

Forging a Secure Indo-Pacific

The Strategic Imperative of Australia-India MSMEs Collaboration in Defence

In the ever-evolving landscape of global geopolitics, the Indo-Pacific region has emerged as a critical focal point, commanding attention from world powers and regional stakeholders alike. This vast maritime expanse, stretching from the eastern shores of Africa to the western coast of the Americas, encompasses some of the world's busiest shipping lanes, most dynamic economies, and increasingly, the theatre for great power competition.

At the heart of this strategic chessboard, two key democracies – Australia and India - have been steadily deepening their partnership over the past decade, recognising their shared interests and complementary strengths in shaping the future of this pivotal region.

While much of the spotlight has been on high-level diplomatic engagements and military cooperation between these two nations, a critical yet often overlooked aspect of this burgeoning alliance lies in the collaboration between their Micro, Small, and Medium-sized Enterprises (MSMEs) in the defence and maritime sectors. This partnership, born out of necessity and opportunity, has the potential to not only bolster the economic ties between Australia and India but also significantly enhance the security architecture of the Indo-Pacific region.

The strategic importance of this collaboration cannot be overstated. As both nations and the region grapple with the challenge of an increasingly assertive China, the need for a robust, innovative, and agile defence industrial base has never been more pressing. In this context, the role of MSMEs assumes importance. These enterprises, characterised by their flexibility, innovative capacity, and cost-effectiveness, represent a largely untapped resource in the quest for enhanced regional security.

Evolution of Defence Partnership

The foundation for this collaboration has been meticulously laid over the years. The Comprehensive Strategic Partnership (CSP) established in 2020 marked a significant milestone in the Australia-India relationship. This was further cemented by the Australia-India Economic Cooperation and Trade Agreement (ECTA) signed in 2022. These agreements have created a conducive environment for defence industry cooperation, with the ECTA eliminating tariff barriers on 90 percent of Indian exports to Australia. This policy framework sets the stage for a new economic and strategic partnership era, particularly in the defence sector.¹

Small is the New Big Thing

But why focus on MSMEs? The answer lies in the current state and future aspirations of the defence sectors in both countries. India's defence production sector has set ambitious targets, aiming for an annual production value of US\$3tn by 2028-29. This includes a staggering goal of US\$500bn in defence exports, marking a substantial leap in Indo-Pacific defence capabilities. 433 startups and MSMEs are actively participating in India's defence manufacturing activities, forming the backbone of this growth trajectory.²

The Australian side's commitment to enhancing defence capabilities is equally impressive. The Australian defence industry is poised to invest US\$200bn over the next decade, a clear indication of the nation's dedication to bolstering its military prowess. What's particularly noteworthy is the robust ecosystem of over 3,000 SMEs that form a crucial part of Australia's defence supply chain network. This extensive network of smaller enterprises provides the agility and innovation necessary to adapt to rapidly evolving security challenges.³

These statistics reveal a robust ecosystem ripe for collaboration. MSMEs, with their ability to innovate rapidly and adapt to changing technological landscapes, can fill critical gaps in the defence supply chains of both nations. They serve as incubators for cutting-edge technologies, often developing solutions that larger corporations might overlook.

¹ <https://www.commbank.com.au/business/articles/australia-india-economic-cooperation-trade-agreement-white-paper.html>

² <https://researchcentre.army.gov.au/library/land-power-forum/small-mighty>

³ <https://www.dfat.gov.au/publications/trade-and-investment/india-economic-strategy/ies/chapter-13.html>

Moreover, these enterprises can act as effective bridges for technology transfer and joint development of advanced defence and strategic technologies, fostering a more resilient and self-reliant defence industrial base in the Indo-Pacific region.

Collaboration Over Consolidation, beyond Traditional Security

The areas for potential collaboration are vast and varied, spanning multiple domains crucial for regional security. Maritime security technologies, for instance, present a significant opportunity. With Australia and India being maritime nations with extensive coastlines and vital sea lanes to protect, cooperation in developing advanced naval domain awareness systems and deep-sea technologies is crucial. This could include the joint development of sophisticated radar systems, underwater sensors, and data fusion technologies that enhance the ability to monitor and respond to threats in the maritime domain.

Collaboration in maritime security extends beyond surveillance systems. There's immense potential in jointly developing search and rescue technologies, which are critical not only for military operations but also for humanitarian assistance and disaster relief efforts - a growing concern in a region increasingly affected by climate change. Additionally, the development of pollution response equipment aligns with both nations' commitment to environmental protection, showcasing how defence collaboration can have positive spillover effects on other areas of mutual concern.⁴

Cybersecurity emerges as another crucial domain where MSME collaboration could yield substantial benefits. In an age where warfare is increasingly conducted in the digital realm, pooling resources and expertise in developing robust cyber defence mechanisms is not just beneficial but necessary.

The "Australia India Cyber Security MOU" refers to the "framework arrangement on cyber and cyber-enabled critical technology cooperation" between Australia and India, which outlines a partnership to collaborate on cyber security issues promoting an open, free and secure digital environment in the region and is a key component of the broader Australia-India Comprehensive Strategic Partnership.

The Australian government's recent launch of the 2023-2030 Cyber Security Strategy, with an investment of A\$586.9mn for establishing Cyber RAPID teams, opens up new avenues for joint ventures in this critical area. Indian MSMEs, with their strong IT

⁴ https://hcic Canberra.gov.in/news_letter_detail/?id=124

capabilities, could partner with Australian firms to develop advanced threat detection systems, secure communication protocols, and resilient network architectures.^{5,6}

The collaboration framework in cybersecurity could encompass several key areas:

- Threat sharing mechanisms: developing platforms for real-time cyber threat intelligence sharing between the two countries.
- Critical infrastructure protection: joint development of solutions to safeguard vital installations like power grids, transportation networks, and communication systems from cyber-attacks.
- Sovereign capabilities development: fostering indigenous capabilities in both nations and the Indo-Pacific region to reduce dependence on foreign technologies in critical cybersecurity domains.

Next Generation of Tech Collaboration: Space and Semiconductors

Advanced materials and components represent yet another frontier for cooperation. The Emerging and Disruptive Technology Assessment Symposium (EDTAS) series, part of the Next Generation Technologies Fund, is a technology foresight initiative aimed at assessing emerging and future technologies over the long term by the Department of Defence, Australia. The Defence Science and Technology Group (DST) collaborates with Defence stakeholders, industry, academia, and allied defence research agencies to conduct foresight studies, identifying opportunities and gaining in-depth insights into the transformative impact of new technologies.

Australian research institutions have demonstrated expertise in nanomaterials, metamaterials, and energy storage solutions. This knowledge base could complement India's growing capabilities in these areas, potentially leading to aerospace and biotechnology applications breakthroughs. For instance, the development of specialised materials with specific degradation qualities could revolutionise aerospace engineering and medical technology.⁷

The collaboration in advanced materials could focus on:

⁵ <https://www.homeaffairs.gov.au/about-us/our-portfolios/cyber-security/strategy/2023-2030-australian-cyber-security-strategy>

⁶ <https://www.landiers.com.au/legal-insights-news/australian-cyber-security-strategy-factors-for-success-and-how-we-compare>

⁷ <https://www.dst.defence.gov.au/publication/advanced-materials-and-manufacturing-%E2%80%93-implications-defence-2040>

- Lightweight yet strong materials for aerospace applications enhance fuel efficiency and aircraft and satellite performance.
- Smart materials capable of self-repair or adapting to environmental conditions are crucial for both defence and civilian applications.
- Advanced composites that offer superior protection against ballistic threats, improving personal protective equipment for defence personnel.

Building Blocks Towards Driving Defence Innovation: Challenges and Opportunities

For this vision of MSME collaboration to materialise fully, several challenges need to be addressed head-on. One of the primary hurdles is the complex regulatory environment surrounding defence production and exports. Both governments need to work towards creating a more streamlined and transparent regulatory framework that encourages cross-border collaboration while maintaining necessary security protocols. This could involve harmonising standards, simplifying licensing procedures, and creating special economic zones dedicated to defence manufacturing.⁸

Funding remains a critical issue that needs innovative solutions. While both countries have schemes to support MSMEs in the defence sector, more targeted funding mechanisms for joint Australia-India projects could accelerate cooperation. Establishing a joint fund similar to India's Technology Development Fund could provide the necessary financial impetus for collaborative research and development projects.⁹

Such a fund could offer grants covering a significant portion of eligible project expenditure, mirroring Australia's Defence Industry Development Strategy, which provides grants covering 50 percent of eligible project costs.¹⁰

Intellectual property protection in joint ventures is a concern that requires careful consideration and robust frameworks. Clear guidelines must be established to ensure that the interests of MSMEs from both countries are protected, fostering an environment of trust and mutual benefit. This could involve creating specialised

⁸ <https://researchcentre.army.gov.au/library/land-power-forum/small-mighty>

⁹ <https://www.myscheme.gov.in/schemes/tdfs>

¹⁰ <https://business.gov.au/grants-and-programs/defence-industry-development-grants-program>

arbitration mechanisms for Intellectual Property (IP) disputes and developing joint patenting processes that respect the contributions of entities from both nations.¹¹

Moreover, there's a pressing need for greater awareness and networking opportunities between MSMEs in both countries. While platforms like the Australia-India Innovation Network exist, more sector-specific initiatives focusing on defence and maritime industries could facilitate better matchmaking between complementary businesses. Regular defence industry expos, virtual networking events, and joint innovation challenges could help bridge the gap between Australian and Indian MSMEs.

The implementation of this vision requires a multi-pronged approach, leveraging existing policy frameworks and creating new ones where necessary. India's Defence Procurement Policy and Australia's Defence Industry Development Strategy must be aligned to create synergies for MSME collaboration. This alignment could involve:

- Harmonising offset obligations to encourage Australian defence manufacturers to partner with Indian MSMEs.
- Creating special provisions for joint Australia-India ventures in defence procurement processes.
- Establishing joint certification standards to streamline the integration of components and systems developed collaboratively.
- Technology transfer mechanisms must be streamlined, with clear protocols for extra-purpose use consent and third-party transfer limitations.

The Defence Science and Technology Implementing Arrangement (DSTIA) provides a solid foundation for this, enabling collaboration between research organisations.¹² Building on this, both nations could establish:

- Joint technology development centres focused on specific areas like maritime surveillance or cyber defence.
- Shared testing and evaluation facilities to reduce development costs and accelerate innovation cycles.
- Exchange programmes for defence scientists and engineers to foster cross-pollination of ideas and expertise.

¹¹ <https://www.investindia.gov.in/blogs/why-small-new-big-and-how-small-industries-can-innovate-defense-sector>

¹² <https://india.highcommission.gov.au/ndli/defencerelationship27012021.html>

The Centre for Australia-India Relations is crucial in facilitating business cooperation through initiatives like the Australia-India Future Skills Initiative and the Australian Researcher Cooperation Hub. These programs could include specialised tracks for defence and security-related skills development.^{13,14}

As we look towards the future, the potential of Australia-India MSME collaboration in strengthening Indo-Pacific security cannot be overstated. This partnership goes beyond mere economic benefits; it is about creating a resilient, innovative, and self-reliant defence ecosystem that can respond effectively to the evolving challenges in the region. By leveraging the strengths of MSMEs - their agility, cost-effectiveness, and innovative capacity - both nations can enhance their defence capabilities while contributing to the broader goal of a free, open, and prosperous Indo-Pacific.

The combined technological capabilities and innovation focus of Australian and Indian MSMEs position both nations as principal contributors to regional stability and defence sector advancement. This collaboration could lead to the development of indigenous solutions for regional security challenges, reducing dependence on external powers and enhancing strategic autonomy.

However, realising this potential requires sustained commitment from both governments, proactive engagement from the private sector, and a shared vision of a secure Indo-Pacific. It's time for policymakers, industry leaders, and entrepreneurs in both countries to recognise the strategic importance of MSME collaboration in defence and take concrete steps to nurture this partnership.

Way Forward and Recommendations

Specific actions could include:

- Establishing a joint Australia-India Defence Innovation Fund to support collaborative R&D projects.
- Creating a dedicated MSME defence collaboration cell within existing bilateral forums.
- Launching an annual Australia-India Defence Innovation Challenge to spur joint problem-solving in critical areas.

¹³ <https://www.austrade.gov.au/en/how-we-can-help-you/programs-and-services/australia-india-future-skills-initiative>

¹⁴ <https://arch-india.org/>

- Developing exchange programmes for defence industry professionals, focusing on SMEs and startups.

As the geopolitical centre of gravity shifts towards the Indo-Pacific, the Australia-India MSME collaboration in defence could well be the cornerstone of a new security architecture in the region. It represents not just an economic opportunity but a strategic imperative. By harnessing the power of their innovative MSMEs, Australia and India can forge a partnership that enhances their own security, contributes to regional stability, and sets a new paradigm for international defence cooperation.

Exploring 'Triangular Cooperation'

To further enhance Australia and India's strategic partnership in the Indo-Pacific region, the concept of 'Triangular Cooperation' with Pacific Island Countries (PICs) presents a promising avenue. This approach leverages the strengths of both nations to address regional challenges, particularly in climate resilience and disaster management. By combining Australia's experience in implementing climate programmes with a gender lens and India's expertise in cost-effective climate solutions and disaster management, both countries can significantly contribute to the development and security of PICs.

The triangular cooperation framework could extend to various areas of mutual interest, including Disaster Risk Reduction (DRR), climate-resilient infrastructure development, capacity building in cybersecurity, maritime security and ocean conservation, and renewable energy transition. For instance, India's Coalition for Disaster Resilient Infrastructure (CDRI) could be integrated with Australia's climate-focused initiatives to develop comprehensive projects in PICs.

This collaboration allows India and Australia to contribute more effectively to the region's development. It provides an alternative to the growing influence of other powers, aligning with both countries' commitments to support the implementation of the 2050 Strategy for the Blue Pacific Continent. By working within existing regional frameworks like the Pacific Islands Forum, this partnership can strengthen the strategic presence of both nations in the Indo-Pacific while fostering sustainable development and resilience in PICs.¹⁵

¹⁵ <https://www.dfat.gov.au/geo/pacific/development-assistance/climate-change-and-resilience>

The trilateral cooperation among India, Australia, and PICs represents a pivotal shift in regional dynamics, offering a nuanced approach to addressing the complex challenges of the Indo-Pacific. This partnership transcends traditional bilateral engagements, creating a multifaceted framework that interweaves each participant's strengths. India's burgeoning technological prowess and diplomatic reach, Australia's advanced resource management and regional influence, and the PICs' deep understanding of local ecosystems and cultural contexts form a powerful triad capable of tackling issues that have long seemed intractable.

At the heart of this cooperation lies a recognition of the interconnectedness of regional stability, economic prosperity, and environmental sustainability. The existential threats faced by Small Island Developing States (SIDS) – from rising sea levels to economic vulnerabilities exacerbated by global crises – are not isolated challenges but symptomatic of broader regional and global issues. By addressing these concerns through a trilateral lens, the partnership can develop more comprehensive and effective solutions that resonate beyond the immediate geographical boundaries of the PICs.

In conclusion, the path forward is clear, albeit challenging. The potential benefits of Australia-India MSME collaboration in defence are immense, ranging from enhanced technological capabilities and economic growth to improved regional security and strategic autonomy.

As both nations navigate the complex geopolitical landscape of the Indo-Pacific, this partnership could prove to be a game-changer, demonstrating the power of democratic nations working together to ensure peace, stability, and prosperity in one of the world's most critical regions. The time for action is now - the future security of the Indo-Pacific may depend on the success of this innovative and forward-thinking collaboration.

This Discussion Paper has been written by Amb Anil Wadhwa, Former Secretary (East) in the Ministry of External Affairs, and served as Ambassador to Italy, Thailand, Oman and Poland; and Anjali Shekhawat, Research Associate at CUTS International, Global Affairs.

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