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INCREASING TRADE THROUGH INDIAN OCEAN COOPERATION

INTRODUCTION

Since the first meeting of countries to consider Indian Ocean regional cooperation in March 1995, the level of coordination in the region has increased substantially. But will this increase in cooperation lead to increased trade and wealth creation in the region?

In this paper following a definition of the boundaries of the region, and some figures on the region's economy, an outline of the current structures in the region is provided. Then some of the issues which will affect the organizations and the extent of cooperation between countries in the region over the next two or three years are discussed. The discussion may shed some light on the issues raised by the question posed above.

COUNTRIES OF THE INDIAN OCEAN REGION

The countries of the Indian Ocean region are listed in Table 1. The list is not without controversy, as many will argue for the inclusion or exclusion of several of the countries on various grounds. The list has been selected on the basis that all may eventually be included in an expanded Indian Ocean regional organization. It does not include non-littoral states which have legal rights to the Ocean under the UN Convention on the Law of the Sea, for the exchange of goods, services and people through the region. Countries are divided into sub-regions for easier analysis.

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Table 1. Littoral and Island States of the Indian Ocean Region

South Asia	South East Asia	Africa	Middle East	Island/Other States
Bangladesh	Indonesia	Djibouti	Bahrain	Australia
India	Malaysia	Egypt	Israel	Comoros
Pakistan	Myanmar	Eritrea	Iran	Madagascar
Sri Lanka	Singapore	Kenya	Iraq	Mauritius
Maldives	Thailand	Mozambique	Jordan	Seychelles
		Somalia	Kuwait	
		South Africa	Oman	
		Tanzania	Qater	
			Saudi Arabia	
			Sudan	
			UAE	
			Yemen	

Current regional trading patterns are shown in Table 2. These figures are not specific to the Indian Ocean region, but give a broad picture of trading by region.

Table 2. Growth in the value of world merchandise trade by region, 1990-94 (billions of US\$ and percentages)

	Exports				Imports			
	Value 1994	Annual Change 1990-94			Value 1994	Annual Change 1990-94		
		1993	1994		1993	1994		
World	4090	5	-1	13	4210	5	-1	13
Africa	90	-3	-7	2	100	1	-4	3
Middle East	120	-2	-2	0	120	5	-4	-3
Asia	1105	11	7	15	1020	10	8	16

World Trade Organization, *International Trade Trends and Statistics 1995*.

The Indian Ocean region as a percentage of the world totals for 1993 (with APEC, excluding US and Japan, Figures in brackets for comparison) are:

Population:; 31%	(31%)
GDP: 6.3% (13.4% in PPP terms)	10.8% (10.8% in PPP terms)
World trade: 10.7%	(21.8%)

The average per capita income for the region was US\$856 in 1993 and GDP was estimated at approximately US\$1.5 trillion. The intra-regional merchandise trade for the region in 1994 was \$202 bn or approximately 22% of the region's trade.

THE BENEFITS TO TRADE IN THE REGION ARISING FROM INCREASED COOPERATION

The objective of regional cooperation is to increase the rate of sustainable development through improving the business and trading environment.

An important point to make at the start is that increasing regional cooperation may not lead to increases in the value of overall trade or economic activity - it may simply result in substitution of the sources of trade, which should not necessarily increase the amount of economic activity in the region. The intention of regional cooperation must, therefore, be to increase the value of both intra - and inter-regional trade, and thus general economic activity, leading to a rise in the overall standards of living and in the creation of wealth.

Another preliminary point is that increased cooperation is also taking place at the sub-regional level. A number of sub-regional organizations have been in existence for several years and these are starting to develop a momentum towards increasing economic activity, although some have had their effectiveness queried. The increased attention to multilateral trading blocs is giving some a new lease of life as governments start to look for ways to rejuvenate their trade

relationship and to find examples in the outside world where regional organization has resulted in increased economic benefits.

Attention will continue to be paid to the sub-regional associations by their members. At times their activities may seem to be in conflict with, or at least duplicating the activities of, the regional group. However, as there is no prospect of, and probably little benefit to be gained from, the demise of the sub-regional groups at this stage, the regional arrangements will have to meld with the sub-regional groups, adapting to and recognizing the areas where constraints exist because of agreements reached in the groups.

For the Indian Ocean region as a whole there are prospects of increased activity leading from cooperation, but there are some issues which will restrict the rate of progress. The main issue relates to the way in which the overall objective of increasing wealth is to be pursued. Here there are two differing approaches, which while not conflicting with each other, illustrate the complexities facing the countries of the region as they attempt to achieve change through these processes.

One approach is to concentrate on the areas where cooperation between the countries of the region can result in improvement in the trading environment. Developing universal standards and assisting countries in developing the expertise to monitor quality control mechanisms are examples of economic cooperation.

The other approach is to use the mechanism to assist countries liberalize their economies. Most countries face difficult domestic questions when liberalizing their trading regimes as protected industries start to suffer from increased international competition. The regional organization can provide support to countries as they liberalize by enabling governments to take joint actions which will commit the country to a certain course of action, and also to ensure no one country is gaining a free rider benefit by not proceeding with liberalizing of its protected areas. This type of activity has come

known as open regionalism, and it is one supported actively in the international arena by Australia.

To expand on the concept, open regionalism involves countries forming associations to help reduce barriers to trade, not just to the countries within the association but to all countries with whom the group of countries trade. It is a concept quite different from that of a trade bloc, where the reduction in barriers is applied to the members of the economic grouping alone and not to those outside the grouping.

Many countries involved in the regional initiative believe the organization should develop more as a traditional trade bloc, where arrangements made favour those within the bloc. During the deliberations on the charter for the new Indian Ocean Rim Initiative organization there was confusion amongst the parties when Australia refused to accept terminology implying the organization would be a trade bloc, with countries asking what the point of the organization was if it was not to operate as a trade bloc. In the end, agreement was reached to exclude the terminology but the desire of several countries for trade block type activity still remains.

This confusion over the nature of the organizations may delay the benefits which will flow from the existence of the structures. In the early stages it will take time for the various countries to come to terms with the aims and objectives of the new organizations. It may be that these objectives are never accepted by the participants, in which case trade in the region will increase at a much slower rate than it otherwise would and economic development will likewise take place more slowly.

THE ORGANIZATIONS OF THE INDIAN OCEAN REGION

Three organizations have recently been established in the Indian Ocean region. These are:

the Indian Ocean Rim - Association for Regional Cooperation;
the Indian Ocean Rim Consultative Business Network; and
the Indian Ocean Research Network

A fourth organization, the Indian Ocean Tourism organization has also been formed and is concentrating on tourism issues affecting the region. The organization operates independently of the other three and is not considered here. Following is an outline of the three organizations.

The Indian Ocean Rim-Association for Regional Cooperation

The governments of fourteen countries in the region have agreed to establish an inter-governmental organization to be known as the Indian Ocean Rim-Association for Regional Cooperation. A charter has been agreed at a meeting of senior officials from the fourteen countries, which is now being submitted at ministerial level to the participating governments for final ratification. A ministerial council meeting to be convened in March 1997 will formally inaugurate the organization following the expected ratification. (It is interesting to note that there is still no formal charter governing the operation of APEC.) The ministerial council will meet biennially and there will be annual meetings of the senior officers which will oversee the work programme.

The charter of the organization sets out its role as being principally economically oriented. Some of the objects are to :

- promote sustained growth and balanced development of the region and to create common ground for regional economic growth;

- focus on those areas of economic cooperation which provide maximum opportunities to develop shared interests and reap mutual benefits - projects are to relate to trade facilitation, promotion and

liberalization; promotion of foreign investment, scientific and technical exchanges, and tourism, movement of natural persons and service providers on a non-discriminatory basis; and development of infrastructure and human resources;

- promote liberalization, to remove impediments to, and to lower barriers towards, freer and enhanced flow of goods, services, investment and technology within the region; and

- explore all possibilities and avenues for trade liberalization with a view to augmenting and diversifying trade flows among member states.

The organization also has an objective relating to strengthening cooperation and dialogue among member states in international fora on global economic issues, and where desirable to develop shared strategies and take common positions in the international fora on issues of mutual interest. This objective introduces the prospect of the Association being used as a lobbying vehicle in forums such as the WTO.

A work plan proposed by the Indian Ocean Rim Initiative, the name by which the process is currently known, has been discussed and elements adopted. These activities are oriented to cooperative ventures in areas such as standards and infrastructure strengthening activities. These types of activities will probably dominate the agenda in the early years of the region. The early years will really be about learning to cooperate in these types of forums, developing the trust that is necessary to enable the far more difficult issues of trade liberalization to be addressed.

APEC did not grasp trade liberalization issues immediately following its formation. The organization was in existence for five years before governments felt confident enough to tackle issues of unilateral tariff reductions and the timetable is such that for most of the countries involved, the reduction in tariffs and dismantling of trade barriers will not commence in earnest until the next century. The increase in trade which will arise from these decisions will, therefore, not be manifest for some time yet.

The timetable for the Indian Ocean region will be even further delayed. The first issue to be faced by the new organization will probably be the timetable for the introduction of new members. In comparison to APEC, IOR-ARC was organized without five of the major economies of the region: Thailand, Bangladesh, Pakistan, Iran and Saudi Arabia. Not having these major economies involved creates something of a problem for discussions focusing on regional economic cooperation.

IOR-ARC has two associated, subsidiary bodies, these being an academic organization known as the Indian Ocean Rim Academic Group (IRON) and a business group known as the Indian Ocean Rim Business Forum (IORBF).

The Academic Group has suggested a number of research projects which the intergovernmental meeting has noted but none of which has as yet been funded. Two countries, India and Mauritius, have agreed to fund a chair in Indian Ocean Studies to be located in Mauritius, which may then be available to assist in coordinating research on issues raised in the intergovernmental process. The Indian Ocean Centre is also a possible coordinating source for the research agenda which may arise out of the deliberations of IOR-ARC.

The Indian Ocean Rim Business Forum has been established to enable business to provide an input to the process. While considered to be independent of the intergovernmental process, the decisions of the meetings of the Forum so far have all been tabled in the intergovernmental plenary sessions and endorsed by it.

Most business representation has been through the business association structures such as confederations of industry or chambers of commerce. For instance, India is represented by both, Australia by the Australian Chamber of Commerce and Industry. The focus of the Forum is on policy issues of concern to business which the business community would like to see the governments of the region address.

Within the Forum there has also been a reluctance to tackle some of the more sensitive issues for fear they may be interpreted as seeking to usurp governmental authority. Business leaders are much more attuned to governmental policy and more like to want to work within a government's stated policy objectives than to seek to influence the shape of that policy.

These influences will constrain the ability of these structures from operating as catalysts for change within the region. Whereas business in the Pacific led the change process with the formation in the 1960s of the Pacific Basin Economic Council, mainly by multinationals desiring to see trade barriers reduced to facilitate their global manufacturing agendas, the same is not the case in the Indian Ocean region. The impetus for regional cooperation is very much government inspired and then for complex reasons not just related to trade facilitation desires.

The result will be a slower uptake of trade liberalization processes than might otherwise be the case, but the end effect will probably still be to see these issues being dealt within a quicker timeframe than occurred within the Asia-pacific.

The Indian Ocean Research Network

The second component of Indian Ocean structures is an independent network of researchers called the Indian Ocean Research Network. Participation in the Network is open to any researcher, associated with a country in the region, with an interest in Indian Ocean region issues and early attempts have been undertaken by the Network to foster research on Indian Ocean subjects. A lack of funds has been hampering these attempts, but several projects of the thirteen agreed on by the Network at its first meeting in New Delhi are under way.

Most of the projects being addressed relate to economic issues but the Network is interested in promoting research on a broader set of matters.

Early enthusiasm for the development of an Indian Ocean research capacity which may have provided a theoretical impetus to trade liberalization has not matured into a solid programme of work due to the funds which were expected to be forthcoming not materializing. Consequently, the research foundation is developing much more slowly and its contribution to the debate will be less significant. The prospect now is that the Network may foster conferences and seminars on the region, which will stimulate the production of research on the region, until such time as there is a body of work which can be used as a basis on which to generate and attract more funding to the research projects.

The Indian Ocean Rim Consultative Business Network

The third component of the structures is the Indian Ocean Rim Consultative Business Network, a network principally of business associations which is focussing on developing trade links between businesses in the region, but also having a policy formulation and government advisory role. The Network, at its inaugural meeting in New Delhi in December 1995, has tabled four areas for policy examination and a fifth was added to the programme at the end of the meeting.

The model for this organization is the Pacific Basin Economic Council, mentioned earlier in the article. This organization was the catalyst for generating the concept of the Pacific as a regional entity, and eventually creating the need for governments in the region to associate to deal with the issues being raised by the Council. The progress was slow, with the creation of what came to be known as a second track body, the Pacific Economic Cooperation Council being created in 1979, and the inter-governmental process APEC being created in 1989.

This highlights one of the significant differences between the developments in the Pacific and those in the Indian Ocean region.

The Pacific Ocean initiatives were very much the product of activity by the private sector that eventually lead to government action. In the Indian Ocean region, it is governments which are attempting to stimulate activity, and business that is not demonstrating much interest. One can assume that the end result will be a much slower development of intra-regional trading activity in the Indian Ocean region that has been the case in the Pacific.

Although it was an Australian businessman who instigated the formation of the Network, the Australian business community has responded slowly to the activity in the region. The ACCI has provided representation to both the Business Forum and the Network meetings, and is assembling a delegation of business people to attend the next meeting of the Network to be held in Durban in 1997. There is a view that the Network should concentrate on trade promotion and the development of relationships between businesses in the region to stimulate trading activity. The Network meetings would then become primarily networking opportunities, and an opportunity for the host country to present the business potential of its region to the various delegations.

The two independent or non-government networks are open to membership from all countries in the region, as opposed to the inter-governmental organization which has a closed membership. The differing approaches are the result of differing views on how regional organization should be undertaken, either exclusive to start with and gradually increasing participation or inclusive with countries joining when they wish. These are further evidence that achieving progress on the substantive issues such as trade liberalization will be slow.

AGENDA IN THE REGION

The issues which will be dealt with within the region will be affected by the agenda being pursued by individual countries within the international forums with trade issues, and the activities in the international forums will impact on the region. Two organizations deal with economic issues, those being the WTO and UNCTAD.

Trade liberalization is very much central to the WTO agenda. The WTO is favoured by OECD countries when issues of a trade-related nature are being dealt with. Within the WTO, influence is determined by the size of the economy and by the extent of trade in the economy. Developed countries, therefore, see the WTO as more likely to support their position against that of the interests of the less-developed countries.

The Third World countries have a tendency to favour UNCTAD, where every country has an equal say in the outcome, regardless of size or economic strength. The weight of numbers, therefore, favours resolution of issues more in keeping with the views of Third World and developing countries rather than the views of the less numerous developed countries. In UNCTAD, cooperative economic development is more central to the debate with concepts and ideas being based around projects rather than the environment in which business is being carried out.

The pace of change in the Indian Ocean region will be affected by way in which these agendas are played out. Some countries may see the major benefit of the initiatives being to assist with trade liberalization processes, whereas others may perceive the benefits to be the achievement of greater levels of cooperation between countries in developing their human and physical resources. With the preponderance of developing countries in the region, there is a real prospect of the developing countries being able to use the regional organization to demonstrate how global cooperation on economic issues can best be utilized according to their desires and wishes.

COMPARISON WITH THE ASIA-PACIFIC

Inevitably, comparison will be made between developments in the region and that which have occurred within the Asia-Pacific. Already, the pattern of development in the Asia-Pacific categorized after the event into the first and second track processes, has been used as a model for the region.

The reality is that the development in the Indian Ocean region will be substantially different. In the Asia-Pacific, the initiative was taken by large business in a bid to break down trade barriers in the region they saw as inimical to their interests. From this grew the informal organization involving business, academics and government as governments sought to deal with the growing pressure to liberalize their trade structures. Finally, it resulted in a formal inter-governmental organization being created to directly address these issues.

Within the Indian Ocean region, it has been governments which have driven the initiatives. There is simply not the private sector interest in the development of regional initiatives which drove the Asia-Pacific process and the structures in the region are, therefore, going to be much more government oriented, at least in the early years. Business may choose to play an advisory role but the enthusiasm for regional organization will need to be maintained by government.

This has implications for the two track terminology and whether that model is appropriate for the region.

The other factor is that within the Asia-Pacific region, the majority of economies have a well-defined private sector that is substantially differentiated from the state. The state and those involved in administering it are expected not to use its power to discriminate between the private sector participants or to garner support from the beneficiaries of state decisions, but to create an environment in which the private sector can prosper based on the initiative of the individual entities and capital can be used productively to create wealth. In this situation, a clearly independent business organization has a real role to play in the development of policy and the linking of business throughout the region.

Within the Indian Ocean region there is a much less well-defined line between the state and the private sector. Those having political power also have key roles within the processes that generate wealth and utilize the productive resources. Business is far more dependent

on political patronage for success and the concept of an independent business sector to that of the state is much less developed. In these circumstances the concept of an independent regional business organization is much more difficult to sustain, and may take longer to eventuate than was the case in the Pacific.

Finally, the two track model has as an element of its structure an informal tripartite body consisting of government officials, business representatives and academics in which issues can be discussed without countries being seen to be committed to certain approaches or positions, and where ideas can be tested and discussed before being introduced to the formal inter-governmental meetings. Such a structure does not exist in the Indian Ocean region, and given the current disposition of the parties it is unlikely to be created.

None of this, however, takes away the need for the elements of the existing structure in the Indian Ocean region. The inter-governmental process, with its academic and business bodies acting in what can best be described as an advisory capacity, is the core of the process. The independent research and business networks, not governed by states but reflecting a truly independent view of the development of the region, are vital components ensuring the needs of national government do not dominate the agenda to the exclusion of regional interests.

MEMBERSHIP OF THE INTERGOVERNMENTAL ORGANIZATION

A particularly divisive issue relating to the creation of the structures in the region has been the issue of membership of the intergovernmental organization. Both within and outside the Indian Ocean Rim Initiative, the issue has created tension amongst countries, with a number of countries excluded from the process questioning the validity of their non-inclusion in the group negotiating the charter.

Of the countries in the process, Australia has been the most vociferous in opposing the exclusionist process used in setting up the

organization. Australian interlocutors have argued that seeking to set up the organization with selected countries in the region will inevitably lead to conflict with those countries not included, and will sour the very relationships the process is seeking to substantiate.

However, the argument that it is better to start with a small group amongst whom agreement can be reached and then to expand the membership once the ground rules have been set carried the day amongst the other six core countries. Agreement was reached to expand the group initially to fourteen, to be followed by further increases on the basis of consensus amongst the existing membership. With the acceptance of the chart now almost complete, there is not expected to be any opposition to any country within the region joining the new Association.

In an open regionalism model, there are two key matters which are crucial when membership is being considered. They are the willingness of the country to commit itself to a trade liberalization agenda and the capacity of the country to participate in the numerous committees and working groups which inevitably flow from the agenda items being considered.

If a country is not committed to a trade liberalization agenda then there is probably little benefit it can gain from membership. After all, the trade barriers reduced by countries in the organization are reduced to all countries, not just the countries in the group, and the benefit can be gained without similarly reducing the country's own protectionist apparatus.

If a government is also not able to fund participation in the committees then the benefits gained from joint participation cannot be realized. Much of the work done in the sub-committees addresses practical issues which must be resolved before agreement can be reached to proceed on a particular course, and if a country cannot afford to participate it will be reluctant to agree to the positions reached in its absence. The idea of being involved in the forum to gain the

benefit to be able to take concerted action in the face of domestic pressures then becomes vulnerable as internal oppositions seize on the country's non-participation to condemn the government's agreement to the course of action.

CONCLUSION

The birth pangs of an appropriate regional structure for the Indian Ocean region have been painful, but out of the regional dialogue of the last two years has come a structure which is unique and capable of developing regional trading arrangements much faster than would be the case in its absence.

However, many issues will create a full and frank exchange of views within the various forums, as parties with widely differing views seek to find areas in which they can cooperate, and to develop mechanisms which will enable the issues of disagreement to be handled without threatening the processes.

The three components of the initiative, the inter-governmental and the independent research and business organizations will be important parts of on-going structures in the region, long after the issues of membership of the inter-governmental process have been resolved. It is now up to the participants to ensure that the structures deliver the results for the people of the region.