances in the extraction of gas and oil continue to reduce US dependence on imported energy then the Indian Ocean could easily become much less important to the US. There have been massive increases in oil and gas production in North America over the past decade. In 2011, only 16% of the oil imported by the US came from the Persian Gulf (down from 24.5% in 1990) and that proportion has continued to fall much further.

Just as importantly, US energy imports as a proportion of its needs are falling. The International Energy Agency has predicted that the US will become a net exporter of natural gas by 2020. The reduction in US dependency on energy imports may be further magnified by increased use of non-hydrocarbon energy sources in the future.

A significantly reduced US dependence on Persian Gulf oil could fundamentally alter the US commitment to the Indian Ocean. Washington will have more strategic options, including the option of not acting in response to threats. In the not-too-distant future, a US administration might not always feel compelled to protect energy being exported to China or Japan (or Australia, for that matter). It may, for example, conclude that whatever (largely immeasurable) benefits that might accrue from US military dominance of the Gulf are outweighed by their huge (and very measurable) financial costs.

A reduced US presence in the Gulf, a significant erosion of US credibility, or both, could spark a period of intense strategic competition as China, India and other countries move to fill any perceived power vacuum. That would be likely to have a knock-on effect right across the Indian Ocean. There's little reason for the US to be in the eastern Indian Ocean (beyond Southeast Asia) if it isn't in the western Indian Ocean. A strategic reordering of the region could occur much faster than we might wish—as was the case when Britain precipitously withdrew its military forces from east of Suez in the late 1960s. That left Australia scrambling for alternatives.

The nature of the US regional defence presence may also be altered by the changing dynamics of the Indo-Pacific, in which the two oceans are seen as more interdependent strategic spaces. This could lead to significant changes in US defence strategy. For example, it may make sense for the US to adopt a strategy based on swinging its naval and other defence resources between the Pacific and Indian Ocean theatres in response to crises (just as the Royal Navy used a ‘swing’ strategy between different theatres many decades ago). This could reduce the burden of maintaining large forward deployments in both East Asia and the Persian Gulf.

That could have important consequences for us. Overall, we should anticipate that the US will become a more demanding ally, expecting us to bear a greater share of the burden in the Indian Ocean and to facilitate US access to the region. It’s likely to also include more demands from Washington for access rights in Australia, prepositioning of equipment and greater integration of US and Australian capabilities.
The emergence of India as a major regional power

A second major change is the emergence of India as the biggest economic and military power among Indian Ocean states. It’s likely that India’s relative power will continue to grow and that it will become more assertive across the region, potentially including in Australia’s neighbourhood. India has long harboured ambitions to be recognised as the leading Indian Ocean power, with special security responsibilities in the region. What that might mean in practice is yet to be seen.

Since 1947, India has also shown a strong aversion to the presence of other major powers in the Indian Ocean, although previously it had little power to do anything about it. Those concerns were once directed at the US, but they’re now very much directed at China. Growing strategic competition between India and China is likely to become an increasingly important factor in the dynamics of the region (see box).

The importance of India for Australia, and the challenges in building the relationship, are discussed below.

### Strategic competition between India and China in the Indian Ocean

Competition between China and India may become an even more important driver of regional dynamics.

India has long aspired to be recognised as a leading power in the Indian Ocean, with special security responsibilities. India sees China’s growing economic, political and military presence in the Indian Ocean as creating a fundamental challenge to those ambitions. This is provoking some sharp reactions from India.

Delhi views China’s presence in South Asia and the broader Indian Ocean with particular suspicion and anxiety. China’s growing relationships with countries in the region aren’t perceived as being a legitimate reflection of Chinese interests, but as being directed against India, to encircle it or keep it off balance.

Beijing takes a quite different view from Delhi on the legitimacy of its presence in the Indian Ocean. Many Chinese strategists believe that India lacks comprehensive national power to be a first-tier power in Asia, and that it wouldn’t be able to provide security across the Indian Ocean. Beijing also strongly resists any suggestion that India has any right to restrict China’s relationships in the region.

As a result, Beijing pays little heed to Indian sensitivities about those relationships. Some argue that China suffers from a strategic ‘blind spot’ in understanding the perspectives of its neighbours, particularly India, and doesn’t understand the anxieties that it’s creating across the Indo-Pacific.

This negative Sino-Indian dynamic is exacerbated by China’s BRI. Beijing claims that its BRI projects are purely economic and that it doesn’t need India as a partner. This only fuels Indian suspicions that the BRI is part of a Chinese strategy to dominate the region.

Over the past few years, strategic competition between India and China in the Indian Ocean has grown and has included a race between them for control over or access to ports or naval bases: for China, in Djibouti, Gwadar (Pakistan), Hambantota (Sri Lanka) and Kyaukpyu (Myanmar); and for India, in Seychelles, Duqm (Oman) and Sabang (Indonesia).

Competition between India and China is currently partly dampened by US military predominance. However, were that to decline, for example, due to a drawdown of US defence resources in the Persian Gulf, then their strategic competition would become far more overt and intense.

In the future, we may see ever more jostling for influence between India and China across the Indian Ocean. Strategic competition between those countries may lead to the greater militarisation of the region, as India feels impelled to respond to China’s moves. This will be likely to make the Indian Ocean a much more complex and difficult strategic environment for Australia.
China’s growing presence in the Indian Ocean

Another big change is China. It has important strategic interests in the Indian Ocean that are likely to drive an ever-greater Chinese military presence in coming years. Beijing’s most crucial interest is the protection of its trading routes, over which around 82% of its imported oil needs are transported from the Middle East and Africa. These sea lanes are highly vulnerable to threats from state and non-state adversaries, especially at the so-called maritime ‘choke-points’ of the Strait of Hormuz and Malacca Strait.16

But China also has other important strategic interests in the region, including a growing number of Chinese nationals and investments related to the BRI. The imperative to protect people and assets is likely to become an increasingly important driver in China’s military presence across the region.

The opening of China’s first overseas military base in Djibouti in 2017, which will support anti-piracy operations and help protect China’s interests in Africa, indicates that its military presence is likely to continue and grow to meet its various strategic needs. This will be likely to include a significantly expanded naval presence, far greater than the current average of four or five warships in the region, to perhaps more than 20 warships. This would be likely to be accompanied by permanent deployments of contingents of Chinese marines and other supporting services. Such a presence may significantly constrain the relative freedom of action that US forces currently enjoy in the region.

China’s principal security focus to date has been in the western Indian Ocean, but it’s also becoming active in Australia's neighbourhood, including by conducting annual naval exercises near Australia’s Christmas Island since 2014. In the future, China may also seek to establish a naval support facility in the eastern Indian Ocean, which would be a matter of significant concern for Australia.

The growing role of Indonesia and other middle powers

The growing roles of India and China are being complemented by the greater presence and activities of several middle powers in the Indian Ocean. France has long had a large military presence in the region in connection with its Indian Ocean territories, and Japan is also building its presence. Other middle powers are also becoming more active in the region, including Middle Eastern countries such as Turkey and the United Arab Emirates, and eastern Indian Ocean states such as Indonesia and Sri Lanka.

Indonesia has particular significance for Australia in Southeast Asia and the Indian Ocean. Through the 20th century, it largely turned its back on the Indian Ocean, giving its attention to Southeast Asia and further north. But Indonesia may increasingly come to understand the considerable influence it can wield across the Indian Ocean region, including through its relationships in Southeast Asia and the Islamic world. Its announcement of a ‘global maritime fulcrum’ strategy in 2014 seemed to indicate a greater awareness of its valuable strategic position at the intersection of the Indian and Pacific oceans, although that strategy has been little implemented. However, Jakarta’s period as chair of the Indian Ocean Rim Association (2015–17) provided an excellent example of the strength of Indonesia’s soft power across the Indian Ocean and its ability in being able to bring a highly diverse set of regional partners together.

As is discussed in Section 4, Indonesia is already the Indian Ocean’s second largest economy in purchasing power parity terms, and a continuation of its sustained (if perhaps unremarkable) rate of economic growth will substantially widen the economic gap with Australia and other states. It’s likely that Indonesia will find new ways of exerting its new-found economic influence in the region. The locations of both Indonesia and Australia as major states between the Indian and Pacific oceans could be one important foundation for cooperation.

All of these developments point towards the Indian Ocean becoming a much more multipolar and complex strategic environment than at almost any time in Australia’s modern history. We’ll no longer be able to rely on our great-power ally for security but will need to navigate potentially shifting coalitions among different powers.
2.2 Building the India relationship

One of Australia’s biggest challenges in the Indian Ocean in coming years will be to build a comprehensive and resilient partnership with India. According to Australia’s 2017 Foreign Policy White Paper, India now sits in the front rank of our international partnerships, and it’s in maintaining stability and openness in the Indian Ocean that India’s and Australia’s interests most converge. We’ll need to show more patience and pay more attention to this relationship than ever before.

In many ways, Australia and India are the odd couple of the Indian Ocean. For decades, our divergent geopolitical perspectives, ideological differences and weak economic links led us to look past each other. Although the two countries share a language, similar institutions and a love of cricket, that history often seemed to divide us as much as bring us together. The challenge for Australia will be to find effective ways to engage with India that reflect India’s unique perspectives.

Over the past decade, Australia has sought to build a comprehensive economic and security relationship with India. In practice, the engagement has largely focused on security, while the economic relationship has languished. Our perspectives towards India are now linked with our reorientation towards the Indo-Pacific. This reinforces the importance of India as a partner that could one day rank alongside our traditional partners in Asia.

But there’s still a degree of caution on both sides. Although perspectives are changing, many in Delhi don’t yet see Australia as a priority. Some in Canberra also see India as a country too strong on rhetoric and too weak on execution to be a dependable partner. In short, both countries struggle to prioritise the relationship among other important relationships in the region.

There’s a general convergence in Australia’s and India’s strategic perspectives, not the least being shared concerns about China’s challenge to the international rules-based order in the Indo-Pacific. Although there will be differences in the two countries’ approach to international norms (for example, in relation to nuclear non-proliferation), India’s interests generally align with Australia’s in upholding the principle of freedom of navigation in our region.

But some other factors may constrain the relationship. Strategic autonomy remains a core objective for India, while, in contrast, we see our alliance with the US as vital to our security. Indeed, if strategic autonomy is part of India’s national ‘DNA’, then strategic collaboration is part of Australia’s.

India has a longstanding defence relationship with Russia and has sometimes taken a different approach to its relationship with China, reflecting geography, history and economics. Those differences have been noticeable in recent months, when the Indian Government has sought to dampen strategic competition with Beijing just as the Australian Government has been expressing concerns about foreign interference in our political system.

These differences in outlook are compounded by different views about hierarchy and status. In contrast with Australia’s relatively egalitarian middle-power view of the world, India tends to be highly sensitive to questions of hierarchy and can demand that others recognise its privileged status.

Despite these caveats, the political relationship between the two countries is maturing. Foreign Minister Marise Payne’s January 2019 speech on Australia’s evolving perspectives on the Indian Ocean was well received in New Delhi and may spur greater cooperation between Australia and India in their approach to the region.

There’s also been progress in building the defence relationship, including regular exercises between the Australian and Indian navies, but India still remains cautious. It will be up to us to find innovative ways of furthering the relationship. This includes considering what steps we could take to encourage India to take greater security responsibilities in the region, in a manner consistent with our interests.

This could include opportunities for partnering with India to enhance maritime domain awareness, such as through opening selected Australian military facilities (for example, on the Cocos Islands and in Darwin) for use by India. This could significantly extend India’s surveillance reach across the choke-points through the Indonesian archipelago, in addition to its current surveillance of the Malacca Strait. Similarly, there may be opportunities (such as in logistics or maintenance) created by the use of similar maritime air surveillance platforms—the P-8 Poseidon aircraft. Those arrangements could potentially lead to further cooperation in access to facilities or services.
2.3  **Australia and China’s Belt and Road Initiative**

China’s economic role in the Indian Ocean region has been growing for more than a decade. In recent years, there’s been a lot of attention on China’s infrastructure investments as part of its BRI. The BRI is a massive plan, costing perhaps more than US$1 trillion, to develop connectivity and other essential infrastructure across Eurasia, in the Indian Ocean region and in many other parts of the world (Figure 6). It essentially involves reshaping China’s strategic environment by linking China much more closely into the broader region. Whether or not it’s primarily driven by economic motivations (something that we can only guess at), it certainly has many strategic consequences. This may be particularly evident in the Indian Ocean, where it has the potential to fundamentally reshape the region.

**Figure 6: China’s Belt and Road Initiative**

![China's Belt and Road Initiative](image)

The BRI involves building new pathways across the Indian Ocean region, both on land and at sea. The Maritime Silk Road, which is the maritime leg of the BRI, involves building a network of ports that will be available to China in many parts of the region, including at Kyaukpyu (Myanmar), Hambantota (Sri Lanka), Gwadar (Pakistan), Djibouti and Bagamayo (Tanzania). The ports could facilitate a large and sustained presence of the Chinese Navy in the Indian Ocean, with considerable implications for the regional balance of power.

Perhaps even more significant is the development of new overland transport routes and economic corridors between China and the sea, from China’s southern Yunnan Province across Myanmar to the new port of Kyaukpyu, and from its western Xinjiang Province across Pakistan to Gwadar. These overland connections will mean that, for the first time in history, significant numbers of people and goods (and, potentially, armies) will be able to move directly between Chinese territory and the waters of the Indian Ocean.
These developments have several consequences. One will be to entrench China’s economic power in the region. As former Australian Foreign Secretary, Peter Varghese, commented:

> What BRI does is place China at the centre of economic activity and strengthen its resource supply lines. China is not a classic imperial power but, like the Romans, it understands that a road system can underpin an empire’s economic and strategic power.¹⁹

In ancient times, all roads led to Rome. In modern terminology, the BRI will involve the creation of value chains that lead from China’s periphery to its centre, with China controlling the production system. This may be similar to Japan’s short-lived ‘Flying Geese’ strategy of the 1970s, when it sought to develop production chains across East Asia that were ultimately controlled by Japanese companies.

Another and even more fundamental consequence of the BRI is that it may, for the first time ever, effectively make China a fully resident power of the Indian Ocean, which could fundamentally change the nature of China’s relationships in the region. In the past, China’s interests in the Indian Ocean and its relationships with its Indian Ocean neighbours were naturally limited by the impenetrable wall of the Himalayas and the long sea distances to the Indian Ocean from China’s Pacific Ocean ports. For example, political and trading contacts between China and India were historically very limited. But the new direct overland connections being built between China and the Indian Ocean will cause China’s security interests in the region to multiply.

Consistent with this, we’re seeing the steady growth of China’s security interests in Pakistan, where the US$62 billion China–Pakistan Economic Corridor (CPEC) will carve a series of new transport corridors across Pakistan to the ocean. The CPEC will also involve the relocation of hundreds of thousands of Chinese nationals to Pakistan, many of them to be accommodated in Chinese residential colonies. This may include the construction of a new city at Gwadar within the next five years to accommodate up to 500,000 Chinese workers.²⁰ There’s a significant chance that these people and investments may ultimately need Chinese military protection from potential threats if local security forces are inadequate. China has already deployed a contingent of marines to Djibouti to protect Chinese nationals and investments in Africa, and we should expect further deployments of Chinese troops elsewhere in the region in coming years.

The adverse financial consequences of the BRI for some Indian Ocean states are also becoming apparent. China has come under increasing criticism for engaging in so-called ‘debt trap’ diplomacy with economically vulnerable countries in the region. According to the BRI’s critics, Beijing is encouraging countries to become economically dependent on China through promoting economically unfeasible projects involving opaque and exclusive contracts, predatory lending practices and corruption. One recent study concluded that already at least eight countries, three of them Indian Ocean states, are vulnerable to above-average and potentially unsustainable indebtedness to China.²¹

Pakistan is already seeing the consequences of unsustainable indebtedness incurred under the CPEC initiative. The recent election of a new government under Imran Khan has led Pakistan to cancel or seek renegotiation of several ‘unfair’ CPEC projects, as well as to seek a major international bailout in order to repay existing debts. If an International Monetary Fund bailout isn’t available, then Pakistan will require even more debt funding from China, making it even more vulnerable to Chinese influence.

Sri Lanka has also experienced the consequences of entering into financially unfeasible BRI projects, such as the development of a new port at Hambantota. When the debt incurred for building the port couldn’t be repaid, Sri Lanka was forced to hand over control of the port to China under a 99-year lease. There are concerns that China will now further leverage its position into building a naval presence in Sri Lanka.
There are similar concerns about a potential Chinese debt trap in the island state of the Maldives, where debt to China has soared in recent years. Beijing tried to use its economic clout to displace India as the traditional security provider to that country. These concerns came to a head in 2018 when a domestic political crisis led to jostling between India and China and speculation about possible military intervention in the country. Although the surprise election win of President ‘Ibu’ Solih has swung the pendulum back in favour of India, this is likely just one chapter in an ongoing struggle for influence over that island state.

Australia, along with partners such as Japan, India and the US, is responding to concerns about the BRI by adopting the so-called ‘free and open Indo-Pacific’ strategy, which seeks to provide development alternatives to regional states in a manner that’s consistent with international norms. In recent months, there’s been considerable focus on the South Pacific. In 2018, Australia put together a comprehensive response to China’s attempts to build influence in that region, including creating a $2 billion infrastructure investment facility and various other measures to support the security needs of our South Pacific neighbours. However, Australia hasn’t yet formulated any analogous response to help our neighbours in the Indian Ocean.

Despite anxieties about the BRI, there’s every reason to believe that there will be some fundamental changes in China’s role in the Indian Ocean as it builds its economic, political and military power. This makes it imperative for Australia not only to help provide alternatives, but also to develop a productive working relationship with China in the region. While Australia has rightly expressed concerns about the BRI, there may also be times when our interests in particular projects will be aligned with China’s and the two countries could work together.\(^{22}\)

Australia has signed a memorandum of understanding with China providing for participation in Chinese infrastructure projects in third countries, although the memorandum hasn’t yet been implemented.\(^{23}\) There may be many benefits for Australia in actively partnering with China in some projects in a manner that promotes international norms. In some cases, host countries may welcome our involvement as a way of mitigating concerns about Chinese control over sensitive infrastructure projects. The Asian Infrastructure Investment Bank provides a useful vehicle for Australian companies to participate in such projects while promoting norms such as transparency, financial sustainability and non-exclusivity.

Australia is watching China’s growing presence in the Indian Ocean with considerable interest. Although we have concerns about China’s assertiveness in the South and East China seas, there are no indications as yet that those disputes will spill over into the Indian Ocean. Overall, Australia’s preference would probably be to see the US and India playing leading roles in the Indian Ocean in a way that minimises competition with China. But China also has legitimate interests in the Indian Ocean and could be encouraged to play a positive role as an extra-regional stakeholder in the regional order.

### 2.4 New strategic geometries in the Indo-Pacific

One consequence of the growing multipolarity of the Indian Ocean is that Australia’s past approach of almost exclusive reliance on the US as our security provider in the Indian Ocean is no longer sustainable. Rather, our security engagement in the Indian Ocean will increasingly rely on so-called ‘minilateral’ arrangements with selected partners.

Developments in the Indo-Pacific strategic environment are spurring new and more complex strategic geometries across the region. In the past, Australia and many other countries strongly relied on their security relationship with the US as part of the so-called ‘hub and spokes’ alliance system. However, we’re seeing increasingly close relationships between US alliance partners such as Australia and Japan, essentially directly connecting the ‘spokes’ in the US alliance system. Another trend is for closer bilateral security linkages between US allies and states outside
A third trend is towards the establishment of minilateral security dialogues, which involve small informal groupings of states that share common security interests on particular issues. These networks are now only in a nascent state. They provide highly valuable forums for the discussion of Indian Ocean issues and could provide new structures for cooperation in the Indian Ocean—perhaps ultimately the ‘building blocks’ for a broader regional security architecture.

For several years, Australia, India and Japan have participated in a regular trilateral dialogue at Foreign Secretary level. This has been a very successful vehicle for exchanging views on issues of shared concern across the Indo-Pacific and could increasingly become a mechanism for the coordination of efforts by the three countries in the Indian Ocean, including in maritime security capacity-building among regional states. Japan is fast becoming an important new partner in the Indian Ocean and is pursuing an integrated economic and security strategy in the region (see box).

Japan’s integrated security strategy in the Bay of Bengal

The competition for position between China, India and the US in the Indian Ocean is becoming ever more pronounced, but some recent developments indicate that Japan also intends to become an important security player in the region.

Japan has long seen the Bay of Bengal and the South China Sea as the linchpins that connect the Indo-Pacific. This is why the Japan International Cooperation Agency (JICA) has been promoting infrastructure projects in the region for more than a decade, providing more economically feasible and transparent alternatives to Chinese-sponsored BRI projects.

Japan works closely with India, its key regional partner, including in building infrastructure in India’s Andaman and Nicobar Islands, which lies astride the western end of the Malacca Strait at the entrance to the Indian Ocean.

Japan is also a big infrastructure provider elsewhere in the region. In Myanmar, it’s funding a new container port near Yangon (US$200 million) and a proposed new port and special economic zone at Dawei (US$800 million). In Bangladesh, this includes a port and power station at Matarbari (US$3.7 billion).

These projects are now being complemented by a maritime security program that will make Japan an important security player. The Japan Coast Guard has had a regular presence in the Bay of Bengal since 2000 as part of regular exercises with the Indian Coast Guard that now include Sri Lanka and Maldives as observers.

Tokyo has for several years provided low-key security assistance to Myanmar, and that assistance is now being expanded to include Bangladesh and Sri Lanka. Japan has previously donated two patrol vessels to Bangladesh, and in August announced an $35 million package to fund 24 coastal rescue craft for the Bangladesh Coast Guard.

An even bigger focus is on Sri Lanka, where Japanese navy and coastguard ships have visited some 70 times since 2008. This makes Japan the second most frequent naval visitor to the country after India, far exceeding Chinese naval visits.

Tokyo is stepping up this engagement as Sri Lanka becomes an ever-greater focus of strategic competition, including concerns over Chinese control over the port of Hambantota.

The Sri Lanka Coast Guard has just commissioned two 30-metre fast patrol boats, funded by JICA. JICA has also given US$180 million to fund the building of two 85-metre offshore patrol vessels by Colombo Dockyard, Sri Lanka’s largest shipbuilding company, which happens to be Japanese majority owned.

When Japanese Defence Minister Itsunori Onodera visited Sri Lanka in 2018, his itinerary included the ports of Colombo, Hambantota and Trincomalee, where he was met by the Japanese destroyer Ikazuchi. Sri Lanka will also see a visit by a Japanese naval task group, led by the Japanese navy’s largest ship, the 27,000-tonne helicopter carrier Kaga.
Another developing Indian Ocean partnership is between Australia, France, and India—the three Indian Ocean states with the most capable navies. In 2018, France signed agreements with Australia and India to share defence logistical support (a key step towards the sharing of military facilities), and there's growing interest in developing an 'Indo-Pacific axis' among the three countries. Geographically, territories of the three countries form a triangle covering the east, west, and north of the Indian Ocean, so the sharing of resources and facilities between them may make considerable sense. Australia has valuable military facilities in the eastern Indian Ocean and would benefit from gaining better access to facilities elsewhere in the region.

As a starting point, Australia could promote an agreement on humanitarian assistance and disaster relief (HADR) cooperation with partners such as France and India, using the model of Australia – New Zealand – France cooperation in the South Pacific. Such arrangements could also involve Australia gaining access to facilities operated by its partners. Australia should also investigate enhanced maritime domain awareness cooperation among the three countries. This could, for example, involve information sharing (beyond ‘white shipping’ information) and the sharing of facilities such as air staging facilities at Darwin and on Australia’s West Cocos Island, preferably as part of reciprocal access arrangements.

These staging points would, for example, assist in the surveillance of traffic using the Sunda and Lombok straits, which provide alternative transit points through the Indonesian archipelago to the Malacca Strait. India’s current efforts to monitor naval and commercial traffic are vitiated by the availability of Sunda and Lombok as easy alternatives. Of course, any such access arrangements would need to give appropriate regard to Indonesia’s sensitivities.

Another prospective Indian Ocean triangle, this one focused on the eastern Indian Ocean, involves Australia, India, and Indonesia. The three countries have begun holding regular senior officials’ meetings on shared interests in the Indian Ocean. Those interests include concerns about China’s actions in the South China Sea and concerns about transnational maritime security issues such as illegal fishing. Together, Australia, India, and Indonesia can be an important force in upholding a rules-based order in the Indian Ocean.

Another important regional structure is the ‘Quadrilateral’ involving Australia, India, Japan, and the US, which resumed in 2017 after a 10-year hiatus. Despite considerable rhetoric about this grouping, it’s still fairly rudimentary. India is currently emphasising non-security aspects of the arrangement and is, for example, resisting including Australia in the associated Malabar naval exercises. It isn’t clear what the next steps for the Quad will be, but both New Delhi and Canberra are likely to take an incremental approach towards developing a four-way security relationship as a graduated response to future Chinese assertiveness. One of those responses may be to institute four-party naval exercises, perhaps under a different name.

One immediate area for cooperation among the four Quad partners is in ensuring that infrastructure is developed in the most beneficial way for the region. Japan is sponsoring infrastructure investments in the Indian Ocean region on a scale that rivals, and sometimes exceeds, China’s BRI. Japan’s Partnership for Quality Infrastructure initiative, first announced in 2015, involves infrastructure spending, over five years, of around US$110 billion in Asia. In 2016, the initiative was expanded to US$200 billion globally (including in Africa and the South Pacific). Japan argues that the terms of its projects are qualitatively different from those of the BRI, with a focus on transparency, economic sustainability and a rules-based order that should become part of regional norms.

It’s in Australia’s interests to help ensure that Indian Ocean states are provided with competitive alternatives to the BRI on terms that comply with international norms. Our competitive advantage in infrastructure may lie in the private sector rather than traditional state-funded models. Major Australian companies have built world-leading expertise in the design, funding, ownership and operation of private infrastructure in Asia, Europe and America, but that expertise and competitive advantage aren’t currently leveraged in pursuit of national interests. The Australian Government should consider how it can facilitate these commercial strengths in infrastructure projects, potentially in conjunction with other Quad partners.
Recommendations

Australia should continue to prioritise its relationship with India as a key partner in the Indian Ocean. The onus will be on us to find innovative ways of developing the security relationship, which may include:

- partnering in Southeast Asia, along with countries such as Indonesia and Singapore
- making selected Australian military facilities (for example, in Darwin and the Cocos Islands) available for use by Indian defence forces
- working together to enhance regional maritime domain awareness through information sharing, shared services, or both.

Australia should articulate its preferences for China’s future strategic role in the Indian Ocean. This may include:

- a preference to see the US and India playing leading roles in the Indian Ocean in a way that minimises competition with China
- a recognition that China has legitimate interests in the Indian Ocean and could be encouraged to play a positive role as an extra-regional stakeholder in the regional order, including in regional governance arrangements
- advocating that China’s BRI projects should adhere to international norms
- potentially playing a role in some of China’s BRI projects, including through the Asian Infrastructure Investment Bank.

Australia should promote Australia–France and Australia–France–India cooperation in the Indian Ocean, including by:

- establishing HADR cooperation arrangements similar to Australia – New Zealand – France cooperation arrangements in the South Pacific
- enhancing information-sharing arrangements
- sharing Australian facilities, potentially as part of a reciprocal access arrangement.

Australia should also promote Australia–India–Indonesia trilateral cooperation arrangements, with an initial focus on cooperation in combating illegal, unreported and unregulated fishing and other transnational maritime security threats in the eastern Indian Ocean.

The Australian Government should focus on leveraging the world-leading expertise of Australian companies in the design, funding, ownership and operation of private infrastructure as part of its contribution to the free and open Indo-Pacific strategy in the Indian Ocean.
The Indian Ocean is one of the world’s least governed maritime spaces. The weak maritime law enforcement capabilities of many Indian Ocean states have allowed the growth of security threats such as piracy, the smuggling of people, drugs and arms, and illegal fishing. Future developments such as climate change, population growth and the spread of violent extremism in our neighbourhood are likely to amplify those threats or create new ones.

This section reviews Australia’s response to civil maritime security threats in the Indian Ocean and how we can enhance our response to new threats through greater regional cooperation, particularly in the northeast Indian Ocean. Issues covered in this section include:

- key civil maritime security challenges in the Indian Ocean
- Australia’s response to civil maritime security threats
- regional cooperation on maritime security.

3.1 Civil maritime security threats in the Indian Ocean

In addition to traditional state-based maritime security threats, Australia faces many ‘civil’ maritime security threats in the Indian Ocean. They are listed in the 2013 *Guide to Australian maritime security arrangements* as:

- illegal maritime arrivals
- illegal exploitation of natural resources
- illegal activity in protected areas
- marine pollution
- prohibited imports and exports
- compromise to biosecurity
- piracy, robbery or violence at sea
- maritime terrorism.

All of these threats are prevalent in the Indian Ocean, and generally far more so than in the Pacific or Southern oceans. The Indian Ocean is in many ways an oceanic ‘wild west’, where maritime security threats grow and law enforcement is poor. Although these challenges generally lie at a sub-strategic level, some have a significant economic and social impact on littoral states that have a high reliance on the maritime economy. Some sub-strategic threats can also rise to a strategic level; for example, over the past decade and more, Somali-based piracy presented such a threat to international commercial trade that it elicited a major naval response from countries inside and outside the Indian Ocean region.
In looking at maritime security threats in the Indian Ocean, it isn’t easy to clearly separate them simply by their nature or location. For one thing, the lack of maritime law enforcement by one state can be a problem for everyone. The collapse of the Somali Government earlier this century led to a piracy problem that affected countries all over the world. Maritime security threats are also often interlinked. A failure to address illegal fishing, for example, can allow for the growth of transnational criminal networks that are likely to also be involved in other activities, such as smuggling people, drugs and arms.31

In addition, future threats may be amplified by potential developments in the region, such as climate change, growing violent extremism and population growth. A recent Senate report on the implications of climate change for Australia’s national security called climate change a ‘threat multiplier’ and a ‘burden multiplier’.32 Key consequences for Australia may include increased demands on defence assets in support of HADR operations and the potential for significantly increased human migration. We’re also seeing growing violent extremism in eastern Indian Ocean countries, such as Bangladesh and Myanmar, that could have significant consequences for Australia across a range of potential maritime threats.

3.2 Australia’s response to civil maritime security threats in the Indian Ocean

With a very large area of maritime jurisdiction and a relatively small population, Australia is compelled to find innovative ways of addressing maritime security threats. The Australian civil maritime security model is the outcome of years of evolution. We’ve adopted a hybrid whole-of-government approach to civil maritime security threats that reflects our need to address security challenges over vast maritime spaces with limited resources. Some key features of Australia’s system are as follows:

• **Whole-of-government approach**: A whole-of-government approach to civil maritime security includes a clear delineation of the roles and responsibilities of government agencies for different types of maritime security threats, specifying lead agencies for each type of threat and establishing coordination arrangements with all government stakeholders.

• **Shared civil–military command**: The Maritime Border Command was created as a single civil–military command for maritime border security. It’s led by a serving RAN rear admiral who is also a sworn Australian Border Force (ABF) officer, enabling more effective operational control of civil and military resources for border security operations.

• **Asset sharing**: Resources are shared among civil and military agencies. This includes organic assets operated or contracted by the ABF and other civil agencies as well as access to significant ADF naval and air assets and resources.

• **High degree of reliance on maritime domain awareness**: The Australian system places considerable reliance on a sophisticated national maritime domain awareness (MDA) system (see box). The Australian system, which unlike those in some other countries is operated by a civilian government agency, brings together all relevant data available to Australian agencies to create a common operating picture that helps authorities employ an intelligence-led and risk-based approach to potential maritime risks.
What is maritime domain awareness?

Maritime domain awareness (MDA) involves the effective understanding of anything associated with the maritime domain that could affect security, safety, the economy or the environment.

Since the turn of this century, there’s been a growing realisation of the importance of MDA as an essential enabler for a variety of government agencies to provide maritime security. Understanding the position and likely intention of maritime actors has always been a major concern of navies, but only with recent advances in sensor and computing technology has it become possible to create a networked real-time picture that allows for a shared understanding of threats and developments in the maritime domain. This can be used for both military and civilian purposes.

Achieving MDA involves the development of systems for the collection of information and data, its aggregation, its interpretation, and the distribution of results to decision-makers and users.

Achieving MDA isn’t necessarily about collecting more information. Rather, the biggest gains in MDA are achieved from putting together information that may already be available to government agencies (both military and civil) and commercial sources in a way that can be used by all agencies with responsibility for maritime security.

The centrepiece of an MDA system is the creation of a common operating picture (COP). This is the sum of data and intelligence drawn from many sources and organisations, which is then cross-referenced and fused into a coherent single picture that’s accessible to many users. The COP helps decision-makers to make decisions and take action on the basis of shared, reliable and trustworthy information.

One of the biggest challenges in achieving MDA is in integrating data sourced from a variety of military, law enforcement and civil government agencies. Commercial entities are also a key source of information on shipping. Each type of entity will have its own agenda, motivations and concerns about confidentiality or secrecy and might not always be easily disposed to share information.

The COP also needs to be usable for a variety of military, law enforcement and civil purposes. The most effective MDA systems should simultaneously serve multiple users that have different priorities and time imperatives. Those factors substantially complicate the COP, meaning that it must simultaneously operate on several different levels, including different levels of confidentiality or secrecy.

Overall, these arrangements have been relatively successful in responding to civil maritime security threats, but the future evolution of threats in the Indian Ocean is likely to also require an evolution in Australia’s response. While virtually any of the threats identified in the Guide to Australian maritime security arrangements could become of significant concern, two of those threats in particular are discussed here.
Maritime border security

Since around 2001, Australia’s principal maritime security focus in the Indian Ocean has been on border protection and particularly on illegal maritime arrivals in Australian waters. This has driven considerable investment in our maritime surveillance and enforcement capabilities. For us, the problem of irregular migration is overwhelmingly an Indian Ocean problem. Figure 7 shows the main routes taken by illegal maritime arrivals across the Indian Ocean up to 2013.

Figure 7: Key routes of illegal maritime arrivals by sea to Australia until 2013

While they have been subject to considerable criticism, the policies instituted by the Australian Government to deter would-be illegal entrants from arriving by boat in Australia appear to have largely achieved their objectives, at least for the moment. In 2015 and 2016, zero illegal maritime arrivals were taken into Australian custody, although occasional boat ‘turnback’ operations continue.33

But there’s every reason to believe that factors pushing migration across the Indian Ocean will continue and quite probably strengthen in the future. Climate change is one factor that could drive the displacement of large numbers of people. The Global Military Advisory Council on Climate Change identifies displacement as one of the key security threats from climate change in South Asia. According to Bangladesh Government estimates, some 20 million people will be displaced by climate change in that country, while other studies go as high as 30–35 million people.34 This could have a severe impact on the political and social stability of Bangladesh and neighbouring countries and lead to significant international migration. While the relationship between climate change and migration may be ‘non-linear, complex and unpredictable’, one way or another climate change is likely to have a significant impact on Australia’s security in the Indian Ocean.35
These concerns create considerable incentives for Australia not only to pay attention to our own maritime borders, but also to be an active player in helping to stabilise the region, including by enhancing maritime capabilities in key states in the eastern Indian Ocean. Australia’s program of providing patrol vessels to Sri Lanka and then working with Sri Lankan authorities to target people-smuggling operations was very successful in cutting off the flow of irregular migration at its source. Those lessons could and should be applied with other partners in the region.

Countering illegal fishing

Another significant future threat can come through illegal, unregulated and unreported (IUU) fishing. Many Indian Ocean states (including countries such as Bangladesh and Sri Lanka) are highly reliant on fishing as a source of income and as a major or primary source of animal protein. However, this supply is being threatened by overexploitation, and especially by IUU fishing. In 2016, the Food and Agriculture Organization of the UN (FAO) estimated that the IUU fishing industry had a value of US$10–23 billion worldwide. Estimates of the proportion of illegal catch to reported catch in the Indian Ocean are among the highest of any region in the world.

The problem of IUU fishing in the Indian Ocean is likely to grow significantly in the future, driven by growing world population, falling fish stocks throughout the world and relative lack of enforcement arrangements in the region.

The impact of IUU fishing may be significantly magnified by the effects of climate change. A French study of fish stocks in the Indian Ocean documents two ‘dead zones’ where few creatures live in oxygen-depleted waters. One is located in the Arabian Sea, and another in the Bay of Bengal covers 60,000 square kilometres (Figure 8). The study warns that a ‘giant biodiversity and geophysical crisis is unfolding on such a scale that it concerns numerous countries and dozens of millions of people at the same time’.

Figure 8: The Bay of Bengal fishing dead zone

For Australia, which doesn’t have a large offshore fishing fleet in the Indian Ocean, IUU fishing presents more of an environmental and security threat than an economic one. For one thing, illegal fishing vessels also frequently facilitate other threats. Vessels that smuggle fish may also often smuggle drugs, weapons and people, using the same routes and organisation.

Of even greater concern is that the pillaging of Indian Ocean fishing grounds, especially when combined with ocean warming, could have a severe economic impact and destabilise littoral communities. This is of significant concern for Bay of Bengal countries, small Indian Ocean island states and large neighbours such as Indonesia, where many communities depend on fishing. IUU fishing can have far-reaching consequences. The destruction of Somali fishing grounds by illegal fishers around a decade ago was a key reason why impoverished local fishermen banded together and turned to piracy. The US National Intelligence Council found that stresses in Indian Ocean fisheries might undermine the internal stability of countries such as Bangladesh, as well as bilateral and regional relations such as those of India–Bangladesh, India–Pakistan and India–Sri Lanka.

Australia’s response to IUU fishing has included working with multilateral fisheries groups in the Indian Ocean, including the Indian Ocean Tuna Commission and the signatories to the South Indian Ocean Fisheries Agreement, to establish and enforce sustainable fishing quotas.

Australia has also negotiated innovative sea-riding arrangements with France to extend the reach of both countries in fisheries enforcement in their respective EEZs and territorial seas in the Southern Ocean. Australian officers embarked on French vessels are able to enforce Australian law in the Australian jurisdiction, and vice versa. This may provide a useful model for cooperation in fisheries enforcement with neighbouring countries such as Indonesia by effectively extending the reach of national agencies.

In summary, Australia could, along with local and European partners, help build a more effective multilateral fisheries management system in the Indian Ocean, including the Indian Ocean Tuna Commission and the signatories to the South Indian Ocean Fisheries Agreement, to establish and enforce sustainable fishing quotas.

3.3 Regional cooperation in civil maritime security

Over the past decade or more, Australia has successfully developed a whole-of-government approach towards detecting and responding to civil maritime security threats in the Indian Ocean. The next step will be to extend some of those principles to the regional level, including in capability enhancement and the development of better coordination and information-sharing arrangements. The RAN will have an important role to play in this, but this report recommends that Australia should as much as possible also emphasise using the ABF to enhance cooperation among civil coastguard agencies.

Traditionally, navies have been responsible for maintaining order at sea, and that’s still an important part of their roles, but since the 1990s there’s been a trend across the Indo-Pacific to establish civil maritime policing agencies that are separate from traditional navies. There are many good reasons for this separation, including increased regulation of activities at sea, which has made maritime law enforcement more complex, requiring specialist expertise. Coastguard vessels may be more suitable than warships for employment in politically sensitive situations, and they generally come at a much cheaper price.

The types of civil maritime security challenges in the Indian Ocean are particularly amenable for coastguard enforcement. The use of navies in this role can involve expensive high-end equipment primarily designed for fighting wars in what’s essentially a maritime law enforcement role. The international naval efforts in countering Somali-based pirates involved considerable expenditure, as many countries competed to deploy expensive high-end vessels to counter what was essentially a policing problem.

Many countries are also cautious about seeing other navies operating off their coasts. We saw that, for example, in Myanmar’s concerns about international offers of assistance following Cyclone Nargis in 2008.
We’re seeing a growing reliance on coastguards among ASEAN states. Similarly, so-called ‘white hull’ coastguard vessels will be likely to take an ever-greater share of responsibility for the provision of maritime security in the Indian Ocean, sometimes with the support of more traditional naval assets.

This trend means that we need to think much more about leveraging capabilities and relationships among coastguard agencies, particularly in the northeast Indian Ocean. The Indian and Japanese coastguards have been conducting bilateral exercises off the coast of southern India for more than a decade—indicating the value those countries see in coastguard cooperation. Japan is also expending considerable resources in improving maritime law enforcement capabilities in countries such as Myanmar, Bangladesh and Sri Lanka.

Australia has had successful experience in capacity building in Sri Lanka. The security partnership that has developed between the two countries was successful in stemming people smuggling and other criminal activities that were emanating from Sri Lanka. We’re already providing assistance in the establishment of Sri Lanka’s National Defence College, and there’s scope for Australia to provide training in law enforcement, counterterrorism, or both, in Sri Lanka.

There are many ways in which we can enhance cooperation in maritime security in the eastern Indian Ocean in response to future civil maritime threats and, more broadly, as a way of enhancing our strategic role in the region.

Increased Royal Australian Navy presence in the Bay of Bengal

The RAN has been deployed in the western Indian Ocean on a virtually continuous basis since 1990, and in August 2018 HMAS Warramunga completed the 66th rotation of an Australian warship to that region. While this has given the RAN valuable experience in working with (and commanding) broad naval coalitions, it has also come at a significant opportunity cost for the use of scarce naval resources and the development of relationships in waters closer to home.

An enhanced RAN presence in the Bay of Bengal area could be used to help build capacity in regional navies to address civil maritime security threats that affect Australia. Increased ship visits to the Bay of Bengal, including regular visits by Australian task groups would be an important statement to our friends and competitors of our commitment to the eastern Indian Ocean and of our naval capabilities. An increased presence also helps provide a sense that regional states have alternatives to relying on China as a security partner and balancer.

The RAN is building its presence in to the eastern Indian Ocean. In March 2019, as part of Exercise Indo Pacific Endeavour 2019, a large Australian naval task group of five ships led by HMAS Canberra is visiting Sri Lanka and southern India. It is part of Australia’s largest naval deployment to that region since a taskforce headed by the aircraft carrier HMAS Melbourne visited Colombo in 1981. Such deployments are to be welcomed, and need to be accompanied by an ongoing program of capacity building and training with the Sri Lanka and Bangladesh navies. The RAN is aware that this would require the reallocation of some naval resources previously allocated to the western Indian Ocean to the eastern Indian Ocean.

Increased engagement by the Australian Border Force in the Bay of Bengal

Over the past few years, the ABF has made substantial efforts to engage with its counterparts in India, Sri Lanka and Bangladesh, including a visit by an ABF vessel, Ocean Shield, to India in 2017.

There may be benefit from the ABF playing a coordinating role for Australia’s security efforts in the Bay of Bengal region, and, indeed, many of the maritime security issues in the Bay of Bengal fall more within the remit of the ABF than within that of the RAN. There’s much room for further engagement by the ABF in that region, including in exercises, training and capacity building. For example, Australia should consider which capacity-building elements of the ADF’s highly successful Pacific Maritime Security Program, particularly those involving the development of national and regional MDA systems, might be applied to selected Indian Ocean neighbours.
In recent years, the ABF has engaged with Sri Lanka and Bangladesh—reflecting, among other things, Australian concerns about people smuggling. Consideration should be given to extending the ABF’s regional engagement to include the Maldives, where Australia also has considerable equities (if somewhat different from those applicable to Sri Lanka and Bangladesh).

Japan has long been active in building the capabilities of coastguards in the eastern Indian Ocean, and the US may soon also become more active. Any Australian efforts in this area should be coordinated with our security partners.

Building dialogue among coastguard agencies

The ABF can also facilitate greater cooperation among regional coastguard agencies. While many maritime security challenges need to be addressed on a multilateral basis, there’s currently no established mechanism or forum for cooperation among coastguard agencies with an Indian Ocean focus. This is a big missing link in the Indian Ocean security architecture.

The Indian Ocean Naval Symposium provides a forum for regional dialogue among Indian Ocean navies. Although it promotes dialogue on a range of maritime security issues, it’s almost inevitably navy focused. Another forum for coastguard agencies, the Heads of Asian Coast Guard Agencies Meeting, involves coastguards right along the Asian littoral from Japan to Australia to Pakistan.

Although IORA recently established a working group on maritime security and safety that could provide a useful forum for discussion of these issues, there’s still no forum specifically devoted to dialogue among Indian Ocean coastguards.

Australia should consider joining with partners such as India and Indonesia to create a mechanism for cooperation and coordination among Indian Ocean coastguards. While ideally this could be pan-Indian Ocean, it may be more fruitful to begin with a subset focused on the eastern Indian Ocean. Fruitful issues for cooperation among eastern Indian Ocean coastguards include IUU fishing and people smuggling, both of which are of importance to Australia.

Building maritime domain awareness capabilities

Another key area of regional cooperation is in enhancing MDA. Australia’s 2016 Defence White Paper and 2017 Foreign Policy White Paper both indicated that regional MDA cooperation should have priority in our regional strategy, but those policies remain largely unimplemented.

Australia’s objectives in promoting regional MDA cooperation in the Indian Ocean include extending the reach of our MDA system (for example, through receiving intelligence that allows the early detection of vessels of interest) and strengthening the national capabilities of our Indian Ocean partners. Both those objectives can be pursued through a combination of information sharing and capability enhancement.

Australia can boost bilateral information-sharing arrangements with selected partners, which might ultimately be expanded to include other partners. In 2017, India and Australia implemented an agreement for the sharing of so-called ‘white shipping’ information in the same form that India has signed with around 30 other countries and international organisations. Delhi hopes to evolve bilateral information-sharing arrangements into a multilateral arrangement hosted by it under the auspices of IORA. Australia also has other bilateral information sharing arrangements with Indian Ocean partners such as Sri Lanka (in relation to people smuggling) and Indonesia (in relation to IUU fishing) that can be further expanded.

Regional cooperation on MDA shouldn’t be confined to information sharing. In fact, enhancing the capabilities of the national MDA systems of Australia’s partners may be one of the most effective contributions that we could make to regional maritime security. The lowest hanging fruit may involve the more effective use of already available information. One potentially cost-effective approach may be to provide training and advice on the development of integrated national MDA systems that would allow selected partners to make more effective use of the information already available to civil and military agencies—for example, on the location of foreign vessels engaged in IUU fishing. Australian companies may also have valuable expertise in integrating and fusing unclassified MDA data.
The Australian Maritime Safety Authority has recently completed a multi-year project (at relatively low cost), working with counterpart agencies in Mauritius, the Maldives and Sri Lanka to help establish integrated national search and rescue centres in those countries. There’s considerable potential for the ABF to conduct an analogous program to help establish integrated national MDA systems in countries such as Sri Lanka, Bangladesh and the Maldives that bring together information held by different government agencies. The sharing of Australian expertise in this area could have considerable impact at a relatively modest cost.

Using Sri Lanka as a hub for regional capacity building

Australia’s successful experience in working with Sri Lanka can serve as a model for future bilateral capacity-building activities with countries such as the Maldives and Bangladesh. Australia has already seconded a naval officer to Sri Lanka’s National Defence College. Indeed, it might be possible to use Sri Lanka as a node for expanded Australian capacity-building activities in Sri Lanka and neighbouring countries. This could potentially be undertaken in conjunction with BIMSTEC, the Bay of Bengal regional grouping. Activities could include the provision of police, counterterrorism and maritime security related training by the ABF, the Australian Federal Police and other relevant agencies.

Recommendations

The Royal Australian Navy should increase the regularity of its presence in the Bay of Bengal as part of an expanded commitment to working with the Indian, Sri Lankan and Bangladesh navies. Where possible, naval visits should involve multiple RAN vessels as occurred in the recent Indo Pacific Endeavour 2019. This may involve the redeployment of naval resources from the western Indian Ocean.

The Australian Border Force should also substantially increase its engagement activities in the eastern Indian Ocean and potentially coordinate Australia’s security efforts in that region. This may include applying elements of the ADF’s Pacific Maritime Security Program to capacity building with partners such as Sri Lanka, Bangladesh and, potentially, the Maldives. Any assistance, particularly in training and know-how, should focus on the development of national MDA capabilities.

Australia should join with partners such as India and Indonesia to create a mechanism for cooperation and coordination specifically among Indian Ocean coastguards. While ideally this could be pan-Indian Ocean, it may be more fruitful to begin with a subset of nations in the eastern Indian Ocean.

Australia should promote regional cooperation in MDA in the eastern Indian Ocean. This should include:

• supporting India’s efforts, under the auspices of IORA, to incrementally develop a multilateral pan-Indian Ocean information-sharing arrangement
• providing training and advice to selected partners, such as Sri Lanka, the Maldives and Bangladesh, on the development of integrated national MDA systems to allow them to make more effective use of the information already available (this could include the use of Australian companies with expertise in this field).

Australia should work with Sri Lanka to establish a node for the provision of training in Sri Lanka to assist Sri Lanka and potentially also neighbouring countries such as Bangladesh and the Maldives. This could potentially be undertaken in conjunction with BIMSTEC. Activities could include the provision of law enforcement, counterterrorism and maritime security related training by the Australian Border Force, the Australian Federal Police and other relevant agencies.
4. A NEW ENGINE FOR GROWTH: PURSUING ECONOMIC OPPORTUNITIES IN SOUTHERN ASIA

The Indian Ocean is not only the source of potential threats but also a place of significant opportunities. Over the past 50 years, Australia has focused on economic integration with East Asia, but a string of countries on the Southern Asian littoral, including India, Bangladesh and Sri Lanka, are now experiencing sustained growth at high levels. Some other countries in the Middle East and East Africa also have the long-term potential to emerge as major economies. Their progress is far from assured and they’re subject to many risks (including those posed by climate change), but Australia needs to consider the potential for some of those countries, led by India, to stabilise and experience sustained ‘breakout’ growth. Importantly, this isn’t just about economic opportunity. As with Australia’s relationships in the Asia–Pacific, it’s also about building comprehensive partnerships that maximise our influence in the region.

This section explores new approaches to economic engagement with Southern Asia, focusing on India and Sri Lanka. What are the opportunities for Australia? What other reasons do we have to pursue comprehensive relationships?

Key topics covered in this section include:
• new economic tigers of the Indian Ocean
• building an economic partnership with India
• working towards a comprehensive partnership with Sri Lanka.

4.1 The new economic tigers of the Indian Ocean

Since the 1960s, East Asia has been transformed from a region characterised by underdevelopment and conflict into the world’s engine room of economic growth. A succession of East Asian ‘tiger economies’ found political stability and then followed similar export-led pathways to economic development. From an early stage, Australia built partnerships with those countries and was an active player in establishing regional institutions and norms that supported regional stability, economic liberalisation and cooperation. Over the past several decades, our trade with East Asia has blossomed and now far overshadows our trade with all other parts of the world (Figure 9).
But Australia now has a number of reasons to diversify its economic relationships beyond East Asia. For one thing, as China and other East Asian tiger economies mature, their rates of growth are likely to slow and converge towards the lower growth rates experienced in developed economies. Our high level of trade with China also means that we’ve become very exposed to slowdowns in the Chinese economy or political developments that could interrupt trade. This has created a high degree of risk for us.

At the same time, several Indian Ocean economies are emerging as possible new engines for growth. They’re led by India, which is the world’s fastest growing large economy and is projected by a number of analysts to become the world’s second largest economy in purchasing power parity terms by 2050. Some of India’s neighbours, such as Bangladesh, Myanmar and Sri Lanka, are currently also experiencing high levels of growth. Other countries on the Indian Ocean littoral (in addition to Southeast Asia) may experience significant growth in the long term, including Saudi Arabia and Iran, and East African economies such as Ethiopia, Kenya, Tanzania and South Africa.

Most of these countries presently suffer from political instability and internal security problems, and their long-term success is far from assured, but they’re exhibiting high rates of economic growth that, if sustained, could make them attractive economic partners for Australia. Table 1 shows projections by Pricewaterhouse Coopers (PwC) for GDP growth for selected Indian Ocean states between 2016 and 2050 at market exchange rates and purchasing power parity.
Table 1: Projections for GDP growth for selected Indian Ocean states, 2016 to 2025

<table>
<thead>
<tr>
<th>Country</th>
<th>2016 GDP at MER (US$ billion)</th>
<th>2016 GDP at PPP (US$ billion)</th>
<th>2018 GDP growth (% pa)</th>
<th>Projected 2050 GDP at MER (US$ billion)</th>
<th>Projected 2050 GDP at PPP (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>$1,257</td>
<td>$1,189</td>
<td>3.0%</td>
<td>$2,564</td>
<td>$2,564</td>
</tr>
<tr>
<td>India</td>
<td>$2,251</td>
<td>$8,271</td>
<td>7.4%</td>
<td>$28,021</td>
<td>$44,128</td>
</tr>
<tr>
<td>Pakistan</td>
<td>$284</td>
<td>$988</td>
<td>5.6%</td>
<td>$2,831</td>
<td>$4,236</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>$227</td>
<td>$628</td>
<td>7.0%</td>
<td>$2,263</td>
<td>$3,064</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$638</td>
<td>$1,731</td>
<td>1.7%</td>
<td>$3,495</td>
<td>$4,694</td>
</tr>
<tr>
<td>Iran</td>
<td>$412</td>
<td>$1,459</td>
<td>4.0%</td>
<td>$2,586</td>
<td>$3,900</td>
</tr>
<tr>
<td>Indonesia</td>
<td>$941</td>
<td>$3,208</td>
<td>5.3%</td>
<td>$7,275</td>
<td>$10,502</td>
</tr>
<tr>
<td>Thailand</td>
<td>$391</td>
<td>$1,161</td>
<td>3.9%</td>
<td>$1,995</td>
<td>$2,782</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$303</td>
<td>$864</td>
<td>5.3%</td>
<td>$2,054</td>
<td>$2,851</td>
</tr>
</tbody>
</table>

MER = market exchange rates; PPP = purchasing power parity.
Sources: John Hawksworth, ‘The long view: how will the global economic order change by 2050?’, PricewaterhouseCoopers, February 2017, online. 2018 GDP growth figures from World economic outlook, International Monetary Fund, April 2018

Projections over this long length of time must always be treated with a high degree of caution. However, the potentially massive size of India’s economy (projected by PwC at $44 trillion at purchasing power parity and $28 trillion at market exchange rates in 2050) will be likely to make that country an inevitable focus for Australia, although the relationship will also come with considerable challenges.

Other Indian Ocean states may also present long-term opportunities. They include Saudi Arabia and Iran, which are also projected to become major regional economies in the long term. Several other East African states with large populations are also experiencing very high levels of growth, including Ethiopia (projected GDP growth of 8.2% in 2018), Kenya (projected GDP growth of 5.5% in 2018) and Tanzania (projected GDP growth at 6.8% in 2018).

The stand-out economy among Indian Ocean states in Southeast Asia is likely to be Indonesia, which has a large population and a projected growth rate that may be similar to that of India. The Indonesian economy may increasingly dominate its region.

GDP growth in the order of these projections will change the relative economic power between the Indian Ocean and East Asia. Although the global centre of economic gravity is currently shifting towards East Asia, we shouldn’t assume that this trend will continue indefinitely. If the economies of key Indian Ocean states continue to grow as forecast, India, Indonesia, Saudi Arabia, Pakistan and Iran will rise in relative importance compared with Australia’s current major partners in East Asia.

Sustained economic growth of this nature could bring greater political stability to the Indian Ocean region, but in the short term it could also contribute to strategic competition and instability. This gives Australia several reasons to be pursuing closer economic relationships in the region.

4.2 Building an economic partnership with India

The sheer size of the Indian economy and its high rate of growth make it a natural focus for Australia. India currently accounts for 80% of all economic growth in countries in Southern Asia. Australia hopes to build an economic relationship with India that maximises opportunities, diversifies our geopolitical risks and complements the political and security relationship.
A languishing economic relationship

For a decade or more, many in Australia have assumed that India would follow the economic development path of our East Asian economic partners and would become (more or less) another China, but rosy predictions about the economic relationship haven’t come to pass. Indeed, the Australia–India economic relationship has largely stagnated over the past 10 years. Bilateral trade with India grew quickly in the first decade of this century, reaching around $19.3 billion in 2008, but grew very little in the following decade, totalling only $27.4 billion in 2017. During the same period, India’s GDP almost doubled. Clearly, Australia’s approach to developing that trade hasn’t been very successful.

The experience in bilateral investment hasn’t been much better. Several Australian resource companies are keen to invest in India but remain largely locked out of the market; while there are some planned Indian investments in Australia (such as the Adani investment in the Galilee Basin coalfield), few have come to fruition. Australian investment in India totalled $13.9 billion at the end of 2017, and Indian investment in Australia aggregated to $15.4 billion.

Hopes for a preferential trade agreement

Many Australian policymakers hoped that the way to kick start economic engagement was to gain better access to the Indian economy through a preferential trade agreement in the nature of Australia’s trade agreements with Japan, South Korea and China. But despite years of negotiation of an Australia–India Comprehensive Economic Cooperation Agreement, it remains elusive and there’s little likelihood that it will be finalised any time soon. Even if an agreement is realised, it’s unlikely to produce the benefits that some have suggested, given the limitations that India is likely to insist upon. It might facilitate greater investment and trade in services, but even in those areas there may be limited immediate gains.

The biggest reason for the lack of progress on a comprehensive trade agreement is that, unlike in Australia, Indian decision-makers haven’t drunk the ‘Kool-Aid’ of free trade. Although Narendra Modi might be pro-business, his government and India’s powerful bureaucracy are largely sceptical about the benefits of free trade for India. Indian negotiators often see trade in zero-sum terms, meaning that they fiercely seek to protect the Indian markets from imports. Indeed, the Trump administration’s attacks on trade arrangements have only confirmed their concerns about the dangers of globalisation for India. In practice, Australia probably did itself few favours in aggressively pushing for a trade agreement in the face of unenthusiastic Indian negotiators.

In short, Australia’s approach to economic engagement with India reflected optimistic assumptions about India’s readiness to open its doors to the global economy and a hope that India would follow a development path that looks more or less like the paths followed by Australia’s major economic partners in East Asia. Instead, India is seeking to develop its economy primarily through domestic consumption and services.

Australia’s new strategy for economic engagement with India

In July 2018, the Australian Government released a report by Peter Varghese, a former Secretary of the Department of Foreign Affairs and Trade, on Australia’s economic strategy for India. The report points out that Australia’s economic engagement with India will look very different from our engagement with East Asian partners. Rather than relying just on sales of commodities, as was often the case with China, our engagement with India needs to be led by services and investment, which will be the key to unlocking other economic opportunities.

Varghese proposes some ambitious goals: by 2035, Australia should try to lift India into its top three export markets, with exports of around $45 billion (in constant dollars) and Australian investment in India of some $100 billion.

The report recommends that Australia approach economic engagement with India primarily on a sectoral basis, focusing on areas in which Australia has particular comparative advantage. Varghese identifies key 10 industry sectors in three tiers.
Education is identified as the flagship sector for engagement in the light of its potential scale, its application to various other sectors and Australia's advantage. This includes the expansion of Australian-based tertiary educational services as well as Indian-based vocational training. Education services run through many sectors that can provide other opportunities (for example, the provision of vocational training in the resources sector can also be a lead to providing mining equipment and services). Education services can also be used as a lead-in to greater cooperation in research and development as a building block for a more sophisticated economic relationship.

On the next tier are three sectors in which Australia could potentially be one of the top five providers to India:

- **Agribusiness**: This includes the whole gamut of agriculture-related industries, such as food processing, food packaging and water management.
- **Resources**: The report is cautious about the prospects for large-scale investment in resource projects, given the structure of the Indian resources sector (with a high degree of state ownership) and land, water and environmental approval issues. Rather, Australia should be playing to its strengths in mining services and equipment.
- **Tourism**: This would capitalise on India's rapidly expanding middle class.

Finally, there are six sectors in which there could be opportunities for Australia as a niche player:

- Energy
- Health
- Financial services
- Science and innovation
- Infrastructure (urban and transport)
- Sport.

The report also recommends that Australia's efforts towards economic engagement should be focused on 10 Indian states and regions that are identified as having the most conducive business environment or being most relevant for Australia's sectoral focus: Maharashtra, Gujurat, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, West Bengal, Punjab, Delhi and Uttar Pradesh.

Varghese focuses strongly on the important role that the Indian diaspora in Australia could play in the economic relationship. While Australian state governments are already engaging with the diaspora, there's scope for greater engagement at the federal level.

Overall, the Varghese report provides a valuable road map for Australia's engagement with India. We won't be able to rely on India lowering trade barriers to our products. Instead, we'll need to be more innovative in making the best use of some of our comparative advantages, including by relying more on services, technology and our large and well-educated Indian community.

Unfortunately, this groundbreaking report wasn't given the attention that it deserves. Among other things, this may be indicative of Canberra's lack of attention to the India relationship, despite occasional rhetoric to the contrary. The report should be actively promoted and used as a tool for economic engagement with India.

### 4.3 Towards a comprehensive partnership with Sri Lanka

While India is the big fish of the Indian Ocean, it isn't the only one. Australia also needs a strategy for engagement with other Indian Ocean economies, particularly those in Southern Asia. Compared with India, countries such as Sri Lanka, Bangladesh, Pakistan and Myanmar are pursuing development models that may be closer to the East Asian export-driven model and, compared with India, may be more open to engagement with Australia.
But those countries also present their own challenges, the most immediate being security. While we have strong interests in promoting the economic and political stabilisation of Pakistan and Bangladesh, the environment in those countries remains highly challenging. Among other things, there are considerable concerns about political stability and personal security, which make sustained engagement difficult for Australian companies.

Although Sri Lanka’s security situation has improved dramatically over the past decade, it continues to face many economic challenges. In recent years, it’s come to be recognised as a potentially important strategic partner for Australia. Since 2013, cooperation on people smuggling has blossomed into a broader security relationship. Sri Lanka is now seeking to become a more active player in Indian Ocean security, diversifying its political and economic relationships beyond major powers such as India and China—and Australia may be a valuable partner in this mix. Australia too has identified Sri Lanka as an important maritime security partner in the Indian Ocean.57

Sri Lanka offers some valuable long-term opportunities for Australia. It’s economically more developed than India and other South Asian countries, with relatively strong social indicators, including in education. This could make it a much more open and fruitful option for cooperation on services. Although its GDP growth is now lower than India’s, its projected growth rates are relatively high at 5.0% in 2018, 5.1% in 2019 and 5.1% in 2020.58

Some of the strongest economic opportunities for Australia (for both exports and investments) are in the services sector, including education, mining services, tourism and water management. Sri Lankan student enrolments in Australia stood at more than 9,000 in 2018, growing at more than 20% per year.59 Australian education providers could also find it relatively easier to establish facilities in Sri Lanka (compared with India) that could be used to service students from Sri Lanka and south India.

Sri Lanka has entered into or is currently pursuing free trade agreements with several countries in the eastern Indian Ocean, including Singapore, Malaysia, Thailand and Bangladesh, although an agreement with Australia isn’t under negotiation. However, the Trade and Investment Framework Agreement signed in November 2017 provides a useful framework for addressing para-tariffs and other non-tariff trade barriers to goods exports.

However, despite these positive factors, there are also considerable risks for Sri Lanka’s growth trajectory, not the least being major macro-economic imbalances involving high external debts. Large debts, including to China, are due to be repaid in 2020, which will almost certainly require International Monetary Fund assistance. Indeed, there are real concerns that the current government might not have the strength or stability to implement necessary policy settings to avoid a balance of payments crisis. There’s a significant risk that economic imperatives or a change of government could lead Sri Lanka ever further into the Chinese economic and political orbit. The strategic consequences of that could be unfavourable for Australia if, for example, it opened the door for China to develop a military presence in Sri Lanka. This creates an even greater imperative for Australia to engage more closely with Sri Lanka in a number of dimensions—Sri Lanka must not be left without a range of partners that are willing to provide it with support and assistance.

In short, a combination of economic opportunities and strategic concerns gives us important reasons to strengthen the economic relationship with Sri Lanka as part of a broader comprehensive strategic relationship. This may open opportunities for Australia and provide us with greater political leverage.

**Recommendations**

The Varghese report on Australia’s economic strategy for India provides a useful road map for the future economic relationship. The Australian Government should promote and implement that report’s findings.

Australia should also develop a plan for economic engagement with Sri Lanka as part of building a comprehensive strategic partnership that includes enhanced economic engagement.
5. THE BLUE ECONOMY: AUSTRALIA’S OPPORTUNITIES IN THE INDIAN OCEAN MARITIME REALM

The world’s oceans have become a focal point in thinking about a new wave of sustainable industrialisation under the banner of the ‘blue economy’, and the Indian Ocean will play an important role in that phenomenon. However, for the most part, Australia’s maritime industries in the Indian Ocean are currently barely developed. We need to consider how we can benefit from potential new blue economy opportunities in the Indian Ocean, including in areas where we have natural or competitive advantages, such as aquaculture and service industries.

This section covers:
- Australia’s blue economy
- our blue economy opportunities in the Indian Ocean
- the blue economy as a tool for regional engagement.

What is the blue economy?

The blue economy is a way of conceptualising economic activity in the maritime realm. The concept brings together existing maritime industries, such as tourism, ports, transport, shipbuilding, offshore oil and gas and fisheries, with newly emerging industries such as biotechnology, wind, wave and tidal energy, and undersea mining.

Many consider that the blue economy provides significant opportunities for economic growth, including as a result of technological change.

Although different countries tend to have different approaches to the blue economy, the idea focuses on promoting sustainable growth in economic activities in the maritime realm. Some Indian Ocean countries tend to emphasise sustainability, while Australian conceptions of the blue economy tend to emphasise using innovative technology in the exploitation of maritime resources.

The blue economy is likely to become a significant focus of international cooperation in the Indian Ocean, including in areas such as aquaculture—a field in which Australia holds significant competitive advantages.

5.1 What is Australia’s blue economy?

The blue economy was estimated to have contributed $73 billion to Australia’s GDP in 2013–14. At that time, the marine industry’s total employment was estimated at almost 400,000 full-time equivalent (FTE) workers, including 193,000 FTE workers directly employed. According to the Australian Institute of Marine Science, the value of the sector’s output more than doubled in the 10 years to 2013–14 and is now growing at around two to three times the average rate of the rest of the economy. By 2025, it’s expected to contribute $100 billion per year to Australia’s economy (Table 2).
The intersecting environmental, legal and security priorities in the maritime realm mean that the proper exploitation of opportunities requires a clear policy and planning framework.

Australia has adopted a long-term plan for marine scientific research that provides an important basis for pursuing blue economy opportunities. The National Marine Science Plan 2015–2025 is a 10-year strategic plan to coordinate Australia’s marine science capabilities to address key challenges. In 2015, the Australian Government spent around $450 million annually on maritime research and development, and that spending is likely to have increased since then.

Although we spend considerably more on marine research than other countries in the region, we haven’t fully explored engagement in the eastern Indian Ocean. Regional cooperation there is at a relatively low level compared with, say, regional cooperation in the western Indian Ocean.

As the only large city in our west, Perth is the natural gateway for Australia’s educational, business and scientific engagement with the region and for the pursuit of blue economy opportunities. Its location makes it a natural point for engagement with Australia by Indian Ocean countries such as Indonesia, India and South Africa.

This is particularly the case in the field of marine science, where there’s considerable scope to expand Perth’s role as a blue economy scientific hub for the entire region. Perth is already home to an impressive field of agencies and programs in marine science, including CSIRO, the Integrated Marine Observing System (WAIMOS), the Australian Institute of Marine Science, the Indian Ocean Marine Research Centre and related state and national institutional programs. Since 1998, Perth has also hosted the only UNESCO Intergovernmental Oceanographic Commission regional office of its kind in the Southern Hemisphere. That office includes programs covering hazards (such as tsunamis) as well as climate and capacity development objectives.
Together, these institutions and programs provide a major opportunity for Perth to emerge as a world-class marine science hub. There are economical ways to take advantage of existing, and potentially up-scalable, entities in international marine and climate science that operate out of the west coast of Australia to promote relationships that can strategically and then practically lead to blue economy and related benefits.

5.2 Australia’s blue economy opportunities in the Indian Ocean

While Australia has the National Marine Science Plan, we don’t yet have a comprehensive policy framework for the environmentally and economically sustainable industrialisation of the oceans. Historically, economic activities within our maritime jurisdiction have been regulated on a sectoral basis, with only limited coordination between ministries and regulators. Ecosystem-based regulation for a sustainable blue economy, in which both the economy and ecosystems thrive, will require far more integrated governance systems. A lack of regulatory coordination is likely to hamper our ability to exploit that economy.

Although the indivisibility of the oceans makes it difficult to precisely divide Australia’s maritime activities among our three oceans, it’s apparent that our blue economy activities in the Indian Ocean are currently limited. Apart from economically significant oil and gas extraction on the North West Shelf, our activities in the Indian Ocean deliver considerably less output than our activities in the Pacific Ocean. This may mean that there’s relatively more scope for growth in Australia’s blue economy in the Indian Ocean.

This section discusses some key blue economy opportunities for Australia in the Indian Ocean:

- aquaculture
- blue economy services

Aquaculture

The world is increasingly dependent on the oceans as a source of food. The FAO estimates that seafood is a key protein source for around 3 billion people. The populations of Bangladesh, Comoros, Indonesia, the Maldives and Sri Lanka derive more than half of their animal protein intake from fish. Aquaculture will provide a growing proportion of that intake as the wild fish catch declines. Aquaculture can also include non-food products, such as seaweed. Given the state of global demand, the entry of new suppliers into the global marketplace is unlikely to diminish opportunities.

Despite the huge size of our maritime jurisdiction, Australia has only a limited wild fishing industry in the Indian Ocean. In 2015–16, Western Australia had only a 20% share of national fisheries and aquaculture production.

Australia has some very strong competitive advantages in aquaculture, making that industry a major economic opportunity with few apparent constraints. Our competitive advantages in the Indian Ocean region include a vast and largely undeveloped coastline, world-leading technology and skills, easy access to cost-effective and sustainable feedstock, and strong experience in developing vertically integrated ‘clean and green’ food industries. Western Australia is also relatively close to key East Asian markets, facilitating live exports of high-value products by air and potentially also by sea.

Two aquaculture development zones have been established in Western Australia, and there’s scope for a major expansion of the industry. Australian-sourced aquaculture products could help to bridge a major gap in protein requirements of many Indian Ocean states caused by the potential collapse of wild fisheries in the region.
Blue economy services

Australia is also a leading provider of many services that are directly or indirectly relevant to the blue economy, which may create many future opportunities.

We’re a world leader in the provision of mining-related services in onshore resource extraction and offshore oil and gas. A major development in the offshore hydrocarbon industry, pioneered in Australia, is the use of massive floating LNG facilities that extract, produce and export LNG far offshore. This avoids many of the infrastructure costs and environmental concerns associated with onshore LNG production facilities.

The world’s first operational floating LNG facility, Prelude, commenced production in late 2018 with a capacity of 3.5 million tonnes per year. Prelude, which cost some US$10–12 billion to build and displaces 600,000 tonnes, making it the world’s largest vessel by some margin, is located 200 kilometres off the Western Australian coast and is serviced from the mainland.

Australia also has significant expertise in areas such as port design and operation, particularly in the mitigation of adverse environmental impacts. As discussed above, there may be some significant opportunities for Australian participation in Japanese- or Chinese-sponsored port developments in the Indian Ocean. In the case of the BRI, an Australian role may be welcomed by some host countries for political reasons and for the substantial skills that Australians can bring.

5.3 The blue economy as a tool for regional engagement

The blue economy is also an important tool for regional engagement. It has particular salience among many Indian Ocean states. Regional groupings such as IORA and BIMSTEC have adopted it as a key focus area, and countries such as India and Indonesia have begun to emphasise it as a key element of cooperation in the maritime realm.

Many Indian Ocean states see the blue economy as an important element in their future economic development. Small island states, such as Mauritius and Seychelles, have been at the forefront of promoting the ‘ocean economy’ as a key plank in their economic development strategies, including through some innovative thinking. India has also instituted blue economy projects at the regional level. The blue economy therefore provides a valuable means for engagement in the maritime realm that can potentially be expanded into other forms of cooperation, including security cooperation.

Recommendations

Australia should develop a comprehensive blue economy plan for the Indian Ocean and other oceans that includes:

• an assessment of our strengths and weaknesses in the blue economy
• an assessment of opportunities and risks in the Indian Ocean blue economy
• the coordination and prioritisation of the work of Australian Government agencies in this area.

Australia should seek to develop Perth as the Indian Ocean’s leading science and knowledge hub. In particular, Australia should leverage and expand upon the existing unique marine and climate science initiatives based in Western Australia. Strengthening the legal arrangements between the Australian Government and UNESCO would support this opportunity.
Multilateral engagement and region building have been an important and successful part of Australia’s engagement with the Asia–Pacific. Over the past 50 years, region-building efforts have helped transform East Asia from a zone of conflict and underdevelopment into a much more stable and prosperous region that includes Australia as an active player. In recent years, we’ve made considerable efforts to help build Indian Ocean institutions that can address shared challenges, but results so far have been limited.

This section explores Australia’s efforts to build more effective regional institutions in the Indian Ocean and the prospects for effective pan-regional and sub-regional groupings in the region.

Issues covered in this section include:
- the challenge of building institutions in the Indian Ocean
- IORA as a vehicle for regional engagement
- engagement with groupings in the eastern Indian Ocean.

6.1 Building institutions in the Indian Ocean

In the 1980s and 1990s, Australia played an active role in promoting the concept of the ‘Asia–Pacific’ as a region that would be bound together by a set of regional norms and institutions. This included sponsoring the founding of the Asia–Pacific Economic Cooperation (APEC) forum as the Asia–Pacific’s overarching economic group. A plethora of other multilateral groupings has since been established under the auspices of APEC and ASEAN.

Over the past two decades, Australia has pursued a multi-level approach in the Indian Ocean region that includes engagement with pan-regional and sub-regional groupings as well as the promotion interactions among strategic partners and like-minded countries. But multilateralism in the Indian Ocean faces a lot of difficulties. The Indian Ocean is very different from the Asia–Pacific. Compared with the Asia–Pacific, the US plays a far less pervasive security role in binding the region together. There are also fewer traditions of regional engagement. The vast distances across the ocean, its diversity and the lack of resources of most littoral states inhibit sustained engagement among Indian Ocean states.

Given those constraints, what are the prospects for Australia to engage with the Indian Ocean region through regional and sub-regional groupings?

6.2 The Indian Ocean Rim Association

IORA is the only pan-regional multilateral political grouping in the Indian Ocean (even though it doesn’t include all major Indian Ocean states). Over the past decade, Australia has paid increased attention to multilateral engagement with Indian Ocean states through IORA as part of an effort to develop regional consciousness and build political and security architecture in the region. This has also been driven partly by our wish to develop our relationship with India. The Indian Ocean has been seen as an arena where Australian and Indian interests converge.
Since it was formed in 1997, IORA has been plagued by limited interest from its members, a lack of resources and limited outcomes, all of which adversely affect its credibility as a regional group. As chair of IORA in 2015–16, Australia put considerable effort into giving the group greater focus and achieving concrete outcomes. We supported the expansion of IORA’s remit to include transnational maritime security issues, women’s empowerment and the blue economy.

In 2017, Indonesia sponsored the group’s first leaders summit. This produced the IORA Concord and Action Plan 2017–21, which sets out a road map for pursuing several initiatives on maritime safety and security, including exploring a regional surveillance network. India has offered to host an IORA Information Fusion Centre to strengthen regional MDA. Another outcome was the adoption of the Declaration on Preventing and Countering Terrorism and Violent Extremism, which included an acknowledgement of support for each other’s efforts in that domain. The declaration may provide an important foundation for further regional initiatives relating to violent extremism.

For many years, IORA attracted only limited interest from its extra-regional dialogue partners, which played a very passive role, but that’s changing as growing major-power competition in the Indian Ocean spurs much greater interest in the group. China has been the most forward leaning, providing cash funding to the organisation and hosting workshops for members. Others are now showing interest in the value of the group in supporting international norms. A German political foundation has recently made a substantial financial contribution. The US, which previously had been almost entirely passive, is likely to show much greater interest in the group in coming years. Australia needs to encourage friends and allies such as the US, Germany, Britain and Japan to assist in strengthening IORA as an effective organisation that speaks for the region and supports a rules-based order.

Despite some progress, IORA remains subject to considerable challenges that hamper its effectiveness as a vehicle for regional engagement:

- Few members are willing or able to commit substantial resources to the organisation. The secretariat is small and underfunded, and there’s little follow-up on decisions.
- IORA’s membership doesn’t include a number of Indian Ocean countries that are or could become important to Australia (such as France, Pakistan, Myanmar, Saudi Arabia and Timor-Leste). We need to continue to press for an inclusive regional grouping.
- IORA doesn’t effectively leverage the resources of its dialogue partners. We need to encourage dialogue partners such as the US, France, Japan, Britain and Germany to make greater contributions to the effectiveness of the organisation.
- There’s a lack of coordination between IORA and the Indian Ocean Naval Symposium, which is the forum for Indian Ocean navies. Calls for greater alignment with the symposium have faltered, and substantive cooperation between the two groups remains problematic.
- India’s sensitivities, including on matters involving Pakistan and China, also limit the organisation’s agenda.

Recommendations that may mitigate some of these issues are included in this report. In summary, IORA remains an important long-term project for Australia, despite considerable and well-founded concerns over its effectiveness. The group has potential value for us in several ways, including by providing a voice of sorts for the region, facilitating our engagement with some smaller Indian Ocean states that we might not otherwise engage with, and being a useful vehicle for reinforcing the application of international norms in the Indian Ocean. In our engagement with IORA, we’ll require both patience and a clear understanding of the limitations of this group. It’s possible that IORA may one day grow into a much more effective pan-regional group, although that seems a long way off at the moment.

IORA also sponsors the Indian Ocean Dialogue as a Track 1.5 forum for discussion of issues affecting Indian Ocean states. Although the dialogue has few achievements to date, there’s potential for it to be developed into a more effective tool of engagement among regional analysts. For example, it could potentially provide the basis for an Indian Ocean version of the Council for Security Cooperation in the Asia Pacific. The council was established in 1992 to promote non-governmental dialogue and networking on security challenges in the Asia-Pacific, although in the almost three decades since that time it has arguably been overtaken by the plethora of official forums that now exist.
in the Asia–Pacific. In its regional architecture, the Indian Ocean is probably less advanced than the Asia–Pacific was in the early 1990s. Accordingly, the use of the Indian Ocean Dialogue as an organising framework in the nature of the Council for Security Cooperation in the Asia Pacific could have significant value in helping to create shared regional perspectives.

6.3 Sub-regional groupings in the eastern Indian Ocean

Several sub-regional groupings in the Indian Ocean are stronger and more effective than IORA, although they’re more limited in geographical scope. Some of them have a longer history than IORA and better reflect the shared interests and values of their members. They could therefore also be valuable tools for Australia’s engagement with parts of the Indian Ocean, alongside our engagement with IORA. The diversity and size of the Indian Ocean and the relative weakness of its institutional structures mean that we can’t afford to put all our eggs in the IORA basket. Instead, we’ll need to work with several multilateral institutions at the same time in an effort to build regional cooperation on several fronts.

Several existing groups could be relevant to our engagement in the eastern Indian Ocean (Figure 10). They include:
- ASEAN
- the South Asian Association for Regional Cooperation (SAARC), which includes South Asian states only
- the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), which includes India and some Bay of Bengal states.

Figure 10: Subregional groupings in the eastern Indian Ocean

Source: Adapted from Political map of the world, Central Intelligence Agency, January 2015.
ASEAN and related groups

Regional cooperative arrangements in and around Southeast Asia are dominated by ASEAN and a web of ASEAN-related organisations, such as the East Asia Summit, the ASEAN Regional Forum and the ASEAN Defence Ministers Meeting Plus (ADMM+). However, although several ASEAN members (Indonesia, Singapore, Malaysia, Thailand and Myanmar) are Indian Ocean littoral states, ASEAN and related groups pay little attention to Indian Ocean affairs. This reflects ASEAN’s economic focus on East Asia and the relatively low level of strategic interest of most Southeast Asian states in the Indian Ocean region.

There are several ASEAN-related groupings in which Australia and a few other non-ASEAN Indian Ocean states participate, including the ASEAN Regional Forum, ADMM+ and the East Asia Summit. In theory, they could be potential vehicles for our engagement on Indian Ocean issues. However, in practice, the principal focus of each of these groups is on East Asian affairs; none of them addresses specifically Indian Ocean issues. Although Australia takes the position that the East Asia Summit should be supported as the principal regional security forum, in practice the summit has limited relevance for most Indian Ocean states. It would be very difficult (and probably unhelpful) for Australia to try to refocus these ASEAN-related groups to include a significant focus on the Indian Ocean.

The South Asian Association for Regional Cooperation

The members of SAARC, which is the principal regional grouping in South Asia, include Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, Sri Lanka and Afghanistan. Although Australia has observer status with SAARC, the value of that relationship is severely constrained by SAARC’s limits as an organisation. India–Pakistan rivalry and India's desire to maintain dominance of the group act as fundamental constraints on SAARC’s effectiveness. SAARC has become ever more dysfunctional with the increase in tensions between India and Pakistan in recent years. The last leaders’ summit, which was due to be held in Pakistan in 2016, was cancelled following terrorist attacks in India, and no summits have been held since. Instead, India has moved its focus to BIMSTEC (of which Pakistan isn’t a member) as a potentially more effective sub-regional grouping. There seems to be little prospect in the present environment for SAARC to be a valuable vehicle for Australia’s engagement in the region.

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation

BIMSTEC, which includes India, Bangladesh, Thailand, Myanmar, Sri Lanka, Nepal and Bhutan as members, is a nascent grouping with a principal focus on the northeast Indian Ocean region. BIMSTEC is primarily focused on technical and economic cooperation, although it has now added transnational security issues to its agenda. In September 2018, the group even undertook a military exercise focused on counterterrorism. BIMSTEC has relatively few concrete achievements to date, and its immediate effectiveness may be constrained by the Bangladesh–Myanmar dispute over the treatment of Rohingyas. Nevertheless, with India placing ever greater emphasis on BIMSTEC, it has the potential in the medium term to become a more important sub-regional group.

BIMSTEC’s principal focus on the Bay of Bengal area makes it a potentially useful vehicle for Australia to demonstrate an enhanced level of interest in that region. We should ask BIMSTEC to create an observer or dialogue status for us (those don’t currently exist). This could facilitate consultation with the group in areas such as maritime security, the blue economy and climate change. Bay of Bengal states such as Bangladesh and Sri Lanka have a particular interest in the opportunities created through the blue economy and in the risks of climate change. The Bay of Bengal also presents considerable maritime security risks relevant for Australia. Section 3 of this report includes a proposal that Australia should undertake enhanced maritime security-related training activities in Sri Lanka, which could potentially be done in cooperation with BIMSTEC.
Recommendations

Australia should continue to promote the effectiveness of IORA as the premier pan-regional political group, including through:

• improving IORA’s organisational effectiveness
• encouraging dialogue partners such as the US, France, Japan, Britain and Germany to take a more active role in IORA, including by sponsoring maritime security initiatives through the group, such as coastguard cooperation and capacity building in MDA.

Australia should encourage greater Track 2 interactions among analysts in Indian Ocean states. This could include using the Indian Ocean Dialogue as the basis of an Indian Ocean version of the Council for Security Cooperation in the Asia Pacific.

Australia should pursue closer engagement with BIMSTEC to enhance our profile in the Bay of Bengal area. This could include seeking observer or dialogue partner status in that group. Key areas for engagement should include maritime security, the blue economy and climate change.
The Indian Ocean has long been Australia’s Second Sea, after the Pacific Ocean. For much of our modern history, we’ve focused on developments to our north, confident in the knowledge that our major ally could look after the Indian Ocean.

That period of our history is drawing to a close. Sooner or later (and quite possibly much sooner than we hope or expect), we’ll need to deal with an Indian Ocean in which our major ally doesn’t hold military predominance. An increasingly multipolar region will make it imperative for Australia to become a much more active player, building security relationships and coalitions—and pursuing opportunities—with selected partners.

Australia is building new strategic partnerships in the Indian Ocean. This includes most obviously India, the biggest military power in the region, but also other powers such as France, Indonesia and Japan. All those countries in one way or another share Australia’s interests in ensuring a stable and prosperous region that respects a rules-based international order. This web of ties with regional powers is likely to become increasingly important to us.

The Indian Ocean is also the source of many maritime security risks, including unregulated population movements, illegal fishing, smuggling, piracy and terrorism. This will require Australia to engage more closely on those threats with other countries, especially in the eastern Indian Ocean. This report makes a series of concrete recommendations for how we can work better and more cost-effectively with countries such as Sri Lanka, Bangladesh and the Maldives to help build their capacity to police the region’s waters.

The Indian Ocean is also a place of potential opportunities. Several countries in the region, led by India, are experiencing high and potentially sustained growth. In the 1970s, we laid the basis for sustained economic engagement in East Asia, despite the region’s political instability and security concerns, and we’re now profiting from that foresight. We now need to be ready to grasp opportunities in the Indian Ocean, whether they be with specific partners or more generally in the blue economy.

Australia has long sought to mould its strategic environment. Over the past several decades, we’ve worked with partners to help build a rules-based order in the Asia-Pacific, using bilateral and multilateral engagement and support for building regional norms and institutions. Those lessons need to be applied to the Indian Ocean to build institutions that give the region a voice and greater resilience and support the UN Convention on the Law of the Sea and other international norms.

It’s no longer ‘business as usual’ in the Indian Ocean. Now is the time for Australia to articulate our objectives in the Indian Ocean and outline a whole-of-government approach to the challenges and opportunities that the region presents.
NOTES

1. This is reflected in many publications. See, for example, Australian Government, *Australia in the Asian Century White Paper*, October 2012, online.
2. See Australian Antarctic Division, *20 Year Antarctic Antarctic Strategic Plan*, July 2014, online.
4. Bateman & Bergin, *Our Western Front*, 12. In comparison, Indian Ocean territories administered by France have EEZs of 2.6 million km², India has an EEZ of 2.3 million km² and Seychelles and Mauritius have EEZs of approximately 1.3 million km².
5. Department of Foreign Affairs and Trade (DFAT), 'Western Australia' online.
9. Anthony Richardson, ‘Australia imports almost all of its oil, and there are pitfalls all over the globe’, *The Conversation*, 24 May 2018, online. See also Rupert Herbert-Burns, ‘Petroleum trade security in the Indo-Pacific region: an assessment of Australia’s crude oil and refined product import security and supply resilience’, *Soundings*, no. 7, Sea Power Centre—Australia, August 2015, online.
10. With the notable exception of the period from 1942 to 1944, when Australia was highly vulnerable to threats from Japan on its undefended Indian Ocean coast.
16. Malacca Strait could be regarded as a choke-point to maritime traffic in conjunction with Sunda Strait and Lombok Strait, the other main passageways through the Indonesian archipelago.
19. David Wroe, ‘“How empires begin.” China has made its global move. This is Australia’s response’, *Sydney Morning Herald*, 22 June 2018.
25. France is generally regarded as an Indian Ocean littoral state by virtue of its island territories of Réunion and Mayotte, as well as its nearby Southern Ocean territories.
27. ‘FRANZ disaster relief co-ordination a model for the Indian Ocean region’, *Future Directions International*, 30 October 2013, online.
Indian Ocean member states include ASEAN Indian Ocean states plus Australia and India. The Maldives, are also interested in joining. France has repeatedly indicated interest in the grouping, but its application hasn’t been accepted. Other countries, such as Myanmar and dialogue partner, and other extra-regional countries such as South Korea and Russia may also be interested in joining as dialogue partners.
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<tr>
<th>Acronym</th>
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<tr>
<td>ABF</td>
<td>Australian Border Force</td>
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<td>ADF</td>
<td>Australian Defence Force</td>
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<td>ADMM+</td>
<td>ASEAN Defence Ministers Meeting Plus</td>
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<td>APEC</td>
<td>Asia–Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>BRI</td>
<td>Belt and Road Initiative</td>
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<td>BIMSTEC</td>
<td>Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation</td>
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<tr>
<td>COP</td>
<td>common operating picture</td>
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<td>CPEC</td>
<td>China–Pakistan Economic Corridor</td>
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<td>EEZ</td>
<td>exclusive economic zone</td>
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<td>FAO</td>
<td>Food and Agriculture Organization of the UN</td>
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<td>FTE</td>
<td>full-time equivalent</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>HADR</td>
<td>humanitarian assistance and disaster relief</td>
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<td>IONS</td>
<td>Indian Ocean Naval Symposium</td>
</tr>
<tr>
<td>IORA</td>
<td>Indian Ocean Rim Association</td>
</tr>
<tr>
<td>IUU fishing</td>
<td>illegal, unreported and unregulated fishing</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>LNG</td>
<td>liquefied natural gas</td>
</tr>
<tr>
<td>MDA</td>
<td>maritime domain awareness</td>
</tr>
<tr>
<td>PwC</td>
<td>Pricewaterhouse Coopers</td>
</tr>
<tr>
<td>RAN</td>
<td>Royal Australian Navy</td>
</tr>
<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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