Measuring Closer Economic Cooperation in Indian Ocean Rim: Impressions from the Fields

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Personal Opinion
Draft, not to be quoted
Work in Progress
East Africa Trade Route: Extent of Islamic World
VOC Trade Network in 18th Century
Diaspora, People to People Connectivity

Two diasporas, top 20 countries
- Chinese outside mainland China*, m
- Indians outside India, m

Sources: CEIC; OCAC; MOIA; US Census Bureau

*Taiwan (23.2) not shown
How Big is IORA?
Vast, Vibrant and Dynamic Region
Diverse Economy
Tremendous Potentials

21 IORA Member Countries

- South Africa
- Australia
- Bangladesh
- Kenya
- India
- Indonesia
- Iran
- Madagascar
- Malaysia
- Mauritius
- Mozambique

- Oman
- Seychelles
- Singapore
- Sri Lanka
- Tanzania
- Thailand
- United Arab Emirat
- Comoroos
- Yemen
- Somalia

7 Dialogue Partners

- United States
- United Kingdom
- Japan
- Egypt
- France
- China
- Germany
IMPORTANT STATISTICS: POPULATION AND MARKET SIZE

Share of World Population, Aug 2017
- IORA: 30.25%
- Others: 69.75%
- Others: 9%

Share of World Economy, 2016
- IORA: 91%
- Others: 9%

Share of World Trade, 2016
- IORA: 11.41%
- Intra IORA: 8.29%
- Others: 88.59%

Inward Investment (FDI), 2016
- IORA: 11%
- Others: 89%

Source: UNCTAD, World Bank, Processed by BPPK
GDP of IORA Members (World Bank, 2016)

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Categorized as Least Developed Countries, According to UN (2016)
- Contribution of IORA (GDP current price) to GWP expanding from 5.3% in 1997 to 9.3% in 2016
- Rise of share in GWP indicating dynamism of the region

Source: UNCTAD, Processed by BPPK
On average IORA Sub Regions continue to grow above world output growth.

- South Asia – Robust growth performance
- Africa’s economy is predicted to recover from 2015-2016 downturn
- Middle East - High growth with greater degree of volatility
- South East Asia Economy is Picking up

Source: World Bank, processed by BPPK
How Open is IORA?
IORA Countries Openness to Trade
(Trade to GDP Ratio 2015)

Source: UNCTAD, Processed by BPPK
Export to IORA Compared to Export to the World

Source: UNCTAD, Processed by BPPK
Is IORA Ready for Closer Economic Cooperation?
(1.a) The Need to Narrow Economic Gap among IORA Member Countries

- 7 countries, 33%
- 5 countries, 24%
- 4 countries, 19%
- 5 countries, 24%

Categories: High Income, Upper Middle Income, Lower Middle Income, LDCs.
## (1.b) Economic Qualification: Gdp In US$ Billion

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(2.a) Progress of Innovation in Indian Ocean has been slow (2010 and 2015)
Lots of Homework to be done

Australia ranks 19 in 2015 and 21 in 2010
Singapore ranks 6 in 2015 and 3 in 2010
(2.b) Global Innovation Score 2015

- EU minus UK: 49.24
- ASEAN minus Brunei, Laos, Myanmar: 37.6
- GCC plus Egypt: 34.54
- East Asia: 54.48
- IORA minus Somalia, Seychelles, Comoros: 33.68
- SAARC: 26.07
- African Union: 26.47
- SADC: 29.19
- SG: 59.16
- KR: 57.15
- HK: 55.69

Countries:
- SE 63.57
- FL 59.90
- IE 59.03
- DK 58.45
- NL 58.29
- DE 57.94
- LU 57.11
- SG 59.16
- KR 57.15
- HK 55.69

Map highlights:
- An uptick in piracy has forced boats to speed their way through these waters off Somalia, which costs the shipping industry roughly $2.7 billion each year in extra fuel (the largest cost of piracy by far).
(3.a) Progress of Competitiveness in Indian Ocean (2010 and 2015)
Better score than Innovation?

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Singapore ranks 2 in 2015 and 3 in 2010.
Global Competitiveness Rankings 2015

EU minus UK 4.72

GCC plus Egypt 4.66

SADC 3.75

African Union 3.64

SAARC 3.9

IORA minus Somalia, Seychelles, Comoros & Yemen 4.34

North East Asia plus HK and Taipei 5.21

ASEAN minus Myanmar & Brunei 4.58

SG 5.68

DK 5.33
FL 5.45
DE 5.53
NL 5.50
SE 5.43

JP 5.47
HK 5.46
TW 5.28

AUSTRALIA
(4.a) Ranking of Ease of Doing Business in Indian Ocean is OK, but progress is slow (2010 and 2015)
Lots, lots of homeworks to be done
Average Overall DTF 2015

- EU minus Malta & UK: 75.44
- IORA minus Somalia: 60.19
- ASEAN minus Myanmar: 63.60
- North East Asia plus HK and Taipei: 77.12
- GCC plus Egypt: 63.90
- African Union: 47.54
- SAARC: 52.54
- SADC: 54.05
- KR: 83.69
- HK: 82.97
- TW: 80.87
- JP: 75.19
- SG: 85.08
- MY: 78.64
| Australia (AU) | 0.22 | 0.19 | 0.33 | 0.26 | 0.21 | 0.21 | 0.18 | 0.27 | 0.23 | 0.20 | 0.24 | 0.17 | 0.22 | 0.12 | 0.29 | 0.24 | 0.18 | 0.30 | 0.28 |
| Bangladesh (BD) | 0.10 | - | 0.08 | 0.07 | 0.09 | 0.08 | 0.10 | 0.12 | 0.08 | 0.11 | 0.08 | 0.07 | 0.08 | 0.06 | 0.07 | 0.10 | 0.10 | 0.08 | 0.08 | 0.11 |
| Comoros (KM) | 0.06 | 0.06 | - | 0.08 | 0.05 | 0.06 | 0.05 | 0.05 | 0.06 | 0.06 | 0.04 | 0.05 | 0.13 | 0.04 | 0.03 | 0.08 | 0.06 | 0.07 | 0.08 | 0.09 |
| India (IN) | 0.46 | 0.45 | 0.32 | - | 0.55 | 0.44 | 0.58 | 0.57 | 0.47 | 0.59 | 0.53 | 0.53 | 0.49 | 0.49 | 0.26 | 0.46 | 0.51 | 0.56 | 0.37 | 0.54 |
| Indonesia (ID) | 0.40 | 0.30 | 0.24 | 0.36 | - | 0.34 | 0.37 | 0.31 | 0.36 | 0.32 | 0.28 | 0.29 | 0.24 | 0.31 | 0.23 | 0.40 | 0.38 | 0.29 | 0.37 | 0.34 |
| Iran (IR) | 0.22 | 0.17 | 0.09 | 0.50 | 0.26 | - | 0.20 | 0.13 | 0.19 | 0.12 | 0.13 | 0.18 | 0.09 | 0.22 | 0.06 | 0.30 | 0.23 | 0.13 | 0.30 | 0.17 |
| Kenya (KE) | 0.33 | 0.28 | 0.31 | 0.21 | 0.27 | 0.29 | - | 0.34 | 0.29 | 0.35 | 0.32 | 0.29 | 0.32 | 0.22 | 0.26 | 0.33 | 0.33 | 0.31 | 0.27 | 0.34 |
| Madagascar (MG) | 0.14 | 0.14 | 0.12 | 0.11 | 0.13 | 0.12 | -0.12 | - | 0.13 | 0.15 | 0.10 | 0.11 | 0.11 | 0.11 | 0.10 | 0.14 | 0.15 | 0.11 | 0.11 | 0.17 |
| Malaysia (MY) | 0.50 | 0.36 | 0.27 | 0.37 | 0.48 | 0.36 | 0.43 | 0.35 | - | 0.40 | 0.38 | 0.40 | 0.33 | 0.64 | 0.22 | 0.46 | 0.43 | 0.37 | 0.49 | 0.40 |
| Mauritius (MU) | 0.21 | 0.18 | 0.16 | 0.17 | 0.18 | 0.18 | 0.17 | 0.23 | 0.16 | - | 0.15 | 0.15 | 0.16 | 0.16 | 0.25 | 0.22 | 0.21 | 0.16 | 0.16 | 0.26 |
| Mozambique (MZ) | 0.23 | 0.26 | 0.14 | 0.21 | 0.26 | 0.15 | 0.22 | 0.19 | 0.24 | 0.20 | - | 0.17 | 0.19 | 0.22 | 0.09 | 0.22 | 0.25 | 0.19 | 0.20 | 0.15 |
| Oman (OM) | 0.27 | 0.19 | 0.10 | 0.47 | 0.27 | 0.12 | 0.23 | 0.17 | 0.23 | 0.17 | 0.18 | - | 0.15 | 0.28 | 0.07 | 0.33 | 0.25 | 0.18 | 0.30 | 0.17 |
| Seychelles (SC) | 0.12 | 0.12 | 0.11 | 0.08 | 0.12 | 0.10 | 0.11 | 0.13 | 0.12 | 0.18 | 0.12 | 0.11 | - | 0.11 | 0.07 | 0.12 | 0.13 | 0.11 | 0.10 | 0.12 |
| Singapore (SG) | 0.45 | 0.32 | 0.24 | 0.33 | 0.53 | 0.37 | 0.48 | 0.42 | 0.63 | 0.44 | 0.44 | 0.46 | 0.38 | - | 0.16 | 0.45 | 0.41 | 0.45 | 0.43 | 0.42 |
| Somalia (SO) | 0.05 | 0.04 | 0.02 | 0.06 | 0.06 | 0.04 | 0.03 | 0.04 | 0.04 | 0.04 | 0.03 | 0.03 | 0.05 | - | 0.07 | 0.04 | 0.04 | 0.04 | 0.06 |
| South Africa (SA) | 0.38 | 0.27 | 0.27 | 0.39 | 0.34 | 0.34 | 0.32 | 0.30 | 0.35 | 0.33 | 0.32 | 0.39 | 0.28 | 0.27 | 0.18 | - | 0.33 | 0.30 | 0.35 | 0.43 |
| Sri Lanka (SL) | 0.19 | 0.15 | 0.15 | 0.16 | 0.16 | 0.18 | 0.17 | 0.18 | 0.15 | 0.22 | 0.15 | 0.15 | 0.17 | 0.13 | 0.12 | 0.19 | - | 0.16 | 0.16 | 0.24 |
| Tanzania (TZ) | 0.20 | 0.28 | 0.20 | 0.25 | 0.23 | 0.24 | 0.21 | 0.24 | 0.25 | 0.27 | 0.20 | 0.21 | 0.23 | 0.15 | 0.16 | 0.23 | 0.26 | - | 0.27 | 0.29 |
| Thailand (TH) | 0.55 | 0.39 | 0.38 | 0.67 | 0.51 | 0.54 | 0.47 | 0.42 | 0.53 | 0.49 | 0.42 | 0.49 | 0.39 | 0.44 | 0.28 | 0.53 | 0.47 | 0.43 | - | 0.53 |
| UAE (AE) | 0.41 | 0.22 | 0.22 | 0.34 | 0.42 | 0.29 | 0.38 | 0.31 | 0.39 | 0.35 | 0.33 | 0.35 | 0.29 | 0.42 | 0.16 | 0.47 | 0.42 | 0.32 | 0.48 | - |
| Yemen (YE) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
TRADE COMPLEMENTARITY INDEX (2013)

- Green: > 0.60
- Blue: 0.50-0.59
- Red: 0.40-0.49

Source: UNCTAD, 2016; processed by BPPK

(5.b) Export Complementarity
(5.d) IORA Complementarity?

Trade Complementarity Index and Connectivity

PANAMA CANAL
Roughly 13 million containers will travel through the canal each week (double the current rate) once new lanes for larger vessels are finished in 2016. The canal authority recently announced it is at least six months behind schedule.

KEY
WORLD’S LARGEST PORTS [BY CARGO VOLUME PER YEAR]
- 10 MILLION TONS

GULF OF ADEN
An attack in piracy has forced boats to speed their way through the waters off Somalia, which costs the shipping industry roughly $2.7 billion each year in extra fuel (the largest cost of piracy by far).

2011 TOP EXPORTERS
CHINA $13,639 BILLION
JAPAN $725B
SAUDI ARABIA $650B
UNITED STATES $576B
S. KOREA $491B

2011 TOP IMPORTERS
CHINA $13,326 BILLION
UNITED STATES $93,212
JAPAN $752B
TAIWAN $653B
S. KOREA $497B

SOURCES (also listed on page 39)
(6.a) Will Connectivity be a Challenge?

Shipping Line Connectivity Index 2016

Source: World Bank
(6.b) Right Infrastructure for the Right Economy
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<td>669,020.85</td>
<td>707,155.04</td>
<td>760,191.66</td>
<td>820,246.81</td>
<td>862,079.39</td>
</tr>
</tbody>
</table>
(6.d) Right Infrastructure for the Right Economy

North America
- Cascading effect of larger vessels
- Expansion Panama Canal triggers East Coast activity
- Recovering consumer demand

Europe
- Increased vessel size
- Recovering consumer demand

Asia
- Increased vessel size
- Increased transshipment
- Growing intra-Asia trade

Latin America
- Cascading effect of larger vessels
- Expansion Panama Canal doubles capacity

Africa & Middle East
- Cascading effect of larger vessels
- Increased transshipment
- Pivotal position because of Suez Canal

Average GDP growth 2014 – 2019 (IMF)
(7) Will Regional Groupings be Challenges to IORA Closer Economic Cooperation?

<table>
<thead>
<tr>
<th>South-East Asia</th>
<th>South Asia</th>
<th>Middle East</th>
<th>East Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>South-East Asia</td>
<td>ASEAN</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RCEP</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ASEAN-Plus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>SAARC</td>
<td>BIMSTEC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>BBIN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td>GCC</td>
<td></td>
</tr>
<tr>
<td>East Africa</td>
<td></td>
<td></td>
<td>SACU</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>SADC</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>COMESA</td>
</tr>
</tbody>
</table>

- IORA Members have been actively engaged in their sub-regional trade as well as bilateral trade agreement.

Source: Mohanty, (RIS) 2017
How Does IORA Overcome Human Security Challenges?
Challenges of Humanitarian Crises: War and Disaster
Migration and Regionalism: Implication to Business

Source: National Geographic, 2015
COUNTRY RISK ASSESSMENT MAP • JANUARY 2016

160 COUNTRIES UNDER THE MAGNIFYING GLASS

A UNIQUE METHODOLOGY
• Macroeconomic expertise in assessing country risk
• Comprehension of the business environment
• Microeconomic data collected over 70 years of payment experience

UNDER POSITIVE OR NEGATIVE WATCH

- Italy
- Ivory Coast
- Latvia
- Finland
- Hong Kong
- Namibia
- Japan
- Taiwan
- Zambia
- Kazakhstan

UPGRADE
- HUNGARY
  • Solid growth (+3% in 2015 and +2.4% in 2016)
  • Diversified exports

CANADA
- Oil price drop hampers Canada’s growth
- Risk of a housing bubble
- Economic recovery will largely depend on the US growth

SOUTH AFRICA
- Agriculture production suffering from severe drought
- High unemployment and inflation weigh on household demand
- Political situation remains fragile
- Instability of the exchange rate

ALGERIA
- Economy is heavily reliant on oil and gas sector
- Large public deficit

BAHRAIN
- Private sector activity will suffer from further decline in consumer and business confidence
- Political uncertainties
- High and rising public debt

BRAZIL
- Investment, consumption and industrial activity are still declining
- Impact of the current political crisis may delay the budget adjustment process

GABON
- Investment slowed by fiscal adjustment linked to oil dependency
- Social and political situation might become more strained in the lead-up to the next legislative and presidential elections

TANZANIA
- The shilling against the US dollar may continue in 2016
- Difficult political environment: elections on the Zanzibar Island have been cancelled due to fraud allegations

MADAGASCAR
- Growth limited by political uncertainties
- Low level of nickel and cobalt prices, the leading sources of export earnings for the country, will limit exports

37
Finding Suitable Form of IORA Closer Economic Cooperation
Choice of PTA, FTA or CEPA-IORA

- Preferential Trade Agreements (PTA)
  - Trade in Goods
- FreeTrade Agreements (FTA)
  - Trade in Goods
  - Trade in Services
  - Investment
- Comprehensive Economic Partnership Agreement (CEPA)
  - Investment

IORA

Market Access
Trade Facilitation and Custom
Economic Cooperation dan Capacity Building
Non-Tariff Measures
Trade in Investment
Public Procurement
Competition Policy
IPR
The Parameters

**AFTA**
- CEPT
- Product coverage
- Schedule of Tariff Reduction
- Quota and Non Tariff Barrier

**RCEP**
- Trade in goods
- Trade in services
- Investment
- Economic and technical co-operation
- **Intellectual property**
- Competition
- Dispute settlement

**TPP**
- Trade in goods
- Customs and trade facilitation
- Sanitary and phytosanitary measures
- Technical barriers to trade
- Trade remedies
- Investment
- Services
- Electronic commerce
- Government procurement;
- **Intellectual property**
- Labor

- Environment
- Cooperation and Capacity Building
- Competitiveness and Business Facilitation
- Development
- SMEs
- Regulatory Coherence
- Transparency and Anti Corruption
- Administrative and Institutional Provisions
- Dispute Settlements
<table>
<thead>
<tr>
<th>Field Research on IORA-CEPA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time Frame</strong></td>
</tr>
<tr>
<td><strong>Number of Countries Targeted</strong></td>
</tr>
<tr>
<td><strong>Name of Countries</strong></td>
</tr>
<tr>
<td><strong>Reason for Targeting</strong></td>
</tr>
<tr>
<td><strong>Institutions Targeted</strong></td>
</tr>
<tr>
<td><strong>Number of Countries Visited</strong></td>
</tr>
</tbody>
</table>
Field Research to IORA Member States

Countries Scheduled to be visited

Countries visited

Source: BPPK

Members of Indian Ocean Rim Association

- Iran
- United Arab Emirates
- Oman
- Yemen
- India
- Bangladesh
- Thailand
- Indonesia
- Malaysia
- Sri Lanka
- Seychelles
- Comoros
- Madagascar
- Mauritius
- South Africa
- Somalia
- Tanzania
- Kenya
- Mozambique
- Australia
- Singapore

Source: BPPK
### GENERAL IMPRESSIONS ON THE QUESTIONS RELATING TO CEPA

<table>
<thead>
<tr>
<th>No</th>
<th>Questionnaires (Core Questions)</th>
<th>Response (General Impression)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Is IORA known by the public?</td>
<td>Public and business have little understanding about IORA</td>
</tr>
<tr>
<td>2</td>
<td>Is IORA CEPA feasible?</td>
<td>All respondents consider discussion about IORA CEPA is too soon. Respondents prefer other form of closer economic cooperation, PTA, Trade Facilitation or Sector Cooperation</td>
</tr>
<tr>
<td>3</td>
<td>Does the existing legal infrastructure and economic capacities support the establishment of CEPA or any other regional economic cooperation mechanism?</td>
<td>Respondents convey their concern on economic gap among member countries, and their readiness to engage in closer economic cooperation. Singapore and Malaysia focus more on AEC and RCEP</td>
</tr>
<tr>
<td>4</td>
<td>Is WTO membership a pre-requrement for CEPA? Note: Iran and Comoros are not parties to WTO</td>
<td>Respondents are divided on this issue. Respondents in Singapore consider WTO membership is instrumental. On the other hand, respondents in Iran consider Iran's non-membership of WTO will complicate negotiation of FTA/CEPA, though it is not a fundamental issue.</td>
</tr>
<tr>
<td>5</td>
<td>The fact that IORA members are bound by different regional groupings, such as SACU, SAARC, COMESA, ECO, GCC, ASEAN of which any of them apply economic policy, will such differences be impeding the establishment of IORA's economic cooperation</td>
<td>All respondents considered membership to regional groupings, particularly the grouping that involve customs union will complicate negotiation on trade liberalizations.</td>
</tr>
</tbody>
</table>
Impression from the Fields (1)

There is a common view on:

1. The need of a more realistic approach towards closer economic cooperation within IORA
2. The expectation that research would be focused on promoting trade facilitation such as Free Trade Zone Cooperation
3. The need to explore sector cooperation such as mining (Australian respondents), cruise tourism (Iranian respondents), some aspects of blue economy
4. The need to focus more on capacity building to ease economic gaps
Impression from the Fields (2)

1. Negotiation on Trade Liberalization should be started only with member countries which are ready.
2. ASEAN Economic Community could be used as Model for Economic Integration within IORA.
3. Sector Cooperation can also be used as fundamental for Economic Integration, taking example of European Union.
Preliminary Proposal for IORA Closer Economic Cooperation

Multi Speed and Multi Level Integration

- Economic Development Facilitation
- Trade Facilitation
- Sector Cooperation
- Capacity Building (for LDCs)
- Preferential Trade Agreement (member countries which are ready)
- Free Trade Agreement (member countries which are ready)
- Comprehensive Economic Partnership Agreement
Thank You