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

**Re: Inquiry into the Indian Ocean Region and Australia's Foreign, Trade and Defence Policy**

Dear Committee,

Thank you for the opportunity to make a submission to the above inquiry.

Future Directions International (FDI) is an independent, non-partisan, not-for-profit research centre that was founded in 2000 by its Chair, Major General Michael Jeffery AC AO (Mil) CVO MC (Retd).

FDI seeks to research areas of importance to Australia that are not well covered elsewhere. Its research is forward-looking, attempting to anticipate events and changes and, by so doing, identify the opportunities and challenges that Australia may face in the future. FDI has five research programmes, each of which is overseen by a dedicated research manager: the Indian Ocean Region; South and West Asia; Energy Security; Northern Australia; and Global Food and Water Crises.

FDI's analysts have provided media commentary and articles to such organisations as: The New York Times, The Diplomat, Harvard International Review, The Jakarta Post, Australian Financial Review, The Australian, Sydney Morning Herald, Jane's Defence Weekly, ABC News 24, ABC FM, and the 7.30 Report.

Accordingly, FDI is delighted to submit comments covering a number of key aspects of Australia's involvement with the Indian Ocean Rim countries. The comments contained herein are taken from an upcoming FDI Landmark Study investigating major power intentions in the Indian Ocean Region.

Please do not hesitate to contact FDI if I or my colleagues can be of any further assistance.

**Major General John Hartley AO (Retd)**
Institute Director and CEO
Future Directions International

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As an independent, not-for-profit research centre, FDI has two roles: to ensure that Australians recognise they are part of a two-ocean continent and that Western Australians see themselves as belonging to a dynamic, national entity in a rapidly developing region of the world. FDI has therefore established five areas of research that embrace the following: the Indian Ocean Region; South and West Asia; Energy Security; Northern Australia; and, Global Food and Water Crises.

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## 1. Strategic Developments in the Indian Ocean Region, Including the Indian Ocean Rim Association (IOR-ARC), and the Implications for Australia

With its developing wealth, increasing population, evolving trade and shipping capabilities and expanding geographic, political and security significance, the Indian Ocean and its littoral states will play an increasingly important role in Australia's future.

Australia should aim to strengthen its global image, and remain an influential middle power in the Indian Ocean Region, by enhancing its trade, economic development and development assistance to promote social stability and improved standards of living among Indian Ocean region countries.

As part of its schedule of Chatham House research workshops, FDI has convened experts and practitioners from a number of backgrounds, including the diplomatic, government, defence and academic sectors to discuss the strategic intentions of India, China and the United States in the Indian Ocean Region and the implications for Australia between now and 2020.

In addition to the three countries above, FDI also sees six Indian Ocean states that are of particular importance to Australia. They are Indonesia, Pakistan, Iran, Saudi Arabia, South Africa and France. FDI recommends that Australia more deeply considers how it can effectively work with these countries to further enhance regional co-operation, stability and security.

Recognising that it is neither desirable nor feasible for Australia to try to do everything, based on FDI's research and workshop discussions, this submission makes a number of recommendations

which could help to achieve Australia's national foreign policy objectives, both broadly and, more specifically, in the Indian Ocean Region.

Put simply, the overall national objective for Australia remains the advancement of the security and prosperity of Australia and its citizens, in accordance with the values of tolerance, opportunity and political and economic freedom, as outlined in the 2003 foreign and trade policy White Paper, *Advancing the National Interest*.

In order to engage more comprehensively in the Indian Ocean Region and to be more influential within it, Future Directions International recommends that Australia should seek to achieve the following outcomes:

1. A secure, conflict-free Indian Ocean Region.
    1.1. Formulate policies that minimise the Indian Ocean Region from becoming an arena of great power competition and conflict by influencing other, larger, powers.
    1.2. Support the development of a suitable regional maritime security forum with a particular focus on the Indian Ocean's sea lines of communication, either separate to, or as part of, a re-energised Indian Ocean Rim-Association for Regional Co-operation (IOR-ARC).

2. Deeper levels of engagement and influence in the affairs of the Indian Ocean Region, with Australia's influence and interests maximised through enhanced diplomacy, trade, investment and development assistance.
    2.1. Work with all key stakeholders to foster regional stability within a rules-based international system.
    2.2. Develop policies that reduce illegal population movements from the root cause onwards.
    2.3. Create overarching Indian Ocean Region divisions within relevant agencies such as the Department of Foreign Affairs and Trade, Austrade and AusAID in order to ensure the most effective and co-ordinated management possible of Australia's international relationships.
    2.4. Encourage Indian Ocean Region countries to establish consulates and embassies in Australia and vice-versa.
    2.5. Send, whenever possible, regular ministerial and business delegations to cover all Indian Ocean Region countries.
    2.6. Use Australia's presence in the G-20 as a means of deepening relations with the other Indian Ocean G-20 countries: Indonesia, India, Saudi Arabia and South Africa.
    2.7. Engage in annual Track Two Dialogues with South Africa, France, Saudi Arabia, Iran, Pakistan, India and Indonesia.

3. The cultures and countries of the Indian Ocean Region incorporated more fully into relevant Australian public policy.
   3.1. Encourage Australians to see their country as an Indo-Pacific country. That is, truly a "two-ocean" nation.
   3.2. Develop a national educational curriculum in Australia at the secondary and tertiary levels focussed on Indian Ocean Studies.
   3.3. Fund linguistic programmes emphasising important Indian Ocean languages, such as Hindi, Urdu, Bahasa Indonesia, Bahasa Malaysia, Farsi, Arabic, French and Portuguese.
   3.4. Invest additional resources into Australia's oceanographic science and research centres to enable an increased focus on the Indian Ocean.
   3.5. Promote greater people-to-people links, cultural and educational exchanges and events between Australia and Indian Ocean Region countries. For instance, an annual Indian Ocean Festival in Perth.

4. A suitable multilateral regional institution that successfully engages all regional countries and key external stakeholders to facilitate co-operation across the full range of issues in the Indian Ocean Region.
   4.1. Expand or replace IOR-ARC, while Australia occupies the role of Chair, to make it a more inclusive, acceptable, relevant and effective Indian Ocean Region multilateral institution capable of addressing important non-traditional security threats, such as piracy.
   4.2. Establish a joint taskforce to further the common good by fighting piracy and conducting oceanographic and scientific research and educational programmes. This is perhaps best done by working with other IOR-ARC states as part of a long-term "generational" strategy to address non-threatening issues and build confidence and a sense of the Indian Ocean as a discreet region, rather than a series of separate sub-regions.
   4.3. Encourage stability by continuing to support the ongoing presence of the United States, France and the United Kingdom in the Indian Ocean Region.

In terms of key actors within the Indian Ocean Region (Indonesia, India, Pakistan, Iran, Saudi Arabia, South Africa, France, United States and China), the Indian Ocean and South and West Asia Research Programmes make the following recommendations:

**INDONESIA**

- Support Indonesia in its economic and social development by adopting policies that dovetail with Indonesia's own national *Pancasila* principles.

- Inject additional resources to further boost bilateral trade, investment and foreign aid to Indonesia.
- Support research that enables Indonesia to more effectively confront its future food and water security challenges.
- Allocate more resources to Indonesia to further aid it in its efforts to address issues of maritime security, fisheries management and unregulated population movements, particularly in the Timor and Arafura Seas.
- Further enhance bilateral defence and security co-operation, particularly in the maritime domain.
- Encourage Indonesia to play a greater role in the Indian Ocean Region and support it as a regional influence in economic, social and security matters.

## INDIA

- Develop long-term relationships with key Indian stakeholders that encourage India to adopt policies that enhance Australia's interests.
- Prioritise negotiations for the Australia-India Comprehensive Economic Co-operation Agreement.
- Assist India in its efforts to resolve the above challenges by building upon its capacity to develop sustainable food and water management practices through the provision of educational, training and technical assistance, as requested.
- Share research and other innovative developments that improve agricultural practices and output.
- Encourage India to engage in constructive dialogue with Pakistan and China as a means of addressing strategic tensions.
- Facilitate, if and where possible, Indo-Pakistani and Sino-Indian dialogue or other suitable backchannel diplomacy as a means of improving relations between those countries.
- Support India's bid for permanent membership of the United Nations Security Council as part of a broader strategy for a modest enlargement of the UNSC.
- Encourage India, along with China, to be part of a multi-national regional security agreement to counter piracy in the Indian Ocean, either in the form of an IOR-ARC-based initiative or some new regional architecture.

## PAKISTAN

- Develop a clearly articulated Pakistan policy that addresses Pakistan as a separate entity, rather than as part of a collective "India-Pakistan" policy.
- Foster deeper bilateral ties and economic openness to facilitate opportunities for Australian investment.
- Build upon Pakistan's capacity to develop sustainable food and water management practices through the provision of enhanced training, technical and research assistance, particularly in the fields of energy and agricultural expertise.
- Support Pakistani efforts to counter extremists through improved educational, social stability, health and employment opportunities and enhanced defence and security co-operation, in addition to intelligence sharing and law enforcement liaison programmes.
- Make greater use of 1.5 or second-track dialogues with appropriate non-governmental and civil society organisations.
- Where possible, encourage constructive Pakistan-India dialogue to address existing strategic tensions. This might best be done in the context of the South Asian Associate for Regional Co-operation (SAARC), as both countries are already members, Australia has observer status, and the organisation is showing signs of being more effective.

## IRAN

- Promote regular, ongoing dialogue as a means of reducing regional tensions and enhancing regional stability.
- Continue to support IAEA non-proliferation initiatives in relation to Iran.
- Engage with Iran in regional and international fora that address maritime security and fisheries management issues.

## SOUTH AFRICA

- Support South Africa through the provision of assistance and other relevant institutional mechanisms as it addresses its economic, social and environmental challenges.
- Commence negotiations for an Australia-South Africa Free Trade Agreement. If successful, it could be used as a "trade diplomacy" springboard to a larger FTA with the Southern African Customs Union.
- Encourage South Africa to take on a greater regional leadership role while promoting the benefits of economic openness and the rule of law.

- Examine the range of military, intelligence and training capabilities required to enable South Africa to provide an optimal level of regional security and in what ways, if any, Australia could contribute.
- Enhance fisheries management and disaster response capabilities to further engage with South Africa in regional stability operations in southern and eastern Africa and in the south-western quadrant of the Indian Ocean.
- Work with South Africa and France to create a southern Indian Ocean version of the France-Australia-New Zealand disaster response arrangements that operate in the Pacific Ocean.
- Support greater South African involvement in IOR-ARC and other Indian Ocean fora, particularly in terms of Africa-related issues.

## FRANCE

- A deeper strategic engagement with France in the spheres of defence, maritime security and fisheries management in the southern Indian Ocean Region.
- Expand the regular Australia-France political-military and senior officials' dialogues to include discussions of the Indian Ocean Region as an integral component.
- Introduce, with France and South Africa, a southern Indian Ocean version of the France-Australia-New Zealand disaster response arrangements that operate in the Pacific Ocean.

## UNITED STATES

- With the US, contribute to maritime security initiatives in the Indian Ocean Region, particularly those pertaining to sea lines of communication, anti-piracy and counter-terrorism.
- Explore opportunities for greater engagement between the US military and a broad range of Australian defence facilities for use in Indian Ocean operations.
- Advocate US membership of IOR-ARC, or its replacement, as a dialogue (observer) partner as a means of reducing US-Iranian tension.

## CHINA

- Acknowledge and support China's anti-piracy efforts in the Indian Ocean.
- Work to encourage greater dialogue and co-operation between China, India and the United States in the Indian Ocean Region.

- Support increased Chinese participation in Indian Ocean fora, with a particular emphasis on multilateral economic, defence and security initiatives.

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The FDI Northern Australia and Energy Security Programme makes the following recommendations:

- An increased Defence presence in Western Australia and the North-West to reflect the geopolitical and economic realities of the region, accomplished through greater use of existing assets.
- The development of strategies consistent with promoting Fleet Base West to the United States Navy.
- Formalisation of a process that will result in a Working Group between the Department of Defence and the Western Australian Government, to review developments in North-West Australia.
- Increased military awareness of the region generally, by encouraging visits of senior officials, staff colleges and others.
- A co-ordinated, centralised approach to identifying intelligence requirements for both internal and external threats to the region.

## 2. The Western Australian Resources and Energy Sector

Despite possible market volatilities and new competing sources of commodities, the Kimberley and Pilbara regions' strategic share of iron ore, gas, base metals and uranium, will mean sustained growth and contribution to the national GDP.

Possible market volatilities aside, regional developing economies are projected to continue to expand and continue to demand raw materials and energy supplies from Australia. Large and accessible known deposits will sustain current production levels for the coming decades. There is also the potential to further expand supply, through ongoing exploration and technological advances and investment.

Over the last decade, employment within the resource industry has almost doubled,[1] mining revenue rose to 14 per cent of GDP and investment within the industry constituted a further four per cent of national GDP.[2] Infrastructure, building and machinery developments in emerging markets will see these ratios and the sector continue to rise to 2030. While initially more easily

[1] Department of Training and Workforce Development, *Western Australian Employment Trends and Projections*, May 2010.
[2] Reserve Bank of Australia, *Bulletin March Quarter 2011*, March 2011.

identifiable in Western Australia, the prosperity from mineral and energy development will, over the coming decades, spread more evenly across the country, leading to strong growth in domestic demand, national income, labour, materials and investment.

Western Australia has been particularly well placed to benefit from the increased demand for commodities. The State has a strategic world market share of iron ore (21 %), diamonds (8%), alumina (15 %), nickel (12 %), gold (7%) and natural gas (9%), as well as heavy mineral sands including tantalum (15 %), zircon (12%), limonite (10%) and rutile (8%). The resource-rich regions of the Pilbara and Kimberley have capitalised on their "proximity premium" to emerging Asian markets. They are among the most productive regions in Australia, a status that is anticipated to continue in the longer term.

Large, accessible known deposits will sustain current production levels for the coming decades, supply has the potential to be further expanded by ongoing exploration and technological advances. As at July 2011, there were $107 billion of major resource projects either committed or underway and a further $194 billion under consideration. Approximately two-thirds of this investment relates to oil and gas projects.

Conscious of previous commodity "bubbles", the government has developed strategic macroeconomic policies, including stronger institutional frameworks; decentralised wage bargaining; and a rigorous inflationary targeting regime to provide long-term support for industry and to ostensibly guarantee the long-term future of the Western Australian resource sector. As stated by Andrew Forrest from Fortescue Metals Group, in reference to the Pilbara, the region is 'not a short-term quarry. It will sustain major wealth generation for Australia for hundreds of years'.[3]

The long-term viability of the resource environment ensures that the sector's activity will spill over into greater national economic opportunities through demand for labour, intermediate inputs and investments; the payments of taxes and royalties; and the boost to Australian incomes through the ownership of mining equities.

The State's growing role as an area of national economic and strategic importance is accompanied by an increased sense of vulnerability to existing, as well as emerging, security challenges.

Analysts forecast increased competition for Western Australia resources in the decades ahead as new competing sources of commodities emerge, particularly in Africa. Western Australia will continue as a leader in mining efficiency in the years ahead, with increased level of automation reducing manning levels and operating costs. The Western Australian mining sector, however, is predicated on Australia's comparatively low sovereign risk, it is therefore vital Australia does all it can to protect this comparative advantage.

## 3. Challenges to Western Australian Security

Developments to West Australia's economic and social profile are accompanied by an increased vulnerability to security challenges. In general terms, these threats may be seen as either conventional or non-conventional.

[3] Regional Development Australia, 2008, *Pilbara Development Plan*.

The potential for interstate conflict remains a remote, yet possible contingency for the ADF over the coming decades. Changing power dynamics, traditional nationalistic rivalries, competition for resources, and complex jurisdictional claims, all have the potential, in the long-term, to lead to conflict. The Indian Ocean region will continue to rise in geopolitical importance as emerging players attempt to assert their rising status.

Analysts contend that the waters adjacent to Western Australia may become a leading strategic theatre, where great power rivalries between India and China may play out. While the conventional threat to Australia remains negligible in the short-term, nonconventional threats may exploit Western Australia's advanced economic profile, with potentially devastating consequences.

Western Australia's size and proximity require considerations beyond traditional security paradigms to other potential contingencies the Indian Ocean may face in the future. These may include regional state failure; movement of illicit goods; exploitation of national resources; people smuggling; and the potential effects of climate change, including food and water security challenges.

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