



Government of **Western Australia**
Department of the **Premier and Cabinet**
Office of the **Director General**

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Committee Clerk
Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600



Senate Inquiry into the Indian Ocean Region and Australia's Foreign, Trade and Defence Policy

Please find attached a submission by the Western Australian Department of the Premier and Cabinet with respect to the above Inquiry.

This submission deals mainly with Terms of Reference b and d, with Terms of Reference a and c being addressed in previous submissions by Tourism WA and the Western Australian Department of Commerce.

Peter Conran
DIRECTOR GENERAL

Att. 30 MAY 2012

Western Australian Department of the Premier and Cabinet

Response to Senate Inquiry into the Indian Ocean Region and Australia's Foreign, Trade and Defence Policy.

The Indian Ocean is a major global trading route linking the USA, Europe, Africa and the Middle East to Asia. It is particularly important for energy trade. As a net exporter located in the region, Western Australia has a keen interest in a stable Indian Ocean favourable to international trade and commerce, reinforced and connected by strong people-to-people linkages.

Western Australia is as an export-oriented state – it accounted for 46% of Australia's merchandise exports in 2011. WA's 12,000 km coastline marks the south-eastern limits of the Indian Ocean Rim. Geographically, Perth is closer to Jakarta and Delhi than Sydney. It is two hours apart from Australia's East Coast time zone, but shares the world's most populated time zone with China, Malaysia, Singapore, the Philippines, Hong Kong and parts of Indonesia.

Western Australia has overcome its geographical isolation from Australia's Eastern population centres through engaging with Asia, and strong potential exists to expand the State's economic relationship with Africa. Western Australia now has the nation's fastest growing State economy, and Australia's success is closely tied to the State.

The Government of Western Australia wishes to see the Indian Ocean region given greater emphasis (and funding) by the Federal Government. India currently has a two year term as Chair of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) while Australia is Vice Chair. Australia will then have a two year term as Chair, and it is anticipated that Indonesia may Chair after that. These three G20 nations are the biggest economies in IOR-ARC. If the association is to be revitalised, it is up to these nations be proactive and lead the way. IOR-ARC's future depends on how Australia harnesses this window of opportunity.

The Federal Government should use IOR-ARC to encourage initiatives that promote cooperation, good will, build confidence, trust and stability and foster regionally beneficial economic engagement and development with practical measures. It should take the lead in building momentum, and champion initiatives that will be non-controversial and have broad support within the association.

The Western Australian Government has been engaging with IOR-ARC through the Department of Foreign Affairs and Trade (DFAT), and has sent an official to attend as an observer to the Senior Officials meetings in 2010 in Canberra and 2011 in Bangalore, India. The Department of State Development has put forward projects to DFAT requesting that they, in turn, be submitted by DFAT to IOR-ARC organisation.

The two proposals are:

- A health services project, to be delivered by Global Health Alliance Western Australia – an alliance between the WA Department of Health and Western Australia's five universities with nursing and midwifery expertise. Recognising that adequate health care underpins a nation's economic development, this project would aim to strengthen on-the-ground health delivery in the Indian Ocean rim region to boost development capability by cooperatively building nursing and midwifery capacity. Logistical support would be provided by the WA Health Department.
- An aquaculture project developed by the Ocean's Institute at the University of Western Australia, that would provide a comprehensive response to the challenges of introducing and operating sustainable aquaculture industries in IOR-ARC member countries.

It is understood that these projects have not progressed because of a lack of an overall strategy and funding. Therefore projects cannot be assessed on their real merits – namely, how they achieve the IOR-ARC's objectives. Because funding must be scraped together from other areas such as AUSAID (which also has no dedicated Indian Ocean Region funding) potential projects are instead assessed against criteria which may have little or nothing to do with IOR-ARC's objectives. This is a fundamental problem that affects not just the Western Australian projects, but the advancement of any initiatives under IOR-ARC by Australia, as the lack of funding and strategic direction means projects and initiatives can only be undertaken in an ad hoc manner.

There is a need to focus greater attention on IOR-ARC. This could partly be achieved by the Federal Government establishing an Indian Ocean Regional Office in Perth – this would expand on the Perth office, making it more than just an office for Western Australia, but Australia's west coast regional office for the Indian Ocean Region. Here the DFAT officers responsible for IOR-ARC could be based, and work in closer proximity, in both geography and time zone, to countries in the region.

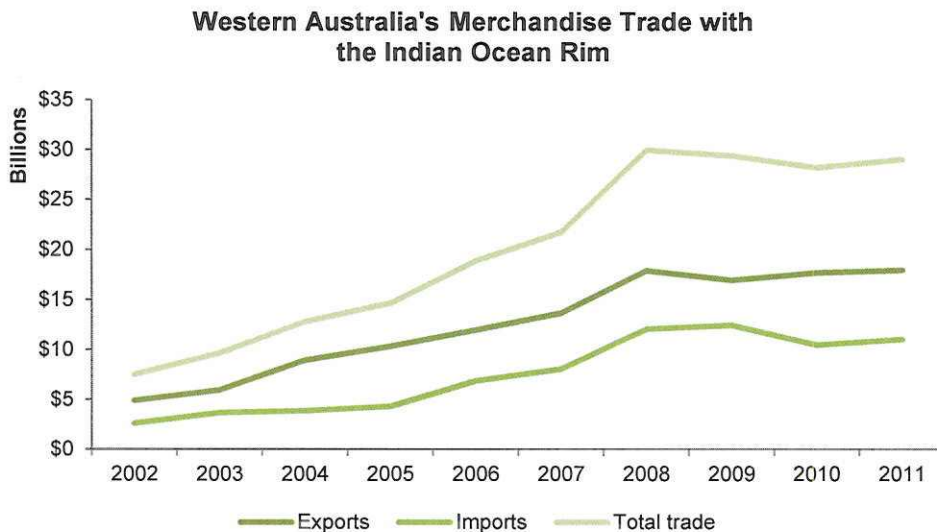
The Western Australian Government has on many occasions expressed its desire to work with the Federal Government to play an active role in the region, and sincerely hopes the Federal Government will take a proactive stance, backed up by the necessary funding and posture, to make IOR-ARC work. The Western Australian Government looks forward to working with Canberra in the region.

What follows is specific information on trade, resource patterns and strategic issues for the Indian Ocean Rim Region from a Western Australian perspective.

1 Trade with the Indian Ocean Rim

1.1 Western Australia's merchandise trade with the Indian Ocean Rim

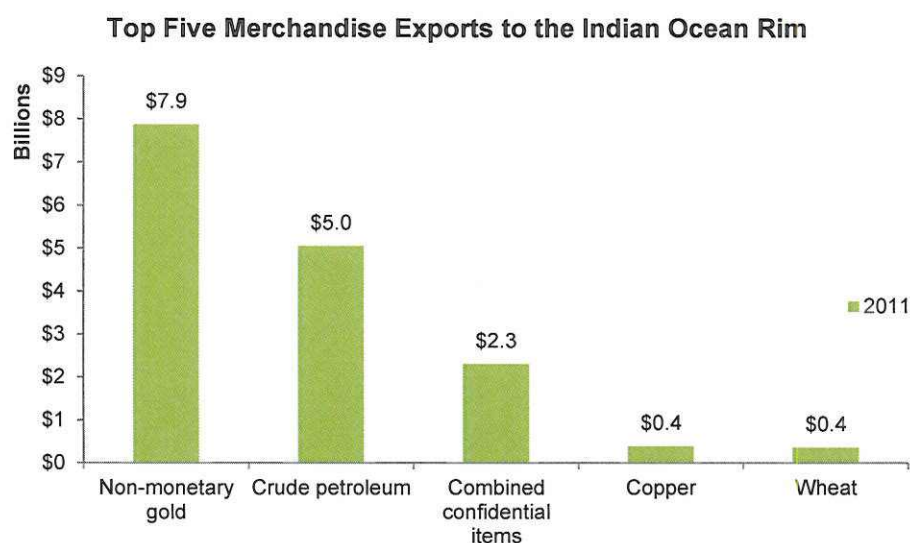
- Western Australia is strategically located in the Indian Ocean Rim. Consequently, regional cooperation is important for the State, as well as offering Western Australia the opportunity to diversify and develop stronger trade ties with the countries in the region.
- The Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) grouping of countries is used in this analysis to define the Indian Ocean Rim. There are various definitions of the Indian Ocean Rim; however, the IOR-ARC definition is used for the purposes of Western Australia's engagement with the region.
- Although the Indian Ocean Rim is diverse, it contains important trade partners for Western Australia such as India, Singapore, and Indonesia, as well as frontier mining economies such as Madagascar, Tanzania and Mozambique.
- Over the last decade, Western Australia's merchandise trade with Indian Ocean Rim countries has increased considerably. Between 2002 and 2011, two-way merchandise trade with these countries nearly quadrupled, from \$7.5 billion in 2002 to \$29 billion in 2011. This comprised exports from Western Australia, which increased from \$4.9 billion to \$17.9 billion, and imports from the Indian Ocean Rim, which rose from \$2.6 billion to \$11.1 billion over the same period.



Source: Australian Bureau of Statistics

1.2 Western Australia's exports to the Indian Ocean Rim

- The average annual growth rate of exports to the Indian Ocean Rim was 15 per cent over the ten years to 2011. This growth was largely driven by exports to India, which were valued at \$411 million in 2002 and reached \$7.6 billion in 2009. In 2011, India was the State's 4th largest export destination, with exports valued at \$5.4 billion.
- Growth in export values to India was, in turn, largely driven by non-monetary gold exports, which rapidly increased after gold import restrictions were eased in 2004 by the Indian government.

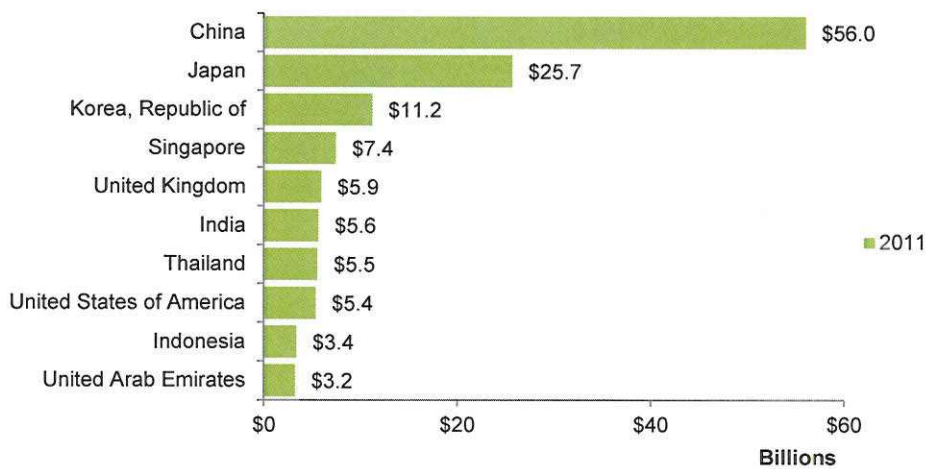


Source: Australian Bureau of Statistics

- In 2011, Indian Ocean Rim countries received more than half (53 per cent) of Western Australia's total exports of non-monetary gold. The Indian Ocean Rim also received 44 per cent of the State's total exports of crude petroleum, 29 per cent of combined confidential items,¹ 25 per cent of copper exports, and 21 per cent of wheat exports.
- There are further opportunities for Western Australian export growth to the Indian Ocean Rim, particularly with a number of free trade agreements (FTAs) currently under negotiation. These include the Australia–Gulf Cooperation Council (GCC) FTA, Australia–India Comprehensive Economic Cooperation Agreement, and the Indonesia–Australia Comprehensive Economic Partnership Agreement. Australia has FTAs currently in force with Singapore, Thailand, and the ASEAN member countries. The Malaysia–Australia FTA was signed on 22 May 2012 and will take effect next year.

¹ Combined confidential items include LNG, nickel, alumina, heavy mineral sands, lupins, barley, oats, among others.

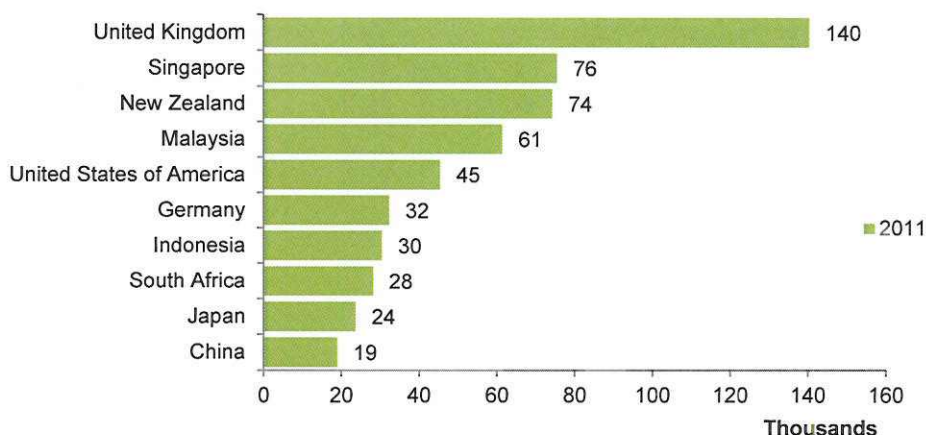
Western Australia's Top Ten Trade Partners



Source: Australian Bureau of Statistics

- Five Indian Ocean Rim countries featured in Western Australia's top ten trade partners in 2011. Singapore was ranked as the State's 4th largest trade partner, followed by India (6th), Thailand (7th), Indonesia (9th) and the United Arab Emirates (10th).
- Western Australia's services, agricultural and resources sectors are well-positioned to benefit from the rising middle classes in the Indian Ocean Rim, particularly in the aforementioned countries of India, Thailand and Indonesia. In Singapore, the establishment of a Western Australian Government Trade and Investment Office in March 2012 will enable further opportunities, especially in attracting investment into the State's strongly growing economy.
- Although trade in services data by country is not available at the state level, an examination of Indian Ocean Rim tourism numbers and international student enrolments in Western Australia indicates the potential that the region holds for trade in services.

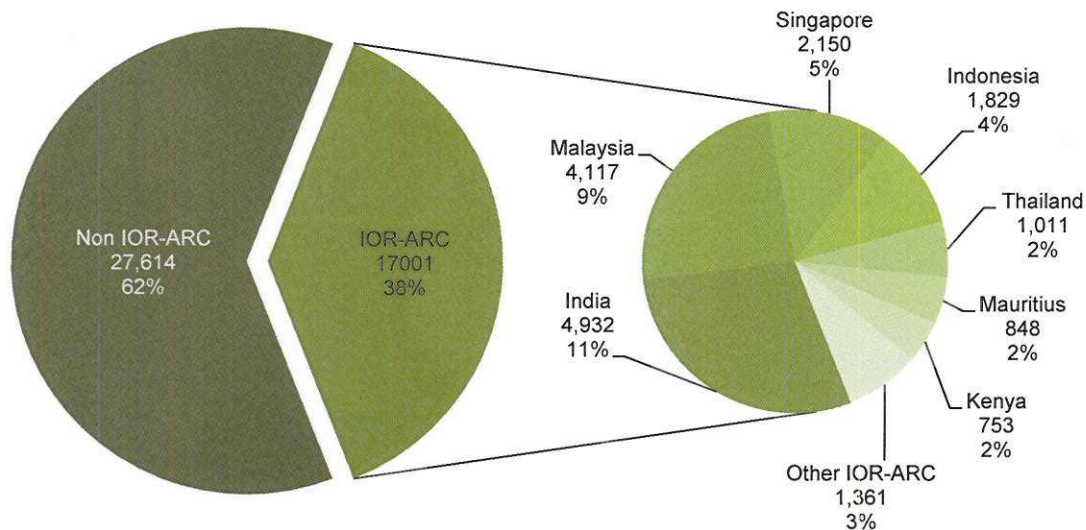
Western Australia's Top Ten Tourism Source Markets by Number of Visitors



Source: Tourism Research Australia

- In 2011, there were four Indian Ocean Rim countries in Western Australia's top ten source markets for international visitors. Singapore, Malaysia, Indonesia and South Africa were ranked 2nd, 4th, 7th and 8th respectively. According to Tourism Western Australia, several Indian Ocean Rim countries are expected to drive tourism growth over the next decade.

Western Australia's IOR-ARC Student Enrolments in 2011



Source: Australian Education International

- In 2011, student enrolments from the Indian Ocean Rim made up over a third of international student enrolments in Western Australia. Of these, India, Malaysia, Singapore, Indonesia and Thailand were the major source countries. There were also a significant number of enrolments from Mauritius and Kenya.
- The Indian Ocean Rim also provides Western Australian companies an opening into mining opportunities in Africa. Countries such as Kenya, Madagascar, Mozambique, South Africa, and Tanzania have emerging or established mining industries, and there are currently 54 Western Australian companies with exploration and production activities in these countries. These activities are primarily in coal, gold, heavy mineral sands, copper, diamond, iron ore, nickel, manganese, platinum and uranium projects.²
- Perth hosts the annual Africa Down Under Conference, which serves to increase mining business between Africa and Australia. The mining sectors in other Indian Ocean Rim countries such as India and Indonesia also provide significant opportunities for Western Australian companies.

² Intierra Resource Intelligence

1.3 Resource Trade patterns in the Indian Ocean Rim

- Like for Western Australia, the exports and trade of many countries of the Indian Ocean Rim region are dominated by natural commodities, either energy exports, in particular Yemen with fuel representing 92% of its total exports in 2009, and Oman 81% and Iran 71% in 2010, or mineral exports, in particular Mozambique with ores and metal exports representing 54% of its total exports in 2010, Tanzania 34% and South Africa 33%.
- Apart from Iran, Oman, Yemen and United Arab Emirates, and to a certain extent Malaysia, most countries of the region are also significant importers of fuel, with fuel imports representing between 17% (for Sri Lanka) and 36% (India) of their total imports.
- They are not however significant importers of mineral, ore and metal imports representing only a marginal share of their total imports, from 0.5% for Mozambique to 5.2% for Malaysia and India.
- Apart from Mozambique and Kenya, trade with immediate neighbours is somewhat relatively limited for the members of the Indian Ocean Rim Association. Regional trade relations (either within or outside the Indian Ocean Rim Association) do not represent more than one third of the total trade of the members of the Indian Ocean Rim Association.
- Western Australia exported a total value of \$17.9 billion to Indian Ocean Rim countries in 2011, where gold accounted for 43.8% and crude petroleum accounted for 28.1%.
- Western Australia imported a total value of \$11.1 billion from Indian Ocean Rim countries in 2011, with crude oil accounting for 30.4%, oil, excluding crude, 22.1% and gold, 12.9%.

1.4 Resource dependency

- None of the Indian Ocean Rim countries depend on resources from Western Australia to support their development. Most of countries in the region have their own resources, can access commodities from neighbouring countries, do not rely significantly on LNG in their energy mix or are not engaged yet in a massive industrialisation process that would demand large imports of iron ore or energy.
- Only India might be posed, in the near future, to import more iron ore (or steel from China which might translate in more Chinese iron ore imports) and LNG from Western Australia. However, at this stage, its iron ore and LNG imports from the State are only marginal.
- Most of the countries in the region are driven by natural resources development, with mining and petroleum related investment and exports representing a large share of their GDP.
- Oil rents (Oil rents are the difference between the value of crude oil production at world prices and total costs of production) represented almost 30% of Oman's GDP, around 20% of the GDP of Iran, Yemen and the United Arab Emirates, 6% of Madagascar's GDP, 2% of Indonesia's and 1% of India and Thailand's in 2010.
- Natural gas rents (Natural gas rents are the difference between the value of natural gas production at world prices and total costs of production)

represented 7% of Iran's GDP, 5% of Mozambique's, 4% of Malaysia's, 3% of Yemen's and Bangladesh, 2% for the United Arab Emirates and still between around 0.5% and 1% of GDP for Thailand, Indonesia, India, Tanzania in 2010.

- Mineral rents (Mineral rents are the difference between the value of production for a stock of minerals at world prices and their total costs of production) represented around 4% of Tanzania and South Africa's GDP, 2% of India and Indonesia's, 1% of Iran and Madagascar's in 2010.
- In comparison mineral rents represented 7% of GDP for Australia in 2010, natural gas rents 1% and oil rents 1%.
- The global boom in commodity demand (driven in particular by China's development) is fuelling strong economic growth in most countries of the region. The only two countries of the Indian Ocean Rim region with an economic growth rate below 4% in 2010 were Madagascar (1.6%) and South Africa (2.6%). Half of the countries in the region had growth rate above 7%, with Singapore growing the fastest at 14.5%.
- The sustainability of the resource based growth rate is however jeopardized by a number of institutional factors, with the economies of these countries being constrained by a poor to average regulatory and institutional frameworks.
- According to the CPIA (World Bank) rating, all the Indian Ocean countries ranked by the index score between 3 and 3.5 out of 6 in the *policy and institution for environmental sustainability rating*, indicating stability but significant room for improvement (for comparison Australia ranks). Considering the importance of natural resources in these countries there is a need to improve this institutional framework to optimise the economic, social and environmental benefits from resources development in these countries.
- According to the same CPIA (World Bank) rating, Indian Ocean Rim countries fare worse in terms of transparency, accountability and corruption, with Asian countries seeming to do better, the highest ranking country being India, at 3.5 out of 6, and a number of African countries having been ranked as poor between 2 and 2.5 (Tanzania, Yemen, Madagascar).
- Australia (AusAID and governmental relations) and Australian resource companies can play a significant role in helping improve these conditions. Western Australia has know-how that could be useful in developing the economies of African mining economy.

1.5 Complementary trade

- Some economies of the Indian Ocean Rim (in particular in Asia) are complementary with Australia's resource activities, in particular for the processing of commodities, creating a division of labour within the region.
- Singapore, Malaysia, Thailand and India produce gold that is exported to Western Australia, where it is processed before being re-exported to these countries. In 2011, Western Australia imported \$1.4 billion of gold from countries in the Indian Ocean Rim region and exported \$7.9 billion to the same group of countries.
- India was Western Australia's key gold destination in 2011, with a value of \$4.0billion, followed by Thailand and Singapore.

- Western Australia produces crude petroleum which is exported to Malaysia and Singapore to be refined before being re-exported to Western Australia. In 2011, Western Australia exported \$5.3 billion of petroleum products to countries in the Indian Ocean Rim region and imported \$5.8 billion from the same group of countries.
- A number of Western Australia resource companies are also directly active in developing resources and servicing mining activities in countries of the Indian Ocean Rim, for example to service petroleum activities in Singapore or develop mines in Mozambique and Tanzania.
- Australian direct investment to countries in the Indian Ocean Rim totalled more than \$15 billion in 2010, in particular to countries like Singapore (\$7 billion direct investment abroad from Australia), Malaysia and Indonesia (\$3 billion each).
- Direct investments from the region to Australia totalled more than \$25 billion, chiefly from Singapore (\$19 billion direct investment in Australia in 2010), Malaysia (\$4 billion) and South Africa (\$2 billion).
- It is worth noting that investment information for many countries in the region is not available or fully consistent (in particular from India).
- India is a strong investor in the region, in particular in the service sector (such as telecommunication and mobile services) in African countries.

1.6 Competition

- Some of them are competitors as they produced the same commodities as Western Australia and target the same markets.
- For example, Malaysia and Indonesia produce LNG and exports it to Western Australia's key Asian markets. Iran, Yemen, Oman and the United Arab Emirates are important oil and gas exporters which compete with Western Australian LNG in the energy mix of many Asian economies.
- In particular, Malaysia has long term LNG contracts with a number of North East Asian countries including Japan (60% of Malaysian LNG exports), South Korea (27%), Taiwan (12%) and China (0.9%). Malaysia was the world's third largest exporter of LNG in 2010 (following Qatar and Indonesia), exporting 23.5 million tonnes of LNG and accounting for 10.5% of world LNG exports.
- Many African countries in the Indian Ocean Rim have mineral exports that compete with Western Australia's. In 2010, South Africa exported \$5.4 billion of iron ore, Mozambique \$1.2 billion of aluminium and Tanzania \$1.0 billion of gold.

2 Common strategic issues

2.1 China

- China is a key economic influence for most of the countries of the Indian Ocean Rim. In particular China is aiming at diversifying its import sources, with numerous countries in the region providing the commodities it needs for its development.

- Along with Australia (\$36 billion), India (\$12 billion) and South Africa (\$6 billion) were important source of mineral ores for China in 2010.
- Iran (\$13 billion), Oman (\$9 billion) and The United Arab Emirates (\$25 billion) were important sources of mineral fuels for China in 2010.
- China's demand for commodity drive global commodity prices up and fuels economic growth in most economies of the Indian Ocean Rim. As such, many economies in the region are vulnerable to the price and trade effects of a slowdown in the Chinese economy.
- China is also investing extensively in the region to secure its access to resources. In 2010, China invested a total of \$5.5 billion in countries of the Indian Ocean Rim region, including \$1.7 billion to Australia, \$2.3 billion to Asian countries in the region and \$1.5 billion to African and Middle East countries.
- A significant share of China's outward direct investment is going through Hong Kong and thus are not captured in these numbers.

2.2 Migration in the Indian Ocean Rim Region

- Most countries in the region have positive population growth with developing economy (apart from Singapore) and a large share of their population under the poverty line.
- For example, 58% of Mozambique's population was estimated to be under the poverty line in 2008 and its population grew by 2.4% in 2010. 25% of the Indian population was under the poverty line in 2007 and its population grew by 1.4% in 2010.
- The countries with the fastest growing populations in the Indian Ocean Rim Region in 2010 were the United Arab Emirates (+7%), Tanzania and Yemen (both 3%) and the slowest were Thailand and Mauritius (around +0.5%). In comparison, the Australian population grew by 1.1% in 2012.
- This demographic pressure associated with poverty creates migration flows within and without the region. The richer countries have positive net migration flows (more immigrants than emigrants), such as for the United Arab Emirates (3.3 million net migrants in 2010), Australia (1.1 million), Singapore and South Africa (both 0.7 million) and Thailand (0.5 million), while poorer countries have negative migration flows, with in particular Bangladesh and India losing almost 3 million people to migration in 2010 and Indonesia 1.3 million.
- These migration flows impact directly on Western Australia's population and its labour market.
- Of all the countries in the Indian Ocean Rim, settlers from South Africa accounted for the largest share of migrants to Western Australia, followed by India and Malaysia in 2010-11.
- The share of settlers from South Africa to Western Australia has been falling since 1998-99, while those from India has been increasing
- Asian settlers accounted for about two thirds of all settlers from the Indian Ocean Rim countries to Western Australia in 2010-11. In comparison, in 1998-99, settlers from Africa accounted for 52% of all Indian Ocean Rim countries.

- African settlers to Western Australia grew by 5.5% a year, on average, over the 5 years to 2010-11, compared with a growth rate of 3.8% for Asian settlers.

2.3 Others

- Climate change is a significant challenge for the region, with many countries in the Indian Ocean Rim likely to be affected by extreme climatic events, such as droughts, floods and cyclones. Cooperation should be encouraged to put in place warning systems along with mitigation and adaptation strategies.
- In particular, there is a risk for increased refugee flows from certain countries in the region (Bangladesh, Yemen, Tanzania) associated with climate change.
- There are also a number of security issues in the region, better addressed through a cooperative approach (such as pirate activity in the Straits of Hormuz), political and economic isolation (such as is the case of Iran with its nuclear program), religious tensions (as found in Yemen and Oman) and territorial disputes (in particular in South East Asia).