

IORA and the Pacific Tradewinds

Written by Christopher Wood



The Durban port forms part of the Indian Ocean Rim is home to half of the world's container ships. Indian Ocean Rim Association is organisation charged with promoting regional integration in the region.

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The Asia-Pacific region is locked in a race towards regional integration. The Transpacific Partnership (or TPP), comprising 12 countries including the United States, could connect markets worth 37.5% of global GDP and 25% of world trade. The effort has not gone unnoticed by China, which is excluded from TPP and is attempting to draft a rival agreement, the Regional Comprehensive Economic Partnership (RCEP), with ASEAN, India, Japan, South Korea, Australia and New Zealand.

Asia-Pacific is already a global trading hub, and these agreements will only deepen the regional value chains that are driving the coming Asian century.

Things move a bit slower in the Indian Ocean. The region is certainly important, playing host to 2.3 billion people and half of the world's container ships. But the organisation charged with promoting regional integration – the Indian Ocean Rim Association, or IORA – has never really got going. While IORA does play host to a number of efforts, on issues such as maritime security and science & technology development, a grand vision of the type offered by TPP or RCEP is not on the cards. Stifled by the extreme diversity of economic needs and visions, Indian Ocean leaders seem only able to agree that the organisation needs to do more.

Things have improved in recent years. The region's four big economies have committed to align their terms as Chair, so as to reinvigorate the organisation's efforts. India took the reins in 2012 and 2013, with Australia taking over for 2014 and 2015, and Indonesia next in line in 2016 and 2017. South Africa will take up the role of vice-chair during Indonesia's term, and will assume the Chair in 2017 and 2018. This offers a powerful additional element to South Africa's foreign policy strategy, complementing engagement in African blocs, BRICS and the G20.

South Africa's agenda as Chair will understandably focus on practical, achievable outcomes, with initial discussions exploring cooperation on the Blue Economy and promoting Civil Society development. The tricky part is what to do on trade and investment. IORA began as a primarily economic organisation, but subsequent Chairs have moved away from this difficult subject, unable to see a clear path for successful economic cooperation. The region is incredibly diverse, with the 250 million person Indonesian economy not remotely resembling the 90,000 person Seychelles economy. A trade deal on the scale of TPP or RCEP seems an incredibly remote possibility, given that negotiations on bilateral deals between members like South Africa and India have never really progressed. Despite this, three less controversial areas hold the potential for cooperation to unlock trade and investment in the Indian Ocean region.

Connect the Landlocked Hinterland

IORA comprises of 20 countries, including some of the most dynamic economies in the world, but a massive untapped pool of growth lies just next door. 16 landlocked countries border the Indian Ocean Rim countries. Over the past ten years, this landlocked hinterland posted GDP growth of 300% and trade growth of around 270% (both excluding South Sudan). IORA must work hard to see that these states choose to move their goods via the Indian Ocean. South Africa is particularly well placed to unleash the growth potential of the hinterland, as nine of these countries are African. Advancing the African regional integration agenda should thus be a top priority for IORA states, enabling the region to become an integral part of the Africa Rising story. Beyond formal integration; deepening infrastructure linkages, improving customs efficiency and providing simple standards for through-trade will allow IORA to share in the development prospects of the region's neighbours.

Build Special Standards for Small Island States

Perhaps the most coherent group in an otherwise startlingly diverse collection of countries is the Indian Ocean Commission (IOC), the grouping of five small-island states. With scarce land and resources and tiny domestic markets, the IOC is extremely reliant on trade, and yet must overcome the natural barrier of relative isolation from the rest of the world. These barriers are compounded by the weak capacity of IOC states to meet the complex sanitary and phytosanitary standards that are a precondition for agriculture exports. Special assistance should be provided to equip the IOC group with the capacity to meet standards and, if there is adequate political will, recognition of a single standard should be granted to IOC by all of IORA. Firms will struggle to develop economies of scale if they have to spend to reach different standards for South Africa, India, Indonesia and every member of IORA. A single standard – either of the strictest member state or some neutral IORA requirement – would unlock the export potential of the region's most vulnerable citizens.

Cooperate on Services

While industrialisation remains the headline stated aim of most of IORA's major economies, the region is undergoing a quiet services revolution. Australia and India's knowledge economy is rich in fields like IT and logistics, while the Arab world is increasingly leveraging its considerable resource wealth to become a global innovation hub. South Africa's finance and retail sectors lead all others in contribution to the country's GDP. The robustness of the region's services sector makes it much more suitable to integration than underdeveloped manufacturing industries. And creating an efficient, integrated services market will lay the groundwork for developing regional value chains. Small steps at first, such as improving the movement of people and smoothing regional payments systems, could offer high returns at little adjustment cost.

Look North-East

It is completely understandable that South Africa would wish to avoid trade and investment issues during its Presidency of IORA. These issues are amongst the most controversial, and finding common ground for substantial progress in such a diverse region has proved virtually impossible in the past. But the same could be said for Asia-Pacific just five years ago. Integration projects across the region were stalled and progress looked impossible in the wake of extreme diversity and weak political will. Building an Indian Ocean TPP seems impossible today, but ignoring trade and investment completely puts the region in jeopardy of falling ever further behind the Pacific, and undermines the possibility of more substantial integration in the future.

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