



The Hon. Andrew Stoner MP
Deputy Premier
Minister for Trade and Investment
Minister for Regional Infrastructure and Services



MOC12/1219

Senator Alan Eggleston
Chair
Foreign Affairs, Defence and Trade References Committee
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Canberra ACT 2600
Australia

Dear Senator Eggleston

Thank you for your letter of 1 December 2011 to the Premier, the Hon. Barry O'Farrell MP, inviting NSW agency submission to the Inquiry into the importance of the Indian Ocean Region for Australia's foreign, trade and defence policy.

I am attaching the submission to the Inquiry prepared by my Department, NSW Trade and Investment.

The NSW Government supports an increased focus by the Australian Government on this region, given its importance to Australia in economic, strategic and environmental terms.

The submission provides an overview of NSW Trade and Investment's existing activities in the region and outlines areas of opportunity for further engagement. It emphasises the importance of people-to-people links as an underpinning to the trade relationship and for integration of interests with the region.

NSW welcomes Australia's Presidency of the Indian Ocean Rim Association from 2013 to 2015 and would welcome the opportunity to provide NSW expertise related to regional projects, especially in the area of agriculture.

Yours sincerely

The Hon. Andrew Stoner MP
Deputy Premier

**Submission to the Senate Standing Committee on
Foreign Affairs, Defence and Trade**

***Inquiry into the Indian Ocean region and
Australia's foreign, trade and defence policy***

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Prepared by

NSW Trade and Investment

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Senate Standing Committee on Foreign Affairs, Defence and Trade

Inquiry into the Indian Ocean region and Australia's foreign, trade and defence policy.

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1. Executive summary

The trade and investment relationship with member countries of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC/ the region) is of increasing importance to the NSW economy. These countries account for 14.7% of NSW's total merchandise trade. The region is also a significant market for the NSW services sector, particularly for tourism (including international education) and infrastructure provision. NSW also relies on the region for a secure supply of crude oil and refined petroleum products.

Mining is a feature of the relationship with the region with competitors in some countries and investment originating in others. The growth of these economies will lead to stronger competition for NSW industries.

In addition to the trade and investment relationship, NSW Trade and Investment (the Department) engages with the region and works to build people-to-people links through:

- Cultural diplomacy programs supported by the major cultural institutions in NSW;
- Capacity building programs, especially in the area of agricultural assistance;
- Research collaboration, particularly with India;
- Ministerial visits; and
- The international trade mission program.

The Department supports an increased focus by the Australian Government on the region by supporting the IOR-ARC. The initial emphasis should be on strengthening people-to-people links and support for capacity building. At the same time, the longer-term potential of the region to develop into a regional trading block, similar to

APEC, should be recognised. There are also security issues that could form the basis of region-wide treaties/agreements.

NSW Trade and Investment would welcome measures by the Australian Government to strengthen relations with the region, including:

- The use of Australia's Presidency of the IOR-ARC from 2013-2015 to develop projects and programs which enable Australia/NSW to share its expertise, particularly on agricultural and environmental issues;
- Use of the Colombo Plan for Cooperative Economic and Social Development to facilitate study in Australia by potential business and government leaders from the region;
- Increased investment in arts touring and support for major cultural exhibitions;
- Support for universities and the vocational and education training sector to ensure that courses offered to markets in the region are leading-edge and meet market demand;
- A streamlining of entry visa processes for tourists and international students from source market countries;
- Tapping into the Australian diaspora to leverage trade, investment and other relationships;
- Use of Australia's international aid program to showcase Australian capabilities and assist capacity-building in the region; and
- Delivering benefits to industry from existing FTAs with countries in the region and working towards an IOR-ARC free trade agreement over the longer term.

The submission also notes that NSW has significant defence capabilities and that NSW based industry and defence assets are of strategic importance to the region.

2. Introduction

NSW Trade and Investment welcomes the opportunity to provide input to the Senate Standing Committee on Foreign Affairs, Defence and Trade Inquiry into the Indian Ocean region and Australia's foreign, trade and defence policy.

The Department was established in April 2011. NSW Trade and Investment and its Ministers are responsible for the delivery of goals under the NSW 2021 Plan which drives economic planning for the NSW Government. These include:

- improve the performance of the NSW economy;
- drive economic growth in regional NSW;
- increase the competitiveness of doing business in NSW; and
- enhance cultural, creative, sporting and recreational opportunities.

The NSW Government has a presence in the region, reflecting the importance of the region for the NSW economy:

- Trade and Investment Offices are located in Mumbai in India and Abu Dhabi in the United Arab Emirates (UAE). This presence provides the opportunity to

promote the State as a destination for international investment, trade, tourism, education, events and as a source of world-class products and services.

- Destination NSW is responsible for positioning Sydney and NSW as Australia's premier tourism and events destination and works to secure and develop major events to create the strongest and most compelling events calendar in Australia. Destination NSW services the Indian Ocean region markets of Singapore, Malaysia and Indonesia from its Singapore Office and has recently established an office in Mumbai (co-located with the Trade and Investment Office) to service the growing India market. These offices are staffed by experienced travel destination marketing professionals who coordinate trade marketing activities and consumer promotions.

The Department also provides support for NSW industry to access the region through Government business delegations and its trade and investment mission program. For example, the Premier of NSW, the Hon. Barry O'Farrell MP, led a senior business delegation to India in November 2011, and has committed to return annually. During this visit, the Premier and the Chief Minister for Maharashtra state announced their intention to sign a sister-state memorandum of understanding to support closer economic, cultural and sporting links between the two states. The complementarities of the two regions as financial hubs for their nations provide a natural basis for a close and mutually beneficial relationship.

The Premier will also be visiting the Middle East in May 2012 to advance NSW trade, investment and community engagement interests. Further, the Department's 2011-2012 International Exhibition and Mission Program, which provides export capability and facilitation services to NSW exporters, included India, UAE and Singapore.

The NSW Government has also established industry-led Taskforces to develop Industry Action Plans (IAPs) to position key sectors of the State's economy for strong growth over the next decade. IAPs for the advanced manufacturing, professional services, the digital economy, tourism and events, and international education and research sectors are being developed currently. The IAPs will:

- Outline a vision and 10 year development strategy for each industry, with immediate priorities to be addressed in 2012;
- Identify drivers for, and barriers to, growth and innovation, including those caused by government practices;
- Detail a program and mechanisms for government and industry to encourage sector growth, competitiveness and innovation; and
- Contain key performance indicators including clear timetables and benchmarks to monitor progress.

The draft IAPs are expected to be published by mid-2012 for consultation and are due for completion in September 2012. The Plans will also cover international market development, which include NSW's trading partners in the Indian Ocean Rim. The initial work of the Taskforces has been incorporated in this submission.

For the purposes of this submission, the Indian Ocean Rim is defined as the 19 member states of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), as highlighted in the table below. We note that the Indian Ocean rim also

includes countries listed in Table 1 below. The 19 member states have strong relationships with a large number of neighbouring countries and actions by the IOR-ARC are likely to flow through to these states as well. The combined GDP of the IOC-ARC countries is \$6,664 billion while that of the neighbouring countries is about \$2,000 billion.

Table 1: Indian Ocean Rim Countries; Members of the Association for Regional Cooperation

Africa	Middle East	South Asia	Southeast Asia	Island states and Australia
IOR-ARC members				
Kenya	Iran	Bangladesh	Indonesia	Australia
Mozambique	Oman	India	Malaysia	Madagascar
South Africa	United Arab Emirates	Sri Lanka	Singapore	Mauritius
Tanzania	Yemen		Thailand	Seychelles
Non-members				
Burundi	Bahrain	Afghanistan	East Timor	Comoros
Djibouti	Iraq	Bhutan	Myanmar	Maldives
Egypt	Israel	Nepal		
Eritrea	Jordan	Pakistan		
Ethiopia	Kuwait			
Lesotho	Qatar			
Malawi	Saudi Arabia			
Rwanda				
Somalia				
Sudan				
Swaziland				
Uganda				
Zambia				
Zimbabwe				

Note: China, Egypt, France, Japan and the United Kingdom are 'dialogue partners' at annual meetings/proceedings of IOC-ARC.

Tables 2 and 3 below show that the IOR-ARC consists of a diverse range of countries that are at different stages of economic development. Five countries have a GDP per capita of \$20,000 or more and another six have a GDP per capita of between \$5,000 and \$16,000. In terms of size of the economy, three countries (India, Australia and Indonesia) account for 63% of the total GDP of the IOR-ARC, while the top nine countries account for more than 90% of the total GDP.

Table 2: GDP per capita (US\$) IOR – ARC member countries

\$20,000 +	\$5,000 to \$20,000	Below \$5,000
Singapore	Malaysia	Indonesia
United Arab Emirates	Mauritius	India
Australia	Iran	Yemen
Oman	South Africa	Kenya
Seychelles	Thailand	Bangladesh
	Sri Lanka	Tanzania

Mozambique
Madagascar

Table 3 – GDP (nominal) 2011 and country share of the IOR – ARC group GDP.

Country	GDP US\$b	Proportion of IOR – ARC GDP (%)	Share of GDP
India	1,843	28%	63%
Australia	1,507	23%	
Indonesia	834	13%	
Iran	475	7%	31%
South Africa	422	6%	
United Arab Emirates	358	5%	
Thailand	339	5%	
Singapore	267	4%	
Malaysia	248	4%	
Bangladesh	115	2%	
Oman	67	1%	6%
Sri Lanka	59	1%	
Yemen	37	1%	
Kenya	36	1%	
Tanzania	23	<1%	
Mozambique	12	<1%	
Mauritius	11	<1%	
Madagascar	9	<1%	
Seychelles	1	<1%	
TOTAL – IOR - ARC	6,664		

The strategies that are developed by the Australian Government for the Association for Regional Cooperation will need to take this economic diversity into account, for example its approach towards India will need to take into account its large economy that is growing fast, though it's GDP per capita is relatively low.

3. NSW trade and investment relations with Indian Ocean Rim – Association for Regional Cooperation

The NSW economy is the largest and most diverse economy in Australia, contributing about one third of the nation's GDP. NSW's key trade and investment relations in the Indian Ocean Rim are with India, Singapore, Malaysia, Indonesia, the UAE and South Africa.

However, as these economies grow and become more diverse, they will present markets for NSW goods and services due to the State's economic competitiveness. At the same time, the growth of these economies will also lead to stronger competition for our industries. Government and business need to address issues impacting on our own competitiveness. Governments need to improve productivity through measures including micro-economic reform, migration policy settings and free trade agreements.

NSW recognises the growing economic and strategic importance of this region and welcomes measures by the Australian Government to deepen ties.

Merchandise trade

NSW's total merchandise trade with Ocean Rim countries was \$18.1 billion (or 14.7% of NSW's total merchandise trade) in 2011. NSW exports to IOR-ARC member countries were valued at \$5.3 billion in 2011, accounting for 13.6% of all NSW exports. This represented 12.1% of total Australian exports to IOR-ARC.

NSW trade with IOR-ARC has grown at 3.1% per annum over the past 5 years, while total trade has grown at 4.3% per year over the same period. This is below growth for NSW total exports (7.2%), and total trade (5.1%).

The top NSW commodities exported to the region were mostly primary products including coal, aluminium, iron and steel, cotton and cereals.

The Department's Global Growth Program builds export capability by delivering a highly tailored program of advice, support and financial assistance to eligible NSW companies. During 2010-2011, 18% of participants in the program targeted Indian Ocean Rim countries as export markets with the sectors covered encompassing manufacturing, food/beverage, ICT, building and construction, agriculture, education, professional services, pharmaceuticals and sport. Some examples are:

- Export sales of \$71 million of cotton bales in 2010-2011 to South Asia by Brighann Ginning and Marketing, a NSW agribusiness firm;
- An agreement between Southern Oil and BP Castrol India for the supply of \$3.5 million litres of re-refined lubricating oil from its Wagga Wagga plant; and
- A sale to the UAE by BisAlloy Steels of high tensile steel for use in mining and defence applications.

NSW relies on the Indian Ocean Rim region for a secure supply of crude oil and refined petroleum products. NSW currently imports about 25% of its refined petroleum products, of which approximately 51% are from the region. The majority of NSW imports are refined in Singapore. There is currently scope for another 30% of those imports to come from the region. It is anticipated that India and Malaysia will provide a greater share of imports in the future.

Dialogue partner countries to the IOR-ARC (China, Japan, UK, Egypt and France) include some of NSW's largest merchandise trading partners. With dialogue partners included, the IOR-ARC accounts for over half of all NSW merchandise exports and imports.¹

Mining is a feature of the relationship with the region with competitors in some countries (eg East Africa, Indonesia) while investment originates in others (eg India, South-East Asia). China, a dialogue partner in the IOR-ARC, plays a strategic role in mining across the region – both as a buyer and as an investor.

¹ China includes Hong Kong SAR.

Services trade

The region is also an important market for NSW services. Services comprise more than 84% of industry value-added in NSW, and the State has particular strengths in the areas of finance and insurance, professional, education and tourism services as well as ICT, life sciences and clean energy. The IOR-ARC nations present opportunities for growing services exports. Some of these are:

International Education

International education is NSW's second largest export industry. There were over 50,000 enrolments from students resident in IOR-ARC member states in NSW educational institutions in 2011, representing 24% of total NSW enrolments. Most of these enrolments are in the VET and higher education sectors. In 2011, the main sources of student enrolments from the region were as follows:

- India – 15,199 students. Indian students are the second largest source of international students in NSW, second only to China. There is scope for increased NSW Government and industry involvement to support the Indian Government's objective of educating 4.7 million people through higher education and 500 million people through vocational education and training by 2022.
- Malaysia - 3,916 students.
- Singapore - 1,561 students. In 2007, the University of Newcastle established a campus in Singapore in partnership with PSB Academy.
- Indonesia - 874 students. International student numbers have remained relatively low from Indonesia and there may be an opportunity for further development in this market.
- South Africa - 224 students.
- UAE - 152 students. The University of Wollongong in Dubai (UOWD), one of the UAE's oldest universities, was established in 1993 by the University of Wollongong. The UOWD hosts approximately 3,500 international students, representing almost a hundred nationalities.

IOR-ARC dialogue partners together with member nations accounted for 57% of all overseas enrolments in NSW educational institutions (119,000 enrolments).

There are opportunities for NSW education providers to expand this market through delivery of courses offshore or through hybrid courses which offer both onshore and offshore education. This model would also assist to balance the impact of the high Australian dollar.

There are also opportunities for the delivery of vocational education and training courses in economies with a large youth population. Australia and NSW have world-class training programs in sectors such as mining and agriculture. The NSW International Education and Research Industry Action Plan will develop strategies to improve the marketing and promotion of NSW training strengths in international markets, including Indonesia, India and South Africa.

The NSW Government has also recently developed a NSW Strategy for Business Migration and Attracting International Students. Under this Strategy, the Government is committed to whole of state development, with migration playing an important role

in boosting economic activity and productivity. A key element of the Strategy is to support the international education sector in NSW, and work to attract more international students for study. Leveraging from this, NSW hopes draw on international students who have skills in demand for permanent settlement through migration. A priority under the Strategy, therefore, is to work towards streamlined visa processing and post-study work rights for students at a broader range of high quality, low-risk education providers – including VET providers. NSW is partnering with the Victorian Government under an Interstate Reform Partnership to work with the Commonwealth to achieve this.

Tourism

The IOR-ARC member nations contribute a substantial number of international visitors to NSW. Member countries providing the most visitors per annum are Singapore (84,000), India (69,000), Indonesia (55,000) and Malaysia (46,000). Some of the IOR-ARC member nations such as Indonesia and India have generated increased visitation to NSW, offsetting some of the declines from traditional markets.

Sydney is a popular location for Indian Ocean region markets to host business events. Business Events Sydney is supported by the NSW Government and works to attract business events to Sydney and regional NSW.

Airline services

Destination NSW has developed partnerships with several major airlines servicing routes to Sydney from across the Indian Ocean region to deliver more visitors to NSW. These partnerships assist to extend NSW's marketing and promotional reach and ensure that Sydney is well-positioned to benefit from increased travel by visitors from priority markets including Singapore, Malaysia, Indonesia and India.

Destination NSW has also entered into a visitor economy partnership agreement with Sydney Airport to boost tourism, attract new airlines and increase airline services to Sydney. This partnership has already enjoyed success by securing Singapore-Sydney as the first route for the new low cost carrier Scoot and new services from Kuala Lumpur to Sydney by Air Asia. Collectively, these new services will add over 750 new seats into Sydney every day. The introduction of new services means that the markets within the Indian Ocean region will continue to grow and help increase visitor expenditure to NSW.

Continued growth of international tourism from markets in the region will also depend on the negotiation of additional landing rights, which is a responsibility of the Commonwealth. Increased capacity on routes, in turn, depends on the capacity of airport infrastructure, particularly at gateway airports such as Sydney. Under the National long-term tourism strategy, Tourism 2020, NSW is working with the Commonwealth to ensure that the tourism transport environment supports industry growth.

Infrastructure

NSW and the Indian Ocean region countries share a common need for additional and better public infrastructure. These economies are experiencing economic and

population growth, creating demand for investment in energy (especially renewable energy), transport (road, rail, port, pipelines), housing, water, waste, hospitals, hotels, sporting and education assets. Significant investment and trade opportunities arise out of such infrastructure projects. A key challenge is to deliver these high-value assets cost-competitively, without compromising the financial position of Governments or business.

Privately financed infrastructure projects usually generate safe, long-term revenue streams, which make them attractive to sovereign investment funds, pension funds and other long-term investors. Macquarie Bank, based in NSW, has become a leading infrastructure investor internationally.

The infrastructure sector also provides substantial trade opportunities in goods and services:

- NSW has a strong financial services sector, particularly structuring debt and placing equity in projects, including Privately Financed Public Infrastructure.
- NSW has internationally recognised firms like the Snowy Mountains Engineering Corporation, Worley Parsons, Sinclair Knight Merz, Tenix and others that provide engineering, procurement and project management services to complex infrastructure projects.
- Construction firms, such as Leighton, Lend Lease, Brookfield Multiplex, are building new assets overseas, including energy, transport and water projects.

Supporting services trade through trade liberalisation under free trade agreements has the potential to grow these markets for NSW-based services firms.

In Australia and NSW, shortage of engineers and other skills is an issue. Large numbers of suitable personnel have been sourced from Indian Ocean region countries, under short-term work visas.

Investment

The region is not a major source of foreign direct investment (FDI) – for example Singapore, the largest FDI partner in the region represents only 8% of the FDI flows of the United States to Australia. However, as many of the nations in the region continue to experience above average growth, much of this new economic wealth is likely to be directed to obtaining security in areas such as energy, health and food. There is potential for this to benefit Australia and NSW, by leading to increased FDI flows, as well as research collaborations, increased exports and migration.

The NSW Government supports measures to build on the levels of FDI between Australia and the region, and notes the increasing levels of FDI with Singapore, Malaysia, Thailand, South Africa, India and the UAE. Examples are:

- Since 2009, Indian companies have announced investments of A\$615 million in NSW. Opportunities for investment in NSW exist in the many active coal projects currently under development in NSW, including 12 open-cut mines, 7 underground mines and 8 gas wells.

- Hassad Australia, a UAE company, has been established in Sydney to purchase farmlands for the production of grains and livestock for the Qatari market and other parts of the Middle East. It has an approved investment budget of AUD 400 million, earmarked for an acquisition of farmlands and implementation of its business plan in Australia.
- The Australia Headquarters of UAE Exchange, a company focussing on international money transfers, is in Sydney and is expanding support to the Pacific and New Zealand.
- The AUD 125 million Wolgan Valley Resort and Spa in the Blue Mountains, north of Sydney, is Emirates Hotels and Resorts' first development outside Dubai.
- DP World Dubai has a long term commitment to its Port Botany, Sydney, facility and has a capital investment program to ensure that terminal facilities and equipment are of world's best standards.

4. People-to-people links

The NSW Government recognises the relationship building can be leveraged from resident communities and by initiatives that strengthen people-to-people links. These links in areas including the arts, education and research, alumni networks and business networks can help to underpin and reinforce trade and investment relationships.

Based on the 2006 census figures, NSW is home to over 200,000 people born in the Indian Ocean Rim region, representing one third of the immigrants to Australia from this region.

The number of NSW residents that were born in selected IOC-ARC countries is shown in Table 4. The data shows that people born in India are both the largest immigrant segment and that the growth rate of this group is quite high. The number people born in Bangladesh has been growing strongly, albeit from a relatively smaller base. People born in South Africa, Malaysia and Indonesia also number in excess of 20,000 and that their growth rate has been quite strong in comparison to the overall growth rate of the population.

Table 4: New South Wales residents: 2001 and 2006 Census – selected nations

Birthplace	2001 Census	2006 Census	% change 2001-2006
India	37,889	57,164	51%
South Africa	28,685	32,926	15%
Malaysia	21,063	23,428	11%
Indonesia	21,038	21,883	4%
Sri Lanka	16,901	19,102	13%
Thailand	9,773	12,312	26%
Iran	10,406	11,957	15%
Bangladesh	6,112	10,632	74%

Source: "The People of New South Wales - Statistics from the 2006 Census", Community Relations Commission, 2008.

Data Source: 2006, 2001 Census of Population, Australian Bureau of Statistics (ABS).

The NSW Government provides support for activities which contribute to the building of people-to-people links in the region. Examples are:

NSW Multicultural Business Advisory Panel and Export & Investment Advisory Board

In May 2011, the NSW Government announced the establishment of a Multicultural Business Advisory Panel (MBAP) and the Export and Investment Advisory Board (EIAB) to guide the NSW Government on how to build stronger international trade and investment relations for NSW, including with the Indian Ocean Rim region.

The MBAP has been established to harness NSW's cultural diversity, language skills and overseas links as part of the NSW pitch for business and increased engagement with international markets and to advise on specific impediments to doing business in global markets. The EIAB will leverage the skills and experience of NSW business and non-government organisations in order to grow trade and investment with international markets.

Cultural diplomacy

Arts and cultural engagement with countries in the region, particularly India, is supported through the major cultural institutions in NSW and by organisations and individuals funded under the NSW Arts funding program, Screen NSW and Destination NSW. Examples are:

- There is a rich and diverse representation of Asian culture in the permanent collections of the State's major collecting institutions (Art Gallery of NSW, Museum of Applied Arts and Sciences, Australian Museum, State Library of NSW). The Australian Museum for instance is actively seeking opportunities to engage with cultural institutions in the region (with India and the UAE).
- The popular exhibition programs of the cultural institutions have included representation of cultural material from this region. The online immigration museum, Migration Heritage Centre, presents stories from people who have migrated to Australia.
- The inward and outward loan of artworks and other objects to cultural institutions in the region.
- NSW has been working with Indian film productions. Over the past five years, 10 Indian productions have been produced in NSW, generating direct production expenditure of \$14.35 million in NSW. In 2011, the Bollywood romance, *From Sydney... With Love*, filmed for several weeks in Sydney. The film is about Indian students studying in Sydney and is set against the backdrop of Australian University life and will be released in May 2012.
- *Parramasala* is an annual festival of South East Asian cultures in Sydney and is supported by Destination NSW.
- Destination NSW will leverage opportunities arising from Ozfest to promote Sydney and NSW to the Indian travel trade and media. Ozfest is Australia's Cultural Festival in India and will run from October 2012 to February 2013.

Australia India Youth Dialogue

The NSW Government is a founding partner of the inaugural Australia India Youth Dialogue. This annual event was launched during the visit by Premier O'Farrell to India in November 2011. Alternating between Australia and India, it will provide a major forum for the engagement of exceptional youth from both nations to address a range of economic, social, cultural and political issues of mutual concern.

Education

As outlined above, international education is an important sector of the NSW economy. NSW advisory bodies have emphasised the importance of embedding long term links to a country through study and educational exchanges. There are many examples of political and business leaders from Indian Ocean Rim countries who continue to have strong links to Australia as a result of completing their educational qualifications here and thus gaining an understanding of Australian culture and industry strengths.

The NSW International Education and Research Industry Action Taskforce will work with the education industry to provide the best possible experience for international students so that they carry overwhelmingly positive impressions back to their countries of origin and into their professional lives. An Australian education is also a potential pathway into post-study employment in Australia for graduates who have skills in demand, offering students a long-term future in Australia. This is important in addressing the requirements for a skilled workforce.

Capacity building

The Primary Industries Division of the Department is delivering or collaborating with the Australian Government on a number of agricultural assistance programs in the region. These include projects related to improving veterinary service delivery in a decentralised Indonesia, as well as building more profitable and resilient farming systems in Indonesia, including rehabilitation of those areas affected by the 2006 Tsunami.

The Department's Bee Industry Group has offered training expertise to Malaysia in pests and disease identification in European honeybees and has the capacity to assist the IOR-ARC in this area. Another area where expertise could be provided is in the knowledge and technology related to the transport of live animals.

NSW supports Australian Government efforts relating to improving food self-sufficiency in countries rather than encouraging a reliance on improved productivity in developed countries and increased food exports in the form of food aid.

Research collaboration

The Department is actively supporting research collaboration in the region. The Primary Industries Division of the Department has had a long-standing relationship with academic, government and farming organisations in India and Indonesia through collaborative research. Over the last three years, the Department has been involved

in several research projects funded by the Australian Centre for International Agricultural Research (ACIAR).

The processes involved in undertaking research projects from start-up to end requires close collaboration, between economists, scientists and agronomists both in Australia and in partner countries, and also from contributors in other countries such as the United States and the United Kingdom. These projects often generate strong and ongoing research ties between Australia and partner countries and often lead to the development markets for Australian products, such as pulses to India

5. Proposals for Australian government actions

The NSW Government would support efforts by the Australian Government to strengthen relations with the region through measures to increase trade and investment ties as well as measures to strengthen the people-to-people links that underpin the trade and investment relationship.

Free Trade Agreements (FTAs)

NSW Trade and Investment notes that FTAs are either in place or are being negotiated with NSW's key trading partners in the region. Examples of the former are Singapore and Thailand and the latter India, Indonesia, Malaysia and the Gulf Cooperation Council. Australia is also party to the ANZ-Asean FTA as well as the Trans Pacific Partnership. Both these overlap with agreements in place or those being negotiated currently.

The NSW Government recommends that the Australian Government conclude new agreements with key trading partners, namely India, Malaysia, Indonesia and then UAE. Further, the immediate focus of the Australian Government should be on concluding the Doha Round of trade negotiations. This agreement has potential to deliver gains through trade liberalisation across the region.

The Department recognises the longer term potential of the IOR-ARC to become a regional trading block similar to APEC and considers that a feasibility study for an FTA may be appropriate at a later stage, especially if the Doha Round is unable to be concluded within a suitable time frame. In the short term, given the diversity and current status of the trade and investment relationship within IOC-ARC nations, it would be beneficial to instead focus on people-to-people and capacity-building initiatives. In the longer term, a multilateral agreement for the region may result in improved security and a strategic positioning for Australia that could deliver economic gains.

The Australian Government's focus should be on delivering benefit to business from agreements in place by leveraging economic benefit from bilateral and multilateral agreements with NSW's key trading partners in the region. In this context, the Australian Government should also provide guidance and education for firms to take advantage of these arrangements.

The NSW Government supports a call for a commitment to conclude an agreement under the World Trade Organisation Doha round of negotiations as these can deliver significant benefit to NSW-based firms.

Defence issues

To the extent that NSW is a trade exposed economy, reliant on free flow of goods across the Indian Ocean, the State also has an interest in security issues that could form the basis of region-wide treaties/agreements.

NSW is currently home to many Defence bases, platforms and personnel that support defence activities and operations here and abroad. The State also has significant defence industry capabilities, required for the ongoing success of Australian forces. Despite the geographic distance to the Indian Ocean, NSW based industry and defence assets will continue to be of strategic importance to the Australian Defence Force operations in that region.

The NSW Government recognises the need for the Australian Government to review the defence force posture to ensure future challenges, including those in the Indian Ocean region, can be met. The NSW Government's submission to the Defence Force Posture Review highlighted that NSW strengths and competitive advantages are aligned with Defence needs and that there are ongoing benefits of aligning Defence assets to NSW regional competitive advantages. NSW offers Defence access to broad industrial capabilities, existing infrastructure, logistics support and information and communication technology (ICT) infrastructure, people, lifestyle benefits and spousal employment opportunities. Defence should strongly consider NSW as a potential location for future expansion.

There are also serious implications to industry and communities if significant changes take place to current basing arrangements. Defence bases and projects provide communities across NSW with a range of employment and economic benefits. The NSW Government encourages early consultation with respect to any possible increase or decrease to existing Defence sites in NSW, as changes to current arrangements in some regions would have a profound negative effect on the community.

The Australian Government should consider all factors that may impact long term planning and strategic outcomes. Existing infrastructure, lower ongoing costs, future strategic advantages, retention and personnel benefits should supersede any short term gains derived from incentives that seek to relocate defence assets and personnel from one State to another. Defence should avoid relocations when there is no net national benefit.

The NSW Government is keen to engage with Defence in relation to basing issues. Defence may have concerns from time to time about specific issues such as urban encroachment, transport and logistics, minerals exploration and development, and concerns about impact on local communities. The NSW Government would welcome working with Defence to resolve these issues proactively, in the interests of minimising adverse community impacts and ensuring Defence can meet its strategic objectives.

IOR-ARC

NSW notes that Australia was appointed as Vice-Chair of IOR-ARC for a two year period from November 2011 and that it will takeover the Chair from India from 2013 to 2015.

The IOR-ARC Charter encompasses many of the issues addressed in this submission as being important to NSW's relations with the region. These include trade facilitation and investment measures and activities which underpin people-to-people exchanges such as scientific and technological exchanges, tourism, education and training, and disaster management.

NSW would be particularly interested in sharing its expertise on agricultural and environmental issues in the context of an IOR-ARC project designed to meet regional needs.

As Australia will hold the Presidency of the IOC-ARC from 2013 to 2015, the NSW Government suggests that a meeting of the Association be held in Sydney as this will also provide an opportunity for the Eastern Seaboard states to showcase their expertise and forge stronger people-to-people links.

Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific (the Colombo Plan)

NSW notes that there is overlapping membership (9 members) between the IOR-ARC and the Colombo Plan. The Colombo Plan provides for scholarships for tertiary studies including in Singapore, Malaysia and Korea and therefore also provides a mechanism to strengthen people-to-people links between Australia and Indian Ocean Rim countries.

The Australian Government should facilitate increased opportunities for potential Government and business leaders to study in Australia under the Colombo Plan framework.

Increased investment in the Arts

NSW's capacity for greater arts and cultural engagement with the countries on the Indian Ocean Rim is limited by funding. Further investment by the Australian Government in arts touring and support for major cultural exhibitions would be welcome.

Education

It is suggested that the Australian Government work with universities and the vocational and education training sector to ensure that the courses offered to markets in the region meet the demand for innovative and leading edge courses in order to compete with courses offered in Canada, the United States and the United Kingdom.

The Australian Government should streamline visa processing for international students and provide clarity and expanded opportunities to students for post-study

work rights so that they get an opportunity to apply the skills they have acquired in a work setting.

Tourism

In order to increase tourism the Australian Government should make entry visa processes as easy and convenient as possible for visitors from source market countries. Visa policies should also be fine-tuned to be better able to attract/source labour for the visitor economy. Labour supply will be one of the key issues confronting the visitor economy if NSW is to achieve its 2020 target of doubling visitor expenditure.

The Australian diaspora

Australia and NSW have strong multicultural foundations and this asset should be drawn on to support and underpin the trade and other relationships with the region. The NSW Government welcomes Australian Government support for organisations which target the Australian diaspora and alumni abroad, such as Advance.

AusAID programs

Australia's international aid program is a tool to showcase Australia's capabilities and to assist to promote the image of Australia as a sophisticated and technologically advanced society that can assist capacity-building in the region. NSW would welcome increased use of Australia's International Aid Program to showcase Australia's capabilities in areas including disaster relief and governance structures.

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THE SENATE

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STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

1 December 2011

The Hon. Barry O'Farrell, MP
Premier of NSW
GPO Box 5341
SYDNEY NSW 2000



Dear Premier

Inquiry into the Indian Ocean region and Australia's foreign, trade and defence policy

On 24 November 2011, the Senate referred the following matter to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report by 1 November 2012:

The importance of the Indian Ocean Rim for Australia's foreign, trade and defence policy, with particular reference to:

- (a) trade and tourism opportunities for Australia, including the role of free trade agreements;
- (b) Australian mineral exports, including competition and synergies in the region;
- (c) strategic developments in the Indian Ocean, including growing naval influences and defence postures, and their implications for Australia and the region more generally;
- (d) the Indian Ocean Rim Association and any other relevant bodies and their future directions; and
- (e) other relevant matters.

The terms of reference recognise that while there are significant economic and trade opportunities for Australia in the region, there are also challenges.

The purpose of this letter is to invite you or your departments or any of your agencies to make a written submission to the Committee. If you would like to participate in the inquiry, the Committee would welcome a written submission.

Also, the committee is seeking to publicise its work as widely as possible and would appreciate you referring this letter of invitation to any individual or organisation you think would like to contribute to the inquiry.

Bengaluru, India

15 November 2011

KEVIN RUDD: First of all I am pleased to be here in Bangalore. I am pleased to be here for this important foreign ministerial council meeting of this association of Indian Ocean states. This is an important gathering. It brings together the foreign ministers of the Indian Ocean region to discuss matters of common concern and to resolve on common courses of action.

From Australia's perspective, we are an Indian Ocean country. We are a three-ocean country. We face the Pacific, we face the Southern Ocean, we face the Indian Ocean. If we look across the Indian Ocean, we see our great strategic partners, and economic partners. In South East Asia, in South Asia, the Gulf, as well as East Africa, and the particular challenges of the Indian Ocean island states - the challenges which they face in development, but also existential challenges relating to climate change.

Also, for Australia, we see in this ocean region common challenges to regional security. It is critical for Indian Ocean states to maintain freedom of navigation, and to deal with challenges to freedom of navigation, that includes the threat of piracy. The facts on piracy are disturbing for us all. In the first nine months of this year alone we've had some 185 vessels attacked by pirates in the Indian Ocean region. We've had 27 of those vessels captured. We still have some 18 of those vessels which remain under the control of pirates. Individual ransoms are increasing all the time; now more than \$5 million a person.

And of course this all has a huge impact on the cost of maritime insurance and that cost then flows through to the consumers of the world as we deal with this threat. And so it is incumbent upon us as members of this regional community to frame common responses to the threat of piracy and any other threats to the freedom of navigation.

Beyond our common security challenges, this economy around the Indian Ocean has many strengths and we have an opportunity to deepen and broaden our economic engagement with each other. And that means in trade and investment, but also in development cooperation.

And finally, in this Indian Ocean region there is this challenge of the blue economy. Ensuring that the countries of the region take proper care of this great ocean, which our creator has given us all to share, and which therefore carries with it particular responsibilities. Harnessing its resources, but at the same time ensuring we're doing that in a sustainable fashion and that particularly applies to the fishery resources of the region and that is particularly irrelevant to the island countries.

Therefore these are the challenges, both security and economic, as well as environmental that we face here. Australia has just been elected as Vice-Chair of this association of Indian Ocean states. India has been elected the Chair. I look forward

very much to working with India over the next two years, and then for the subsequent two years as Chair ourselves, to revitalise, to reform, and to provide a fresh strategic direction for this important regional institution. The challenges are great, but so too are the opportunities and we believe we can make real progress cooperatively for the future.

QUESTION: In the context of the under performance of the organisation in previous years, it very much looks like poor cousin of APEC. What are your views on the membership of the organisation? Australia and India are pushing again to have a bigger role, but there are clearly big parties outside.

KEVIN RUDD: On the future of this organisation of Indian Ocean states, this was back in the mid 1990s, an Australian diplomatic initiative. If you recall the history of APEC back in 1989, that was an Australian diplomatic initiative, supported of course by a range of other countries. In the last 15 years we've travelled some distance here in the Indian Ocean. I think it's fair to say we've travelled a further distance with the institutions of the Pacific through APEC. In the last week I've just travelled from the APEC meeting in Honolulu and I've come here to this Indian Ocean meeting here in Bangalore.

We should be optimistic. When APEC began 20 years ago there was very little consensus across the economies of the Asia-Pacific about future directions of open trade, open investment, and the ingredients of long-term economic growth. Twenty years later that has radically changed. Look at the decisions taken in Honolulu about the Trans-Pacific Partnership. A new trading arrangement, open trading arrangement which would affect many, many economies in the Pacific.

Here in the Indian Ocean we've started later but I believe the economic impetus is there for us to now do more. One of the reasons why both India and Australia have expressed interest in becoming Chair and Vice-Chair, over the next four years of this institution is to participate in a process of reform, revitalisation, and a new strategic direction.

What we want for the Indian Ocean is for this to remain a zone of peace and stability, of freedom of navigation. We want for this to be a zone of prosperity, whereby we share the fruits of open trade, open investment and strong development relationships, and also because this massive ocean resource, the Indian Ocean, is itself a subject of enormous environmental challenges to act together to preserve this commons that we have for the region and for the planet in a way which sustains livelihoods, but does it consistent with the principles of development. That's what we're on about here, that's what we intend to get on doing.

ENDS

Indian Ocean Rim Association for Regional Co-operation: Members

- Australia
- Bangladesh
- India
- Indonesia
- Iran
- Kenya
- Madagascar
- Malaysia
- Mauritius
- Mozambique
- Oman
- Seychelles
- Singapore
- South Africa
- Sri Lanka
- Tanzania
- Thailand
- United Arab Emirates
- Yemen

Dialogue partners

The Association also has 5 dialogue partners:

- China
- Egypt
- France
- Japan
- United Kingdom

Observers

The Indian Ocean Tourism Organisation and the Indian Ocean Research Group are observers.