

Lecture by Mr Peter Varghese AO, Chancellor of The University of Queensland, to the Centre for Policy Research in the “India and the World” series to mark the 75th anniversary of India’s independence, 16 March 2022

India and the World: An Australian Perspective

Let me begin by thanking Yamini Aiyar, President and Chief Executive of the Centre for Policy Research for the invitation to deliver this lecture as part of the “India and the World” series to mark the 75th year of India’s independence.

From my time in Delhi as Australia’s High Commissioner, now almost a decade ago, I have been an admirer of CPR and the contribution it has made and continues to make to the discussion of the big issues in public policy. And a very special acknowledgement to my good friend and former Foreign Secretary Shyam Saran, a Senior Fellow with CPR, whose wise counsel and penetrating analysis has helped fill at least some of the many gaps in my understanding of India.

The first 75 years

At 75 most people are reflecting on the past: weighing their achievements and perhaps wondering what might have been.

For India at 75 however the larger questions are about its future. Will it deliver on the economic potential that always seems around the corner. What type of strategic power will it be? Will its social cohesion hold and its extraordinary secular liberal and democratic character continue to define it?

India defies categorical judgements. Whenever you think you are close to understanding it, some contradictory evidence will emerge. Qualifications and caveats intrude on the elegance of uncluttered conclusions.

And so it is with the observations that follow. They offer a personal and external perspective, anchored in an affection for India, tempered by the scale of the challenges India faces and inevitably incomplete in its understanding of a complex society, a raucous polity and a distinctive economy.

I feel a strong connection to India and I speak as a friend who wishes it every success. India was the birthplace of my parents. It has sat blurred in the background of my upbringing. I have served there as an Australian diplomat bringing Australian eyes to a relationship which has been variously overlooked,

sometimes over sold, often underdone but always shaped by an expectation of better things to come.

India's greatest achievement of the last 75 years has been to build a secular liberal democracy. At its midnight hour birth, many wondered how a nation of such extraordinary diversity could remain united. Its choice of democracy is all the more extraordinary when you consider how widespread poverty and illiteracy were in 1947.

India could have been forgiven for insisting then that it could not afford the indulgence of democracy; that its development challenges should not be distracted by the slow and elaborate compromises that inevitably come with democratic government; that leadership should be in the hands of the educated few not the gift of the people.

Instead it crafted a constitution anchored in the principle of the sovereignty of the people, written by leaders every bit as inspiring and sophisticated in their drafting debates as the authors of the "we the people" constitution of United States, and buttressed by the institutions and principles which shape and uphold the rule of law. Nor was this an intellectually derivative exercise. It was a constitution written by Indians for Indians and for an Indian polity and community with distinctive challenges and conditions.

Nations rarely evolve in a straight line. Their internal achievements ebb and flow. Their policies change. And so it has been with the India of the last 75 years.

In its early decades India's leaders were attracted to both Gandhian ideas of self sufficiency and a Fabian socialism which put a premium on industry plans and regulation. In the nineties it moved in a different direction, dismantling the "licence raj", giving more room to market forces and opening up the Indian economy to foreign investment and foreign trade.

India's strategic policy has also changed over time; from the less than balanced non alignment during the Cold War to what is today a posture anchored in strategic autonomy but much more expansive in its willingness to work with the United States and its allies. More on that later.

India at 75 faces three big challenges. First, can it find the political will to articulate and pursue the larger market based economic reforms which can position

it to take full advantage of its assets in a more uncertain global economic and geopolitical environment.

Second, will it be able to insulate its policy on strategic autonomy from the pressures to side more closely with one side of an emerging strategic equilibrium centred on balancing and constraining China and Russia?

Third, will the secular liberal democratic character of India hold?

The Indian economy

Let me start with the economy because in my view this will be the single most important determinant of India's future.

What we are seeing in the Indian economy is the playing out of some deep structural drivers which give it momentum but this built in momentum alone will not deliver the growth rates that India needs to lift its standard of living and provide employment for its young demographic. It will also need structural economic reforms.

If India does not get the economy right it cannot acquire the strategic heft to play the broader geostrategic role which it and countries like Australia want it to play

The Indian economy needs to be understood in its own terms. It will always march to its own tune. It is the only country with the scale to match China but it will not be the next China. Indeed comparisons with China only get in the way of understanding the singularity of the Indian economy and the nature of the opportunities in the Indian market.

No Indian government will be able to direct the economy in the way China does. Nor will it ever have the control over the allocation of resources which has been intrinsic to China's economic success. China has a discipline to its economic planning which flows from its one party political system and the competence of its state institutions. Also, for all its diversity, China has a strong Han Chinese core which has no counterpart in the linguistic and cultural diversity of India.

Nor will India's economic model mirror that of East Asia more broadly. India's economic model is and will remain sui generis. Its growth will be driven by consumption and services, less so by exports and manufacturing, and it will be anchored in myriad small and medium size enterprises.

The drivers of Indian growth are structural which suggests they are also sustainable. They include the urbanisation of the world's largest rural population; the gradual movement of the informal economy, accounting for around 80 per cent of India's workers, into the formal economy; a young demographic with a mean age of 28; considerable investment in infrastructure, the absence of which has in the past held back growth, and the beginnings of an ambitious program to upskill 400 million Indians.

These structural drivers will likely keep India on a relatively strong growth path in the order of 6-8 per cent each year over the medium term. This assumes incremental rather than radical structural reforms.

Covid has slowed this trajectory by a few years and even before covid the Indian economy had slowed significantly. But covid has neither stopped nor reversed the broader trends in the Indian economy. This year growth is likely to be strong although whether it is V shaped or K shaped is an open question.

But while India has some strong structural drivers of growth it is also the case that more structural reforms are essential if India is to move from potential to delivery.

India does not need any tuition on what form these reforms should take, and certainly not from outsiders. The reform agenda has been part of the Indian economic debate for decades and includes reform of the banking system, access to land, labour market rigidities, a skills deficit, deregulation, privatisation and state capacity.

How to do this in an argumentative and robust democracy such as India is a matter for India but it will require a significant investment of political capital. Economic reform is never easy in any country and there will always be constituencies who will oppose it. How much political capital to invest in economic reforms versus other issues will be a question challenging India's political leadership for decades to come.

Historically, India's political culture has favoured those who advocate state intervention and state subsidies. Elections are rarely won on a platform of market reforms. Calls for structural economic reforms tend to come more from academic economists, business figures and editorial writers than from political parties. Good economic policy in India is generally not good politics.

India has however shown in the past that when it must it can deliver on economic reforms. In the last four decades India's per capita income has quadrupled and over 200 million people have been lifted out of absolute poverty, largely as a result of changes to economic policy.

The lesson of India's economic history is that the more it opens up its economy, internally and externally, the stronger its economic performance.

This is the background against which India's well wishers will view concepts such as self reliance. Self reliance is a virtue but the risk is that it can slide into self sufficiency which is a failed economic policy everywhere.

Economic sovereignty has made a comeback everywhere in the post covid era. But covid has not changed the laws of economic gravity. It has not obliterated comparative advantage in trade or the economic benefits from the efficient allocation of domestic resources by the market. We, and here I include Australia, should keep this firmly in mind when we discuss concepts such as self reliance, resilient supply chains, dual circulation, decoupling and so on.

The post covid focus on security of supply chains opens up new opportunities for India. India is high on everyone's diversification strategy. Those who worry about an overreliance on Chinese supply chains tend to see India as an obvious and desirable substitute.

But if India is to act on these opportunities it will need to do all it can to increase the attractiveness of India as a place in which to invest and to do business. Ease of doing business is one element in this and India has done much in this area in the last few years. But even more important are inputs such as infrastructure, regulatory certainty, a sound financial system and access to skills. And fundamental to India's economic success is strengthening the capacity of the state to design and implement the right policies. The competence and resilience of institutions lie at the heart of this challenge.

More recently, The Modi government has shown a stronger interest in economic reform. It has set out an ambitious privatisation program. It is looking to both reduce the space occupied by government in the economy and to improve the efficiency of the civil service. These are welcome signals which build on its introduction of the GST and bankruptcy reforms and its ramped up investment in infrastructure in its first term.

India as a geopolitical partner

We live in an age of geo-economics and some of these trends present India with large new opportunities.

China's abandonment of hide and bide, its ambition to become the predominant power in the Indo Pacific if not beyond, its use of economic coercion and its desire to recreate the Middle Kingdom where harmony was hierarchy with China at the top: all of this is leading other countries to balance and constrain China. And India is seen as an important element in these strategies.

But India's capacity to play such a role ultimately turns on its economic weight. For India to be a balancer and a major strategic power it needs a strong economy. Otherwise its role will be more rhetorical than real. For India to be a geopolitical shaper it needs economic heft.

From an Australian perspective there are three geo-political factors which are drawing Australia and India closer together.

Firstly, as partners in the Indo Pacific we are each grappling with the implications of the declining margin of US strategic predominance and the sharpening ambition of China to become the predominant power in the region.

Second, both Australia and India support a rules based international order. That order is under increasing threat. Its defenders are shrinking and its challengers growing. Since Australia can neither buy nor bully its way in the world, a system based on rules, not power, is important.

Third, India is a partner in seeking to forge regional institutions in the Indo Pacific which are inclusive, promote further economic integration and can help at the margins to manage the tensions which inevitably arise as economic growth across the Indo Pacific region shifts strategic weight and relativities. That is why India should be brought into APEC.

Regional institutions are for now in the background. But notwithstanding the current tensions each of us face in our relationship with China, both Australia and India see China as an important part of inclusive regional institutions, especially the East Asia Summit (EAS). And both countries attach a high priority to our relations with ASEAN and the individual countries of South East Asia.

So while India will always march to its own strategic tune and cherish its strategic autonomy, the scope for us to work together on the broader challenges of the Indo Pacific is growing, as is India's willingness to work in the Quad together with the US, Japan and Australia, in ways which capture the growing strategic convergence of these four democracies.

The Quad is not a grand anti-China military alliance in the making. It is not an Asian NATO, even if it is likely to see more military cooperation among the four countries. Indeed India is allergic to the very idea of alliances. Rather, the Quad is a means of managing China's ambitions in a way which puts some constraints on how far it is prepared and allowed to go. It signals that leverage can be a two way street.

Of course to exercise leverage, the Quad will have to do more than meet and issue communiqués in support of the peaceful resolution of disputes, the upholding of international law and the eschewing of coercion. It will have to be prepared to make it clear that it is willing to impose costs on China for unacceptable behaviour. These costs might range from diplomatic through to economic all the way to collective measures to uphold principles such as freedom of navigation and the Law of the Sea. It is this capacity to exercise leverage which will ultimately determine the success of the Quad, rather than what it does collectively in areas such as infrastructure, climate change or pandemic responses, important as those issues are.

Each member of the Quad brings a different perspective and motivation to its dealings with China. For the US, it is a means of helping blunt China's ambitions for predominance and reinforcing the absolute determination of the US to stay number one. For Japan and India, both of which carry historical baggage when it comes to China, it is a shared concern that a predominant China will narrow their strategic options and room for manoeuvre.

The one member of the Quad for whom the core issue is the character of the Chinese system is Australia. Indeed Australia is perhaps the only member of the Quad whose anxieties about China would likely disappear if China were a liberal democracy. After all, what would be the basis of our concern in those circumstances? Australia does not have any in principle objection to the concept of a predominant power in our region. Quite the contrary. We have historically seen US strategic predominance as the bedrock of our security and also as the great enabler of economic growth in Asia.

The US may speak the language of a new ideological cold war but the reality is it is driven more by its determination to hold on to strategic primacy than a battle against an authoritarian system. The US would be just as determined to remain number one if China were a liberal democracy. And neither India nor Japan, for reasons of history and geography, would be at ease with a democratic China as the predominant power in the Indo-Pacific. We may be in the same Quad bed, but we each have very different dreams.

So the Quad is one means of moving from the no longer tenable “hope for the best” engagement with China to “engage and constrain”. It is saying to China that we want a relationship of mutual benefit but we also want China to pursue its interests in a way which respects the sovereignty of others and avoids coercion. And if China behaves otherwise, there will be collective push back from countries which are capable of effectively doing so.

China portrays the Quad as containment by another name but we should not give China a veto over our strategic policy. Besides, constraining China differs from containment whose ultimate logic is a complete rejection of engagement. Containment seeks to thwart China. Constraining seeks to manage China.

Constraining China will take time to construct. It is unlikely the Quad will ever reach the NATO like point where an attack on one is considered an attack on all. Nor is the Quad likely collectively to rush to the assistance of a member which may be the target of Chinese economic coercion. If anything some Quad members may benefit from such coercion in that the restriction of imports from one Quad member may create export opportunities for another Quad member. But while the Quad may not yet have the unity of approach for hard edged collective action, China’s behaviour is pushing the Quad in this direction. It is also shifting perceptions beyond the Quad as more countries see with discomfort what an assertive China looks like. This has both hastened the urgency of pursuing arrangements such as the Quad and AUKUS and reduced the caution about offending China.

China currently seems determined to behave in ways which are quickly losing it friends and respect. Polling shows this is evident across the globe with negative sentiment about China rising substantially. Yet China seems not to care. This is either the arrogance of a nation which believes that its time has come and it can do as it pleases. Or it reflects an essentially internal dynamic where the party sees domestic advantage in adopting a strongly nationalist position irrespective of the diplomatic costs. I suppose all of us who have worked as professional diplomats

have learnt that domestic considerations beat foreign policy most of the time. Indeed what makes the management of relations with China so complicated is that these days on all sides domestic compulsions loom large.

While the currents of geopolitics in the Indo Pacific are moving India closer to the US and its allies such as Australia, they are very unlikely to move so far as to cause India to review its embrace of strategic autonomy. Can India sustain this balancing act at a time when constructing a new strategic equilibrium aimed at constraining China and now also Russia is at the heart of US policy in the region.

India's relationship with Russia complicates its position of both embracing the Quad to balance China on the one hand and insisting on its strategic autonomy vis a vis Russia on the other.

Walking a fine line on Russia and Ukraine is one example. India's abstention in the Security Council and the rather tortured wordplay which accompanied it disappointed many. India's friends understand the history of its relationship with Russia and the consular obligations it owes to Indian students in the Ukraine. But since respect for sovereignty and the principle of non interference are foundational principles of Indian foreign policy there was an expectation that their blatant violation would be explicitly called out.

Those who want India to give up on strategic autonomy and pick a side will likely be disappointed. But India must itself realise that strategic autonomy is not the same as keeping all your options open all the time. If strategic autonomy is to mean anything it must also involve making hard strategic choices.

These tensions in India's position will only get more complicated as the China-Russia relationship evolves into a joint effort to balance the United States.

The China-Russia relationship may not be a formal alliance but it is now more than an opportunistic coupling. It is a response to groupings such as the Quad and AUKUS. Whatever strategic suspicions Russia and China may still harbour about the other they are today more prepared than in the past to put them to one side in order jointly to weaken US leadership and the US led alliance system.

India's close defence relationship with Russia now effectively means that the strategic partner of its adversary is both India's largest arms supplier and the adversary of arguably India's most important strategic partner of the future, the US.

Put simply, how will India resolve the tension inherent in working with the US to constrain China while China works with Russia to constrain the US?

The point here is not that there is a risk of India parting ways with the Quad or walking back from its strategic relationships with the US, Japan and Australia. Rather it is that the tension inherent in India both opposing China and embracing Russia will have consequences for its other relationships. It means that the pace at which the Quad can move will be both slowed and determined by India's position. That does not make the Quad useless but it does mean our expectations of it need to be realistic.

Australia and India

Let me now turn to the bilateral Australia India relationship and the ways in which it is being reshaped by economics and geopolitics.

At the heart of our economic agenda is a structural complementarity between the Indian and Australian economies which is the key to translating ambition into opportunities.

Put simply, a growing Indian economy will need more of the things Australia is well placed to provide from education services to resources and energy; from food to health care; from tourist destinations to expertise in water and environmental management. Indeed services are likely to be the fastest growing segment of our future economic relationship with India.

In 2018 I submitted a report to the then Australian Prime Minister on an India Economic Strategy to 2035. I noted in that report that there was no market globally which offered more growth opportunities for Australia than India and that we should set a goal to make India our third largest export market. I also urged that India be brought into the first tier of Australia's strategic relationships, with people to people ties as close as any we have in Asia. I think in the past four years we have made much progress towards these ambitions.

The core of the economic strategy in my report was "sectors and states".

Sectors

The report identified ten sectors and ten states in an evolving Indian market where Australia has competitive advantages.

Education was identified as the flagship sector of the future because of a combination of Australian expertise, the scale of India's education deficit and the way in which an education and training demand weaves its way through virtually every sector of the Indian economy.

Beyond education the report identified tourism, agribusiness and resources as the lead sectors of the future, followed by six other sectors most of them services such as health care, financial services and innovation.

States

The focus on states reflected a number of judgements. First, India is best seen not as a single economy but as an aggregation of very different regional and state economies, each growing at different rates, driven by different strengths, led in different ways and likely to continue to be uneven in their progress.

Second, competitive federalism is becoming a larger part of the underlying dynamic of the Indian economy. It is encouraged by the centre and is being enthusiastically embraced by many states, especially those six states which produce 75 per cent of India's exports.

Third, many of the hardest structural reforms holding back the Indian economy, such as land access and labour market regulation, are mainly within the jurisdiction of state governments.

Fourth, as barriers to trade across state borders reduce, and the introduction in 2017 of a GST was the single biggest step in this direction, labour and capital will gravitate towards those states which offer the best conditions and prospects for business.

Investment

In virtually all of Australia's relationships in Asia, investment lags trade by a wide margin. India holds out the prospect of being different.

India has a relatively open foreign investment regime. It has the rule of law even if long delays are common. Its institutions are familiar to Australians, both derived from British models, and English is widely spoken – a very significant asset.

In short, we may have a better chance with India to secure more synergy between our trade and investment relationship than we have with any other major Asian economy. My report calls for a ten fold increase in Australian investment in India

lifting India to become the third largest destination in Asia for outward Australian investment.

People to people ties

The third pillar of the contemporary bilateral relationship after economics and geopolitics is our growing people to people links. Indeed, over time this may prove to be the most important element in the bilateral relationship.

India is currently our largest source of skilled migrants, our second largest source of international students and, at least up until covid struck, a substantial proportion of those who come to Australia under temporary visas to fill skilled positions that Australians cannot.

In the last decade we have seen a very large increase in the size of the Indian diaspora in Australia, now over 700 000 strong and the fastest growing large diaspora in Australia. To reach this size in a little over a decade is remarkable.

This diaspora will have a big role to play in the partnership of the future. They can go into the nooks and crannies of a relationship where governments cannot. They can shape perceptions in a way governments cannot. And they create personal links, in business, the arts, education, and civil society which can help anchor the relationship.

This is a diaspora which is also likely to exert a growing influence on Australian politics, something which is already evident in state politics. As they have in Canada, the UK, the US and elsewhere, the Indian diaspora may prove over the next two decades to be the most politically active of any migrant group in Australian history since the Irish. This will have positive implications for the priority our political leaders will place on the relationship with India.

India as a secular liberal democracy

The involvement of the Indian diaspora in Australian politics is reflective of a broader point: the secular liberal democratic character of India is a key part of its attraction to Australia as a comprehensive strategic partner. Indeed without it our partnership would be tepid.

India is an attractive strategic partner for Australia for many reasons. But at its heart is the secular liberal democratic character of India. I noted earlier that the authoritarian character of China's political system is the fundamental reason why Australia does not want to see China emerge as the hegemon of the Indo Pacific

and why it is in our interest to find ways of balancing and constraining China when it acts contrary to international norms.

In this, Australia sees India as a natural partner in what is ultimately a stance based on values. If that common ground of shared values were for whatever reason to weaken we would have lost the foundation stone of our strategic partnership and no amount of realpolitik will be able to replace it. That is why the hard earned secular liberal democratic character of India is so important to the way in which we think about the Australia-India relationship.

There have been several periods in India's 75 post independence years when its liberal democratic character has been sorely tested, most notably the period of the Emergency under Indira Gandhi. Today there are again signs that the liberal democratic character of India is under pressure.

I do not share the view that India has already become an illiberal democracy. But there are indeed signs that minorities fear for their freedoms, that incitements to communal violence are met with silence, that charges of sedition are misused to advance a communal agenda and that key institutions tasked with independence may be too accommodating of the wishes of government.

These signs should not be lightly dismissed. They are not the figments of imagination of India's enemies or the government's political opponents. India's many friends are also troubled by them.

But when it comes to democracy in India I tend to the view which is often ascribed to the US, namely, there is nothing wrong with Indian democracy which cannot be fixed by what is right with Indian democracy. True democracies are ultimately self correcting and I have long had the view that India is a true democracy.

Conclusion

Let me conclude with these observations.

When I finished my posting to India at the end of 2012, the strongest impression I had was the palpable sense of aspiration which infused its people. The India I left was a community with high and uncomplicated ambitions for a better life; young and hungry to succeed. I saw a new generation which was wide eyed about the opportunities that they hoped lay ahead and willing to work hard to make it happen; a generation less resigned simply to accept the way things were and more

determined to make something of themselves and their families. These were the sentiments that swept Mr Modi to power in 2014.

Aspiration is a powerful force. If thwarted it can move in unpredictable, even dangerous directions. If fulfilled, even in modest measure, it can unleash enormous energy and achievement.

This is the challenge before India's leaders. Observers of India are often short term pessimists but there is something of the tortoise in the India I see which makes me a long term optimist. Not for India the sprint of the hare but instead the steady incremental progress of the tortoise.

And a key feature of incremental progress is the resilience it brings in its wake. Sprints can peter out. Resilience comes from the hard yards of economic reform; from bringing people with you; acknowledging the incomparable value of social cohesion; recognising that diversity is a strength and taking into India's next 75 years that secular liberal and democratic character that was the singular achievement of India's first 75 years.

Happy anniversary.