

Submission to Senate Inquiry into Australia and the Indian Ocean Rim countries

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I am pleased to have the opportunity to make this submission to the Senate Inquiry into Australia and the Indian Ocean Rim countries. Since my area of specialization is economics and I am not an international relations expert my comments will be confined to economic issues and will address points (a), (b) and (c).

(a) & (b) Australia is strategically placed to take advantage of expanding trade and tourism opportunities in the Indian Ocean Rim (IOR) countries. Many of the countries along the IOR have very bright prospects for economic growth well into the middle of the present century. These include almost all the countries in East and South-East Africa, India and Sri Lanka in South Asia and Indonesia and East Timor in South-East Asia. The IOR also serves as a gateway to the Middle East for Australia whereas Australia is a gateway to Pacific for the rest of the IOR countries. Australia is an advanced economy with excellent infrastructure, high per capita income, robust and well functioning institutions, a long tradition of productivity enhancing research, a rich resource base and substantial experience in conducting economic and political reforms within a democratic federal

framework. Many of the IOR countries, although with low per capita incomes, have the advantage of having young populations, large markets, high savings rates and substantial scope for sustained long run economic growth. Many of the IOR countries are new or established democracies, several are federal in nature and more and more countries in this region are experimenting with greater decentralization of economic and political decision-making. Two of the IOR countries, India and South Africa, are part of the BRICS group which is likely to become an increasingly important player in international economic and strategic affairs. Thus, there is scope for substantial mutually beneficial synergy between Australia and the IOR countries.

The first best approach to capitalize on these synergies would be to have a liberal trade and investment framework in place encompassing Australia and most of the significant countries in the region, e.g., Kenya, Mauritius, South Africa, India, and Indonesia. Some East African countries which are currently undergoing political uncertainty can be included in this framework at a later stage.

If a truly multilateral arrangement cannot be carved out in the short run there is scope for concluding FTAs with these individual countries even as the medium term goal of concluding a truly multi-nation agreement is vigorously pursued. There is substantial scope for expansion of trade in goods and services and to establish productive supply chains and to reduce the risk exposure of Australian exporters by diversifying the set of countries /regions to which they export.

Although resources will continue to dominate the Australian export sector for sometime there is a need to diversify the composition of domestic output as well as exports. The dominance of resources in Australian exports is contributing to a rise in the nominal exchange rate (price of Australian dollar in terms of other currencies). There is reason to believe that even the real exchange rate has been misaligned as a consequence. Both exports of goods and tourism have been adversely affected. Diversification of aggregate output and exports in Australia would be facilitated by consolidation and rapid growth of the Australian manufacturing sector. New business models in some of the IOR countries (e.g. India) have helped a rapidly growing services sector to assist in the growth of manufacturing, particularly of the high value added variety. This is a business model which Australia could adopt and improve upon to its advantage, particularly to expand its manufacturing sector in existing areas as well as in nascent, potentially high growth, industries.

A competitive dollar would also make tourism into Australia more attractive in addition to making Australian institutions of higher learning (including universities and schools) more attractive for students from the region. This enhanced interaction would lead to increased possibility of investing in educational institutions in countries around the region since these countries are in urgent need of educating their large and growing youth populations. Indeed Australia has an innate advantage in this area compared to other traditional suppliers of higher education, e.g., the UK and US and there is no reason why it should not capitalize on that advantage. A two-tier system can be advantaged whereby the best graduate students from the region come to Australian universities to expand their research capacities whereas early exposure to Australian-type education of these young

people in their own countries enhances their ability to adjust to Australian higher education.

There are several other opportunities for enhanced exports. This includes, in view of the considerable wastage of farm produce in major economies like India, technologies for better management of stocks of food grains in particular and agricultural produce in general across the region.

Another major area of exports is training in governance issues for bureaucrats and business personnel in the region provided by a consortium of university public policy departments and the Commonwealth and state governments. Greater cooperation with IOR countries will help in the attainment of these objectives.

Along with expanded trade must come enhanced investment flows in the region.

Australia would have the opportunity to invest in niche areas (like management of food stocks and educational institutions) in the IOR countries. Similarly, some of the other IOR countries may like to invest in Australian resources and manufacturing sectors.

Considerable opportunities exist for Australian partnerships with individual IOR countries in investing in third countries, e.g., Australia and India may have joint operations in mining in African countries.

(c) As the Asia Pacific region grows an increasing share of global trade will pass through the Indian Ocean region. At the same time some areas of the Indian Ocean, particularly the North West, are subject to piracy. Greater cooperation of Australia with the IOR countries will help in the maintenance of safety and security in this area and safe passage for cargo and

other ships. In this sense the further development of cooperation among the IOR countries is absolutely essential. Many countries in this region have very long coastlines which need to be protected. Surely, there are economies of scale in mounting such protection activities. Individual countries may in the region and beyond this region may view such issues through their own individual prisms but there are vast regional public goods available for the taking if there is enhanced cooperation.