Boosting Trade and Investment Integration among Indian Ocean Rim Association (IORA) Countries: Professor Peter Draper

Key Points

- When looking at IORA in the context of trade, it is effectively being driven on a sub-regional basis. Each of its five sub-regions contains core member states that are driving trading patterns and trade integration across the IORA region.
- The IORA region has tremendous demographic potential, most obviously in the countries of South Asia, East Africa and South-East Asia. The underlying potential of that future demographic growth is significant from a trade and investment point of view.
- There is value for the larger IORA economies in linking to each other in a targeted way. By "linking the gateways", the larger states can also leverage external partners partly in the interests of the lesser-developed countries that comprise their hinterlands, so that those production networks can be more broadly shared across the region.
- In view of the need for supply chain and market diversification, Australia should be looking more closely at ways to harness the demographic and economic growth of the East Africa sub-region. In the medium term and beyond, there is a lot of potential there in the mining and services sectors, and Australia is a leader in those spaces.

Introduction

FDI is delighted to discuss the trade and investment situation among the countries[1] of the Indian Ocean Rim Association (IORA), and the ways in which they might be augmented, with Professor Peter Draper, Executive Director of the Institute for International Trade, at the University of Adelaide.

[1] Australia, Bangladesh, Comoros, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Maldives, Mauritius, Mozambique, Oman, Seychelles, Singapore, Somalia, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates, Yemen.

An expert on trade and investment policy and regulations, Professor Draper has, in addition to his academic appointments, held high-level roles at the World Economic Forum, the South African Institute of International Affairs and the South African Department of Trade and Industry.

The Institute for International Trade has a global focus and provides academically rigorous and practical trade training, policy advice and technical assistance relating to international trade policy and practice. The Institute brings together leading academics, experienced trade practitioners and negotiators to address key challenges faced by businesses and governments that are seeking to expand trade and investment opportunities globally.

Commentary

FDI: *Thank you for sharing your expertise with us, Peter. Let's begin with a broad overview: when thinking about IORA in the context of trade, is it more accurate or helpful to think of it as a single entity or to consider it on the basis of the five sub-regions of Oceania/Australia, South-East Asia, South Asia, Middle East and Africa?*

PD: IORA is very much a collection of sub-regions but, as an organisation, it is more than the sum of its parts. But, when it is broken down into its trade components, it is really those sub-regions that are the core of IORA. Within that, there are the core member states in each sub-region that are most important. It is a story of concentration, really, in seven of the member states, mostly the South-East Asian states of Singapore, Indonesia, Malaysia and Thailand, the two main South Asian states – India and Bangladesh – and then South Africa. Added to that, if we want to be ambitious – and I think that we should – are Kenya and the United Arab Emirates. It is those countries that are really driving the trading patterns and trade integration, such as it is, across the IORA region.

FDI: *How do you view the potential for greater inter-IORA trade and investment? Which countries and sectors might drive such growth and what can be done to improve trade and investment outcomes for the lesser-developed IORA economies?*

PD: In the report prepared recently by the Institute for International Trade, titled *Building Trade Integration Dynamics in the Indian Ocean Rim Association: A Technical Analysis*, the biggest part of the story is the demographic potential across the Indian Ocean Region. That is obvious in countries in South Asia, but also in East Africa, and, to some extent, also in South-East Asia, where Indonesia particularly comes to mind. The underlying potential of that demographic growth is attractive from a trade and investment point of view. While COVID-19 has greatly disrupted that picture and the medium-term story is not all that encouraging, it will presumably reassert itself once COVID works its way through the system.

In terms of which countries and sectors might drive that growth, it is again a case of those seven core economies and that plays out whether one is looking at the goods or services trade, although the rankings of these countries can change a bit, depending upon whether one is looking at goods or services, or imports or exports.

In terms of sectors, on the goods side, it is electrical machinery and the fuels trade that are driving the current sectoral concentration. The fuels trade – from a policymaking point of view – is, in a sense, not particularly interesting because it is not traditionally a value-added sector. Policymakers tend to focus on value-added sectors, because they are the sectors that drive production networks, especially the kinds of production networks that are emerging in East Asia and, previously, in Europe and North America. They can really drive trade and investment growth and economic development. The key question then becomes how to get into those production networks and acquire more value-addition domestically. From that point of view, electrical machinery is interesting and the Institute for International Trade sees value in a future study being carried out on that sector.

Below those two dominant sectors, there is a range of other potentially interesting sectors, such as chemicals and the chemicals trade, where there is a lot of value-adding and a lot of trade in intermediate products that could fuel the growth of production networks.

The IORA region comprises a lot of developing and least-developed economies and, while the overall trajectory is important, for the foreseeable future at least, they will continue to face many development challenges. That means, inevitably, a strong domestic focus, rather than a more outward-looking focus and that is going to be the primary concern for governments in those countries: "bootstrapping" their own populations into a sustainable development cycle.

For the bigger economies, what the Institute for International Trade is recommending is that they link to each other in quite a targeted way, or "linking the gateways". For instance, South Africa, as the southern African gateway, can help other IORA members connect into, say, Australia, so that one could envisage – some way down the track – a free trade agreement that then brings in other countries in the southern African hinterland and connects them to, in this case, Australia. The role of the gateway, in this scenario, is to leverage the external partner – Australia, in this case – partly in the interests of the lesser-developed countries that comprise its hinterland, so that those production networks can be more broadly shared across the region.

FDI: *An Australia-South Africa free trade agreement would be a positive development but arguably is not currently a priority for Australia. Would you say that that might be the case for South Africa, too?*

PD: It does not feature in South Africa's economic thinking at the moment, either. South African trade policy, since I worked in the Department of Trade and Industry many years ago, has become very inward-looking. That, I think, is largely because of all those development challenges, but there is also a residual ideological mind-set which is inclined towards import substitution. South Africa is relatively outward-looking when it comes to the African region, but when it comes to trading relationships with bigger countries, and certainly with developed countries like Australia, South Africa is more inclined to see threats rather than opportunities, and particularly to its manufacturing base, which is a sector that the South African Government really wants to nurture. The South African auto sector, for instance, has long been quite highly protected and there is a very strong interventionist policy framework around that, which I do not see changing any time soon.

FDI: *Broadly speaking, what are some of the impediments to greater trade and investment among the IORA countries and what could be done to reduce them?*

PD: There are a range of impediments that are captured broadly in the World Bank's *Doing Business* report. They range from simple things like customs procedures to broader efficiencies in port handling practices to the availability of infrastructure, to more complex issues such as government processes and capacities. There is a whole range of things that are caught up in that larger category of development challenges, which then inhibit trade and trade integration.

Given that IORA, as an institution, is very small – the Mauritius-based Secretariat is a very small office – and also hugely under-resourced and not able to fund a lot of projects, making it work comes down to a combination of the more developed member states – which primarily means Australia – and the Dialogue Partners.[2]

IORA, therefore, has to be very targeted in the kinds of initiatives that it pursues, but one that it is pursuing, and which I think makes a lot of sense, is support for the implementation of the World Trade Organisation's Trade Facilitation Agreement. It makes a lot of sense because it is an existing multilateral framework and most of the countries that constitute IORA have already signed up to it and now qualify for capacity-building support and other forms of development assistance. What Australia is looking to do in this instance is to leverage external partners to support the IORA countries in implementing the agreement. That would result in addressing issues in customs and trade facilitation processes, which would be very useful, although it would take some years to work its way through.

There is a need to look at better ways of connecting ports – the maritime gateways – but, as might be imagined, that can take a long time to do properly and also require a lot of resources to unlock the infrastructure deficits that many countries have. It would be very useful, as well, though.

One of the things that the Institute for International Trade has proposed is that IORA produce an annual "flagship" report, which would be along the lines of the World Bank's *Doing Busines*s report, with a focus on precisely these kinds of obstacles. It would contain a series of "heat maps" and flash forwards that would show a particular indicator and whether or not progress is being made to provide some sense of benchmarking, both relative to other IORA countries and also in terms of global standards. It would provide a series of signals to policymakers to indicate where improvements are needed and where to best direct resources and efforts.

FDI: *Looking ahead to a post-COVID future, what is the potential for the revival and development of the tourism sectors of the various IORA states?*

PD: The underlying story there is that demographic potential and, arising from that, the growth potential of most of the IORA states. Once people can travel again, I expect that those kinds of linkages will resume and grow from strength to strength. Given the growth and size of the Indian middle class, attracting growing numbers of Indian tourists has to be of interest to all IORA member states, particularly Australia.

Clearly, the COVID situation is not good at a global level, and the Indian Ocean Region is largely no exception to that, but the potential beyond COVID is good. Arguably, it will depend on what we mean by a "post-COVID future" and whether there might be "COVID-zones" and "COVID-free zones" – which is a big open question, at the moment – and how they might play out across the Indian Ocean region as a whole. I suspect that there are going to be COVID-free zones and non-COVID-free zones for some time and that will clearly affect tourism. There could be travel bubbles that work quite smoothly, while, at the same time, there will be other countries that, effectively, are simply off-limits, and that might be assessed on a country-by-country, state-by-state, or, possibly even, a city-by-city, basis.

FDI: *Among the IORA states, which do you see as offering the greatest opportunities for Australian exporters, investors and service providers?*

PD: The seven core IORA countries are clearly priorities. Kenya and the broader East African Community region should also be added to that list because the demographic potential there is good.

[2] China, Egypt, France, Germany, Italy, Japan, South Korea, Turkey, United Kingdom, United States.

Also, although it is not an IORA member, but it is part of the East African region in the very broadest sense, is Ethiopia, where the economic growth rate is now six per cent – which is China-type levels of growth. That tells us that there is an underlying growth story there and that should be of interest. In view of the need for supply chain and market diversification, Australia should be looking more closely at ways to harness that growth. But that is a medium-term play, and one that will particularly relate to the services sector, I would argue. Mining is always going to be a part of that mix, since a lot of services are linked to the mining industry and, as a mining and services provider, Australia is strong in those spaces. The broader East Africa region could be very interesting in that medium- to longer-term context.

There are also the IORA member states in South Asia. India, of course, is a potentially massive market but it is very difficult to crack, for all sorts of reasons. Bangladesh offers a lot of opportunities and then, much smaller, but also potentially interesting, is Sri Lanka.

FDI: *The Australian Commonwealth and State/Territory Governments work actively to support Australian businesses trading overseas, but is there more that could be done to help Australian companies realise those IORA opportunities?*

PD: That is largely a combination of what Austrade does through its DFAT networks and also what those States and Territories with overseas offices do. My experience at the State and Territory level is limited to South Australia, which does have some overseas offices, and which were established just after I arrived here, notably in the UAE and Malaysia but they do not target the Indian Ocean, generally. For South Australia, at least, it is really about China and the United States, which makes sense because a lot of investment is sourced from there.

Beyond that, however, the first step is to prioritise the IORA region in Australia's trade and investment thinking. Parts of it already are, particularly South and South-East Asia, so it is really about bringing other areas, most especially, I would say, the East African seaboard, into that thinking as part of a broader diversification of markets and supply chains.

FDI: *As the pre-eminent regional organisation, what steps could IORA itself take to promote more trade among its member states?*

PD: The problem the IORA Secretariat faces is resource constraints. It really is a lean, mean organisation. In the first instance, it needs to better leverage the Dialogue Partners because they have the resources and the strategic interest in the region, which is arguably growing. The Secretariat needs to leverage that broader interest in security, and military security particularly, towards its own more narrowly-focussed trade and investment integration objectives and get some donor dollars flowing into the organisation.

How Australia might feel about that is perhaps an interesting question, but that is what the Secretariat needs to do to amplify its capacity to build the region. It has a lot of project ideas but very little money with which to pursue them and, until it has the money to fund those projects, they remain largely an academic exercise.

It also depends on the willingness of the member states to engage, which leads to the question of where does IORA feature in their broader priority settings? Given that IORA really is in India's backyard, for instance, New Delhi should be showing much greater interest in IORA and should be supporting it in much stronger ways. If India did that, others would take notice and also step up, I suspect. China, for instance, might provide more funding to the Secretariat and that would get the cycle going, as has been seen with other regional institutions. Until that "bidding cycle" really gets going among the donors, it is going to keep struggling, unfortunately.

FDI: *Thank you for sharing your time and expertise with us today, Peter, and for your valuable insights into current and emerging trade developments in the IORA region.*

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About the Interviewee: Peter is Executive Director of the Institute for International Trade in the Faculty of the Professions, at the University of Adelaide. He is a member of the Board of Trustees of the International Chamber of Commerce's Research Foundation; non-resident senior fellow of the Brussels-based European Centre for International Political Economy; Associated Researcher at the German Development Institute (DIE); and a Board member of the Australian Services Roundtable.

In 2020, he is co-chair of the Saudi Arabia-led Think 20's *Task Force 1 on Trade and Investment*. He is a recipient of an honorary Doctorate degree from the Friedrich Schiller University in Jena, Germany. For ten years he was, respectively, member, chair, vice-chair, and co-chair of the World Economic Forum's Global Future Council on the Global Trade and FDI system. He was also Senior Research Fellow at the South African Institute of International Affairs. Previously, he worked in South Africa's national Department of Trade and Industry in bilateral economic relations (East Asia and Mercosur), and as head of the economic analysis and research unit in the Department's International Trade and Economic Development Division. Prior to that, he was an academic teaching economic history and political economy, and headed the Department of Economics and Economic History at the then University of Durban-Westville (now University of KwaZulu-Natal).

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Any opinions or views expressed in this paper are those of the individual interviewee, unless stated to be those of Future Directions International.

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