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Widening horizons

Australia's new relationship with India

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Sandy Gordon is a specialist in South Asian security studies, intelligence, terrorism and transnational crime. He was awarded his BA from the University of Sydney in 1965 and his PhD from Cambridge University in 1976. He joined the Australian Public Service in 1977, subsequently working in the Office of National Assessments, AusAID and as Executive Director of the Asian Studies Council and Australian Literacy Council. In 1990 he became a Fellow at the Strategic and Defence Studies Centre, Australian National University, where he published extensively on South Asia and the Indian Ocean. In 1997 he was appointed head of intelligence in the AFP, a position he held until 2000. He then became Co-Chair of the Council for Security Cooperation in the Asia–Pacific Transnational Crime Working Group and a member of the National Expert Advisory Committee on Illicit Drugs.

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Cover image: Naval cadets perform at the Gateway of India in Mumbai.
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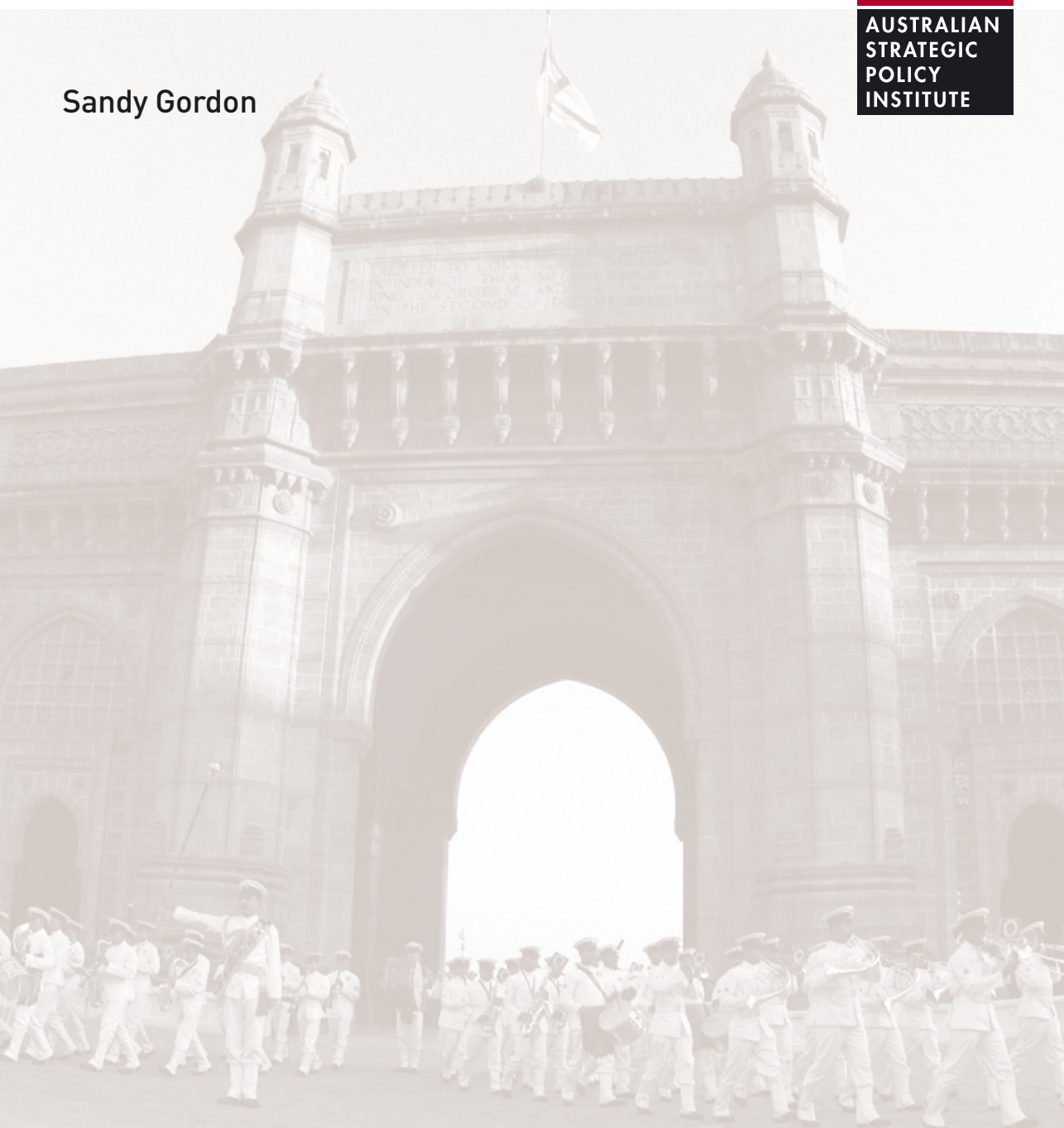

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Contents

Director's introduction 1

Executive summary 3

Chapter 1:
India's strategic perspective 7

Chapter 2:
Constraints on power—domestic and regional stability 15

Chapter 3:
India and the means to power 21

Chapter 4:
India's power realities beyond South Asia 29

Chapter 5:
Australia–India engagement 45

Endnotes 61

References and further reading 62

Acronyms and abbreviations 64

About ASPI 65


DRAVID
19
ICC
CHAMPIONS
TROPHY
INDIA 2006
AUSTRALI

Director's introduction

Despite a shared love of cricket and common membership of the Commonwealth, Australia and India have lived in each other's blind spots. Australia's focus has been on East Asia and the United States, India's on the two nuclear-armed neighbours on its borders and the Indian Ocean. As a US ally, Australia's priorities have tended to be Western in character. As one of the leaders of the Non-Aligned Movement in the Cold War, India's priorities have traditionally been non-Western. But a new sense of dynamism in the Asian regional security order is drawing the two countries closer together.

Since its inception, ASPI has been a focus for a greater level of Australian interest in matters Indian. We have coordinated a regular series of security dialogues with counterparts in India, exploring each other's appreciation of the regional security environment and options for closer security cooperation. So this latest study on the future of the bilateral relationship reflects our long-standing interest in the issue.

I am indebted to Dr Sandy Gordon, one of Australia's foremost experts on South Asia, for his research and ideas on this topic. He argues that both India's economic growth and its successful moves to normalise relations with the United States have created a new 'space'—and new opportunities—for Australia's own relationship with India. Economic complementarities are emerging, particularly in energy trade and educational services.

This report examines prospects for greater economic ties, increased energy trade and enhanced people-to-people links. Controversially, Dr Gordon proposes that Australia should sell uranium to India provided adequate safeguards result from current negotiations on the Indo–US nuclear agreement. He argues that this could greatly strengthen the bilateral relationship, in the same way that our commodity supplies to China and Japan have been central to those relationships.

Photo opposite: India cricket captain Rahul Dravid (L) shakes hands with Australia cricket captain Ricky Ponting (R) prior to their ICC Champions Trophy 2006 match at Punjab Cricket Association (PCA) stadium in Mohali, 28 October 2006. AFP/Prakash SINGH via AAP © AFP 2006

Just as importantly, the paper advocates thinking about the relationship in terms of regional 'big picture' issues. India's military, political and economic profile in Asia–Pacific is rising. A country with a billion people, nuclear and missile capabilities, and a potential economic powerhouse can be a significant contributor to Asian stability, and regional countries—Australia included—are increasingly aware of the influence that India will have on the regional security order in coming years.

On the surface, the security concerns of the two countries are very different. India's relations with Pakistan and China have been marked by wars. New Delhi faces the threat of terrorism and low intensity conflict in its north and northeast. And Australia does not confront the internal human security threats that form such a prominent part of India's concerns—including poverty, illiteracy, and social cleavages.

An important task in Australia's bilateral relationship with India will be to look beyond the surface differences between our two countries to a deeper layer of shared interests. Those interests include the fostering of a stable region, the building of a more inclusive regional security architecture, and the growth of prosperous, democratic societies. They include, too, a willingness on the part of both countries to contribute to the 'public goods' of the regional order, such as secure sea-lanes, disaster relief, and peacekeeping. Such interests suggest the bilateral relationship can become a promising partnership, despite the difficulties of the past.

Peter Abigail
Executive Director

Executive summary

Six decades after independence India remains united and democratic and is emerging as an important global power. Its economy is increasingly deregulated, its GDP growth rate for 2006–07 is over 9%, and poverty has fallen from 55% in the 1970s to 26% today. Relations with Pakistan have improved, tempering a dangerous nuclear rivalry.

Yet problems remain. Economic growth is uneven. Agriculture and some areas of labour-intensive manufacturing have failed to flourish. The unskilled labour force is often poorly educated. The economy is hampered by inadequate infrastructure, raising questions of sustainability. And economic growth is also vulnerable to international energy vicissitudes.

Neighbouring South Asian countries still tend to interact negatively with India—a problem exacerbated by complex internal dynamics on both sides. Instability due to terrorism and an entrenched Maoist insurgency could threaten economic growth. Those problems focus the nation's attention and resources on continental security and retard the acquisition of military power projection capabilities.

Still, the preoccupation with continental concerns has not stopped India from mapping out an ambitious growth trajectory for its naval and strategic nuclear forces. To fulfil those ambitions, India will need to continue its strong economic growth. Future Indian governments—just like the current one—will need to balance security with the developmental needs of their people.

Despite the halting nature of economic reform, the economy has been growing at a healthy rate. The nature of that growth—with significant expertise in information and communications technology, computational sciences, space technology and materials sciences—favours engagement in the revolution in military affairs and military modernisation. India has emerged as the developing world's leading arms importer over the last triennium.

India will probably meet at least some of its ambitious military-strategic goals over the longer-term, but not necessarily according to the over-optimistic schedule it has set. By 2020 its Indian Ocean power will be significantly enhanced. Already it regards itself—and is regarded by others—as a major Asian player that should deal on a one-to-one basis with other significant Asian powers.

The India–China relationship is worryingly ambivalent. On the one hand, the two countries are engaged in an intensifying political, economic and people-to-people relationship, with annual trade approaching US$20 billion. On the other, Indian analysts express growing concern about China's presence in South Asia and the Indian Ocean—including its so-called 'string of pearls' bases. Although such claims are somewhat exaggerated, the opacity surrounding Chinese activities in the region has not helped. The two are also competitors in the international hunt for energy. But despite those concerns, India has been reluctant to be cast in the role of a counter-weight to China.

India's bilateral relationship with the US has suffered from India's prickly politics, the nuclear tests of 1998 and the US need to cultivate Pakistan for its war on terrorism. Still, in many ways it is a 'marriage made in heaven' between the world's most powerful democracy and its most populous.

The relationship is driven by some deep strategic commonalities—common interests in waging the war on terrorism, India's strategic location on the 'west about' route to the Gulf and astride key oil sea lines of communication (SLOCs), and its emerging role in the Asian security order. The 2006 Indo–US nuclear agreement is indicative of this deepening strategic relationship. But recent difficulties in bringing the agreement to fruition—still unresolved at the time of writing—are also indicative of the difficult political environments on both sides and India's determination to maintain its nuclear deterrence capability, especially against China.

India's developing relationship with the US has not, however, been at the cost of its productive exchanges with Russia, from which it derives oil and arms, or with Japan, from which it gains capital and technology.

The improving India–US relationship is a mixed blessing for Australia. On one level, it opens possibilities of Australia–India engagement that could not be realised during the Cold War. But on another, it reinforces the long-standing Indian view that Australia is a pale shadow of the US. It also risks Beijing's discomfiture that a strategic 'quadrilateral' involving the US, India, Japan and Australia might be developing against it.

Canberra's challenge in progressing the relationship with India is therefore twofold. It needs to find productive ways to progress the relationship that differentiate Australia from the US. And it needs to avoid perceptions that Australia is 'choosing' between India and China. Both requirements suggest a greater focus on matters of bilateral concern that are not, in the main, military in nature.

The major issues affecting the relationship, such as trade and people-to-people relations, are fundamentally self-directing and require only the facilitation of governments rather than active intervention.

Economic relations are progressing well. India has about A$1 billion approved for investment in Australia and is now Australia's sixth most important export destination.

Australia's role as a reliable provider of commodities to fuel the rapid industrialisation first of Japan then of China suggests it might follow a similar path with India. Australia should present itself to India as a reliable source of 'clean' energy, including through the AP-6 process, which is gradually developing traction in India. Two key areas here will be coal and associated 'clean coal' technologies and the possible sale of uranium—for which India is keen.

Sale of Australian uranium to India would, however, depend on a successfully negotiated Indo–US nuclear agreement—one that provides IAEI-like safeguards over India's civil nuclear program.

In the event that an India–US deal is concluded and the Nuclear Suppliers' Group (NSG) accepts such a deal, Australia would be expected by New Delhi to supply India with uranium for its civil program. Indeed, India is likely to interpret Australia's position on sale of uranium as an 'earnest of intent' on the wider relationship. The fact that Australia has already agreed to sell uranium to China—which New Delhi regards as less sound on horizontal proliferation than India—only increases the importance of the issue.

But an Australian decision on sale of uranium to India is likely to become caught up in the backwash of our own domestic debate about nuclear energy, as well as the Australian Government's concerns about arms control and proliferation.

Nevertheless, subject to the Indo–US agreement and related mechanisms being satisfactorily concluded in a way that is broadly consonant with Australia's NPT objectives, Australia should agree to sell uranium to India for reasons given in the body of this paper.

Australia's commitment to the relationship will also be judged by its attitude to Indian membership of APEC, which should be supported. In view of Australia's chairmanship of APEC in 2007 and the lifting of the moratorium on new members in 2008, the issue is pressing.

Another area of common interest between India and Australia is the Indian Ocean, particularly the northeast Indian Ocean (NEIO). Both countries have powerful reasons to focus on the NEIO. India's Andaman and Nicobar Islands take its territory to within 90 nautical miles of Sumatra. The country is severely affected by the drug and gun smuggling and terrorism generated in and around the NEIO and by the natural disasters associated with it.

The NEIO is also important for Australia. Australia has a strong interest in the stability of the countries surrounding the NEIO, especially Indonesia. Several issues that trouble Australia originate from or pass through the region, such as illicit drug importations, illegal migration and terrorism. Oil for Australia's key trading partners—Japan and China—passes through the Malacca Straits choke point.

In relation to the NEIO and wider Indian Ocean region, a number of areas of cooperation could prove fruitful including oceanic research, SLOC and shipping security issues, environmental issues and marine pollution, terrorism, and transnational crime. The venue might also provide opportunities for closer military cooperation, including on the Proliferation Security Initiative (PSI)—in which India has expressed cautious interest, and the so-called 'Thousand-Ship Navy' (TSN) initiative.

Underlying many of Canberra's decisions about its relationship with India will be an awareness that the Asian regional security order is entering a difficult phase. The regional great powers are all hoping to shape the emerging regional security architecture. India will have a large role to play in the establishment of that architecture. And Australia will want that role to be a stabilising and positive one, where India's great potential is devoted to building a more secure region.

Canberra should strive to maintain an independent voice in its approach to New Delhi on these matters. India is currently basking in its emergent large power status and the relationship with Australia is not its top priority. But the relationship has a promising future, and it is likely that the two countries will move towards some form of closer partnership in the coming decade.


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Chapter 1

INDIA'S STRATEGIC PERSPECTIVE

Shortly after independence in 1947, India's first Prime Minister, Jawaharlal Nehru, commented that 'Fate has marked us for big things' (Nayer 1979). But his vision had tarnished by the 1970s, when some commentators were predicting the fragmentation of the troubled nation. Poverty seemed entrenched and Nehru's daughter, Indira Gandhi, had slapped a state of emergency on the hitherto vibrant democracy.

Three decades later, India has consolidated its position as an important global power. The nation remains united. Indira Gandhi's flirtation with dictatorship was resoundingly rejected. Predictions of growing military influence over government, or even a coup, have not proved accurate. The command-driven shackles have been loosened from the economy, and the gross domestic product (GDP) growth rate for 2006–07 is over 9%. The savings rate is a healthy 33%. Poverty has fallen from 55% in the 1970s to 26%. Yet, serious problems remain.

India's rise to power is still to some extent restrained by its difficult regional milieu and its need to focus on lifting the living standards of its 1.1 billion people.

India's rise to power is still to some extent restrained by its difficult regional milieu and its need to focus on lifting the living standards of its 1.1 billion people. The sprawling, heterogeneous polity at the centre of South Asia provides ample opportunity for negative interactions

Photo opposite: India's Prime Minister Singh speaks during the fourteenth meeting of the South Asian Association for Regional Cooperation in New Delhi, April 2007. Reuters/B Mathur

with troubled neighbours. Impoverished border-crossers from Bangladesh upset the ethnic and religious balance in India's sensitive northeast. In the majority Muslim state of Kashmir, resentment against the central government has provided fertile ground for Pakistan to sow the seeds of proxy war. New assertiveness in surrounding Muslim countries makes for a volatile mix with the increasingly strident elements of the so-called 'Hindu Right' within India.

Of India's immediate South Asian neighbours, Pakistan is the only one with enough power to provide a strategic challenge. Although not powerful enough to threaten India directly, Pakistan has sufficient clout to keep it locked into an endless cycle of competition and proxy war.

These negative features of South Asian geopolitics have vitiated attempts to form a viable regional association capable of dealing with the region's manifold economic problems. Although the South Asian Association for Regional Cooperation (founded in 1985) has made recent progress, it hasn't been able to provide a platform for solving crucial problems of regional infrastructure, energy and trade. And it certainly hasn't been able to solve pressing regional security questions.

... South Asia today contains more people living in poverty than any other region.

Partly as a result, South Asia today contains more people living in poverty than any other region. With a larger population than China, its GDP (in purchasing power parity) is less than half. The region continues to suffer from malnourishment, corruption and poor governance, low levels of literacy (except in Sri Lanka), growing environmental crises and economically induced illegal migration. These problems have contributed to regional instability in a debilitating feedback loop. Consequently, at times during the 1990s, almost half of India's land forces were locked up supporting internal and border security, detracting from the development of a power projection capability.

Table 1: Gross domestic product and population of South Asian countries and China, 2002–03

Country	GDP (US$ billions PPP)	Population (millions)
India	3666	1100
Bangladesh	306	147
Bhutan	2.9	2.3
Maldives	1.25	0.36
Nepal	39	28
Pakistan	317.7	145
Sri Lanka	86	20
Total South Asia	**4418.85**	**1542.66**
China	8900	1300

PPP = purchasing power parity

Source: CIA World Factbook (http://www.cia.gov/cia/publications/factbook)

For the first three decades of independence, India's rise to power was also delayed by the so-called 'Hindu' growth rate of 3.5%. Constrained by Nehruvian command economics, the stagnant economy grew at only half the rate of the economies of the rest of the developing world. India's pro-Soviet tilt also saw it locked out of a large segment of the western arms market, and it became increasingly reliant on cut-price arms and semi-knockdown kits from the Soviet Union. When the Soviet Union disintegrated in 1991, India was left for a decade with an eroding weapons and matériel base and approaching block obsolescence in its air force—a situation from which it's still struggling to recover.

India's 'strategic malaise' was also shaped by idealist notions inherited from its Gandhian past. The Congress government initially tended to view India as a moral 'makeweight' in the world, rather than as a military power.

In 1962, India's short border war with China set it on a gradual path to a policy of realism in international relations, and the Chinese nuclear test in 1964 reinforced that trend. But even then, India cultivated the Non-Aligned Movement as an alternative to superpower confrontation and chose not to convert its so-called 'peaceful nuclear explosion' of 1974 into a fully fledged nuclear weapons capability.

By the 1980s, the lesson of 1962 was being supplemented by developing notions of power that drew on some of the more assertive traditions of Hinduism. In that decade, Indira Gandhi's Congress Party and the Hindu-leaning Bharatiya Janata Party (BJP) were jockeying for the attention of a growing middle class that was developing a nationalist view of India and its role.

Such ideas were also reinforced by external events. 'Blowback' from the Soviet invasion of Afghanistan and a regional tendency towards a more assertive brand of Islam provided an increasingly strident regional milieu. In the tit-for-tat world of South Asian political rhetoric, communal divisions between Hindu and Muslim became closely linked to international divides, particularly between India and Pakistan, but also, increasingly, India and Bangladesh.

By 1991, the BJP's election manifesto promised to give India 'nuclear teeth' and develop a 'blue water navy' that would be the 'first' navy in the Indian Ocean 'from Singapore to Aden' (BJP 1991). The idea of a realist, powerful and nuclear-armed India is now bipartisan and immutable. But can India achieve its vision and how does it see power projection in practical terms?

The power of any nation is a function of its capability and geopolitical circumstances.

The power of any nation is a function of its capability and geopolitical circumstances. Thus, while China is far more capable than India, according to common measures, it is constrained by its need to operate in a part of the world in which several important powers coexist, including the US, Russia and Japan.

In India's case, there's no major regional competitor. Pakistan continues to provide a strategic challenge through proxy war and its nuclear posture, but its economy and population are

about one-seventh the size of India's and its official defence expenditure is one-fifth. The major external powers, such as the US, are far distant. Although China has nuclear reach into India, its immense land armies are restrained from any strategic-level attack by the barrier of the Himalayas. The next largest Indian Ocean littoral navy belongs to Australia, which can be ranked only as a middle power (see Table 2).

Table 2: India's and Australia's navies compared (as at April 2007)

	India	Australia
Aircraft carriers	1 with 15 Sea Harrier VSTOL and 7 Sea King/Helix A/B ASW/AEW helos	Nil
Destroyers (DDG)	8	Under development
Frigates (FFG)	9	5
Frigates (FFH)	4	8
Submarines (SSK/SSG, conventional)	16	6
Submarines (SSN, nuclear-powered)	Under development	Nil
Corvettes	24	Nil
Patrol and coastal combatants	23	10
Mine countermeasure	14	6 (+ 2 auxilliary)
Amphibious	17	3 (+6 LCH)
Support and miscellaneous	27	8
Maritime patrol aircraft	6 Il-38 11 Tu-142 Bear 20 DO-228	19 AP-3C Orion (Air Force)

Note: Does not include Indian Coast Guard vessels and aircraft.

Should India ever break free of the regional problems outlined above, it would be by far the most powerful of the Indian Ocean regional players.

Although India seeks to be a recognised world power, it is not and never has been a militarily expansionist one. It's true that Kautiliya's *Arthasustra* speaks of 'world conquest', but in the 5th century BCE 'the world' meant South Asia, rather than the wider world beyond.

Along with its ongoing security concerns in South Asia, however, India does have some interests that lift its gaze to the wider Indian Ocean and beyond.

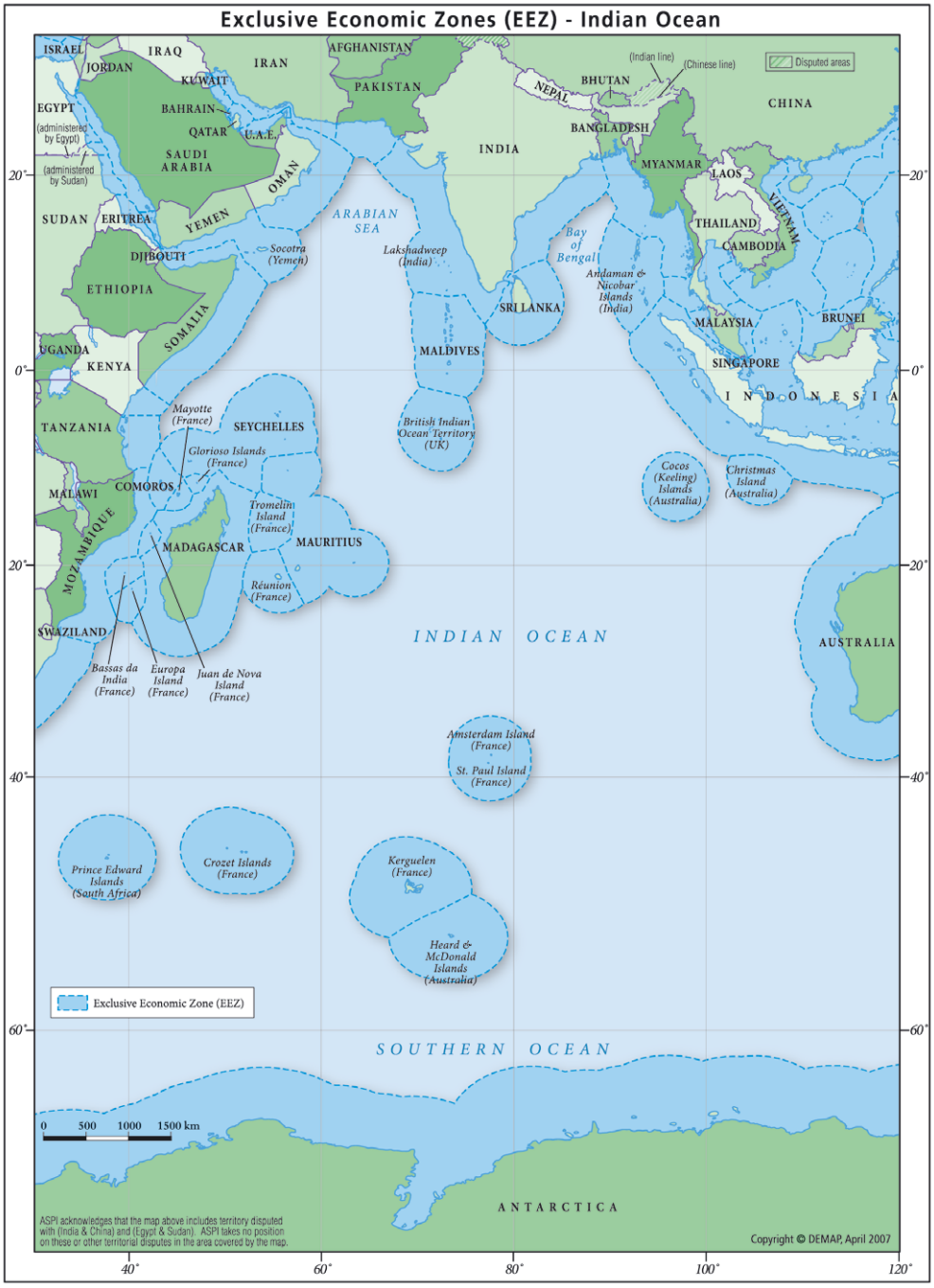
Today, even shorn of its surrounding South Asian neighbours, India is highly heterogeneous and is more like a civilisation than a geographical region. By about 2030, it will overtake China to become the world's most populous country. The effort to develop the nation, maintain equilibrium and ensure security vis-à-vis surrounding countries has tended to occupy the Indian state, and is likely to do so for some time to come.

Along with its ongoing security concerns in South Asia, however, India does have some interests that lift its gaze to the wider Indian Ocean and beyond. These include the protection of its exclusive economic zone (EEZ) and sea lines of communication (SLOCs),

and energy security. India's energy diplomacy, like China's, has become intense, especially in the Middle East, Africa and Central Asia.

India is also concerned about the Gulf and Southwest and Central Asia because it needs to counter violent jihadi terrorism and the influence of Pakistan. These have been longstanding concerns, and India has an experienced diplomatic record in Africa, West Asia and the Gulf. In 2006, New Delhi decided to lease part of an airbase in Tajikistan, where it will position a fleet of MiG-29 fighter-bombers. India has also offered a US$550 million aid package in support of post-Taliban Afghanistan.

Figure 1: Exclusive economic zone—Indian Ocean



Finally, in terms of military power, India has an ongoing interest in securing access to state-of-the art weapons systems and matériel. Its main sources are European Union countries (particularly the United Kingdom and France), Russia, Israel and, increasingly, the US.

Table 3: Selected recent and prospective Indian arms purchases and sources

Item	Source
T-72 and T-90 tank upgrades	Russia
Gorshkov aircraft carrier	Russia
Su-30 MKI and Su-30K/MK	Russia
MiG-21 upgrades	Russia
Akula-II nuclear submarine lease (unconfirmed)	Russia
Scorpene submarines	France
Hawk trainer and FGA aircraft	United Kingdom
Phalcon airborne warning and control system	Israel
Barak AMD system	Israel
MiG-21 upgrades	Israel
Radars	US
Fighter engines	US
Amphibious transport vessel	US

Sources: Various.

Although India is regionally constrained in its exercise of military power, it has a global stage on which to use its growing 'soft' power. Not only has its share of world trade grown from 0.4% before the economic reforms to just under 1% today, but foreign direct investment in India has also grown, albeit from a very low base. India is now poised to become a net exporter of foreign capital, including through approved investments in Australia of about A$1 billion.

New Delhi strongly believes that India's large population and growing economic influence justify a permanent seat on a restructured United Nations Security Council, but proudly rejects any offer for a permanent seat without veto powers.

New Delhi strongly believes that India's large population and growing economic influence justify a permanent seat on a restructured United Nations Security Council, but proudly rejects any offer for a permanent seat without veto powers. It likens India's stature to that of the five permanent members of the Security Council and argues that, as the world's largest democracy, the country has a natural place on the council—with full veto powers. This belief is reinforced by the strong role Indians play in various international organisations, especially the UN, the World Bank and the World Trade Organization.

In a globalised world, India is playing an increasingly important role in journalism, the Internet, film and academia. The vibrant 'Bollywood' film industry matches Hollywood in its global following. New Delhi also has a strong interest in the wellbeing of India's large, successful, diaspora communities, now numbering over 20 million people.

Despite India's ambition to achieve world power status, its global ambitions are seriously constrained by its domestic and regional challenges. To understand India's likely power projection capability, its wider regional role and its expected economic trajectory, these challenges must be understood.

Chapter 2

CONSTRAINTS ON POWER—DOMESTIC AND REGIONAL STABILITY

Terrorism and insurgency

There are currently four hotspots of terrorism and insurgency in India:

- the insurgency in Kashmir, with extensive use of terrorist tactics
- violent Islamic jihadi terrorism elsewhere in India
- Maoist insurgencies, using terrorist tactics, in eastern India
- various separatist movements in northeast India.

The situation in Kashmir has been inflamed since 1989 and has resulted in an estimated 40,000 deaths and human rights abuses on both sides. Since late 2003, however, a peace process has led to reduced Pakistani support for cross-border insurgents and a reduction in terrorist attacks.

This hasn't been the case for jihadi-inspired acts of terrorism in India outside Indian Kashmir, however. This terrorist movement has attracted considerable international attention because of its ruthless attacks on civilians, its focus on the strategic heartland of India, its close association with the international jihadi terrorist movement and its potential to destabilise India–Pakistan relations and, indirectly, undermine the US strategy in the war on terrorism.

The jihadi terrorist problem involves a 'home-grown' Indian Muslim response to the rise of the 'Hindu Right' and to the perceived plight of Muslims in India, as well as an element of outside support from groups like Laksha-e-Toiba (LeT) and Jaish-e-Mohammed (JeM), operating from Pakistan.

Photo opposite: Commuters stand still at a crowded railway station to pay homage during a two-minute long remembrance for bomb blast victims in Mumbai, 18 July 2006. Reuters/Punit Paranjpe © Reuters 2006

Muslims as a community have suffered a relative economic decline since independence, for a variety of reasons. Their position has also deteriorated as a result of the activities of some of the more extreme elements on the Hindu side of politics.

The main terrorist attacks inside India have been carried out with the support of Pakistan-based groups like LeT and JeM.

The main terrorist attacks inside India have been carried out with the support of Pakistan-based groups like LeT and JeM. Within India, the Students Islamic Movement of India has been most prominently involved, along with a number of other regional or home-grown groups. Indian Muslims have often been recruited for extremist causes while working in the Gulf. Several attacks over the last 18 months have also involved staging through Bangladesh.

It's well known that the Pakistani national intelligence organisation (the Inter-Services Intelligence Directorate, or ISI) has supported groups like LeT and JeM for many years for their activities against Indian rule in Kashmir (ICG 2004).[1] What's less clear, however, is whether the ISI, knowingly and directly, has supported terrorist activities elsewhere in India.

Some Indian commentators deny any connection between violent jihadi attacks in India and the status of the Indian Muslim community. They point instead to Pakistan (and especially the ISI) as the culprit (Raman 2003; Raman, no date).

The issue is not merely academic. If the violent response of a small number of Muslims in India is driven by their perceptions of rising communalism, discrimination and poor economic circumstances, then the problem is likely to prove far more intractable than if it's driven mainly by outside support and interests.

Despite the lack of firm evidence of direct ISI involvement, the ability of groups like LeT to operate apparently unhindered across the India–Pakistan border tests the patience of Indian citizens and officials. Early in the investigation of the 2006 train bombings in Mumbai, in which 207 people died, the Mumbai police pointed to ISI's direct involvement. Although more circumspect, India's national security adviser, MK Narayanan, referred to possible direct Pakistani involvement. In a speech in 2006 to police chiefs, the head of the Intelligence Bureau (India's internal security agency) accused the ISI of deliberately fomenting unrest throughout India (Times of India 2006a).

The Indian Government is trying to keep the lid on the problem in order to preserve its delicate rapprochement with Pakistan, but the BJP is snapping at its heels over its 'soft' attitude to terrorism.

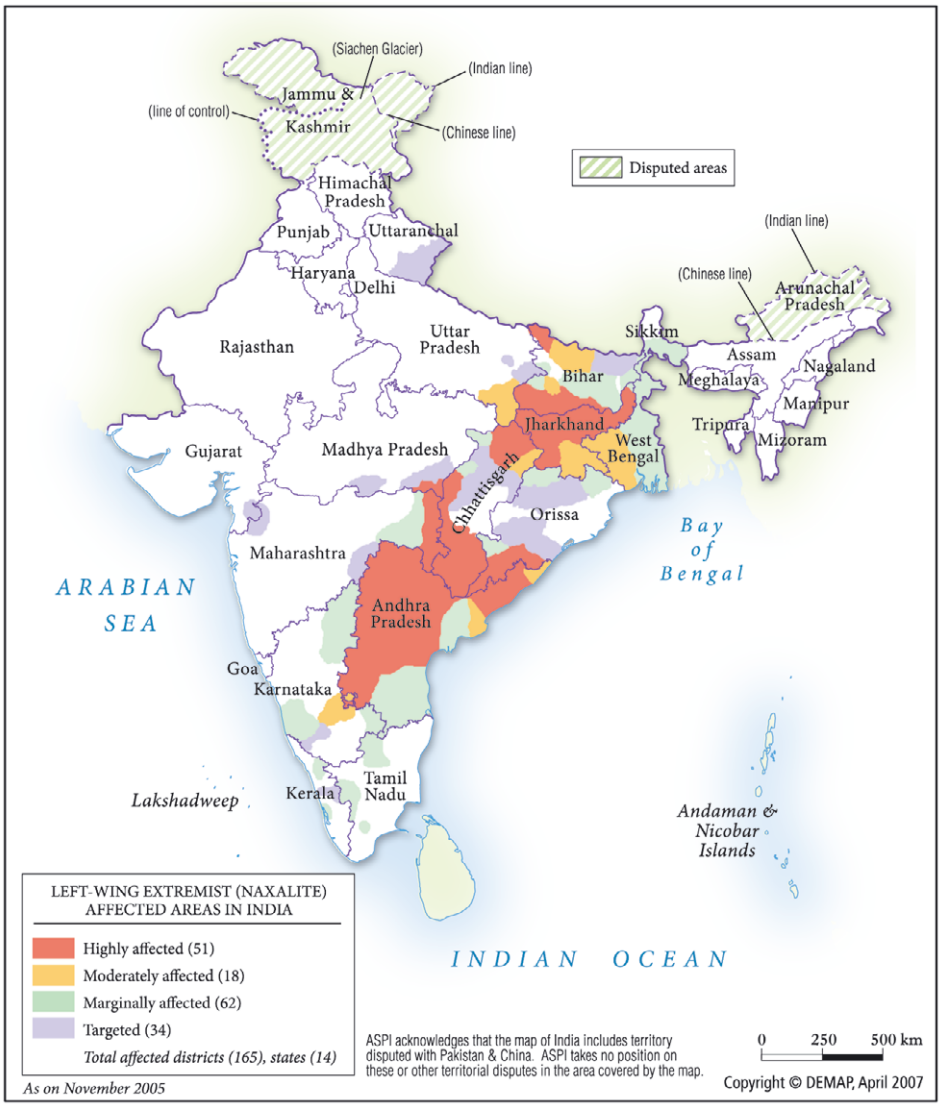
Apparently, the adherents of violent jihad want to destroy the India–Pakistan rapprochement to aid their own position in the war on terrorism. Their success would undermine stability in Pakistan, damage the strategic alliance between Pakistan and the US in the war on terrorism, and lead Pakistan to again vigorously support the 'jihad' in Kashmir.

Unfortunately, it is probably only a matter of time before another major attack. If an important political figure dies or many die at a sensitive Hindu site, the Indian Government would find it hard to pretend that it was conducting 'business as usual' with Pakistan.

As shown by the efforts of both sides to set aside the bombing earlier this year of the India–Pakistan express, in which 68 were killed, neither government wants such a development. India has an obvious interest in maintaining the relationship and, with it, the limited curb on violent jihadi activities in Kashmir. President Musharraf of Pakistan has so many serious internal and border problems of his own to contend with that he now needs a quiescent India on the border. He also needs continued economic assistance from the US, and international investment. He needs Pakistan to be part of a South Asia that's moving forwards, developing links in trade, transport and especially energy in the form of a gas pipeline from Iran to India, via Pakistan (to which the US is opposed). None of these is possible without reasonable relations between India and Pakistan.

India also faces another serious stability problem with implications for economic wellbeing: Maoist-inspired insurgency and terrorism under the auspices of the Communist Party of India (Marxist-Leninist), also known as the 'Naxalites'. Of India's 602 districts, 170 are now said to be under Maoist influence (See Figure 2). The insurgency involves 10,000 to 20,000 cadres; on occasion, it can muster forces of 1,000.

Figure 2: Areas affected by Maoist insurgency in India



Source: Map reproduced with the permission of the South Asian Terrorism Portal—www.satp.org

Prime Minister Singh refers to the Maoist insurgency as 'the single biggest internal security challenge ever faced by the country' (Carl 2006). In arguing that the Maoist threat is more serious than the violent jihadi threat, analysts point out that the Maoists actually control a large swathe of territory, that this territory now forms an almost unbroken stretch from the Nepal border to Andhra Pradesh in the south, that it incorporates much of India's most valuable mineral and coal resources, and that the insurgency is causing serious loss of life on both sides.

The grievances of the lower status castes and tribes who make up the backbone of the Maoist cadre are real enough: corruption (which has stripped their forests and taken their land); the continuing depredations of richer, higher caste landowners; and the clumsy reaction of governments. Data also suggest that the Maoist regions are those suffering the most acute poverty. The World Bank notes the close linkage between the mineral-rich provinces and poor governance.

Nor has the central government moved adequately to provide proper resources to the poorly trained and equipped police, who must counter the motivated, trained and often well-equipped Maoists. The Maoists use criminal means, such as extortion (also called 'revolutionary taxes'), to raise money to buy rockets, pressure mines and semi-automatic rifles.

The fourth area of insurgency in India is located in the seven states of the north-east, the so called 'seven sisters'. With the exception of Assam, which has resources and a substantial Hindu population, these are a series of poor, mini-states originally populated by tribal people with little ethnic or religious connection to the rest of India. The sense of alienation has been exacerbated by transmigration from neighbouring Bangladesh, which the insurgents claim is upsetting the religious and ethnic balance of the region. The most important of these insurgencies is in Assam, which is also a source of some of India's indigenous crude oil. In that state, the United Liberation Front of Assom (ULFA) is engaged in a long-term campaign of terrorist violence and insurgency, fuelled by importations of arms across the porous border with Bangladesh. Indian officials blame Pakistan for providing support to the ULFA and other groups as a means of opening a second front to Kashmir.

Corruption is part of everyday life in India. According to Gurcharan Das, 'The Indian state no longer generates public goods. Instead, it creates private benefits for those who control it' ...

Corruption, criminality and poor governance

India's problems of violent dissent are closely linked to corruption, criminality and poor governance. Major criminal networks (such as the Dawood Ibrahim gang, previously based in Mumbai but now fled to Pakistan and the Gulf) have participated directly in terrorist attacks. Violent jihadi groups also use criminal contacts to launder money through the traditional money market (*hawala*). South Asia's extensive smuggling networks provide terrorists with weapons and explosives. The trials earlier this year of those involved in the 1993 serial

bombings in Mumbai reveal the official corruption that allowed the bombers to acquire their explosives.

Corruption is part of everyday life in India. According to Gurcharan Das, 'The Indian state no longer generates public goods. Instead, it creates private benefits for those who control it' (Das 2006). That may be an extreme statement, but it is clear that corruption—or at least fear of being tarred with that brush—has distorted India's defence acquisition priorities and adversely affected the maintenance of security and economic development. India's performance in Transparency International's corruption index (Table 4) contains only one heartening feature—an improvement in 2006.

Table 4: India's corruption ranking according to Transparency International

Year	Rank
2000	72
2001	71
2002	71
2003	83
2004	90
2005	88
2006	70

Source: Transparency International annual reports (http://www.transparency.org)

Poor governance also weakens vital nation-building activities, such as public health and education. Public education in some parts of India is virtually non-functional, with teachers often absent from class. Even in leading cities, the government sectors in health, education and such basic infrastructure as sewage and water supply are performing very poorly. Levels of HIV-AIDS are alarmingly high (UNAIDS reported 5.1 million HIV-positive Indians in 2003), and the World Bank notes the relatively poor Indian institutional response to the threat due to a lack of organisational skills.

This poor performance in vital areas of social welfare, health and education creates significant developmental and humanitarian challenges. It also contributes to instability and the poor performance of the labour force, slowing economic growth.

Conclusion

Since the 1980s, India has become more confident about its power and place in the world. Its view isn't a militarily expansionist one, but it includes a place for India as the leading regional and Indian Ocean power and as a major economic and 'soft' power.

Given the continuing terrorism and insurgency that India faces, and the tight connection of those problems to regional relations in South Asia, domestic corruption and poor governance, India's strategic and economic rise mightn't be as smooth and untroubled as sometimes projected.

India will need to exploit its economic advantages fully, if it is to meet all the security demands it faces from local and regional circumstances and achieve its global objectives. The means by which it might do so—its economy and technology—and the way it could translate these into security will now be examined.

Chapter 3

INDIA AND THE MEANS TO POWER

In today's globalised setting there are close links between 'soft' and 'hard' power. In particular, strategic reach is heavily dependent not just on military prowess, but also on a successful economy, the capacity to integrate technology and an efficient research and development environment. In this chapter, the underlying capacity of India to support a regional and, potentially, a world power role is briefly examined.

Rather than providing a comprehensive analysis of the economy, the focus is on the major questions of concern for this paper: how is the economy likely to grow in future as a driver for India's quest for world power status, and how such growth is likely to affect India's strategic circumstances?

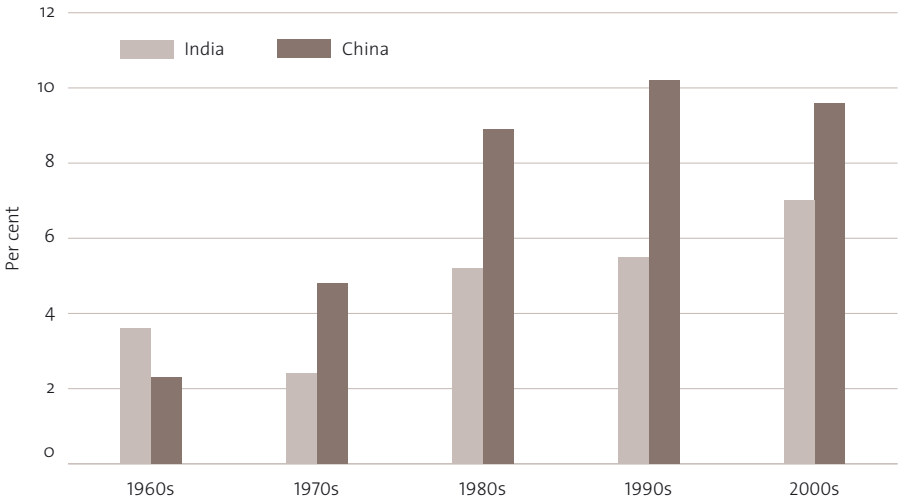
India's economy in a globalised setting

Figure 3 charts India's growth since independence and compares it with China's. In the past three years, India has achieved a GDP growth rate at current prices of over 8%. In FY 06/07 it reached a 9% growth rate, and capital goods investment has risen by 25%. Surprisingly, this has been achieved despite what analysts widely see as a half-hearted record of economic reform—one that has been dubbed the 'Hindu rate of reform'.

Based on work by *Forbes* magazine, the World Economic Forum analysed the attitude of business to the Indian reforms. Table 5 shows the factors that respondents judged the most problematic. The list closely reflects the generally agreed areas of reform failure—infrastructure development, bureaucracy and related issues of governance, and labour market reform.

Photo opposite: Filming dance number for an Indian movie. © Jeffrey L.Rotman/Corbis. According to a new study the revenue of the Indian film industry will cross $3.5 billion by 2010.

Figure 3: Average annual growth for India and China, by decade



Source: World Bank as reported in Williamson and Zagha (2002) to 1990s, then World Bank.

Table 5: Attitudes of business respondents to doing business in India

Problem	Responses (%)
Inadequate supply of infrastructure	26.30
Inefficient government bureaucracy	18.45
Restrictive labour regulation	15.52
Corruption	10.50
Tax regulation	7.00
Tax rates	4.45
Policy instability	4.26
Access to financing	3.60
Poor work ethic	2.65
Foreign currency regulation	2.55
Inadequately educated workforce	2.27
Inflation	1.04
Crime and theft	0.76
Government instability/coups	0.66

Source: World Economic Forum, 'India', http://www.weforum.org/pdf/india/India.pdf.

World Bank findings put the problem of bureaucracy into perspective: it takes 71 days to start a business in India, 48 in China and 6 in Singapore. Some infrastructure sectors have improved. Highway construction, telecommunications and port development are picking up pace, due in part to increasing private sector involvement. According to the World Bank, in 2004, after years of lag, private–public partnerships in India for the first time surpassed the levels in China and Brazil.

Serious problems remain in railways and electricity generation. Investment in the latter is crucial if India is to sustain growth rates of 8–10%. From 1991 to 2004, GDP rose on average by 6.4% per year, while power capacity rose by only 4.16%. Although private investment is now permitted in electricity generation, the benefits are limited by problems in transmission and distribution, which are still regarded as state-sector domains. Pricing policy

is also a significant problem, particularly in rural areas where populist politics have led to near-giveaway prices for power.

India's steel industry is also performing poorly. India produces only about one-tenth as much steel as China, its production techniques are outmoded, and the industry is badly in need of additional investment. As a result, India now exports much of its iron ore to China (an ironic situation, given India's large labour market and growing industrial base). Security concerns in India's iron ore and steel production areas (see Chapter 2) have also affected investment. However, the news is not all bad: both Mittal steel (the world's largest producer) and South Korea's Posco steel are planning substantial investment to build modern plants in Orissa.

Reform of India's heavily restricted labour market has emerged as an urgent but politically difficult task.

Reform of India's heavily restricted labour market has emerged as an urgent but politically difficult task. Laws covering dismissals are far more stringent in the formal (large-scale) sector than the informal (small-scale) sector. This has effectively distorted investment in India, limiting scope for competition with China in labour-intensive manufacturing—an area in which India should be highly competitive, given its very large supply of young people (see Figure 4). The inadequacies of the Indian primary and secondary education system also contribute to ill-discipline and poor performance of labour.

Some economists argue that India has 'leapfrogged' the labour-intensive phase of development and moved directly to service industry and capital-intensive growth. Das maintains that this insulates India from world downturns and limits inequality. He notes that India's emphasis on hi-tech investment means that 30–40% of GDP growth is due to a rise in productivity (Das 2006).

However, others maintain that such a growth structure means that India doesn't have the means to relieve unemployment pressure as agricultural modernisation and population growth swell the numbers of the underemployed. Bardan (2005) claims that India's much-vaunted hi-tech sector accounts for only 1% of the labour force and that this can't possibly fill the gap. Meanwhile, official unemployment is slowly growing, despite the healthy rate of economic growth. The Economist Intelligence Unit argues that India's apparent growth is to a significant extent due to inflationary pressures brought about by infrastructure bottlenecks and overheated markets.

Other problems with the Indian economy aren't fully reflected in the World Economic Forum data. These include India's high fiscal deficit, continuing relatively hostile foreign direct investment climate, slow pace of government disinvestment, looming energy acquisition problems, high levels of tariffs and uneven economic development.

Disinvestment appears to be the least serious of these problems because the economy is continuing to grow 'around' the government sector, with private sector investment surging ahead of government investment and overall investment now 33% of GDP.

Officially, the combined deficit has fallen from 9.5% of GDP in 2002 to 7.5% in 2006. But this figure belies the massive oil and electricity subsidies, which are subsumed into the accounts

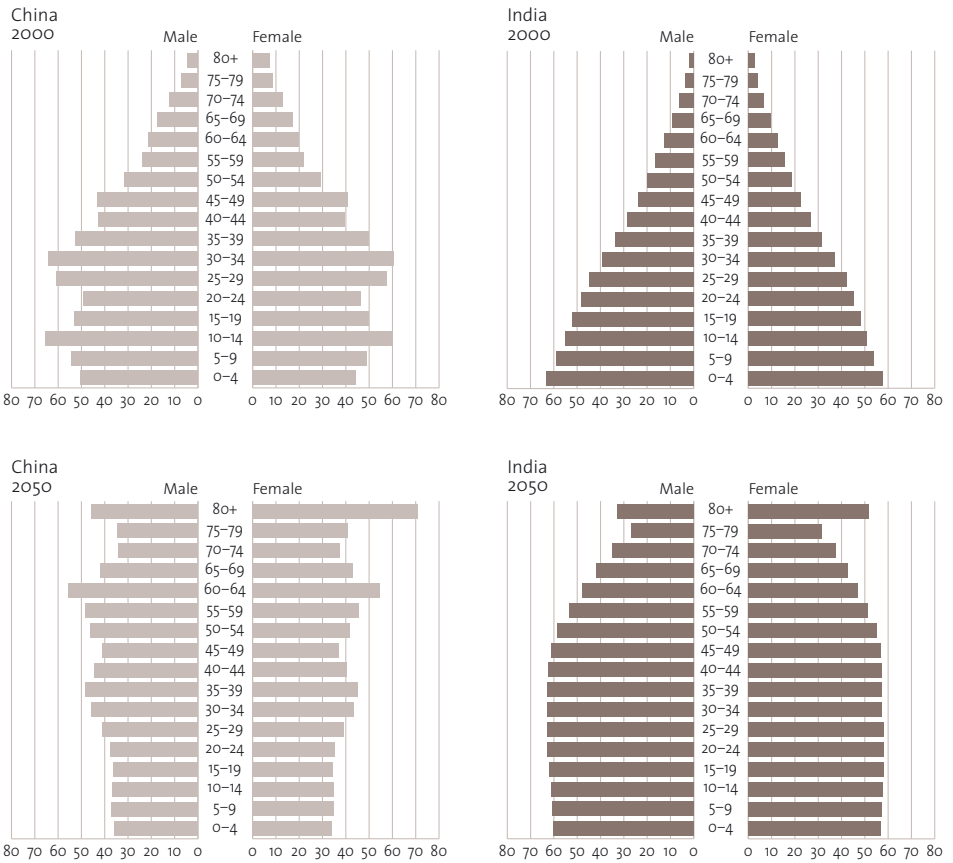
of publicly owned utilities. If included, they ratchet the deficit up to 9.3%—still far too high. This high deficit is likely to cap defence spending (as a percentage of GDP), despite economic success in other areas, such as foreign exchange acquisition.

Energy availability is also a significant potential longer term problem. Despite India's now rapid economic growth, the country is energy poor. Oil accounts for 30% of India's total energy consumption, and India produces only 34% of its oil requirement. Overall consumption is expected to grow from the current 2.2 million barrels per day to 2.8 million barrels per day in 2010. Given the low productivity of India's oilfields, most of the increase will be imported. Although India is well endowed with coal, it's of poor quality and most of the coalfields are in the troubled eastern part of the country. India has recently located good supplies of gas off the east coast, but these will take some years to develop.

To deal with the energy problem, India will need to trade its way out of difficulty by developing export markets. Its share of world trade is still relatively low, at less than 1%. Nevertheless, India's foreign exchange reserves now stand at a healthy US$145 billion (but this compares with over US$1,000 billion for China which is India's competitor in the energy market).

India's comparatively high tariff levels also restrain economic growth. According to Mark Thirwell of the Lowy Institute, the average weighted tariff fell from among the highest in the world to 25% by 1996–97, but then actually rose again to 35%, only beginning to fall once more in 2000–01, reflecting the halting and politicised nature of the reform process.

Figure 4: Population trees for India and China, 2000, and projection for 2050



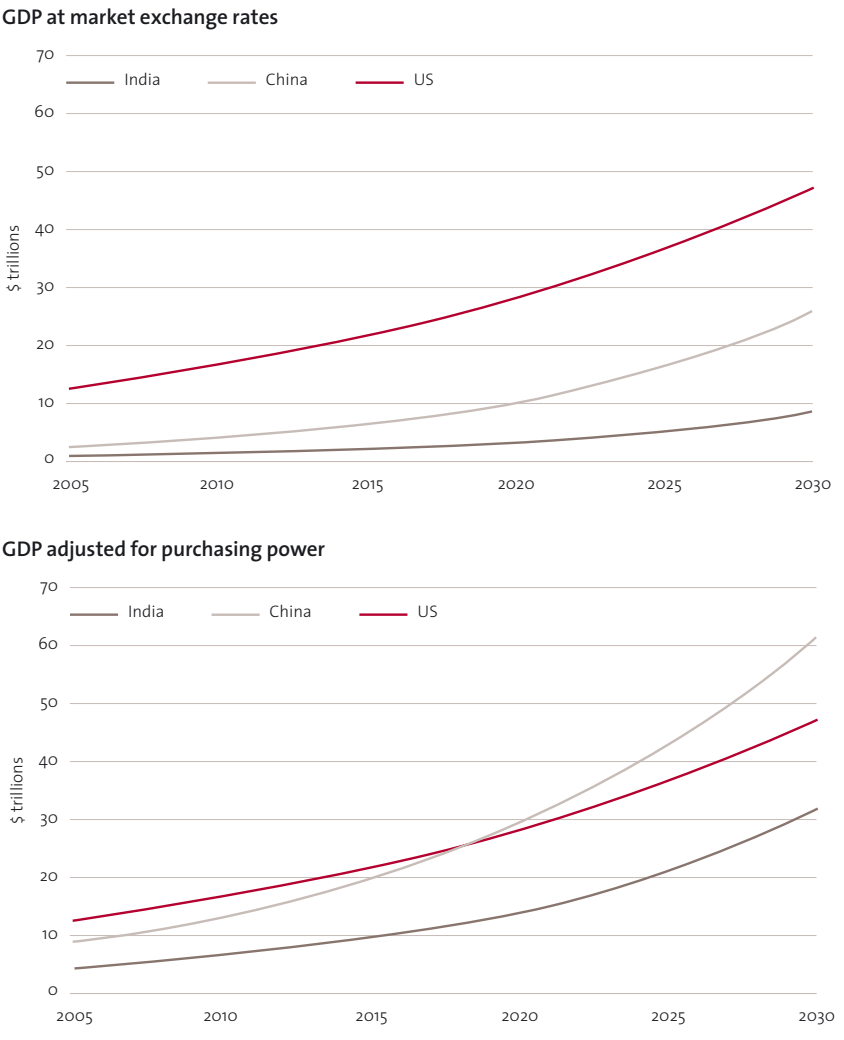
Source: US Census Bureau, as reported in BBC News

In agriculture, which still employs 62% of the labour force, the government's grain acquisition policy does not give farmers the prices they would obtain on a free market. Nor can they find comparatively well-paying jobs in the cities, as Chinese farmers can. Globalisation has been widely blamed for the plight of India's farmers, some of whom have become so stressed that they've committed suicide.

India's growth also suffers from its uneven quality. Some states, such as Punjab, Haryana, Maharashtra, Tamil Nadu and Karnataka, have performed far better than large-population, northern states like Uttar Pradesh and Bihar and the eastern state of Orissa. Moreover, the impressive performance in poverty reduction hasn't been fully reflected in the Human Development Index, a key measure of health, welfare and education. The index has only improved relatively slowly, having risen from 0.412 in 1975 to 0.602 in 2003.

Despite these hiccups in the reform process, India's growth performance continues to improve apace (see Figure 5). In other words, the Indian economy has achieved its success despite, as much as because of, government policy. This performance raises the question of what India might achieve with further reform and supports an optimistic overall outlook for the Indian economy.

Figure 5: Projected growth rates of India, China and the US in market exchange rates and purchasing power parity



Source: The Economist Intelligence Unit © EIU

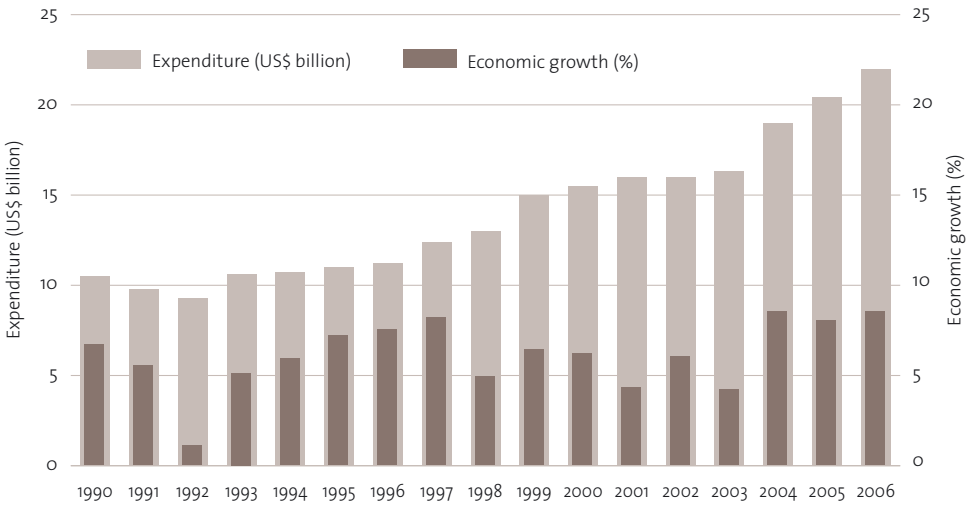
... the Indian economy has achieved its success despite, as much as because of, government policy. This performance raises the question of what India might achieve with further reform ...

The most serious wildcard in this otherwise rosy picture would be a rapid rise in the cost of energy. In the longer term, the effects of climate change and environmental degradation on India's already delicately balanced ecological circumstances could also be a problem, particularly in relation to adequate supplies of water and food to sustain a growing population. A third wildcard is the possibility of serious instability in the industrial and hi-tech heartland as a result of spiralling terrorism, and a failure to capitalise fully on the resource base as a result of the Maoist insurgency in the resource-rich states.

The economy and military modernisation

India's improved economic circumstances have enabled the defence budget to grow substantially since 1999. According to official figures, defence is now allocated US$22 billion per year (the 2006–07 budget allocation, from International Institute of Strategic Studies data), or 2.5% of GDP. Figure 6 details Indian defence spending between 1999 and 2006, with extra items included by the Stockholm International Peace Research Institute but excluded from official figures (space, paramilitary and departmental costs, but not pensions or the nuclear weapons program).

Figure 6: Indian defence spending and gross national product growth rate, 1990–2006



Notes: Defence spending includes departmental, space and some paramilitary costs.
Constant 2003 values are used.
The 2006 figure is the official rather than the Stockholm International Peace Research Institute figure, which would be higher.

Sources: Indian Ministry of Commerce and Industry. http://commerce.nic.in; Stockholm International Peace Research Institute.

This rise in defence spending has been accompanied by a commensurate rise in imports of sophisticated weapons. According to the US Congress Research Service, for the 2002–05 triennium India was the developing world's largest weapons importer, signing on for US$12.9 billion (compared with China's US$10.2 billion). The Australian Department of Defence, reporting to an Australian parliamentary inquiry last year, estimated that India's armed forces plan to spend more than US$100 billion on weapons and equipment in the next fifteen years.

Even given the stronger economic growth patterns experienced this decade, this level of spending will squeeze the defence budget. In the current political disposition, there are significant problems with a larger percentage allocation to defence. Although India's foreign exchange position is now healthy, its deficit position is not. In these circumstances, the 'heavy lifting' to accommodate the acquisitions program will fall on economic growth. Prospects for growth are reasonably good. This means that India may have the means to proceed with its current acquisitions program, but would be severely stressed should the program be expanded or should the country suffer an economic downturn.

In the first half of the current decade, India had significant difficulties achieving a higher rate of spend on military acquisitions. This problem was due partly to its cumbersome acquisitions bureaucracy and partly to a series of high-profile corruption cases, which made governments wary of making acquisition decisions lest they be tarred with the corruption brush. The situation has improved over the last three years, with a closer alignment between budgeted and actual expenditure.

From a defence acquisition angle, the nature of India's growth—with significant strength in hi-tech industries, computation and information technology—supports the development of the more sophisticated defence technologies.

From a defence acquisition angle, the nature of India's growth—with significant strength in hi-tech industries, computation and information technology and growing capacity in material sciences—supports the development of the more sophisticated defence technologies. These include computational capacity (clearly excellent), ballistic missiles, space technologies (also excellent), nuclear weapons development and guidance systems.

For example, India produced the guidance system for the formidable Indo-Russian BrahMos cruise missile. Although the July 2006 test of the Agni III intermediate range ballistic missile (IRBM) failed, a test this year was successful. The technology will eventually give India a comparatively sophisticated IRBM capacity capable of covering most of China—far superior to the Scud-type technology purveyed to several regional countries, including Pakistan, by North Korea. Agni III is a solid fuel, two stage, independently targeted missile currently with a range of 3,000 km and soon to have a range of 5,000 km. Indian scientists are already working on a manoeuvrability capability. Although there hasn't been convincing confirmation that India has developed a MIRV (multiple independently targeted re-entry vehicle) capacity for its warheads, it appears to have the capacity to do so over the longer term.

Chapter 4

INDIA'S POWER REALITIES BEYOND SOUTH ASIA

For India, the main means of power projection beyond South Asia are its strategic nuclear force and navy. Even though the Indian navy has set ambitious goals for its Indian Ocean strategy, it still commands only 17% of the military budget (up from 14% in the 1990s), largely reflecting the continental thrust of India's security concerns.

Given the opacity surrounding the strategic nuclear force, it's difficult to know the level of resources being devoted to it or the timeframe of its build-up. The question is further complicated by the way the development of the force is intricately interwoven with the civil nuclear program. Therefore, the civil and military programs together as an aspect of India's power projection capacity must be discussed.

Nuclear India

In contrast to Pakistan's nuclear weapons program, which mainly depends on highly enriched uranium, India's program uses plutonium from two 'research' reactors and possibly some commercial reactors. India also has a small uranium enrichment plant near Mysore, producing highly enriched uranium for the weapons program and enriched uranium suitable for the reactor of its proposed nuclear-powered submarine (SSN).

India has less than 1% of the world's discovered uranium, but 32% of discovered thorium. The civil nuclear generation program (planned to produce 20 MWe, or 25% of generated power, by 2020) has therefore been configured with an eventual thorium cycle in mind. India's nuclear generation industry currently consists of fifteen operating plants producing 2.8% of generated energy, so the planned program is ambitious.

Photo opposite: US Chief of Naval Operations Admiral Michel Mullen (L) shakes hands with his Indian counterpart Shekhar Sinha as they stand aboard the INS *Delhi* frigate off the Mumbai harbour, 20 April 2007. Mullen was on an official visit to India. AFP via AAP © AFP 2007

The planned thorium cycle begins with pressurised heavy water reactors fuelled by natural uranium, which produce plutonium. Fast breeder reactors (FBRs) then use the plutonium in an oxide fuel to breed U-233. Advanced heavy water reactors then burn the U-233 with thorium, obtaining 75% of their power from the thorium and also giving a safer proliferation regime.

India's FBR program is ostensibly civil, but potentially has a fuel cycle in common with the military program. Both require plutonium separated at reprocessing facilities near Mumbai and Chennai, and the FBR also produces Pu-239, which is suitable for a bomb.

India has therefore insisted that the FBR program be excised from its nuclear agreement with the US. The deal also involves an agreement by India to separate the civil and military components of its nuclear program and adopt Non-Proliferation Treaty (NPT)-like safeguards, to be agreed with the International Atomic Energy Agency (IAEA) before the US–India agreement comes into effect.

The agreement, as it was originally conceived in 2006, apparently contained no undertaking by India that the Indian nuclear program would not be used for military purposes. Although India has expressed general support for a universally applied fissionable materials cut-off regime, it has not, at this stage, agreed to cease producing fissionable materials under the Indo–US agreement. The original agreement apparently contained a 'political' commitment that India would not test again provided Pakistan and China did not test.

In terms of the initial looseness of the agreement at the political level, the devil has proved to be in the detail. The US is now insisting that India adhere to a fissionable cut-off and undertake not to test again. If another test were conducted, India would be required to return any nuclear technology and nuclear fuel provided by the US. Some in the US Congress are also insisting that the agreement be linked to an undertaking by India to disengage from its military activities with Iran, even though these are not focused on nuclear weapons.

At the time of writing, India was strongly resisting these demands on the basis that they would both impugn Indian sovereignty (with respect to Iran) and prevent India determining an appropriate deterrence regime against China, given China is not similarly restricted in its production of fissionable material, at least in the formal sense. The two sides were, however, hopeful of a resolution.

For many years, India has argued that the dual system operating under the NPT regime is unfair, flawed and hypocritical. New Delhi further maintains that India has a deep need for the security offered by nuclear weapons …

For India, these issues go to the heart of its objection to the NPT regime. For many years, India has argued that the dual system operating under the NPT regime is unfair, flawed and hypocritical. New Delhi further maintains that India has a deep need for the security offered by nuclear weapons, focusing on Pakistan and China, which could also act in nuclear collusion against India. India also argues that, despite its refusal to sign the NPT, its performance on 'horizontal' proliferation has been better than China's.

Some in the US Congress dispute India's claim to a sound non-proliferation record. They claim that India has secretly imported technical equipment, including from the US, for its nuclear weapons and missile programs. While this is almost certainly the case, unlike China, India has not, according to current knowledge, been involved with exporting nuclear or missile technology to any other country.

Because India's nuclear weapons program has been far less dependent on outside 'assistance' than Pakistan's, and because it has far more depth, India has probably now caught up with Pakistan in stockpiles of fissionable material. Albright (2005) estimated that at the end of 2004 India had enough plutonium for 65–110 weapons, or a median of 85 weapons equivalent. Today, this would represent a median of 90 weapons. Ball (2006) puts the figure at 120–125.

India likely has two units of Prithvi short-range ballistic missiles weaponised with perhaps a dozen weapons, capable of hitting parts of Pakistan. Other weapons would be ready for delivery by India's fighter-bombers. The Agni, India's IRBM, may also be weaponised. If so, the shorter range Agni I would be located in the west, targeting Pakistan, and the longer range Agni II in the east, targeting parts of China. As noted in Chapter 3, India is also working on a 5,000-kilometre range version of the Agni. In three or four years, it should be weaponised and capable of reaching most of China, including Beijing.

India has publicly expressed its nuclear doctrine in two documents: a draft document issued in 1999 and a doctrine set out in January 2003.

India has publicly expressed its nuclear doctrine in two documents: a draft document issued in 1999 and a doctrine set out in January 2003. Both documents were released under the BJP-led predecessor of the current United Progressive Alliance Government (led by the Congress Party under PM Manmohan Singh). To date, the Singh Government has remained silent on the issue and presumably supports the 2003 doctrine issued by its predecessor.

The doctrine calls for 'no first use', combined with what's referred to as 'minimum credible nuclear deterrence' (the word 'minimum' has recently been omitted). This combination implies that, after receiving a nuclear strike that could knock out some of its nuclear weapons, India would have enough warheads for a punishing retaliation against combined Pakistani and Chinese nuclear forces. It also implies survivability. India sees this, in turn, as necessitating a so-called nuclear 'triad'—that is, nuclear weapons to be delivered by missile, aircraft and submarine, with redundancy in command and survivable C4I (command, control, communications, computation and intelligence) systems.

Beyond this, India hasn't defined the number of warheads that would constitute 'credible deterrence', but sees the doctrine as 'dynamic', depending on strategic circumstances. Since New Delhi has so far avoided a fissionable material cut-off, it can be assumed that its 90-odd warhead equivalent of fissionable material is not yet deemed sufficient, or that it is not confident that China has definitely desisted from production of fissionable material. This assumption, if correct, has implications for possible sales of uranium to India by Australia—a matter discussed in Chapter 5—as well as for the India–US agreement.

India's position on nuclear weapons is shared between the country's two major political groupings and is unlikely to be rolled back. India is likely to proceed with some kind of submarine delivery capability—whether a submarine-launched ballistic missile (SLBM) or a cruise missile is unclear. What you will see is that India is slowly developing an SLBM capability.

The 2003 document announced a nuclear control structure that places control firmly in the hands of civilians. The Nuclear Command Authority consists of two committees—a political committee headed by the Prime Minister and a technical council involving the defence chiefs and military bureaucrats. Actual forces are under a Strategic Forces Command, currently headed by an Air Vice Marshal. Physical control of the arsenal has been given to the army.

However, the navy regards India's nuclear capacity as a key component of its wider strategy to provide India with a strategic capability throughout the Indian Ocean and even beyond. And it sees itself as the key component of a survivable nuclear force.

The Indian navy and India as an Indian Ocean power

India's power in the Indian Ocean has two angles: the grand strategic perspective, and a concern with so-called transnational, or non-military, security threats.

At the grand strategic level, it has already been noted that India sees itself as the most important power in the Indian Ocean, with a legitimate role to play throughout that region. The increasingly important India–US relationship also brings an Indian Ocean security focus at the broad level of security—securing America's 'west-about' route into the Gulf and oil SLOCs out of the Gulf and, potentially, providing a counterweight to China. India is increasingly dependent on seaborne trade in general, which accounts for 90% of its trade by volume and 77% by value.

Beneath this broad framework, India will have a growing role in addressing 'small s' security matters, such as piracy and maritime security generally, gun-running, people smuggling and trafficking, and illicit drug trafficking. These issues, along with India's 'look east' strategy, increasingly draw India's strategic gaze to the northeast Indian Ocean (NEIO) region, which also happens to be a region of significant strategic concern for Australia.

At the level of these more immediate concerns, New Delhi sees the need to protect and preserve its extensive territorial interests in the surrounding ocean. It commands an enormous EEZ of 2 million square kilometres, swelled by its Indian Ocean possessions in the Andaman and Nicobar Islands and Laccadive Islands (see Figure 7). India's most important oil and gas reserves are within the EEZ, off Mumbai and the east coast.

India is resource poor, given its large population. It has come to regard the Indian Ocean, even those areas beyond its EEZ and continental shelf claims, as a potential 'larder' of resources. Parts of the Indian Ocean are rich in minerals, such as manganese nodules. India's resource hunger could potentially extend to Antarctica, with implications for Australia and Canberra's position on resource extraction. Unlike Australia, which insists on the non-militarisation of Antarctica, India has persistently involved its military in exercising its Antarctic policy, but that might be because the military is the only agency able to act in such a hostile environment.

Figure 7: India's exclusive economic zone

Source: National Institute of Oceanography, India, http://www.nio.org/projects/chakraborty/project_chakra.jsp, accessed October 2006.

How do India's views and needs manifest as doctrine?

In 2005, the Indian navy issued *Indian Maritime Doctrine*, a public version of its naval doctrine. This ambitious document identifies the navy—always the poor cousin of Indian strategy—as the torchbearer of India's global strategic ambitions. The document views the Indian Ocean as India's 'backyard', calling for a blue water capability and 'sea control' in designated areas of the Arabian Sea and Bay of Bengal. It cites India's 'policing' role in the Indian Ocean and the need to protect far-flung populations of Indian origin. It posits a fully fledged SLBM capability as the main plank of India's strategic nuclear capability and suggests that India should have at least a two-carrier battle group capacity. Significantly, it cites China's current capabilities and alleged goals as the raison d'être for such an ambitious program, stating, 'China has embarked upon an ambitious military modernization programme … the [People's Liberation Army] Navy, which is the only Asian navy with an SLBM capability, is aspiring to operate much further from its coast than hitherto.'

The goals of the naval doctrine seem ambitious, but it's worth keeping in mind the words of one of India's leading defence analysts, Rahul Bedi: 'To them [military bureaucrats] ambitious wishlists turn, in time, into policy declarations with little or no basis in reality'...

The goals of the naval doctrine seem ambitious, but it's worth keeping in mind the words of one of India's leading defence analysts, Rahul Bedi: 'To them [military bureaucrats] ambitious wishlists turn, in time, into policy declarations with little or no basis in reality' (Bedi 2006). Indeed, it appears that the naval doctrine is already being revised. Nevertheless, it's an interesting insight into some of the thought processes of leading naval strategists.

India's current capacity is set out in Table 2 in Chapter 1 of this report. For India's capacity development, the following acquisitions are relevant.

The navy is scheduled to acquire the refitted Russian carrier *Admiral Gorshkov* and eighteen to twenty MiG-29K aircraft in 2008, but it will probably be some years after that before both the ship and the aircraft are fully operational.

India is also building what it refers to as an 'air defence ship' of 37,500 tonnes, which it claims will be commissioned by 2012 and which will reportedly carry the indigenously built Light Combat Aircraft. There's been considerable slippage in this program. India plans to build additional air defence ships by 2020, but it remains to be seen whether the project will be given funds and priority. India has ordered a further three Talwar Class (Krivak III) frigates from Russia; these will take five years to deliver.

India is developing a submarine-launched missile capability in the form of its Sagarika missile. Currently, the Sagarika (which some sources report to be a cruise missile but which is probably a ballistic missile) only has a range of 300 kilometres. Reportedly, the range is to be extended considerably, possibly with Russian or Israeli help.

A nuclear-powered submarine, known as the Advanced Technology Vessel, is also under development. Credible reports suggest that the reactor for this vessel went critical in 2004 and is now fully on line. Meanwhile, India is reportedly in the advanced stages of negotiating the lease of two Russian Akula II Class nuclear-powered submarines able to carry submarine-launched cruise missiles, and has placed an order for six French Scorpene submarines to be armed with MBDA SM-39 Exocet antiship missiles. The Scorpenes will be indigenously built and inducted between 2012 and 2017. The BrahMos supersonic cruise missile, jointly developed and built with Russia, was inducted into the navy last year, to be fitted to the Delhi Class destroyers and Talwar Class frigates. This formidable, potentially nuclear-capable weapon reportedly travels at mach 2.8 and has a range of up to 290 kilometres (under 300 kilometres, to meet Missile Technology Control Regime stipulations), but that range could be substantially extended if required. India is also in the market for a replacement for its Bear maritime reconnaissance aircraft.

In 2007, India is planning to launch a military reconnaissance satellite, which it hopes would provide the necessary surveillance and command and control for the type of nuclear forces

envisioned by the navy. However, judging from the experience of the US, this goal may prove difficult to achieve in the short-term.

India's new west coast naval base, reputedly the largest in Asia, was opened at Karwar, near Goa, in 2005. Another large base, planned for the east coast, will be capable of hosting India's aircraft carriers and submarine fleet. The navy is also planning to extend its presence in the Andaman and Nicobar islands. Indian military strategists now regard the archipelago as a key strategic area. The new facilities will be known as the Far Eastern Naval Command.

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Many of the acquisition schedules outlined here are likely to slip. Nevertheless, it's fair to say that within the next decade and a half India's capacity as an Indian Ocean power is likely to develop significantly. Certainly, it will continue to draw away from other regional powers, including Australia.

Broad strategic concerns are not the only factors driving India's security posture in the Indian Ocean. A host of transnational issues have also plagued security in the region, especially in the NEIO. These were brought into sharp focus by the events of 9/11 and the subsequent war on terrorism, in which India and the US have strong, shared interests. India's increasingly successful 'look east' policy has also drawn its gaze away from its problems to the west and caused it to focus on the NEIO.

The northeast Indian Ocean and security

India's NEIO territories of the Andaman and Nicobar islands form a 700-kilometre long chain that stretches to within 90 nautical miles of Sumatra and commands the northwestern approaches to the strategic Malacca Strait. India thus has a legitimate and ongoing role to play in the security of the NEIO.

The region is plagued by a number of transnational problems. These include terrorism, piracy (now predominantly a coastal problem), drug smuggling, gun-running, and people smuggling and trafficking. Global warming is a major potential problem, particularly in relation to sea-level rise and the inundation of heavily populated, low-lying lands in Bangladesh and India.

Earthquake, volcanic and tsunami activity resulting from movement of the Indo–Australian tectonic plate, which runs up the west side of Indonesia and the Andaman Sea, remain a troubling reality for the region. India was heavily involved in the relief effort following the December 2004 tsunami, which severely affected the Andaman and Nicobar archipelago. The navy relief effort in India involved thirty-two ships and twenty-one helicopters. Ships were also sent to assist in the Maldives and Sri Lanka.

Most of the region's problems deeply affect India's security.

Most of the region's problems deeply affect India's security. For example, the region is a conduit for trafficking in arms to fuel separatism and terrorism in India itself, especially the insurgent-infested northeast. The main route is from Southeast Asia (often Cambodia), through the Thai ports of Ranong and Phuket, into the Andaman Sea and thence to the Bangladesh ports of Cox's Bazaar and Chittagong. Alternatively, arms pass along this route as far as the Andaman Sea and are then diverted through the Ten Degree Channel to Sri Lanka to fuel the civil war in that country.

The use of Bangladesh as a major conduit for arms trafficking through the NEIO region highlights its growing role as a location of convenience for violent jihadi terrorism. Bangladesh has also become an important staging post for terrorist attacks in India.

India is troubled by temporary and permanent illegal settlement of outsiders, including Chinese fishing families and Bangladeshis, on the 570 islands of the Andaman and Nicobar group. One report cites a figure of 50,000 'foreigners' permanently on the islands—a figure that would be one-eighth of the legal population.

In the past five years, both Thailand and China have cracked down on the massive flow of drugs from Burma across their respective borders. Consequently, illicit drugs (increasingly amphetamines as well as heroin) are finding new outlets in and around the NEIO. Bangladesh has emerged as one outlet. The northeast of India is another and is consequently seriously affected by HIV/AIDS. The Andaman Sea provides an additional important route for smuggling drugs out of Burma. The drugs are taken out to fishing boats by lighters and from there delivered to the west coast of Thailand, and beyond, including in several cases to Australia.

This dense interlinking of problems in and around the NEIO illustrates the way instability in the region can beget further instability and fragility. As New Delhi strives towards regional solutions to problems that are essentially transregional (between South and Southeast Asia), such instability affects India's 'look east' strategy, particularly as it relates to ASEAN countries. It also affects India's relationships with the large powers, especially China, which is itself concerned with SLOC security in the region and with relations with Burma. All of these developments are likely to ensure that India remains focused on the NEIO as a major security concern.

India 'looks east'

India's 'look east' strategy was devised when New Delhi was striving to re-establish a viable foreign policy after the loss of the Soviet connection. As such, the initial policy was somewhat hasty in conception and at times blundering in execution.

Under this strategy, India was keen to join the Asia–Pacific Economic Cooperation group (APEC). In the 1990s, Australia was regarded in India as being unhelpful in progressing the bid. Although Australia wasn't the only member to oppose Indian membership (Japan was also lukewarm), it received the lion's share of the blame and Australia–India relations suffered as a consequence.

Today, some still argue that APEC's immediate challenge is to reform itself. They maintain that APEC needs to strike a relevant posture in the aftermath of its failure to address the Asian financial crisis of 1997–98 meaningfully and compete with the new 'rising stars' of the ASEAN Plus Three and the East Asian Summit, rather than expand. But there's also a growing body of opinion that India should be admitted into the group. Subject to a new request from New Delhi, India's membership will be reconsidered after the decade-long APEC moratorium ends in 2007.

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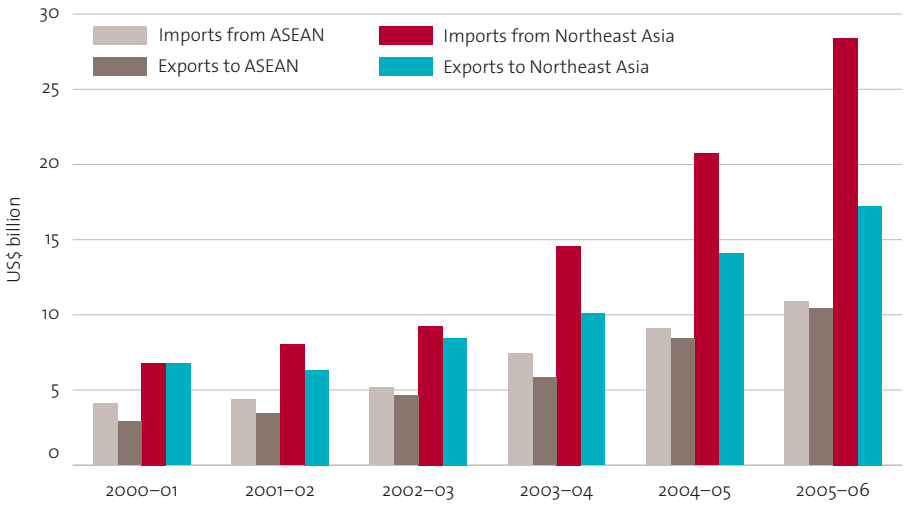
Despite its failure to join APEC, India was admitted as an ASEAN dialogue partner in 1995 and as a summit partner in 2002. In a 'remarkable turnaround', it acceded to the ASEAN Treaty of Amity and Cooperation as a prelude to its admission to the first East Asian Summit meeting in 2005. Through these developments, and as a result of then President Clinton's 2000 visit to South Asia, India was effectively delinked from Pakistan in Asian diplomacy.

India's trade with East Asia is also growing rapidly (see Figure 8), but trade diplomacy with ASEAN has sometimes encountered difficulties. A proposed free trade agreement with ASEAN has been mired by India's insistence on a wide range of exemptions, including palm oil (a sensitive issue for Indonesia and Malaysia, which currently pay 80% tariff on exports of the product to India).

Figure 8: India's trade with Southeast and East Asia (US$ billion)



Source: Government of India, Department of Commerce, Trade Statistics. Imports: http://commerce.nic.in/eidb/ergn.asp; exports: http://commerce.nic.in/eidb/irgn.asp [accessed November 2006]. 'Northeast Asia' is a compilation of 'East Asia' and 'North East Asia'.

India now has good relations with Japan, Singapore, Thailand, Vietnam, the Philippines and Indonesia. Following a week-long visit to New Delhi by Burmese dictator Than Shwe in early 2006, relations with Burma are also improving, with some military assistance, planned cross-border road and rail construction, and (crucially for India) promised joint action against India's northeast rebels, who regularly cross the border into Burma.

India has also been attempting to lasso some of the countries around the NEIO rim into a regional economic grouping called BIMST-EC[2], intended to provide a link between ASEAN and the South Asian Association for Regional Cooperation. Another grouping—Milan East—regularly conducts low-key joint naval activities, the most recent of which included the Royal Australian Navy.

But Naidu argues that 'Southeast Asia's overall strategic and economic significance is on the wane with the focus increasingly shifting to the Northeast Asian region and the Indian Ocean ... because of the rise of new power centres such as China and India' (Naidu 2005). According to this view, multilateralism has proved a singular failure in East Asia, demonstrated by its inability to solve some of the most pressing problems.

Such views suggest that India should use its rising power to forge closer bilateral linkages with the major Asian powers like Japan, China and Russia and with the US, so that it might eventually take its place as a major Asian player in its own right.

India and the large powers

India sees itself as intrinsically a large-power player in Asia. Because of this perception, New Delhi prefers a series of 'strategic partnerships' with the other large powers rather than alliance relationships. The CIA's assessment of India as a potential 'swing state' in Asia has apparently lent credence to this self-image as a major Asian player.

In pursuing such a role, New Delhi at times seeks to 'balance' India's emerging relationship with the US with a supposed Russia–China–India 'triangle' in Asia, which is sometimes described as a counterpoint to US global influence. Most notably, this has been played out in India's quest for membership of the Shanghai Cooperation Organisation (of which India is currently an observer), but Indian interest in the organisation is probably a tactical move intended to preserve a sense of independence in dealings with the US.

After a slow beginning, including a serious hiccup in the relationship following India's 1998 nuclear tests, the India–Japan relationship is now forging ahead. Tokyo is starting to focus on India's serious economic future, its possible role as an Asian counterweight to China and its strategic location astride the vital oil SLOCs of the Indian Ocean. The two countries, which have previously exercised together only at coastguard level, recently conducted a trilateral naval exercise also involving the US.

Indo–US relations

The US–India relationship has been improving incrementally since the end of the Cold War. Despite stresses caused by India's prickly political dynamics, its 1998 nuclear tests and Washington's perceived need to maintain the support of Pakistan in the war on terrorism, in many ways this is 'a marriage made in heaven' between the world's two largest and most important liberal democracies. It's driven both by strategic factors and increasingly by vibrant people-to-people and economic relationships.

The logic driving relations forward hasn't changed in its fundamentals since 1991, when the relationship was rekindled by an overture from CINCPAC (now USPACOM) in Hawaii. CINCPAC was responsible for the security of the 'west-about' route, covering an enormous stretch of ocean, into the Gulf. Given the extremely long lines of access into the Indian Ocean for the external powers, littoral Indian Ocean navies are estimated to have a three-to-one cruise time advantage over external fleets in Indian Ocean operations. In the context of US defence budget cuts after the first Gulf War and the end of the Cold War, CINCPAC was looking for 'burden sharing' partners. Then, as now, India and Australia were the only littoral Indian Ocean powers with navies with that potential.

According to CINCPAC, India and the US have common concerns about international terrorism, the rise of Islamic fundamentalism, illegal drug trafficking, support for human rights (and by implication democracy), and unrestricted navigation in the Indian Ocean and adjoining Persian Gulf region (Harrison and Kemp 1993). And even during the administration of Bush senior, there was concern about the build-up of China and interest in a possible role by India in countering it. Then Senator (now Vice President) Richard Cheney warned India about China and its global build-up.

Although the Indo–US relationship is still driven by the fundamentals operating in the post-Cold War years, there are important new concerns.

Although the Indo–US relationship is still driven by the fundamentals operating in the post-Cold War years, there are important new concerns. The war on terrorism, as it's now called, looms much larger. In this regard, the new relationship between the US and Pakistan, necessary to pursue US objectives in Afghanistan, is a complicating factor. So far, Washington has been able to balance its interests between India and Pakistan in a way that's been acceptable, if not satisfactory, to both. This balancing requires constant attention. For example, the US decision to provide the F-16 C/D fighter to Pakistan was criticised in New Delhi. This was countered by Secretary of State Rice's July 2005 offer of a 'broad strategic relationship with India', which in turn led to the US–India nuclear agreement. This pattern tends to 'up the ante' in Washington's relations with both New Delhi and Islamabad.

Early in 2002, amid post-9/11 concerns about the possible merging of piracy and terrorism, the US asked India to provide escorts for US supply vessels passing through the eastern reaches of the Strait of Malacca en route to the Middle East. India began patrolling on a trial basis in April 2002. Such activities have also opened up the possibility of Indian support (if not core group membership) for the American-led Proliferation Security Initiative. Since Australia is a member of the core group, that possibility is also important from Canberra's viewpoint. To date, however, New Delhi has not formally committed to the PSI initiative. This has not stopped the US inviting India to join its proposed 'Thousand-Ship Navy' initiative—a collective of like-minded navies to counter transnational threats and maintain maritime security.

China's growing level of activity in the Indian Ocean and the region more generally is another factor driving Indo–US relations.

As under the first Bush Administration, China's growing level of activity in the Indian Ocean and the region more generally is another factor driving Indo–US relations. While Washington has been careful not to state such concerns openly, a 2004 consultancy commissioned by the Pentagon noted Chinese activity with concern.[3]

On its part, New Delhi's policy towards the US is now shaped not only by self-interest but also by the domestic reality of India's minority politics. For example, the current Congress-led government was restrained from being more helpful to the US during the Iraq War by its dependence on the support of leftist parties in the Indian parliament, as well as by its concern not to alienate India's 140 million Muslims.

So far, the Singh Government has been able to pursue at least some aspects of its relationship with the US while holding off the threat from its leftist allies. In September 2005, for example, India voted in favour of Iran's referral to the UN Security Council despite its important energy relationship with Iran and criticism from the left. Similarly, the Singh Government was able to ride out criticism from both left and right following the in-principle Indo–US nuclear agreement in March 2006.

The strategic relationship between India and the US is now sketched out on a broad canvas. It includes an ongoing program of ever more complex naval exercises, a ten-year defence agreement between the two signed in June 2005, and the decision to make available to India sophisticated weapons, such as the latest version of the FA-18 fighter (not, at this stage, accepted by India). According to Secretary of State Rice's policy adviser, this shift in US policy is motivated by the fact that '[The US] goal is to help India become a major world power in the 21st century.' He adds, 'We understand fully the implications, including military implications, of that statement' (Times of India 2006b). This is an unambiguous statement of the strategic nature of the relationship.

The most important manifestation of this strategic quality is the decision by Washington to induct India as a de facto member of the nuclear 'club'.

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The most important manifestation of this strategic quality is the decision by Washington to induct India as a de facto member of the nuclear 'club'. This decision is intended to set India up as a key partner of the US in the region over the longer term. Once and for all, it differentiates Pakistan and India in Washington's strategic thinking. It signals that India's location astride key oil SLOCs and US interests in the 'west-about' route are of considerable importance to Washington.

On the other hand, the current difficulties surrounding the deal are also a manifestation of India's belief that it is a country of destiny in Asia and that its nuclear weapons capacity is part of that destiny. No country, not even the US, can be seen to be interfering with that destiny. It will be a strategic partner of the US, not a subservient ally.

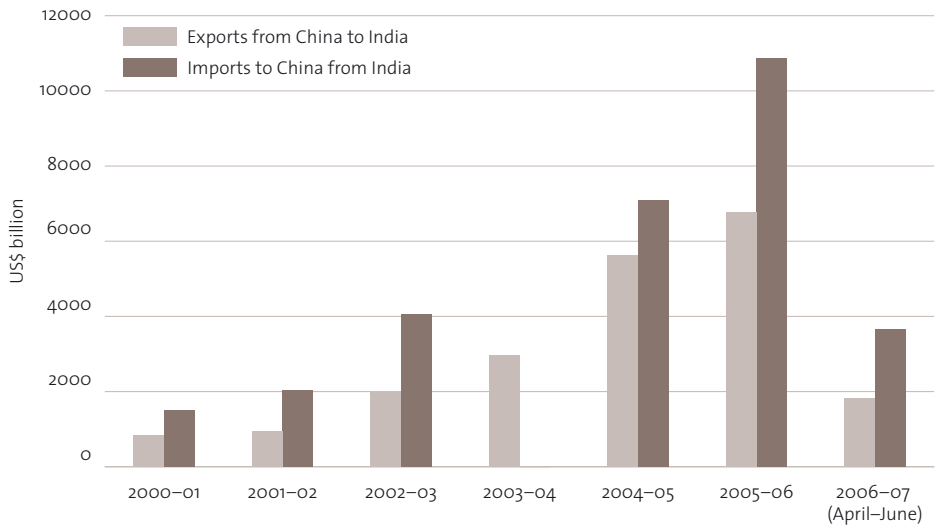
To an important extent, the nuclear agreement might also be viewed by the current Bush Administration as a means to address the wider balance of power in Asia as China rises. Indians, however, don't necessarily share a perspective that would pose India as a counterweight to China. The Sino–Indian relationship isn't simply one of unfettered competition.

Sino–Indian relations

India's behaviour towards China over the past decade can only be described as ambivalent. On the one hand, economic, government and people-to-people relations between the two giants are booming. Due largely to galloping Indian exports of cheap, low-grade iron ore, two-way trade is set to meet a US$20 billion target by 2008 (see Figure 9). There are prolific programs of cultural, scientific, technological and political exchange. A survey by the Chicago Council on Global Affairs indicates a high degree of public acceptance in India of improved relations with China. In 2005, India and China agreed on a set of procedures governing border negotiations. China has given in-principle recognition to India's claims to Sikkim and Arunachal Pradesh, and a traditional border crossing point for trade has been reopened on the Tibet–Sikkim border. The Indian army chief visited Beijing in 2004, and in 2005 the People's Liberation Army's Chief of General Staff reciprocated with a visit to New Delhi. The two militaries have conducted joint counter-terrorism and peacekeeping exercises.

On the other hand, there are still very real negatives in the relationship. The Sino–Indian border talks have not substantially progressed, despite ten intensive sessions. The issue of Arunachal Pradesh was dramatically reopened by China's ambassador to India just before the November 2006 visit of President Hu. From Beijing's perspective, the economic relationship has been hampered by excessive use of antidumping laws by India and stringent new Indian

Figure 9: Growth in India's trade with China, 2000–2006



Source: India. Department of Commerce and Industry. http://commerce.nic.in/eidb/default.asp

conditions placing security strictures on Chinese investment in 'sensitive' areas like ports and telecommunications. China has been pressing for a free trade agreement to break these bottlenecks, but India is unlikely to comply.

Leading Indian strategic commentators and some senior government members remain wary of China's growing role in the Indian Ocean, Central Asia, the Middle East, Africa and especially South Asia.

Leading Indian strategic commentators and some senior government members remain wary of China's growing role in the Indian Ocean, Central Asia, the Middle East, Africa and especially South Asia. Some have likened China's interests in the Indian Ocean and South China Sea to a 'string of pearls'—meaning a chain of military bases stretching from the South China Sea to the Persian Gulf. One describes China as seeking to 'definitively encircle India through a web of military, economic and political alliances' (Bedi 2006).

Indian concern about China's naval and other activities in the Indian Ocean goes back to the early 1990s, when India accused China of developing a SIGINT and telemetry site on Burma's Great Coco Island, close to India's Andaman and Nicobar territories. China has also been accused of developing deepwater ports in Burma that could potentially be used by the People's Liberation Army (Navy). China was further accused of conducting joint intelligence exercises with Burma against India's Andaman and Nicobar territories. Some see China's development of a large port at Gwadar on Pakistan's Makran coast—a mere 400 kilometres from the Strait of Hormuz—as a move that could seriously threaten vital Indian and US oil supply routes in the Persian Gulf region. China continues to woo small Indian Ocean powers, with a visit to Beijing by Seychellois President Michel earlier this year. Beijing has developed extensive arms supply relationships with Pakistan, Sri Lanka, Burma and Bangladesh (having signed a military agreement with the latter in 2002) and is involved with deepwater port development in Bangladesh and Sri Lanka.

Competition between China and India is further sharpened by their mutual hunger for energy, particularly oil and gas.

Competition between China and India is further sharpened by their mutual hunger for energy, particularly oil and gas. China's active energy diplomacy in Central Asia, Africa and the Middle East has caused considerable angst in New Delhi. India has tried to match this diplomacy, not always successfully. Unfortunately, India was somewhat slow to recognise the changes in the energy market following the oil surge in 2003. For example, it was not as quick as China in securing long-term deals for Australian liquefied natural gas (LNG) and consequently missed out in a tight market. To date, its most successful deals have been with Russia. Most importantly, it has a substantial stake in the giant Sakhalin field.

Even senior Indian officials and politicians openly espouse the view that China is a long-term competitor and that any Chinese presence in the Indian Ocean is unwelcome. This posture was most openly expressed in the lead-up to and aftermath of the Indian nuclear tests of May 1998 by then Defence Minister George Fernandes. Defence Minister (now External Affairs Minister) Pranab Mukherji voiced concern about China's Indian Ocean role in 2005, in the context of a 'friendly' visit from Chinese naval vessels (OPRF 2005). China's destruction in space of one of its satellites earlier this year caused widespread official and non-official concern in India and caused one newspaper to say that India would need to turn to the US for space technology to compete.

Commentators generally attribute China's alleged base-seeking activities to concern to protect oil SLOCs through the Indian Ocean on the one hand and to find additional trade outlets on the other. If this were a correct view of Chinese motives, it would suggest that a cooperative rather than competitive approach to Chinese concerns could be more fruitful and less destabilising. However, the Indian view that China is seeking to challenge it strategically in the Indian Ocean seems entrenched. The situation isn't helped by the lack of transparency on the parts of China and Burma, but could be improved by more clear statements about alleged Chinese bases by leading Indian military and official commentators. One such statement was made in 2005 by the Chief of Naval Staff, who definitively stated China did not have bases in Burma.[4]

Conclusion

Although India has many of the attributes of a great Asian power, it's still constrained to some extent by its difficult regional circumstances, its incomplete economic reforms and its need to achieve balanced development for its 1.1 billion people.

A number of important attributes will assist its emergence. With further policy adjustment, it could capitalise on its potential as the next great Asian manufacturing hub. Its strengths in some aspects of hi-tech industry tend to favour the type of military modernisation most conducive to the 'revolution in military affairs'. In geostrategic terms, it stands virtually alone as the potential great power in the Indian Ocean. Its position astride the ever more important Indian Ocean SLOCs is also central to its strategic significance. While it's an increasingly confident and assertive power that regards the Indian Ocean as its natural domain, it is not and has never been a military expansionist power.

Of its relations with other large powers, the relationship with the US holds more promise than conveyed by India's somewhat prickly political milieu and media. Although unlikely ever to develop into an alliance partnership, this is a long-term relationship that increasingly has a 'strategic' quality.

Chapter 5

AUSTRALIA–INDIA ENGAGEMENT

Until recently, neither India nor Australia was willing to pursue the India–Australia relationship consistently. Australia's strategic gaze was fixed firmly north, on Southeast and East Asia. During the Cold War, Canberra viewed India as a virtual fellow traveller of the Soviet Union. On its part, New Delhi regarded Australia as a pale shadow of the US and its unwanted role in the Indian Ocean region. After the Cold War, this attitude persisted against the backdrop of improving Indo–US ties, which tended to overshadow links with an Australia that was seen in New Delhi as likeminded with the US on most issues. The fact that each viewed the other as basically benign tended to place each outside the 'strategic radar' of the other.

Until recently, neither India nor Australia was willing to pursue the India–Australia relationship consistently.

Periodically, initiatives were taken to cut through these attitudes and give some substance to the relationship. In the late 1980s, Australian commentators expressed concern about India's rise as an Indian Ocean naval power. In that context, the Australian Parliament prepared a comprehensive report on Australia–India relations in 1989. The magic of the Gandhi dynasty also rubbed off on Australia, with a warm personal relationship between Prime Minister Hawke and the young Indian Prime Minister, Rajiv Gandhi (reflecting a somewhat stranger relationship between the leftist, octogenarian Morarji Desai and Malcolm Fraser).

Photo opposite: Australian Prime Minister John Howard reviews a Honour Guard of Indian troops during an official welcoming ceremony at the Presidential Palace in New Delhi, 06 March 2006. The Prime Minister was on a four-day visit to India to boost trade and deepen the strategic relationship between the two countries. AFP/Emmanual Dunand via AAP © AFP 2006

In 1994, Australia's Department of Foreign Affairs and Trade identified the growing potential of the Indian economy with a major report, *India's economy: at the midnight hour*. It was followed by a similar report in 2001. In the 1990s and the following decade, a number of academics wrote about the relationship and how to revive it (Gordon 1993, Gurry 1996, Bonnor 2001). Governments took various initiatives, such as the foundation of the Australia–India Council in 1992 in response to the abovementioned 1989 parliamentary report. In these initiatives, Australia has mostly been the suitor and India the reluctant bride. Throughout the 1980s and 1990s, Australia's Indian aid program sputtered fitfully, until finally 'put out of its misery' by an Indian Government ruling in 2003 that small programs should be phased out.

Ironically, India's nuclear tests in May 1998 were an important factor in changing Australia's perceptions of India. In a media release at the time, Australian Foreign Minister Downer described the tests as 'outrageous acts'. Defence cooperation was immediately withdrawn, with some exchangees having to quit courses midstream. Although Australia's statement was no stronger than many others, and its actions less harsh than those of the US (which exercised a series of mandated sanctions), because of Australia's location it was the first such statement to hit the airwaves, and in New Delhi it appeared to set the tone. It was also, perhaps, easier for India to react hotly to the statement of a small country such as Australia than to similar statements and even stronger actions of more powerful countries, like the US.

Since those events, the relationship has again moved ahead. A nuclear India commands more attention in Canberra, and this trend has been reinforced by India's recent economic success. But Indians tend to have long memories on the nuclear issue. They are now widely courted by the international community, and Australia is only one of their suitors, and a relatively minor one at that.

Given India's growing regional and economic importance and the failure of past initiatives, Australia needs to develop new strategies to create a more robust and durable relationship.

Given India's growing regional and economic importance and the failure of past initiatives, Australia needs to develop new strategies to create a more robust and durable relationship. These need to be developed not just in the context of the bilateral relationship, but also in terms of the emerging security architecture in Asia and the Indian Ocean region.

The strategic context

The Asia–Pacific and Indian Ocean regions are now entering a period of considerable strategic flux. China and India are rising Asian powers. China's energy diplomacy is causing it to seek a wider role in the Indian Ocean region. Russia is attempting to reassert some of the influence previously exercised by the Soviet Union. Japan is seeking to play a more assertive strategic role. American power is being tested elsewhere, particularly in the Middle East and Southwest Asia.

As a middle power, Australia has a strong interest in ensuring that a stable Asian security architecture emerges out of this flux. Ideally, that architecture should accommodate,

rather than try to contain, a peaceful rise for China. Australia also has its own distinctive relationship with the US, and its own sets of interests in the Indian Ocean (which mightn't fully accord with those of India or even the US). These broader strategic issues provide the backdrop against which Australia–India relations need to be developed.

As a middle power, Australia has a strong interest in ensuring that a stable Asian security architecture emerges out of this flux.

According to the CIA, India is a 'swing state' in Asia. As a relatively new player in the big power stakes, India's choices could be crucial to the eventual security architecture of the region.

Noted ANU academic, Coral Bell, has suggested that the best type of security arrangement would be what she calls a 'concert of powers'—a kind of balance of equals involving the large Asian powers, including China, India, Russia, Japan and the US. An important expression of this view is Coral Bell's ASPI Strategy paper *Living with giants: Australian policy making in a changing international landscape*. Such an arrangement wouldn't be perfect, but it could be the model with the best prospect of maintaining a general peace. The balance would be played out in the activities of the large powers in multilateral forums, such as APEC and the UN. Ad hoc processes, such as the six-power negotiations on North Korea's nuclear weapons activities, would also play a role.

An alternative model involves likeminded democracies working together to provide a counterweight to a rising China. The proposal by Japanese Prime Minister Abe and, reportedly, Vice President Cheney, to include India in the US–Japan–Australia trilateral strategic dialogue can be interpreted as a step in that direction. As such, it risks trumping alternatives, such as the one proposed by Professor Bell, that would accommodate a wider role for China.

True, the trilateral dialogue has ostensibly been focused on issues such as counter-proliferation, counter-terrorism and fighting crime, rather than on countering China. The participants have denied forthrightly that the dialogue is directed at China, but Beijing has declared that the arrangement lacks transparency. China would likely be even more suspicious of any 'quadrilateral' arrangement that included India. Moreover, recent trilateral naval exercises involving India, the US and Japan, while not directly related to the dialogue process, could undermine claims of its neutrality.

A further potential difficulty with the trilateral and proposed quadrilateral arrangements is that the participants can't tell where they might eventually lead. This problem is exacerbated because some participants appear to have differing views on the direction and purpose of the proposed quadrilateral arrangement. It has already been noted that some within the Bush Administration view the relationship between the US and India as having a strategic component in relation to the rise of China. And it's been noted the US assertion that an important underlying facet of the Indo–US nuclear agreement is to clear the decks for building India up as a major Asian power. The only possible interpretation of such a position is that India is to be built up as a counter to a rising China.

To date, Canberra's approach to the proposed quadrilateral arrangement has been cautious. This caution reflects an earlier statement by Australian Defence Minister Nelson. When asked whether the four powers' naval cooperation after the 2004 tsunami might be formalised as part of a 'core group' for military cooperation, he responded to the effect that Australia currently prefers a bilateral approach (Suryanarayana 2006). In proceeding with caution, Canberra would doubtless be mindful of our increasingly important trading relationship with China and concerned to encourage China's peaceful rise and integration into the Asian power equation.

Such caution is also consonant with Australian policy elsewhere, for example on matters relating to the Taiwan Strait. To date, Canberra has adopted a policy of manoeuvring between China and the US and avoiding having to choose between them.

Along with Australia's concern about broad strategic architecture in Asia, it has a specific set of strategic concerns in relation to the Indian Ocean.

While a policy of containment of China might one day be necessary, the worst outcome would be to slip into it by accident when the time for it hasn't yet come. In the words of a leading analyst of India, Ashley Tellis, referring to this very issue, 'to name enemies is to make enemies'.

Along with Australia's concern about broad strategic architecture in Asia, it has a specific set of strategic concerns in relation to the Indian Ocean.

At least since the time of the *Review of Australia's Defence Capabilities 1986* (the Dibb report), Australia's concern with 'large S' security has been primarily about the so-called 'defence of Australia'. This has generally been expressed as an independent capacity to defend the 'sea–air gap' to the north and northwest of continental Australia and maintain Australia's ANZUS Treaty interests with the US.

In the context of defence of Australia, Australia's Indian Ocean focus is mainly on the waters adjacent to Australia and to a lesser extent the NEIO region, depending on how that region is defined. If it's defined to include only the Bay of Bengal and Andaman Sea, which are about 4,000 kilometres from Australia, then those waters wouldn't be considered the locus of primary concern. If the NEIO is defined to include waters to the southwest of the Indonesian archipelago, then the NEIO is of direct strategic importance to us.

Australian perceptions of the Indian Ocean are also affected by the fact that Australia has territory well out into the ocean, with the Cocos (Keeling) Islands lying 2,700 kilometres from Perth and Christmas Island a mere 400 kilometres from Java. Closer in, our most important gasfields are off the North West Shelf, extending from Exmouth almost to Darwin. These vital interests and enormous expanses of ocean and sea require considerable attention in the age of terrorism and other transnational threats.

Even using the definition of the NEIO that includes only the Andaman Sea and Bay of Bengal, Australia has important, if indirect, security interests in those waters. The logic is self-evident: Southeast Asia is considered the 'gateway' to Australia, and instability in this

part of the world is bound to have adverse consequences for us. Three ASEAN countries—Thailand, Burma and Indonesia—are around the NEIO. Stability in Australia's nearest large neighbour, Indonesia, is of paramount importance to Australia's security.

Indeed, Australia is already heavily engaged in supporting the security of this part of the world. It has committed A$3 billion to help stabilise Southeast Asian economies after the 1997 economic 'meltdown'. It has provided strong technical and police support for Indonesia and other Southeast Asian nations in the war on terrorism. Through its aid program, it gives substantial help to counter people smuggling and trafficking in Southeast Asia. It's involved in policing cooperation with Burma to stem the flow of heroin and amphetamines from that country to Australia. And gave strong financial support (A$1.5 billion of public and private money over five years) and military assistance to regional countries in the wake of the 2004 Boxing Day tsunami.

Australia will continue to have strong interests in supporting countries littoral to the NEIO. The support will in part be intended to address troubling transnational problems. For example, in December 2005, Australian Foreign Minister Alexander Downer met Malaysian Deputy Prime Minister Najib Razak, and subsequently told reporters that Australia was considering sending RAAF 3C/P Orions for joint patrols in and around the Malacca Strait, presumably to help improve maritime security in that region. Another supporting arrangement, the Five Power Defence Arrangement, has a strategic overhang from the Cold War, but is now also focused partly on emerging transnational security issues.

These interests put Australia and India into a common domain for military and quasi-military security activities, particularly as they focus on 'small s' security. In the past, this confluence of interests in the NEIO hasn't always been well received in India. In the 1990s, New Delhi reacted strongly when an Australian Orion maritime patrol aircraft reportedly 'shadowed' an Indian destroyer, the INS *New Delhi*, in the NEIO. Hopefully, those days are long gone, and the considerable scope for cooperation in the NEIO will be uppermost in both capitals.

As India and the US move closer, New Delhi increasingly shares Canberra's general perceptions of the US role in the Indian Ocean, but there are potential differences of opinion between India and Australia on the US role.

As well as these concerns about the NEIO, Canberra shares India's concerns about the security of the SLOCs that traverse the broader Indian Ocean. According to a 2006 study by the Australian Bureau of Agricultural and Resource Economics (ABARE), Australia's self-sufficiency in liquid fuels (including LNG) is expected to diminish from 59% to 49% by 2029–30. ABARE notes that self-reliance for petroleum fuels would be reduced far more radically than this. Since the Middle East and Africa contain by far the largest unexploited reserves of oil, the necessary additional imports would be sourced mainly from those regions and would pass over the Indian Ocean. Furthermore, 28% of our trade is now with Japan and China, two powers heavily dependent on Middle Eastern and African oil. ABARE notes that any prolonged interruption of the flow of oil through the region would have a profound effect on our economy.

As India and the US move closer, New Delhi increasingly shares Canberra's general perceptions of the US role in the Indian Ocean, but there are potential differences of opinion between India and Australia on the US role.

While India's relationship with the US is a long-term one that includes a robust military-to-military engagement, its ultimate purpose (from New Delhi's point of view) is to assist India's development as the most important pan-Indian Ocean power. A significant aspect of this policy is to limit China's growing footprint in the Indian Ocean region.

Australia's role as the smaller power in a military alliance produces a different set of views on the long-term US presence in the Indian Ocean. Canberra's strategy is to continue to support the US presence in a direct way, by supplying military facilities and supporting US activities in and around the Indian Ocean, such as in the Middle East and Southwest Asia. As a result, Australia is often viewed from New Delhi as simply a pale shadow of the US, with a set of positions that mirror those of the US. As noted in the case of China, this isn't strictly true; nor is it strictly true of Australia's commitment to the US positions on Iraq and Afghanistan. Such support by Australian governments is as much about underwriting the ANZUS Treaty as it's about support for the actual US positions on those interventions. What could be seen from New Delhi as 'blind obedience' by Australia to the US looks more like enlightened self-interest when viewed from Canberra.

Despite the fact that Australia and India are on the same basic 'strategic wavelength', these nuances and differences—including in relation to China and the US—will need to be carefully explained to New Delhi if the relationship is to gain traction and if Australia is to be seen as an independent player in the region. It won't be sufficient for Australia simply to 'slot in' as a strategic partner of India and the US and expect this to drive the hitherto fickle relationship forwards. Rather, activities and policy decisions will need to be carefully crafted to serve our best long-term strategic interests, as well as the needs of the bilateral relationship with India.

This strategic backdrop will also need to be accommodated in determining individual policy initiatives and decisions in Canberra. In this broad context, it would make sense to focus on constructing individual initiatives in the NEIO. It would also make sense to focus on dealing with 'transnational' problems rather than fostering broader strategic initiatives that could eventually transmute into a strategy of containment of China. And it would make sense to foster those elements of the relationship, such as economic relations and people-to-people relations, in which Australia can move forwards bilaterally.

Taking the relationship forwards

Three approaching decisions will have an important bearing on the relationship with India. If they're not dealt with carefully, they could have a considerable negative impact. The three matters are the proposed 'quadrilateral' arrangement and the associated question of military exercising; Indian membership of APEC; and the sale of uranium to India. Since the last of these issues is central to the future shape of the economic relationship, it's dealt with under 'Economic relations', below.

The 'quadrilateral' proposal

For the reasons given above, this paper recommends that Australia continue its cautious policy on the possibility of expanding the trilateral US–Japan–Australia strategic dialogue

into a quadrilateral arrangement including India. It's not even clear whether New Delhi would welcome such a move, since India has hitherto been wary of being pulled in to any arrangement at the behest of the US that would appear to be directed against China. Such an imperative would also tend to minimise multilateral military exercising between India, Japan, Australia and the US. However, military activities on a bilateral basis, or on a multilateral basis specifically to deal with transnational problems (such as natural disasters, counter-terrorism and fighting crime) shouldn't be ruled out.

Australia should try to play the important role of accurately monitoring and interpreting China's activities in the Indian Ocean and wider Asian region, to shed as much light as possible on China's opaque strategies. China should also continue to be one of the most important topics of bilateral dialogue at the strategic level between India and Australia.

APEC membership for India

In the 1990s, Canberra considered that Australia's APEC interests outweighed its interests in the India relationship. In our view, that position can no longer be sustained.

The question of India's APEC membership is potentially a win–win one for Australia. Even before any request for membership by India, Australia should make an early decision to support Indian membership, but without giving guarantees of a successful outcome. Although up to sixteen countries are requesting membership, India's membership could be justified on the basis of size and economic importance alone.

Since India is not a Pacific Rim country, a decision to admit it to membership would effectively remove a Pacific location as a criterion for membership. Given APEC's struggle for relevance in the context of ASEAN Plus Three and the East Asian Summit, that might be no bad thing. Once India had joined, APEC would emerge as an important leaders' summit containing most large, relevant Asian and North American powers. Neither the East Asian Summit nor ASEAN Plus Three can lay claim to this distinction.

Bilateral initiatives and the NEIO

Although Australia should not join India in a quadrilateral arrangement with strategic overtones, or at least not at this stage, there are many other joint activities that the two countries could undertake.

The NEIO region would make an ideal focus for these activities, since it's important both to Australia and India. Indeed, Australian strategists present at the 2005 Australia–India strategic roundtable discussions recommended a joint naval approach in the NEIO as a way to take the relationship forwards. The March 2006 Defence Memorandum of Understanding between India and Australia, signed in the presence of both prime ministers, also identifies the NEIO as an area of joint naval activity.

Although an NEIO focus would be useful, military activities should not be the centrepiece of the relationship. Still, neither is it appropriate to rule them out, especially in dealing with pressing transnational problems such as terrorism, piracy, illegal migration, illicit drugs and natural disasters, and especially in the bilateral context. As Bateman points out, a 'grey funnel' approach to maritime security is not the best way forward for wider Indian Ocean security.[5]

The following initiatives could usefully be pursued.

- Oceanic research should be one of the most important areas for bilateral cooperation. The Indian Ocean is the most under-researched of the world's oceans. This lack of research affects our ability to monitor climate change; warn of impending tsunamis; predict and mitigate the effects of cyclones and drought; preserve stocks of living marine resources; monitor and prevent pollution, such as oil spills; and so on. As the two leading littoral research nations, Australia and India should together be taking a lead in fostering Indian Ocean scientific research.
- Given India's growing hunger for energy and current dependence on low-grade coal, and increasing urgency on climate change, a high priority should be joint research and associated commercial activity on clean energy. A sound beginning has already been made through the Asia–Pacific Partnership on Clean Development and Climate (AP-6), consisting of the US, China, South Korea, Japan, India and Australia. Under the AP-6 initiative, Australia is leading the action plan on 'clean fossil fuel', much of it to do with coal. Although carbon geosequestration on a commercial scale is many years off, technologies that are currently available in Australia, such as retrofitting coal-fired power stations with cleaner technologies and harnessing methane gas from coal beds, could prove useful in meeting India's clean energy requirements. After a lukewarm initial attitude to the AP-6 initiative, India is slowly accepting the potential of the process. Australia would do well to continue its strong focus on the AP-6, and to present that focus as a key aspect of the relationship with India.
- SLOC security and maritime security more generally are another important common concern. There are several relevant aspects. Should India eventually agree to participate in the PSI initiative, this would be a potentially non-threatening way to bring various regional navies and the US Navy together. Although not a member of the core group because it has reservations about the methods used under the initiative, China has stated that it shares the initiative's aims. The US proposal for a 'Thousand-Ship Navy' is also intended to address maritime security issues of a non-strategic nature, including some of the non-proliferation issues covered by the PSI. The joint monitoring of the maritime domain and the exchange of information about it are also a crucial aspect. Relevant issues could include piracy, control of regional fisheries, marine pollution, shipping security, search and rescue, and a number of others.
- Transnational terrorism of the extremist Islamist variety is a troubling problem for both countries, especially India. Significant local factors are driving terrorism in each country's region, but there's also been cross-fertilisation between Southeast Asia and South and Southwest Asia as terrorism globalises. For example, the International Crisis Group estimates that as many as 200 Jemaah Islamiyah cadres trained in South or Southwest Asia between 1985 and 1995. Although the physical traffic and exchanges of funding between the two regions have diminished in the aftermath of 9/11, cross-fertilisation in ideas and ideologies remains strong. Similarly, ideas, information and intelligence can profitably be shared between law enforcement agencies. Some of the technologies and methodologies adopted by the Australian Federal Police with such success in Southeast Asia may be useful in India, provided India's law enforcement agencies are willing to accept such assistance. This possibility should be explored further. On its part, Australia could benefit from India's experience in dealing with some of the groups based in Pakistan, such as Laksha-e-Toiba and Jaish-e-Mohammed, whose members and trainees have also been known to have been active in Australia.

- India would likely be keen to share with Australia some of the successful training techniques of the Australian special forces. Given current heavy demands on these forces, however, Australia mightn't have the capacity to engage fully in this type of training. But if joint activity could be arranged, this would be a very fertile area for cooperation and one much appreciated by India. It would also provide a non-threatening form of military-to-military engagement, since such forces couldn't be construed as 'strategic'.
- Finally, Australia should continue to support high-level strategic dialogue with India, especially as it focuses on research into and interpretation of China's growing role in the Indian Ocean region.

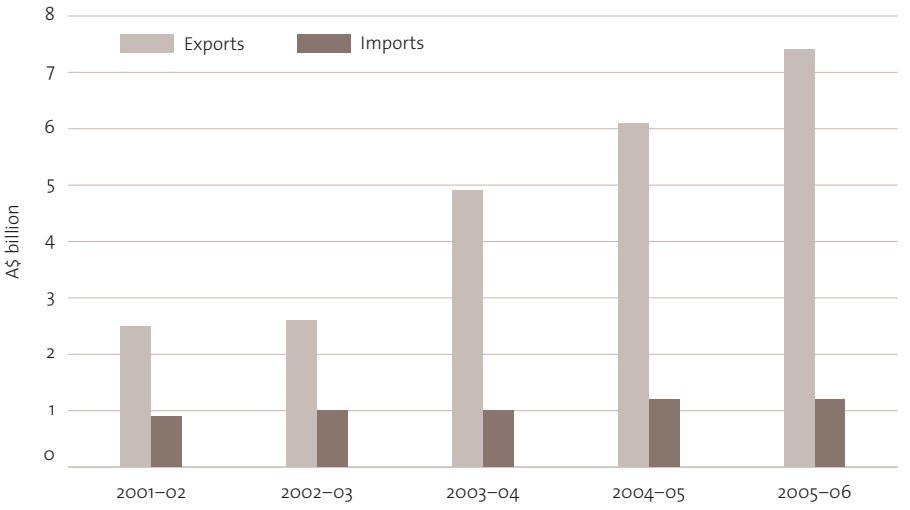
Economic relations

Economic and people-to-people relations will lie at the heart of an invigorated Australia–India relationship. Indeed, provided the policy settings are correct, they're likely to take the relationship forwards by their own momentum. The role of governments will be to promote this momentum, as much as it will be to try to use individual policy initiatives of the kind tried in the past.

Over the past five years, India has been Australia's fastest growing merchandise export market, with trend growth in exports at 26%, the highest among Australia's top thirty markets.

Over the past five years, India has been Australia's fastest growing merchandise export market, with trend growth in exports at 26%, the highest among Australia's top thirty markets. As shown in Figure 10, our trade with India has been growing strongly, but very much in our favour, with a heavy emphasis on exports of coking coal and gold. India is

Figure 10: Australia's trade with India, 2001–02 to 2005–06



Source: Australia. Department of Foreign Affairs and Trade

now our sixth most important export destination. In 2006, Australia and India signed a trade and economic framework agreement to encourage trade in mining, infrastructure development, agriculture, biotechnology, information technology, education, tourism, textiles and agriculture.

As can be seen, there is a marked trade imbalance in Australia's favour. This isn't a problem in itself, as long as India's overall trade balance is positive.

As can be seen, there is a marked trade imbalance in Australia's favour. This isn't a problem in itself, as long as India's overall trade balance is positive. It's also likely to be rectified over the longer term as India develops a larger range of more sophisticated manufactures and services. However, it could prove to be a short-term irritant. In one area that India does have something to offer of mutual benefit to both economies—business process outsourcing—there are growing political and security sensitivities in Australia. Those sensitivities, insofar as they relate to loss of Australian jobs and the security of the information involved, are misplaced. Business process outsourcing from Australia to India is currently worth only US$250 million per annum, a small amount when the size of the sector in Australia and large trade imbalance with India are considered. Compromise of information as a result of outsourcing to India has been minimal. Indian firms have moved quickly to address any issues once apparent.

Australia and India could consider working together, both bilaterally and in relevant international forums such as the World Trade Organization and the G20, to explain the issues surrounding outsourcing and to make international trade in services more viable.

Hungry for energy, India has been keen to obtain supplies of LNG for its west coast plants. However, it's been tardy in moving to secure supplies and Australia isn't in a position to supply LNG for many years because of bottlenecks in supply. Meanwhile, there's a growing demand for Australian steaming coal, which could, for example, be supplied along with 'clean' technology in India's planned special economic zones or specific enterprises.

Some smaller Australian companies have been successfully supplying 'clean' technologies in India's coal belt to try to improve the performance of the country's antiquated coal mining industry, but this could be difficult on a large scale because of the security problems in those areas. The Australian Government might be able to harness the lessons learned by those companies and assist the transfer of advice to other Australian companies in non-competing fields. This could be an important area for further study and support on the part of Canberra.

As discussed above, Australia should continue to emphasise the AP-6 process as the centrepiece of our energy relationship with India. This isn't just for economic reasons, but also because India will be a future major contributor to greenhouse gases unless clean and economic ways to use fossil fuels are developed.

Some would argue that the success of India's ambitious nuclear energy plans would also contribute to lower greenhouse gas emissions. This raises the difficult issue of sales of Australian uranium.

From New Delhi's point of view, India's hunger for energy and lack of uranium ore are likely to make sales of uranium by Australia a key issue in the relationship.

Sales of uranium

From New Delhi's point of view, India's hunger for energy and lack of uranium ore are likely to make sales of uranium by Australia a key issue in the relationship. Given that Australia has 40% of world supplies and has agreed to sell to China, and that New Delhi sees India's record on horizontal proliferation as better than China's, India's desire for Australian uranium is likely to be intense.

Assuming the Indo–US nuclear agreement passes successfully through all its necessary stages and the Nuclear Suppliers' Group (NSG) also agrees to the new arrangements, New Delhi will be looking for an early Australian agreement to sell uranium to India as an 'earnest of intent' demonstrating Canberra's sincerity in seeking closer relations. India may well misinterpret any delayed decision or decision not to sell.

...the Indo–US agreement now hangs in the balance, caught between Washington's non-proliferation concerns and concerns about Iran on the one hand and India's perceived need to have the flexibility to maintain a deterrence against China on the other.

As discussed above, the Indo–US agreement now hangs in the balance, caught between Washington's non-proliferation concerns and concerns about Iran on the one hand and India's perceived need to have the flexibility to maintain a deterrence against China on the other.

Additionally, Australia is going through a difficult debate on its own nuclear energy future, which has become caught up in Australian party politics. The question of sales of Australian uranium to India will inevitably be caught in the backwash of this debate.

Even within the Howard Government, which supports expanding sales of Australian uranium globally, there has been ambivalence on the issue of sale to India, reflecting the strong anti-proliferation stance on the part of both sides of politics in Australia.

As matters now stand, a decision on sale of uranium to India will not be pressing until after the Indo–US agreement issues are positively resolved and the NSG has considered the matter—the latter being presumably contingent on the former. The NSG has delayed consideration of the issue until late 2007, by which time it will be caught up in the Australian election.

Subject to a successful outcome in terms of the Indo–US agreement and consideration within the NSG, and the quality of the final package of safeguards that emerges from those processes, this paper recommends that Australia sell uranium to India. Should that decision eventually be made, Australia could emerge as a reliable supplier of energy and commodities to India. In turn, that could assist the development of the bilateral relationship in much the same way as Australia's commodity supplies to China and Japan have driven those relationships at the political level.

Some of the considerations behind this approach are briefly set out below, starting with the positive aspects:

- India's record on horizontal proliferation has been good—indeed better than China's before it joined the NPT regime. India is a robust democracy with firm processes of civilian control of the nuclear arsenal in place.
- India and China are set to become some of the world's major contributors to global greenhouse emissions. Nuclear energy is one means by which they can generate the enormous amounts of energy their growth will entail without undue production of greenhouse gases.
- India has a substantial civil nuclear program, one that is set to grow dramatically, whether or not it joins a de facto safeguards regime or imports uranium from Australia. There are some safety issues related to this regime due to India's independent development of its industry, which prevents it understanding or following world's best practice. These safety issues would be better addressed were India to be linked with the international civil nuclear regime. Any dramatic safety failures in India would not only have negative consequences for the affected populace, but could also jeopardise the role of nuclear energy in mitigating greenhouse emissions worldwide.
- The problems of the NPT regime now go well beyond India's refusal to sign the NPT and will not be addressed by any refusal to admit India to an NPT-like process. Indeed, over the longer term, there will be better prospects of developing a fairer, and therefore stronger, NPT regime with the support and guidance of a large, democratic, developing country like India.

There are also several negative aspects of the proposed sale. We believe, however, that they are outweighed by the positives mentioned above. They are:

- Even though a protective regime would prevent Australian-sourced uranium being directly used as material for a nuclear weapon, import of uranium from Australia and other international suppliers would effectively free up India's small natural uranium reserve for potential use in nuclear weapons.
- 'Caving in' to India could be seen as undermining the NPT regime, which has hitherto been strongly supported by Australia.

People-to-people relations

India ranks fourth as a source of migrants to Australia in terms of arrivals plus those already onshore, and third (ahead of China) in terms of arrivals (see Table 6). It's also one of the fastest growing sources. Like the Indian community in the US, the Indo–Australian community is one of the most successful immigrant groups.

India is also the biggest source of foreign computer science, engineering and postgraduate students in Australia, and ranks fourth overall for student numbers. Indians are highly qualified compared to the broad Australian population and feature heavily in the skilled migration program (see figures 11 and 12).

One way to capitalise better on this burgeoning intellectual relationship is to encourage more intensive study of India in Australia and stronger links between Australian and Indian educational institutions. So far, Australia's efforts on both scores have been lacking in scale, notwithstanding the good work done by specific institutions and organisations, such as the Australia–India Council.

The vigour and importance of the Indian community in the US has played a powerful role in the rehabilitation of the India–US relationship. Leading academics act as key links between the two countries. Much of the initial IT growth in India resulted from cross-fertilisation between India and the Indian IT community in the US, to the mutual advantage of both countries. Although on a smaller scale, a similar pattern is evolving in Australia. The government should continue to encourage students from India and academic linkages. They have far-reaching and generally highly positive consequences for the relationship.

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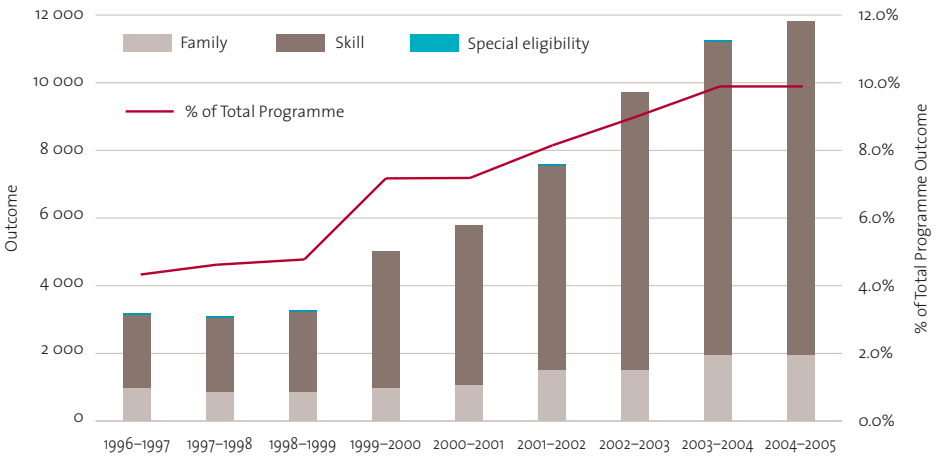
Table 6: Major source countries for immigrants to Australia, 2005–06

Source country	Number[a]
United Kingdom	29,743
New Zealand	19,045
China	18,084
India	15,294
Philippines	5,611
Malaysia	4,817
Singapore	3,664

a Onshore plus arrivals

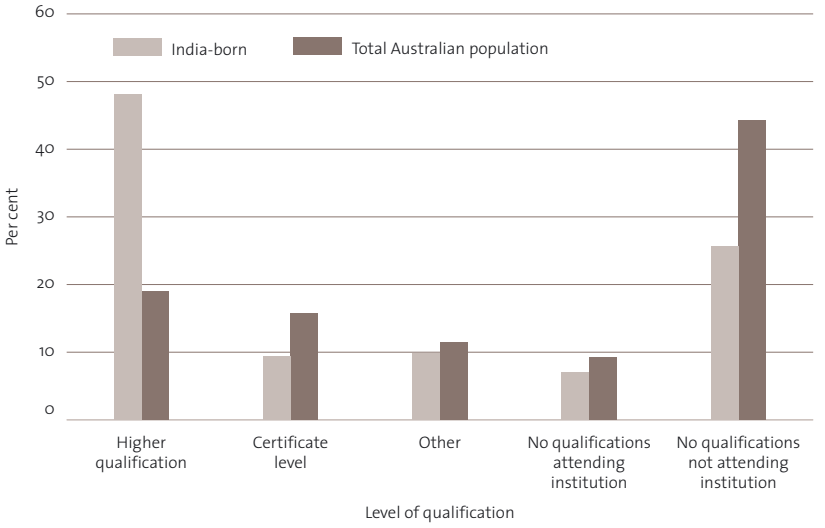
Source: Australian Government Department of Immigration and Multicultural Affairs, http://www.immi.gov.au/media/publications/pdf/Update_June06.pdf.

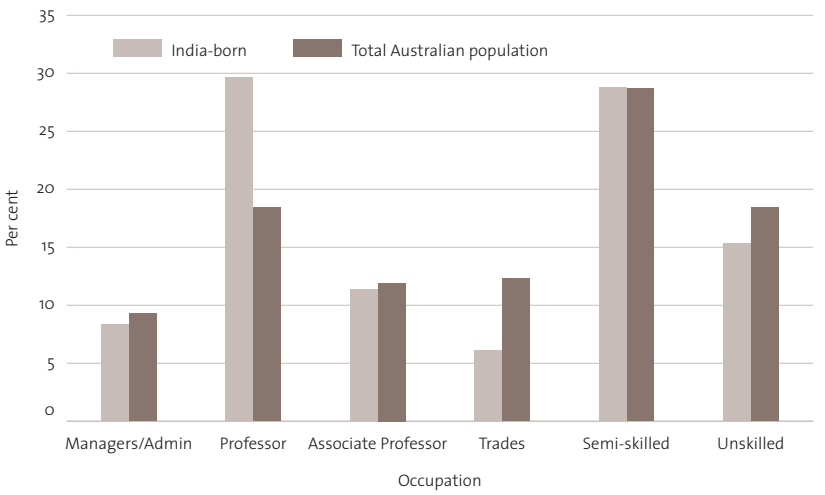
Figure 11: Indian permanent immigrants to Australia, 1996–97 to 2004–05



Source: Department of Immigration and Multicultural Affairs submission to the 2006 Parliamentary Inquiry into Australia's relationship with India as an emerging world power, p. 9

Figure 12: Qualification levels and occupations of Indian migrants compared with the Australian-born population





Source: Department of Immigration and Multicultural Affairs submission to the 2006 Parliamentary Inquiry into Australia's relationship with India as an emerging world power, p. 14

Conclusion

Asian grand strategy is at a difficult and potentially dangerous phase, as new powers jockey to shape the emerging regional security architecture. As an emerging 'swing' power, India has a crucial role to play in the establishment of that architecture. For middle-power Australia, something similar to Coral Bell's 'concert of powers' would be the least threatening arrangement. In any likely system, India would be a central player, along with the US, China, Japan and Russia. But the path to such an arrangement is slippery and along the way there's always the possibility of sliding towards a strategy of containment of China. A containment strategy might be necessary one day, but would be premature now.

India is also important to Australia as a future major strategic player in the Indian Ocean. Those waters are very important to Australia's broad security and the flow of trade, and in their role as a conduit in various debilitating and destabilising transnational problems.

As the regional security architecture emerges, it's essential for Australia to have an independent voice not just in relation to India, but also the other large Asian powers, such as China and Japan.

India is also important to Australia as a future major strategic player in the Indian Ocean. Those waters are very important to Australia's broad security and the flow of trade, and in their role as a conduit in various debilitating and destabilising transnational problems.

In developing a sound security platform for the relationship with India, Australia's strategy should involve developing those aspects of Indian Ocean policy that are of joint interest, especially those relating to the NEIO. While military-to-military contact will form part of this strategy, the fundamental purpose of the contact should be to deal with troubling regional issues, such as security of SLOCs, antipiracy measures, counter-terrorism, preparedness against disasters, and disaster management. Only then will India come to see us as an independent and 'legitimate' player in the Indian Ocean, rather than as less important than the countries that India's 'look east' strategy focuses on, or as a pale shadow of the US.

There are several ways in which Australia could develop this work.

First, it could focus jointly with India and other regional countries on transnational issues that trouble the NEIO, and that are interlinked with intensifying strategic competition. Australia has played and will probably continue to play a significant regional role in tsunami and earthquake warning and recovery, and in counter-terrorism law enforcement. Australia should build on this work, which is currently mainly done in Southeast Asia, in developing its relationship with India.

Second, greater attention and understanding need to be given to China's role in the NEIO. Beijing's activities in the region may simply be a reflection of trading needs and concerns about protecting vital SLOCs, rather than a manifestation of any desire on the part of China to 'challenge' India strategically in the Indian Ocean. With India, Australia could develop a

strategic dialogue in order to clarify China's regional role and bring greater transparency to China's NEIO activities. At some stage in the future, it might also be possible to introduce China into this dialogue, but the immediate need is for an accurate picture of the extent, nature and motives of China's involvement.

Third, people-to-people and trade relations are likely to prove very important to the India–Australia relationship. To a significant degree, these can grow without active and discriminating government policy beyond the successful strategies already in place. However, some areas need attention, such as academic exchanges and the study of India in our schools and universities, which has historically been poor.

Finally, Australia should consider presenting itself to India as a major, secure, supplier of energy. This would probably involve an eventual decision by Canberra to sell uranium to India on a similar basis to China, provided India's civil nuclear regime receives the same kind of broad protection and safeguards as those imposed on NPT signatories. There'll be many considerations in play in Canberra in any such decision, however, with wide-ranging implications well beyond the relationship with India.

Endnotes

1 ICG (2004) refers to Pakistani assistance to the Kashmir insurgency but not ISI assistance. However, the ISI would certainly be the main vehicle for such assistance.

2 Bangladesh, Bhutan, India, Myanmar, Thailand [Nepal]–Economic Cooperation

3 The study was by Booz Allen Hamilton(see Gertz 2005).

4 See an unpublished paper by Andrew Selth, 'Strategic fears and analytical errors: Chinese military bases in Burma'. The paper explores the issue of alleged Chinese bases in Burma and argues convincingly that a case hasn't been made either for the presence of a SIGINT site on Great Coco Island or a naval base on Hianggyi Island. Selth quotes Admiral Prakash, then Indian Chief of Naval Staff, who was interviewed by the *Asian Defence Journal* (October 2005, p. 22), and who stated categorically that there are no such bases. Selth's reference is on page 7.

5 Paper delivered at the Australia–India Security Roundtable Conference, New Delhi, December 2006 (unpublished).

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Acronyms and abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
AMD	anti-missile defence
AP-6	Asia–Pacific Partnership on Clean Development and Climate
APEC	Asia–Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
BJP	Bharatiya Janata Party
CINCPAC	Commander in Chief, Pacific Command
EEZ	exclusive economic zone
FBR	fast breeder reactor
FGA	fighter, ground-attack
GDP	gross domestic product
IAEA	International Atomic Energy Agency
IRBM	intermediate range ballistic missile
ISI	Inter-Services Intelligence Directorate (Pakistan)
JeM	Jaish-e-Mohammed (terrorist group)
LeT	Laksha-e-Toiba (terrorist group)
LNG	liquefied natural gas
NEIO	northeast Indian Ocean
NPT	(Nuclear) Non-Proliferation Treaty
NSG	Nuclear Suppliers' Group
PSI	Proliferation Security Initiative
SLBM	submarine-launched ballistic missile
SLOCs	sea lines of communication
TSN	Thousand-Ship Navy
ULFA	United Liberation Front of Assom
USPACOM	U.S. Pacific Command

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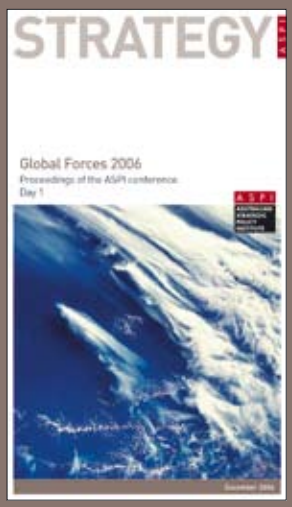

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This rise will not be without problems. India is located in a difficult strategic neighbourhood. Domestic difficulties wash back and forward across the region's porous border. Economic development in India has been uneven and economic reform incomplete. The highly diverse nation of 1.1 billion is beset by troubling insurgencies and terrorist movements. But the Indian economy continues to grow despite these difficulties and the country's vibrant democracy and press remain intact.

Given India's rise as a significant Indian Ocean and Asian power, Australia has pressing reasons for developing a secure platform for a lasting relationship.

To date, both sides have been somewhat neglectful of the other. Each sees the other as essentially strategically benign and Australia is seen in New Delhi as something of a pale shadow of the US. As a rising power, India is being courted by other large powers.

Australia's challenge will be to break into India's crowded agenda and convince New Delhi that it is a significant, like-minded Indian Ocean power with an independent position on key regional issues. Canberra will also need to achieve this without appearing to be part of any push to contain a rising China. This will be complicated by the fact that India itself is ambivalent about China and its growing role in the Indian Ocean region.

In meeting this challenge, Australia will have to deal with policy considerations such as India's potential membership of APEC and sale of Australian uranium to India. It will need to construct a basis for on-going bilateral exchanges in areas of mutual concern. Australia will also benefit from its capacity to emerge as a significant supplier of commodities and energy for a rising India and an ever more vibrant people-to-people relationship.

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