

Chapter 13

Trade, free trade agreements and tourism in the Indian Ocean rim

The Indian Ocean rim is made up of a number of countries whose point of similarity is primarily geographic...What can draw the region together is a focus on the flow of goods and services across the Indian Ocean itself and the economic benefit that follows.¹

Australia's trade in the Indian Ocean rim

13.1 In its submission, DFAT summarises the importance of the Indian Ocean rim by noting the centrality of the Indian Ocean's sea trade routes to energy and resource security for many countries:

Much of the world's trade in energy crosses the Indian Ocean region, which also includes a large proportion of oil, iron ore, tin, bauxite, gold, diamonds, manganese, uranium, chromium and hydrocarbons. Many countries in the region will also be increasing their consumption of these resources in the future.²

13.2 In addition to the above, it is estimated that in total the Indian Ocean carries around two thirds of the world's oil shipments. In fact the countries of the Indian Ocean region hold over half the world's resources of crude oil, one fifth of coal supplies, and 40 per cent of natural gas.³ As noted in previous chapters, with the emphasis on security of sea-borne trade in the Indian Ocean rim, piracy and naval power are key concerns. Likewise the eco, adventure, and maritime tourism industry, particularly important for smaller countries in the Indian Ocean, is also affected by piracy.

13.3 Submissions emphasize that the Indian Ocean rim is of significant economic and strategic significance to Australia. Approximately one third of Australia's exports originate from Western Australia.⁴ Five of Australia's major trading partners—India, Singapore, Thailand, Malaysia and Indonesia—are located in the Indian Ocean rim.⁵ Submissions also note that the strategic importance of the Indian Ocean rim is likely

1 DRET, *Submission 15*, p. 5.

2 *Submission 30*, p. 6.

3 *Submission 30*, p. 16.

4 Sam Bateman and Anthony Bergin, *Our western front: Australia and the Indian Ocean*, Australian Strategic Policy Institute, March 2010, p. 12.

5 DFAT website, 'Trade Performance at a Glance', <http://www.dfat.gov.au/publications/trade/trade-at-a-glance-2011.html#sect02>, (accessed 11 June 2013).

to increase substantially into the future. The countries of the Indian Ocean rim are Australia's neighbours, trade and security partners. Much of the world's trade in energy resources and major minerals passes through the Indian Ocean rim, including oil, iron ore, tin, bauxite, gold diamonds, manganese, uranium, chromium and hydrocarbons.⁶

13.4 DFAT noted that Australia trades with all Indian Ocean rim countries—'Australia's total merchandise trade with Indian Ocean rim countries was around \$90 billion in 2011. This was up from around \$84.4 billion in 2010 and \$78.7 billion in 2009, representing growth of around 15 per cent over this two year period.'⁷ DFAT identified India, Singapore, Thailand, Malaysia and Indonesia as key Indian Ocean markets for Australia.⁸ The following tables show the extent of Australia's merchandise exports and imports to the Indian Ocean rim countries are taken from the DFAT submission.

13.5 Although not a littoral Indian Ocean rim country, China recurs throughout submissions as a key influence on the Indian Ocean rim countries. China's growth and its demand for resources makes it a large market for all Indian Ocean rim resource mining countries, including Australia.

13.6 In the 2012-13 Budget, the Australian Government provided \$52.6 million over five years to boost DFAT's overseas network from 95 to 97 posts. One of the new posts will be in Dakar, Senegal. Funding will also be provided to increase Australia's international diplomatic presence. Budget Paper No.2 explained that 'this increase in Australia's presence will support trade, investment and diplomacy in key locations around the world.'⁹

13.7 The DRET's submission explained that:

[M]ultilateral engagement on energy will become ever more important as our energy markets become increasingly linked and or integrated into the global energy system. This has occurred for oil and is becoming increasingly so for gas. In an increasingly global market it will be important for Australia to understand its international influence and the implication of emerging trends such as global energy diversification, shifting energy demand-supply patterns, increasing adoption of new clean energy policies.¹⁰

6 *Submission 30*, p. 6.

7 *Submission 30*, p. 34.

8 *Submission 30*, p. 34.

9 *Budget Paper No.2: Budget Measures 2012-13*, 'Department of Foreign Affairs and Trade', p.161.

10 *Submission 15*, p.16.

Table (extract): Australia's Exports to Indian Ocean rim countries¹¹¹²

Country	CY2009 A\$000	CY2010 A\$000	CY2011 A\$000	Major exports
Bangladesh	409,232	582,102	578,934	Wheat, Cotton
India	14,472,829	16,424,865	15,264,974	Coal, Gold, Copper
Indonesia	4,139,364	4,491,439	5,398,180	Wheat, Crude Petroleum
Iran	594,830	168,366	150,449	Meat, Medicaments
Malaysia	3,129,503	3,638,633	4,491,205	Copper, Crude Petroleum
Oman	374,803	477,387	417,804	Motor Vehicles, Wheat, Milk
Pakistan	527,717	540,141	413,798	Vegetables, Cotton, Coal
Singapore	5,360,208	4,853,132	6,399,208	Crude Petroleum, Gold
South Africa	1,496,366	1,803,219	1,644,409	Coal, Medicaments
Thailand	4,235,545	5,854,660	6,758,680	Gold, Crude Petroleum
United Arab Emirates	2,107,569	2,146,929	2,247,297	Motor Vehicles, Meat
IOR Total	38,014,226	42,297,118	45,084,031	
Total	196,560,596	231,160,964	262,448,427	
per cent of Total	19%	18%	17%	

11 Based on ABS data on the DFAT STARS database, consistent with catalogue number 5368.0

12 DFAT, *Submission 30*, p. 35.

Table (extract): Australia's Imports from Indian Ocean rim countries¹³¹⁴

Country	CY2009 A\$000	CY2010 A\$000	CY2011 A\$000	Major Imports
Bangladesh	147,961	143,191	244,366	Clothing, Linen
Burma (Myanmar)	25,628	15,701	12,894	Fish, Clothing
India	2,031,097	1,973,533	2,234,681	Pearls, Gems, Jewellery
Indonesia	4,558,750	5,320,572	5,906,363	Petroleum, Gold
Iran	50,133	184,982	63,240	Propane , Butane
Kenya	11,525	18,190	13,072	Vegetables, Coffee
Malaysia	7,553,074	9,099,318	8,546,121	Petroleum, Electronics
Oman	97,230	35,045	61,887	Fertilisers, Plastics
Pakistan	162,939	162,526	172,625	Linen, Clothing, Rice
Singapore	11,173,403	10,619,608	14,166,035	Petroleum
South Africa	912,652	1,102,767	841,349	Motor Vehicles, Iron
Thailand	11,627,179	11,004,716	8,444,105	Motor Vehicles, Gold
United Arab Emirates	2,146,767	2,229,536	4,133,040	Petroleum, Propane
IOR Total	40,627,159	42,057,086	44,998,313	
Total	200,604,101	210,065,035	227,106,890	
per cent of Total	20%	20%	20%	

13 Based on ABS data on the DFAT STARS database, consistent with catalogue number 5368.0

14 DFAT, *Submission 30*, p. 36.

13.8 As the extracted tables above demonstrate, Australia's trade in the Indian Ocean rim region is varied—ranging from resource commodities and motor vehicles to agricultural produce. The Western Australian government advised the committee that they see the Middle East in particular as an important growth area for agricultural produce export. As a result, the Western Australian government has a trade office which looks after the Middle East and the North African region.¹⁵

13.9 DFAT nominated the United Arab Emirates as Australia's largest merchandise trading partner in the Middle East, with two-way trade valued at \$A6.4 billion in 2011. DFAT noted that merchandise trade with Iran has decreased since the late 1990s, largely due to the impact of UN Security Council mandated and Australian autonomous sanctions.¹⁶

13.10 DFAT's submission described the Gulf Cooperation Council (comprising Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates) as an important economic partner. Two-way merchandise trade with the Gulf Cooperation Council in 2011 was valued at \$A11 billion. DFAT lists Australia's main exports to the Gulf Cooperation Council as 'passenger motor vehicles, meat (excluding beef), barley and live animals.'¹⁷¹⁸

Commodities trade

13.11 Both DFAT and the DRET identified the Indian Ocean rim as the area of majority of Australia's resource trade. DRET describes Australia's commodities trade relationship with the Indian Ocean rim as falling into four broad categories:¹⁹

- Trade with South East Asian nations as part of their ongoing industrial development, including export of crude petroleum and importation of crude and refined petroleum products.
- Commodity exports to the very large and rapidly developing Indian economy, with significant potential for growth across a wide range of products.
- Competition with the Middle East and South East Asia in LNG production.
- Competition with minerals and coal production in Africa, however there are also significant opportunities for Australian firms in African investment in the commodities sector.²⁰

15 Mr Nunis, *Committee Hansard*, 2 October 2012, p. 19.

16 *Submission 30*, p. 32.

17 *Submission 30*, p. 33.

18 For detailed examination of the issues surrounding Australia's live animal exports, see the Senate Standing Committee on Rural Affairs and Transport's report '*Animal welfare standards in Australia's live export markets*'.

19 For discussion on resources, minerals, synergies and competition in the region, see Chapter 12.



Port Hedland Port—on the left salt stacked for shipping is moved with a bulldozer; on the right ships enter the port for loading.

13.12 During the visit to the Pilbara region, committee members were able to view for themselves the scale of Australia's resource exports from the North West and the significance of this region to Australia's trade with the Indian Ocean rim. Issues specific to mining and resources were outlined in the previous chapter.

Education, tourism and export of services

13.13 DFAT also identified key Indian Ocean rim countries for Australian trade in services. It noted that although the statistics available on service trade for Indian Ocean rim members were limited, it had figures for the countries identified in the tables extracted below.²¹

20 *Submission 15*, p. 5.

21 *Submission 30*, p. 37. DFAT cited its source as *ABS catalogue 5368.0.55.003 International Trade in Goods and Services, Australia*.

Australia's services exports to selected Indian Ocean rim countries

Country	2008-09 A\$million	2009-10 A\$million	2010-11 A\$million
India	3,406	3,556	2,501
Indonesia	1,269	1,616	1,227
Malaysia	1,626	1,576	1,665
Singapore	3,184	2,698	2,823
South Africa	448	448	397
Thailand	1,013	1,038	978
Total	52,948	52,011	50,570

Australia's services imports from selected Indian Ocean rim countries

Country	2008-09 A\$million	2009-10 A\$million	2010-11 A\$million
India	746	615	691
Indonesia	1,269	1,616	2,065
Malaysia	1,011	1,043	1,242
Singapore	4,277	3,289	3,724
South Africa	409	406	401
Thailand	2,007	2,152	2,036
Imports	56,328	53,388	57,360

13.14 The ACCI also noted the importance of movement of people between countries, particularly in context of the export of services. ACCI argued in its submission that one of the biggest challenges in the trade in services was the effect of 'behind-the-border' restrictions:

- lack of recognition of cross border qualifications;
- restrictions on rights to practice;
- constrains on commercial presence;
- poor quality intellectual property rules; and
- protections and tax rules.²²

²² Submission 26, p. 15.

13.15 The ACCI argued in its submission for resources to be dedicated to:

- a detailed analysis of 'impediments to our services exports to the Indian Ocean Rim region';
- conduct work to overcome any barriers identified; and
- promote what ACCI marks as Australia's two biggest services export income earners: tourism and education.²³

13.16 The below extract from a table in DFAT's submission, goes to highlight the point made by ACCI that education services are an important and growing sector for Australia, particularly given the market provided by growth in Indian Ocean rim countries such as India. It pointed out that India was our second largest services export market, worth 2.5 billion, with the largest categories in education-related travel.²⁴

13.17 Austrade noted in its submission that there was a growing demand in the Indian Ocean rim for services that will address education, training and skills gaps—'for example, the Indian Government's stated aim of skilling 500 million people by 2020'.²⁵ Austrade believes that Australia has a role in providing education services to the countries of the Indian Ocean rim.

13.18 The Western Australian government advised in their submission that in 2011, enrolments from Indian Ocean rim countries accounted for over a third of international student enrolments in Western Australia. The main countries from which these enrolments were drawn were: India, Malaysia, Singapore, Indonesia and Thailand.²⁶ Further, the Western Australian government noted that an increasing number of students from the Middle East are now coming to study in Western Australia.²⁷

13.19 DFAT too noted that the United Arab Emirates is emerging as an important market for Australian education, financial, health and construction related export services.²⁸ Further, the Gulf Cooperation Council is similarly becoming a growing market for export of Australian services.²⁹

23 *Submission 26*, p. 15.

24 *Submission 30*, p. 37.

25 Austrade, *Submission 19*, p. 7.

26 *Submission 35*, p. 7.

27 Mr Nunis, *Committee Hansard*, 2 October 2012, p. 19.

28 *Submission 30*, p. 32.

29 *Submission 30*, p. 33.

Table (extract): Student visa holders from Indian Ocean rim countries³⁰

Country	As at 30 June 2009	As at 30 June 2010	As at 30 June 2011
Bangladesh	5460	5001	4636
Burma (Myanmar)	630	808	738
India	92490	79699	50103
Indonesia	11570	12080	11402
Iran	1670	2175	2447
Kenya	1580	1618	1430
Malaysia	15920	16130	15203
Mauritius	4870	4046	2641
Oman	460	484	430
Pakistan	4770	5436	6276
Singapore	5050	5184	4911
South Africa	770	898	856
Sri Lanka	7580	6864	5496
Thailand	13460	13147	11805
United Arab Emirates	610	998	829
Total IOR	167620	155315	119920
Total	386266	382716	332709
Per cent of total	43%	41%	36%

Foundations, Councils and Institutes—people-to-people links

13.20 DFAT explained in its submission that a vital part of Australia's relationship with other Indian Ocean rim countries is the people-to-people links built by 'Australians working, living and travelling abroad, or the people of the Indian Ocean rim doing the same in Australia.'³¹

For instance, people-to-people links with some countries have benefited from the strong growth of direct air links (such as the UAE) , a large

30 'Student Visa Holders Present in Australia', Department of Immigration and Citizenship, <http://www.immi.gov.au/media/statistics/statistical-info/temp-entrants/students.htm>

31 *Submission 30*, p. 44.

number of expatriate in Australia or expatriate Australians living and working in the country (such as India), or when Australians work and volunteer in areas such as education, mining, business, missionary work and tourism (such as Tanzania).³²

13.21 A key part of maintaining and building on people-to-people links is the foundations, councils and institutes. Of the ten foundations, councils and institutes supported by DFAT, there are five that promote links to countries in the Indian Ocean rim:

- Australia-India Council (established in 1992 in response to a recommendation by the Senate Standing Committee on Foreign Affairs, Defence and Trade)
- Australia-Indonesia Institute (established in 1989)
- Australia-Malaysia Institute (established in 2005)
- Australia-Thailand Institute (established in 2005)
- Council for Australia-Arab Relations (established in 2003)

13.22 The above councils and institutes promote bilateral relations between Australia and their focus country; raise awareness and understanding between the peoples of the two countries; and create people-to-people, business-to-business and institution-to-institution links.

13.23 On 20 March 2013, the former Parliamentary Secretary for Foreign Affairs, Richard Marles MP, launched the report by the Australia-India Institute on security, stability and sustainability in the Indian Ocean. Asked about how the conclusions reached in the report might affect government consideration of the use of IOR-ARC as a forum for developing relations with India and Indonesia, DFAT responded in writing:

The report does not represent government policy and is intended as a contribution to debate. We welcome debate about the future directions of Australian policy in the Indian Ocean region. Like other reports, analysis and judgments contained in the report may be drawn on in regional and bilateral discussions on Indian Ocean regional security.³³

Australia's approach to trade in the Indian Ocean rim

13.24 DFAT described Australia's approach to free trade agreements in the Indian Ocean rim:

Australia supports complementary approaches to regional and bilateral Free Trade Agreements (FTAs) to expand liberalisation to as many parties as possible on a non-discriminatory basis that supports the multilateral system. Consistent with the Government's April 2011 trade policy statement, in

32 *Submission 30*, p. 44.

33 DFAT, answers to questions on notice (public hearing 22 March 2013), p. 1.

negotiations with trading partners Australia advocates comprehensive, high quality, truly liberalising bilateral and regional FTAs that do not detract from, but support, the multilateral trading system. Australia's FTAs promote stronger trade and commercial ties between participating countries, and create opportunities for Australian exporters and investors to expand their business into key markets.³⁴

13.25 Further to the aim described in DFAT's submission, Australia has free trade agreements with three Indian Ocean rim countries: Malaysia, Singapore, and Thailand. Free trade agreements presently under negotiation with Indian Ocean rim countries include: the Australian-Gulf Cooperation Council Free Trade Agreement, the Australia-India Comprehensive Economic Cooperation Agreement, and the Indonesia-Australia Comprehensive Economic Partnership Agreement.³⁵ The growing number of free trade agreements with Indian Ocean rim countries is evidence of the growth in markets in the region.

13.26 Some submitters disagreed with DFAT's approach to trade. The Australian Chamber of Commerce and Industry are proponents of a greater focus on the Indian Ocean rim and on regional trade agreements. Mr Clark told the committee that ACCI was concerned about the government's current focus on the Asia-Pacific, the 'eastern and northern aspects of Australia's trade rather than the western and northern aspects'. ACCI believes that although much has been achieved with bilateral trade agreements, the possibility of regional agreements needs to be explored, particular in the Indian Ocean.³⁶

13.27 Telstra's submission outlined the concerns it had with the way in which DFAT conducts free trade agreement negotiation—in particular, Telstra argued that free trade agreements such as that with Thailand are incomplete because they do not include telecommunications:

Foreign investors face significant barriers to entering telecommunications services markets of key Indian Ocean countries such as India. Bilateral trade agreements offer one path towards addressing these restrictions, however the agreements must be genuinely liberalising, by eliminating or substantially reducing barriers to trade. Australia's Free Trade Agreement with Thailand falls short of this test because it does not include a telecommunications services chapter and undertakings to add commitments on telecommunications services in the Thailand-Australia Free Trade Agreement have not been fulfilled.³⁷

34 *Submission 30*, p. 38.

35 DFAT website, 'Australia's Trade Agreements', <http://www.dfat.gov.au/fta/> (accessed 6 May 2013).

36 *Committee Hansard*, 5 December 2012, p. 29.

37 *Submission 23*, p. 2.

13.28 DRET's submission noted that '[f]or tourism to date FTAs have had limited impact on tourism outcomes for Australia with aviation services the most relevant area for tourism in most agreements'.³⁸

Austrade

13.29 Austrade lists its value-adding capability to Australian mining interests in the Indian Ocean rim region as:

- the ability to identify and access business opportunities in Indian Ocean rim markets;
- providing advice on doing business in these markets;
- networks of key decision makers, customers and contacts;
- market information and insight; and
- the ability to leverage the 'badge of government' for the benefit of Australia.³⁹

13.30 Specifically, Austrade will continue to provide targeted trade facilitation and development activities across those markets, where:

- language and business culture, as well as genuine security concerns and perceptions of doing business can prove a barrier;
- there is less openness of regulatory frameworks and transparency of business processes—governance, transparency and business ethics are all issues across the Indian Ocean rim;
- there are difficulties assessing distribution channels and commercial connections; and
- the value of the 'badge of government' is highest.⁴⁰

13.31 Austrade currently has 181 staff based in Indian Ocean rim countries; of these, 21 are Australia-based staff posted overseas, and 160 are overseas employed staff.⁴¹ The majority of these staff are in South-East Asia (82), followed by South Asia (60), Middle-East (32) and finally Sub-Saharan Africa (7).⁴² Given the growing Australian investment in resources in African countries, the committee is concerned that Austrade, and indeed DFAT, have so few posts on the continent.

13.32 Submissions have also noted Australia's involvement in this competitive marketplace as not exclusively defined by bilateral trade arrangements, but

38 *Submission 15*, p. 22.

39 *Submission 19*, p. 6.

40 *Submission 19*, p. 6.

41 *Submission 19*, p. 8.

42 *Submission 19*, p. 8.

increasingly by more complex Foreign Direct Investment (FDI) activities.⁴³ Increasingly, FDI is fundamental to international competition, and Australian companies and interests are becoming a larger and more influential presence in this space, along with many larger and more dominant global entities.⁴⁴

13.33 On this issue, the Western Australian Department of Premier and Cabinet noted:

- 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).⁴⁵

13.34 Mr Nunis, Western Australian Government, advised the committee that the Western Australian Government has, in his view, the most extensive trade offices in the Indian Ocean rim out of all of the states—he listed offices in Dubai, India, Japan, Korea, the UK, China, Indonesia and Singapore and noted that the West Australian government was keen to establish a trade office in Africa.⁴⁶

13.35 While Mr Nunis maintained that the Western Australian Government did work with DFAT and Austrade, he noted some coordination problems:

When we talk about coordination, it is actually a little bit embarrassing out in those regions, because the same people—whether they are in business or government—are getting visits from people from Western Australia, visits from DFAT and visits from Austrade and then the Victorians send a delegation of 300 people to talk to them as well.⁴⁷

13.36 The committee put the comments from the Western Australian Government to Mr Landers, Austrade. Mr Landers believed that the coordination between Austrade and the state governments was very good—he explained that through the Senior Officials Trade and Investment Group (SOTIG), a deputy secretary level group which meets monthly, Austrade is having active discussions with the states. The committee notes however that SOTIG is a relatively new group—Mr Landers advised that it had been running for six months in December 2012. Mr Landers did maintain that SOTIG had been useful in terms of practical discussion, for example:

43 *Submission 19*, p. 7.

44 *Submission 30*, p. 31.

45 *Submission 35*, p. 10.

46 *Committee Hansard*, 2 October 2012, pp. 19–20.

47 *Committee Hansard*, 2 October 2012, p. 21.

We are having active discussions with each of the states around, for example, offering them the opportunity to place embedded business development managers into our network. India would be one of the first cabs off the rank, so to speak, where the South Australian government is looking quite seriously at having a representative work on their behalf out of our Mumbai office, although it is not a done deal yet.⁴⁸

Australia's key competitors in the Indian Ocean rim

13.37 The following paragraphs summarise the status of key Indian Ocean rim countries, in particular noting their relationship to Australia, and Australian mining interests in the region.

13.38 India is central to the Indian Ocean rim in several ways. It is located centrally to major transcontinental shipping routes. Already a major global hub for industry, economic forecasts predict further substantial growth and broad scale development within India, which will drive greater need for imported energy and mineral resources.⁴⁹ India's already vast requirements necessitate strong interests in Indian Ocean rim trade routes and in particular, energy security. India is actively involved in regional engagement, as current chair of the IOR-ARC. India is also instrumental in the forming the Indian Ocean Naval Symposium (IONS) to discuss regional security measures. Regional issues are also discussed through the East Asian Summit (EAS), SAARC, the Asian Regional Forum (ARF) and the G20.⁵⁰ Importantly, India is one of Australia's largest trade partners, with a growing need for resources. India is also very active in the Indian Ocean rim, and beyond, in terms of FDI activity.

13.39 Submissions are often silent regarding Australia's links or competition with South Africa, a country which is similar in climate to parts of Australia and is similarly rich in resources. South Africa is one of the most influential political nations in the Indian Ocean rim, and particularly within Africa. It is the only African country in the G20, giving it substantive presence in international negotiation. South Africa is also a substantial presence in the Indian Ocean rim because of its maritime security interests, making it well-placed to influence counter-piracy efforts in the region. South Africa is a major exporter of minerals with significant foreign investment interest across Africa in particular.⁵¹ South Africa competes directly with Australia as an exporter of mineral and energy resources.

13.40 South Africa cannot boast the same level of trade with Australia, as India. South Africa, however, is Australia's largest export and investment destination in Africa, with 28 per cent of Australia's total merchandise trade with Africa.⁵² Given

48 *Committee Hansard*, 5 December 2012, p. 5.

49 DFAT, *Submission 30*, p. 11.

50 DFAT, *Submission 30*, p. 11.

51 DFAT, *Submission 30*, p. 9.

52 DFAT, *Submission 30*, p. 31.

South Africa's prominence in the Indian Ocean rim both politically and economically, it is central to Australia's ongoing fortunes in the region, both as a trade partner and competitor.

13.41 The middle-eastern nations that are part of the Indian Ocean rim have significant interests in maritime security given the very high levels of energy exports and general trade from this region. As part of its regional engagement, Iran hosts the IOR-ARC Regional Centre for Science and Technology Transfer (RCSTT) which conducts research, provides training and liaises to assist member countries in developing disseminating, and acquiring new technologies.⁵³ (See chapter 9.)

13.42 Submissions have also been generally silent on the development of Australia's relationship with Indonesia. But as Indonesia develops a stable political and economic environment, opportunities will increase for Australia to work with its closest neighbour in a relationship other than aid and military assistance. In 2012, Indonesia foreign Minister noted that cooperation in the Indian Ocean as being amongst Indonesia's foreign policy priorities, noting Indonesia's intention to accord more attention to maritime cooperation in the Indian Ocean rim.⁵⁴ Along with Australia, South Africa and India, Indonesia holds influence as a political and economic operative as member nation of the G20.

Other international interests beyond the Indian Ocean rim

13.43 China's rapid growth and development has an impact across the entire Indian Ocean rim. China's trade relationships in, and beyond the region, are extensive, and the value of Chinese trade for individual Indian Ocean rim countries is very substantial. China's consumption of energy and mineral resources to support its development is integral to Australia's on-going economic fortunes. China is Australia's major export destination accounting for 22.4 per cent of all exports.⁵⁵ China is also one of the biggest participants in FDI in the Indian Ocean rim and globally.⁵⁶

13.44 The European Union (EU) has significant trade relationship with the Indian Ocean rim; in particular, since 2004 the EU has a 'strategic partnership' with India.⁵⁷ This partnership was reaffirmed in 2012 at the thirteenth annual India-EU summit, where leaders committed to cooperation on trade, trade security, energy, economic development, sustainable development, research and innovation.⁵⁸ Such agreements

53 *Submission 30*, p. 10.

54 *Submission 30*, p. 11.

55 DFAT, 'Trade Performance at a Glance', <http://www.dfat.gov.au/publications/trade/trade-at-a-glance-2011.html#sect02> (accessed 6 May 2013).

56 The World Bank, 'Foreign direct investment, net flows (BoP, current US\$)', <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> (accessed 6 May 2013).

57 *Submission 30*, p. 13.

58 *Submission 30*, p. 13.

are significant, as Australia negotiates its own trade alliances in the region, particularly considering valuable export markets such as India.

13.45 The United States maintains a strategic interest in the Indian Ocean rim manifesting in trade and maritime security and counter-terrorism measures. The US has a key bilateral engagement with India.⁵⁹

13.46 France, Japan, Russia, the Republic of Korea, and the United Kingdom, have all been identified in the DFAT submission, as being key foreign powers with substantive interests in the Indian Ocean rim.⁶⁰ These interests could stem from history in the case of France, which has territorial and military presence in the region. Like many developed nations, Japan has a heavy dependence on Middle Eastern Oil that transits the Indian Ocean rim. Russia has close ties to India in particular, cooperating on defence, space and nuclear energy. Korea is a growing presence due to strong trade commitments across the region. Like France, the UK has colonial ties to the region, and interests in seaborne passage of energy imports. The UK also maintains territorial assets in the Indian Ocean rim.⁶¹

IOR-ARC and trade

13.47 Mr Clark, ACCI, noted that his organisation had been involved with DFAT to assist with a business voice inside the IOR-ARC for perhaps more than a decade. He informed the committee that over that time, ACCI has been disappointed that not all that much has been achieved:

We have proposed a number of things, including a free trade agreement with the Indian Ocean Rim countries, which we would like to see advanced. Recognising that that may take some time, we have also suggested that a simple step forward might be the introduction of a card similar to the APEC travel card to assist businesses just to do the simple border crossing process a little more easily in that region and facilitate more business interaction.⁶²

13.48 DFAT advised the committee on 22 March 2013 that the introduction of a business card like the APEC Business Travel Card was a 'practical, useful trade-facilitating measure in the Indian Ocean'⁶³ which DFAT hoped could occur through the IOR-ARC. DFAT noted in its answers to question on notice that:

Currently, preliminary discussions have taken place among IOR-ARC trade officials about a feasibility study on whether or not a Business Travel Card

59 DFAT, *Submission 30*, p. 14.

60 DFAT, *Submission 30*, pp. 13–14.

61 DFAT, *Submission 30*, p. 14.

62 *Committee Hansard*, 5 December 2012, p. 29.

63 *Committee Hansard*, 22 March 2013, p. 3.

is a viable option for IOR-ARC member countries. Any future studies would require business consultation.⁶⁴

13.49 ACCI agreed with the idea of a business card, noting that the purpose of the scheme was to assist business take up opportunity by removing time and expense impediments.⁶⁵ ACCI believes that

A scheme such as this [APEC business travel card scheme] for the Indian Ocean Rim, perhaps modelled on the existing APEC card, would add immediate value to Australian businesses seeking to expedite business travel throughout the Indian Ocean Rim countries that wished to participate.⁶⁶

13.50 Mr Mark Pierce, DFAT, noted that in ACCI's submission to the committee, ACCI had suggested that the committee consider a preferential trade agreement in the region. Mr Pierce explained:

That is not on the government's agenda. That proposal also comes up regularly in the IOR-ARC. There is a constituency of members who would actively support the ACCI proposal. The government does not.⁶⁷

13.51 DFAT expanded on this statement in response to questions on notice from the committee:

Australia's position is that an IOR-ARC PTA [Preferential Trade Agreement] is not the most appropriate way to proceed with trade liberalisation within IOR-ARC. The heterogeneity of the membership of IOR-ARC is a challenge in this regard. Australia already has or is negotiating our own functional equivalent of preferential trading arrangements (that is, free trade agreements or existing Least Developed Countries preferential treatment) with around two-thirds of IOR-ARC countries. Australia already provides preferential treatment (i.e. no duties or quotas) for all exports from Least Developed Countries (LDCs) which includes IOR-ARC countries such as Bangladesh, Comoros, Madagascar, Mozambique, Tanzania and Yemen. Australia values the importance of ongoing trade facilitation among IOR-ARC countries and has organised programs in 2012 to further this objective. It continues to be an Australian priority area of cooperation in IOR-ARC.⁶⁸

13.52 In relation to the IOR-ARC, Telstra's submission noted that business would support, and sponsor, the IOR-ARC but only if the organisation and its work is given greater promotion:

64 DFAT, answers to questions on notice (public hearing 22 March 2013), p. 4.

65 *Submission 26*, p. 13.

66 *Submission 26*, p. 13.

67 *Committee Hansard*, 22 March 2013, p. 5.

68 DFAT, answers to questions on notice (public hearing 22 March 2013), p. 6.

The challenge for Australian companies such as Telstra is to justify the allocation of resources to support such activity in a meaningful way, for example through participation in the IOR-AC Business Forum.

13.53 Telstra suggested in its submission that Australia should use its opportunity as chair of IOR-ARC to work with the Australian business community (and other sectors such as arts and education) to promote IOR-ARC and help business connect with the association.⁶⁹

Conclusion

13.54 In Chapter 5, the committee discussed the ways in which Australia may engage with IOR-ARC as chair of the association—raised in part in this discussion was the engagement IOR-ARC has with the business community. The committee recommended that Australia as chair of IOR-ARC encourage the association to strengthen its links with the business community (see Recommendation 1).

13.55 The committee notes that complementary to this recommendation is DFAT's engagement with the Australian business in regards to IOR-ARC. DFAT noted in its answers to questions on notice that it had contacted the ACCI, the AIG and the BCA in 2011 to seek their engagement in IOR-ARC affairs—ACCI had attended through a representative to the IOR-ARC Business Forums in 2011 and 2012.⁷⁰

13.56 DFAT advised the committee that it continues to 'liaise with ACCI closely on IOR-ARC initiatives', noting that DFAT has in 2013 attended an internal ACCI international trade meeting to discuss IOR-ARC and that ACCI has spoken at an IOR-ARC inter-departmental committee meeting about business priorities and views.⁷¹

13.57 The committee feels that Australian business groups would benefit from a more formal structure for consultation with DFAT, particularly when Australia's role as chair of IOR-ARC begins in 2013. The committee notes Telstra's point above, and its own experience of some witnesses' lack of knowledge about IOR-ARC as valid reasons why the association needs more promotion within Australia.

Recommendation 14

The committee recommends that DFAT establish a formal and regular consultation panel in relation to IOR-ARC for Australian businesses and industry, with a broad representation from all sectors. This consultation panel should focus initially on:

69 *Submission 23*, p.11.

70 DFAT, answers to questions on notice (public hearing 22 March 2013), p. [4].

71 DFAT, answers to questions on notice (public hearing 22 March 2013), p. [4].

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- **increasing Australian business and industry awareness of IOR-ARC and its activities; and**
 - **incorporating input from business and industry into Australia's planning for taking on chair of IOR-ARC.**

In due time, the focus of the panel can be extended to broader discussion of issues in the Indian Ocean rim.

Recommendation 15

The committee notes the role played by the foundations, institutes and councils in promoting business-to-business and people-to-people links with countries in the Indian Ocean rim. The committee recommends that DFAT coordinate a roundtable of Indian Ocean rim country foundations, institutes and councils. The roundtable should focus on:

- **ways to increase Australian community and business awareness of IOR-ARC and its activities; and**
- **any other relevant matters.**

Recommendation 16

The committee notes that currently there is no foundation, institute or council which covers the countries of Africa. The committee recommends that DFAT work with existing business and community groups to establish an appropriate organisation to enhance awareness and understanding between the peoples and institutions of Australia and the African countries.

13.58 Noting the comments above in regards to the Senior Officials Trade and Investment Group and the coordination between Austrade and the state and territory governments, the committee feels that while there is obviously much goodwill, more practical measures need to be taken to ensure efforts are not duplicated.

Recommendation 17

The committee sees significant benefit in improved coordination between the state and federal governments on the promotion of Australian business and trade in the Indian Ocean rim. The committee recommends that the Australian government create a Council of Australian Governments (COAG) Select Council to facilitate consultation and cooperation on trade and investment initiatives for the Indian Ocean rim.

The Indian Ocean Rim COAG Select Council would continue for the duration of Australia's role as chair of IOR-ARC, with the potential to be made a Standing Council.

The committee believes that the Select Council would ensure that coordination of efforts promoting Australia business in this growing region is a priority for both state and federal government.

Tourism

13.59 The Department of Resources, Energy and Tourism's (DRET) submission described the importance of tourism for the Australian economy, writing that tourism contributes \$34.6 billion in GDP, 2.5 per cent of Australia's total GDP (2010-11):

Tourism is Australia's largest services export earner, accounting for \$24 billion in exports in 2010-11, which equates to around eight per cent of total exports. The tourism industry employed over 500,000 Australians in 2010-11 (this is around one in every twenty employed Australians). Continued growth is expected for Australia's tourism industry, with total inbound economic value from tourism activity forecast to grow by 3.4 per cent each year between 2010 and 2020.⁷²

13.60 DRET also advised that Australia has strong bilateral tourism relationships with several Indian Ocean rim countries—particularly India, Indonesia, Malaysia, Thailand and Singapore. DRET predicted that tourism from India and Indonesia in particular is set to increase in coming years.⁷³ Ms Tania Constable, DRET, explained that the department 'engages with a number of Indian Ocean rim countries through other regional fora such as the East Asia Summit, APEC and the G20'.⁷⁴

13.61 Mr Nicholas Dowie, DRET, observed that Tourism Australia has offices in a number of regions in the Indian Ocean rim, including India, Malaysia and Singapore. Tourism Australia has identified these countries as having a high growth potential, along with the Middle East, UAE and Saudi Arabia due to their situation as financial hubs:

There is that degree of coherence there in terms of looking at those markets in the region in tourism potential and looking at putting resources in place to convert that potential into actual expenditure to assist the Australian economy.⁷⁵

13.62 Tourism Western Australia also noted that Indian Ocean rim countries are going to be important tourism markets in coming years—Western Australia's location puts it in a unique position to take advantage of growing tourism to Australia. Tourism Western Australia argues that provision of infrastructure, development of international air routes and ensuring opportunities for investment will be critical to meet the anticipated growth in demand from Indian Ocean rim markets.⁷⁶ Mr Dowie noted that:

[O]utwards to 2020 we are forecasting that the rise in tourism from South Africa will be an increase of 4.7 per cent over that period. So there is a strong growth forecast coming, largely from South Africa. That strength,

72 *Submission 15*, p. 17.

73 *Submission 15*, p. 17.

74 *Committee Hansard*, 17 August 2012, p. 14.

75 *Committee Hansard*, 17 August 2012, p. 23.

76 *Submission 3*, p. 2.

though, has certainly not yet been reflected in other African markets on the Indian Ocean Rim where, I guess with the exception of South Africa, most of those other markets in Africa are very firmly in the emerging class.⁷⁷

13.63 The table below is taken from the Tourism Western Australia submission and shows the forecast growth of tourism from key Indian Ocean rim market countries.⁷⁸

Source Market	Forecast Average Annual Growth Rate (2010 – 2020)
Singapore	2.5%
Malaysia	3.2%
Indonesia	7.5%
South Africa	4.7%
Thailand	4.4%
India	8.0%
Note: The above national forecasts are used as proxies for visitation growth to Western Australia.	
Source: Tourism Forecasting Committee, Forecast 2011 Issue 2.	

13.64 Reflecting the large predicted growth in tourism from India, Tourism Australia has developed a 2020 India strategic plan. The plan outlines the strategy to be used to promote the Australian tourism experience.⁷⁹

13.65 DRET identified competition with other Indian Ocean rim countries as a challenge for Australian tourism—for example South Africa (a strong competitor for tourism from Europe and the US), Singapore and Malaysia (competitors for Chinese tourism). As Australia is viewed as a long-haul destination for most markets, direct flights and other competition measures will be needed for Australia to compete effectively.⁸⁰

77 *Committee Hansard*, 17 August 2012, p. 17.

78 *Submission 3*, p. 3.

79 *Committee Hansard*, 17 August 2012, p. 21.

80 *Submission 15*, p. 17.



Red Dog statue, Karratha – the movie 'Red Dog' was filmed in Karratha and the story has generated Australia-wide interest in the area.

13.66 In its publication, *Tourism 2020*, Tourism Australia stated that the industry's aim was to grow substantially by 2020. DRET's submission noted that to achieve the aims of *Tourism 2020*, a large amount of foreign investment will be required. The whole-of-government Investment Attraction Program is in its infancy.⁸¹

In addition to playing an important role in supplying tourism visitors, IOR countries can also play a role in funding the development of tourism infrastructure needed to attract visitors of the future.⁸²

13.67 Mr Dowie told the committee that the industry needs to recognise that seven of the top 10 visitor markets for Australia are in Asia. The tourism industry needs to make sure that its employees have skillsets in place to meet this demand. Mr Dowie explained that the *Tourism 2020* strategy sets out the themes being worked through, in conjunction with state and territory governments that will help Australia to capitalise on these markets.⁸³ He outlined Tourism Australia's work to encourage investment:

81 *Submission 15*, p. 23.

82 *Submission 15*, p. 19.

83 *Committee Hansard*, 17 August 2012, pp. 21–22.

We have a broad focus in terms of what our marketing partners, Tourism Australia, are able to do. Tourism Australia promotes Australia as an investment destination throughout the region. In terms of the immediate focus, much of that is on China, where a lot of the growth is predicted to come from. China at this stage is our largest market by value and our third-largest market by visitors. By 2020 it is expected to be the largest for visitors by both volume and value.⁸⁴

13.68 Mr Dowie noted that earlier in 2012, Tourism Australia had released their India 2020 tourism plan. He also drew the committee's attention to developments since DRET had provided its submission to the inquiry:

[O]n 2 May 2012 Minister Ferguson announced a new investment partnership between Austrade, Tourism Australia and the Department of Resources, Energy and Tourism which, for the first time, now puts tourism front and centre of the government's broader investment attraction agenda to ensure that, consistent with the marketing campaign that we are putting forward to increase visitation to Australia, we now have a coordinated approach to attracting investment to ensure that we develop the product that will help drive visitation into the future. It is important that we have a whole-of-government approach working there...we have three agencies who have signed a memorandum of understanding to work together to facilitate that objective, so we are starting to see that coherence across government to ensuring that these particular markets are targeted for their investment potential.⁸⁵

13.69 DRET's submission noted the importance of direct air access in creating market access to Australian tourism, and explained that the Tourism Access Working Group had been formed to progress measures to secure market access. Mr Dowie explained that the working group has so far:

- completed a mapping paper setting out future priorities for government to consider in bilateral aviation negotiations;
- worked on measures to encourage international carriers to use airports outside the four major gateways—the airports of Brisbane, Sydney, Melbourne and Perth; and
- the group is working on a regional airports project identifying commercial barriers faced by regional airports in attracting direct international services⁸⁶

13.70 Ms Tania Constable advised the committee that many Asian and Middle Eastern airlines continue expanding aviation links with Australia, for example:

In the second quarter of 2012, AirAsia X commenced services to Sydney from Kuala Lumpur, while Scoot and SilkAir both launched inaugural

84 *Committee Hansard*, 17 August 2012, p. 18.

85 *Committee Hansard*, 17 August 2012, p. 23.

86 *Committee Hansard*, 17 August 2012, p. 22.

international services into Australia from Singapore. Emirates has announced that it will commence four direct services per week between Dubai and Adelaide from November 2012, with possible expansion to daily by February 2013, and the airline will add four direct services per week between Dubai and Perth from December 2012.⁸⁷

13.71 Ms Constable noted that the expansion of flight routes has helped to drive investment in the Australian accommodation sector and has already attracted interest from investors in Singapore, Malaysia and the Middle East.⁸⁸

13.72 Further, Ms Constable noted that an important element of ensuring Australian tourism products appeal to visitors from Indian Ocean rim countries is ensuring workers in the tourism industry have the right skills, including language. Ms Constable explained that the government has allocated \$48.5 million to a new Asia Marketing Fund—the fund will promote Australia in growing markets and encourage investment. Indian Ocean rim countries included under the fund are India, Indonesia, Singapore, Malaysia and Thailand.⁸⁹

13.73 To this end, as Mr Dowie outlined for the committee, the Labour and Skills Working Group operating under Tourism 2020 has a number of focuses relating to creating skillsets in the industry. The group has announced its intention to work with industry in creating a campaign to promote the sector to students. The group is also developing eight 'tourism employment plans' with one in each jurisdiction, to ensure the creation of the skills needed to meet existing and future market needs.⁹⁰

Conclusion

13.74 The committee notes the importance of tourism for the Australian economy. The committee has heard evidence that the Indian Ocean rim is a source of current and potential tourism markets, as well as competition, for Australia. Work undertaken to coordinate between Tourism Australia, DRET and the state and territory tourism bodies is encouraging—this coordination is essential if Australia is to have the skillsets and initiatives to attract the visitor numbers needed to meet the goals in the Tourism 2020 White Paper.

13.75 The committee notes the points raised by ACCI in regard to the need for consideration of what barriers there are to the continued growth of Australia's tourism and education sectors (paragraphs 13.10 and 13.11) and sees significant benefits in government working with industry to find ways to mitigate these barriers.

87 *Committee Hansard*, 17 August 2012, p. 14.

88 *Committee Hansard*, 17 August 2012, p. 14.

89 *Committee Hansard*, 17 August 2012, p. 14.

90 *Committee Hansard*, 17 August 2012, p. 22.