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Trade Integration Options for IORA Members

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seek LIGHT

Overview

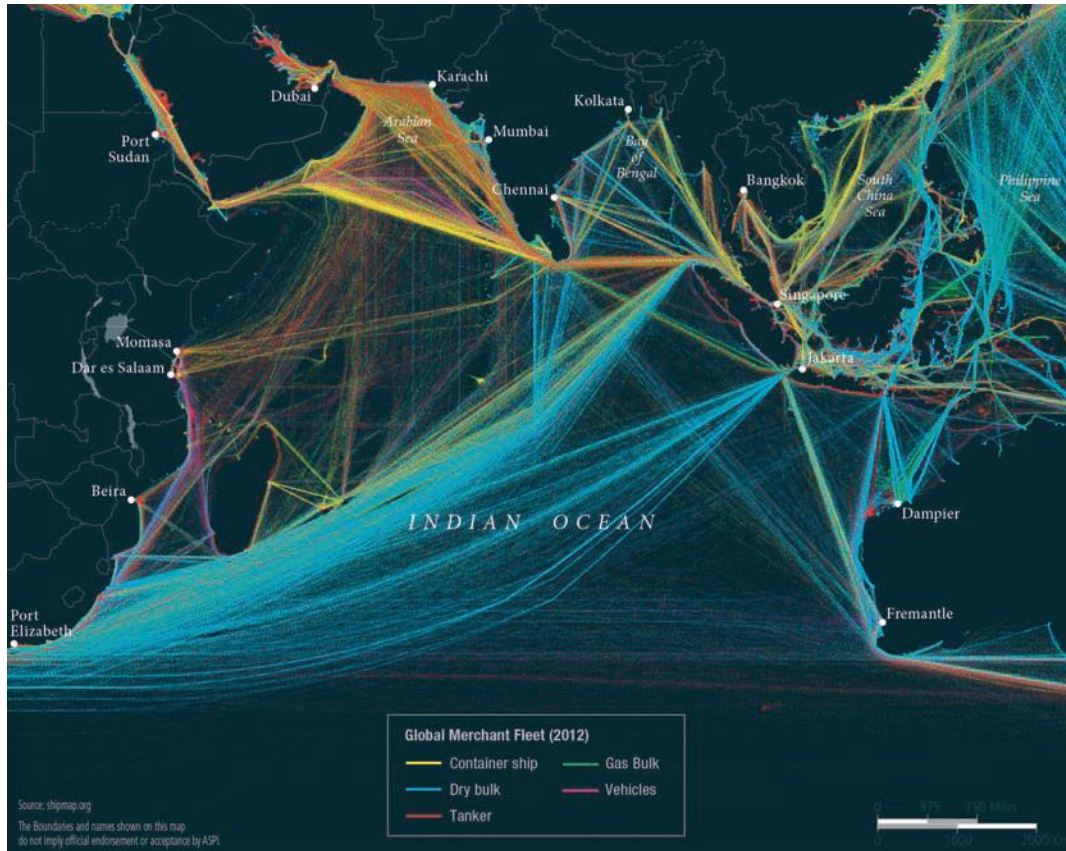
- IORA members' trade dynamics
- Options for enhancing IORA members trade integration



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IORA members' trade dynamics

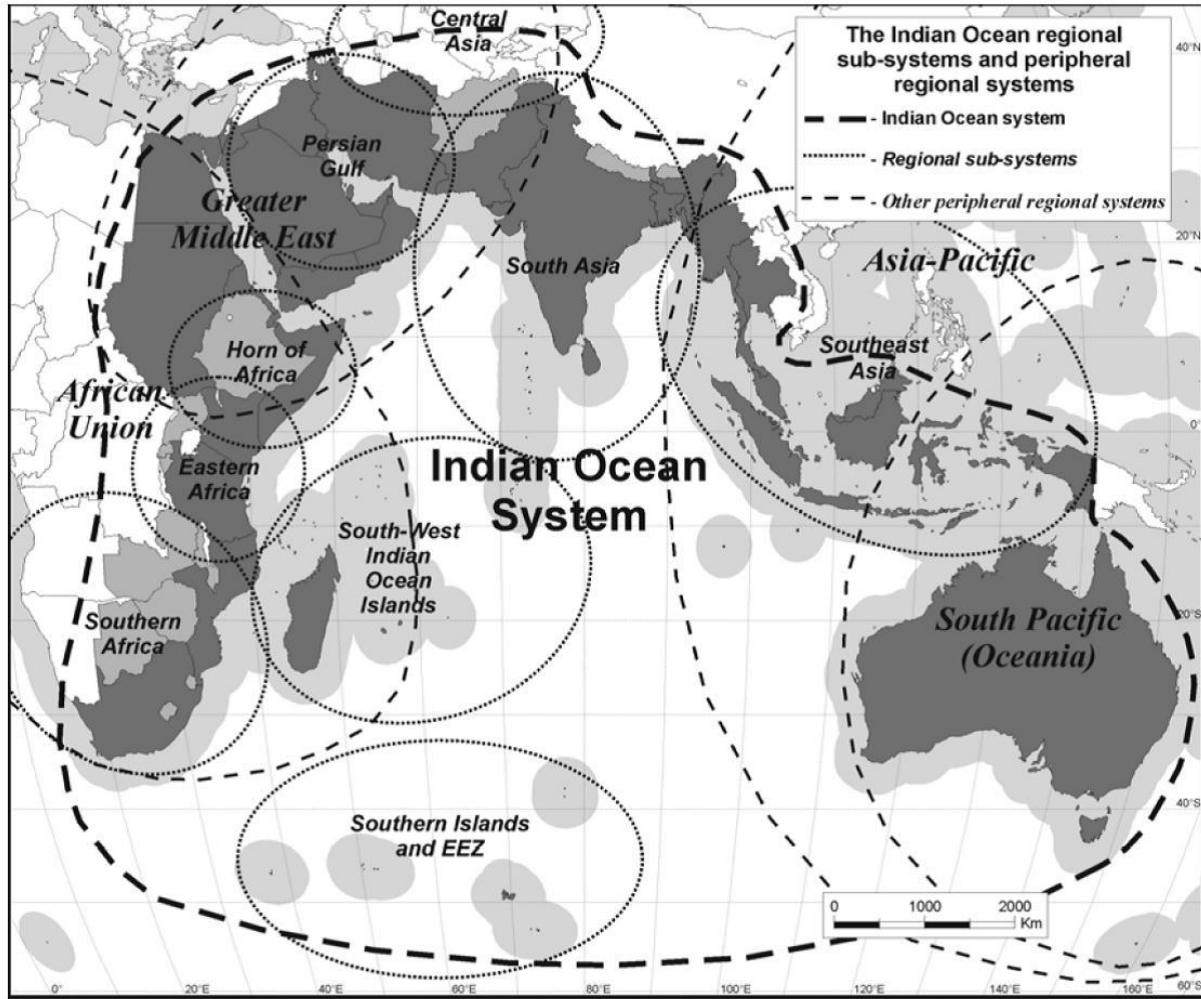
Strategic commodity flows loom large



Source: Brewster, Australia's 2nd Sea

- Trade centered on energy, minerals, other commodities
- Highlighting security issues, ie protection of supply lines
- Relatively little containerized traffic moving between IORA members
- Rather the Ocean is characterized by transiting goods linking the major economies of Europe and East Asia
- Although India's potential matters

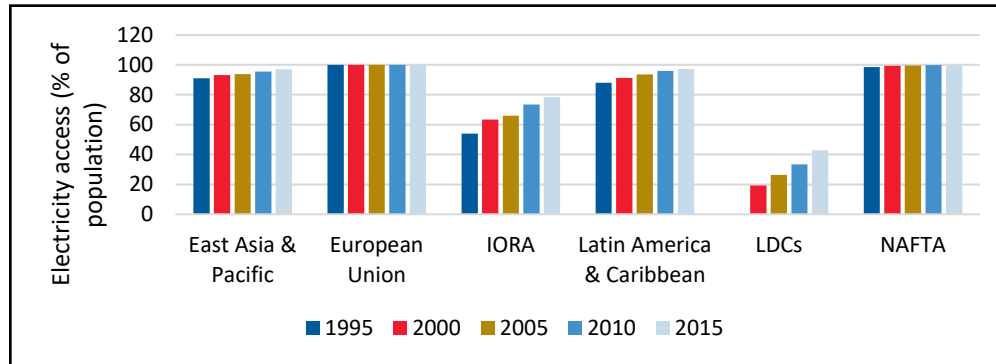
IORA - Which “region”?



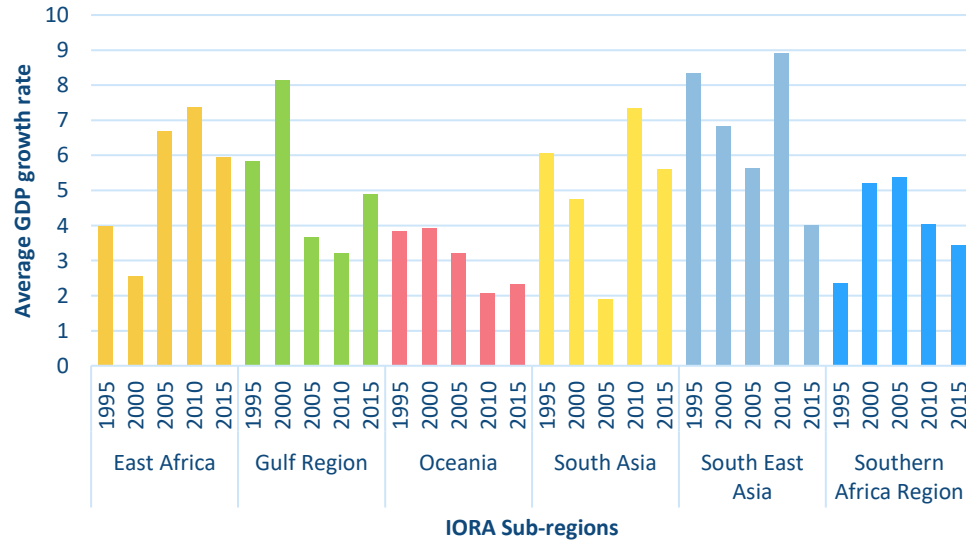
Source: Commonwealth of Australia, 2013

- Core Indian Ocean Rim littoral states
- Clearly there is fluidity in “the region”
- It includes a number of fragile states, and conflict zones
- Which sub-regions matter most to building a trade agenda?
- Could that be built around “gateway economies”?

IORA members proffer significant medium-term market potential



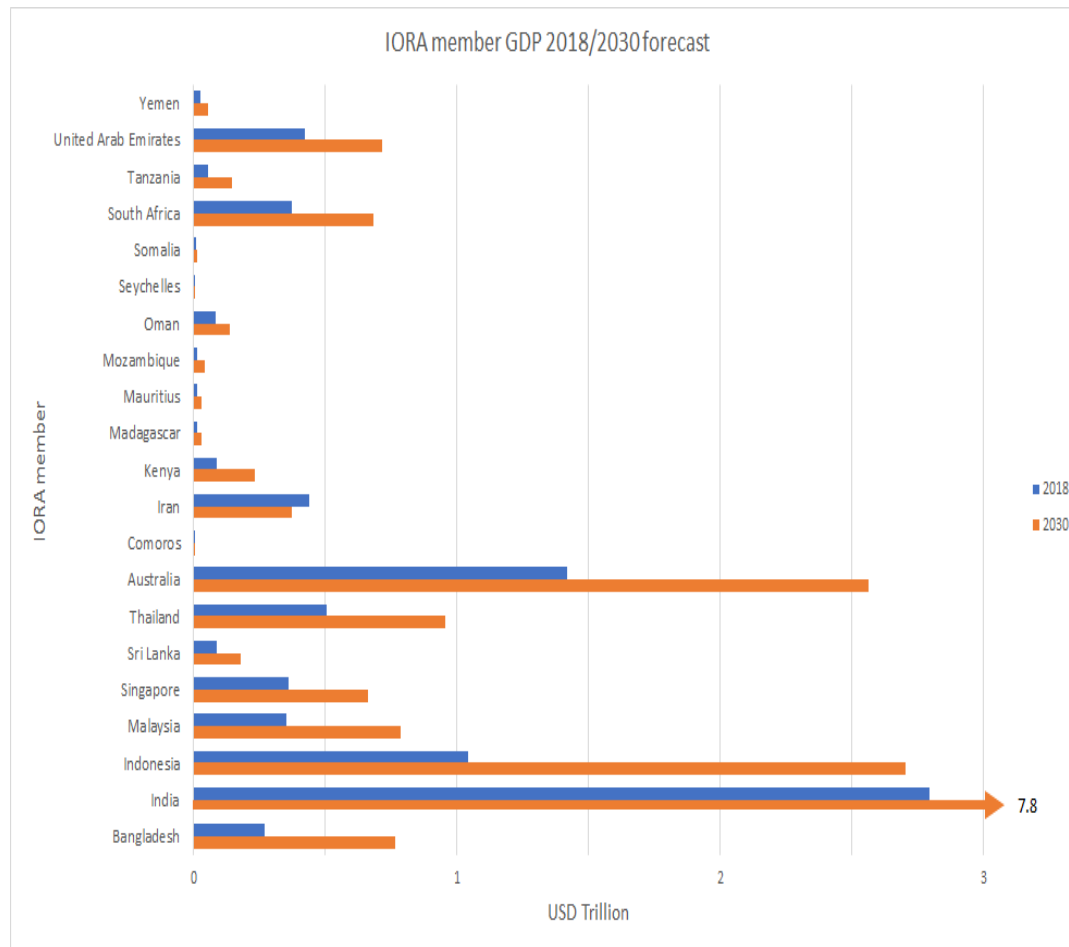
Source: WB DI



Source: UN Comtrade

- Growing consumption potential and market size
- With predictable regional variations

Market potential is concentrated in about ten members



Source: Australian Chamber of Commerce and Industry

- India, Bangladesh, Southeast Asian states, Australia, UAE, and South Africa stand out
- Are these the “gateway economies” around which deeper integration could be built?

IORA members' total goods trade is dominated by Dialogue Partners

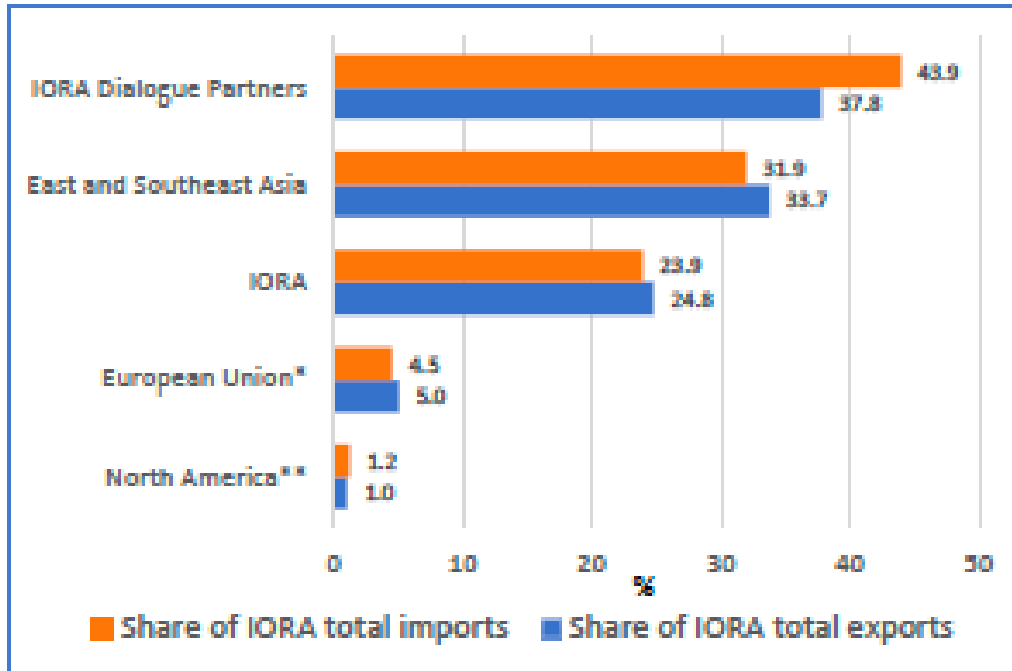


Figure 13: Share of IORA exports and imports by region, 2018

Source: Author's calculation using trade statistics from UN Comtrade

- East and Southeast Asia combined are also important
- Still, intra-IORA trade is substantial

Intra-IORA Members' goods trade is concentrated in 7 countries

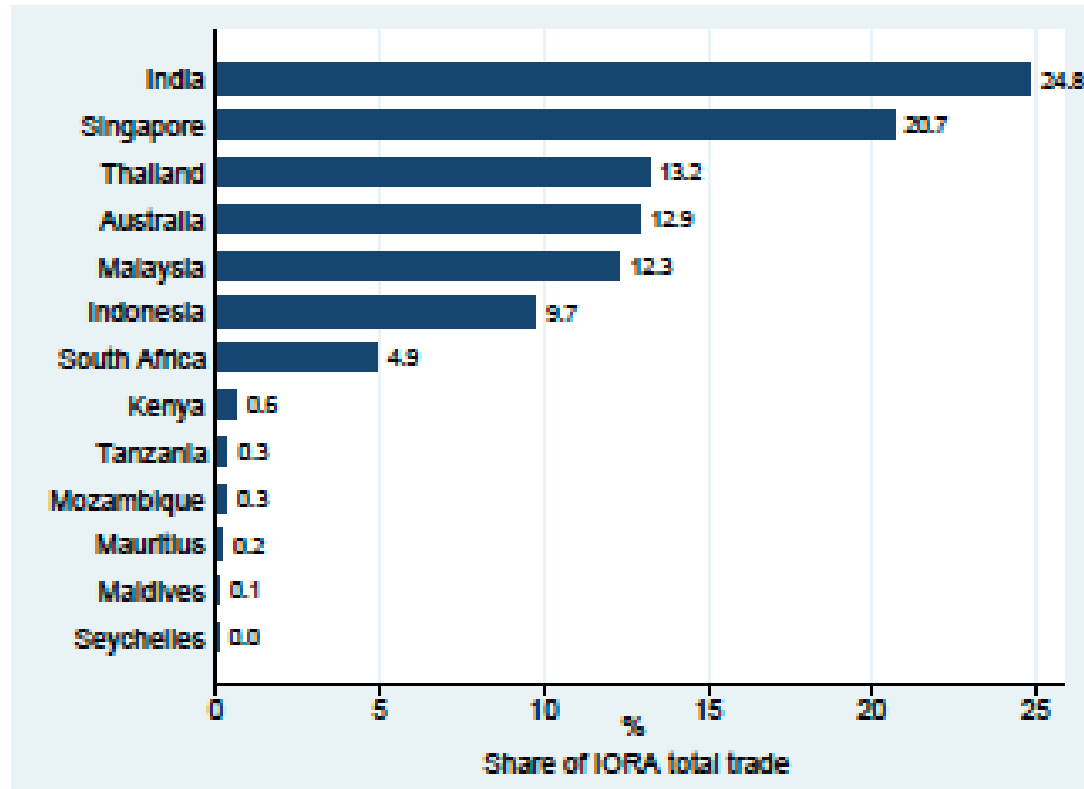


Figure 12: Individual country share of IORA total trade, 2018

Source: Author's calculation using trade statistics from UN Comtrade

- India will probably increasingly dominate this
- Southeast Asian members are important
- South Africa and Kenya, gateways to their respective regions, also feature

IORA members' sectoral goods trade is similarly concentrated

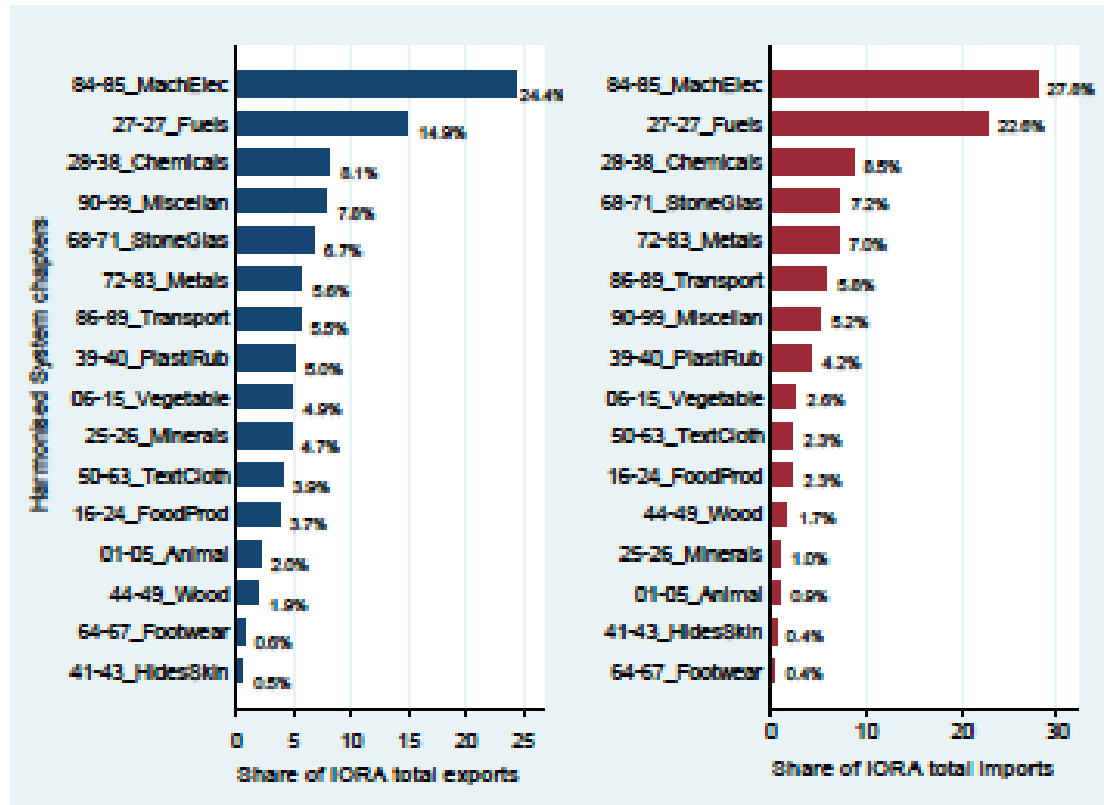


Figure 14: Share of IORA exports and imports by product category, 2018

Source: Author's calculation using trade statistics from UN Comtrade

- Electrical machinery stands out
- Fuels are important
- A range of processed and semi-processed product groups cluster next
- Offering some potential for cross-border value chain development

Services exports appear to be a relative success story



Figure 16: IORA members' combined services exports and imports, 2005-2018

Source: Author's calculation using WTO's dataset on trade in commercial services

- From overall deficit to surplus
- However, this is aggregated across the membership
- Services trade data suffers from significant constraints, inhibiting a nuanced view
- Particularly of bilateral and intra-group patterns

Sectoral services trade is concentrated in 3 sectors

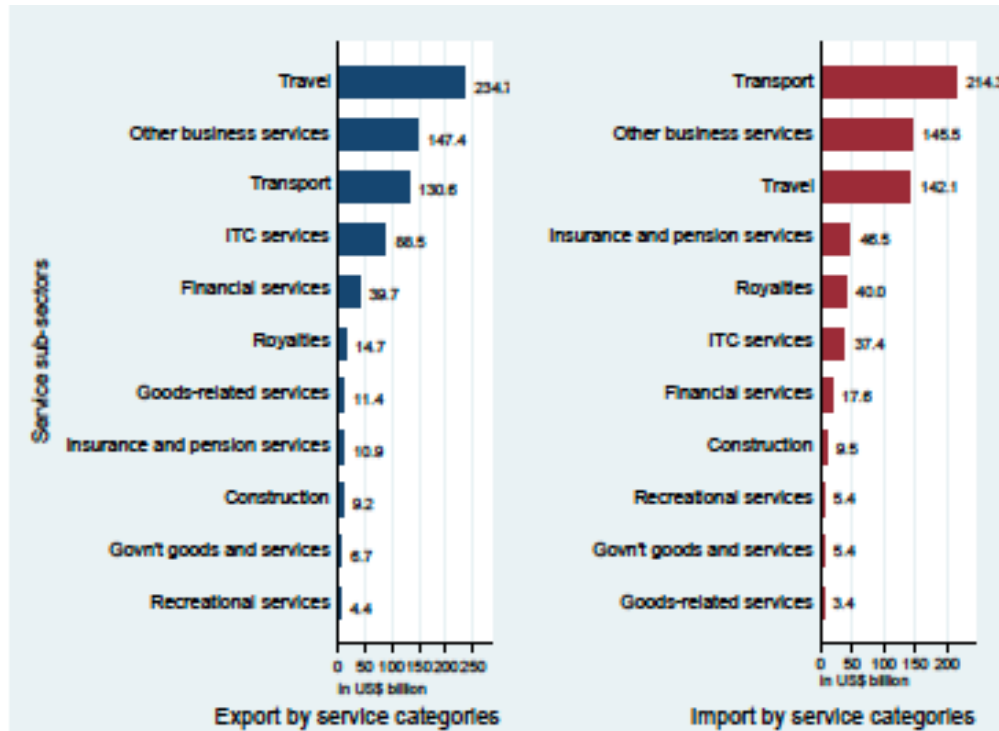
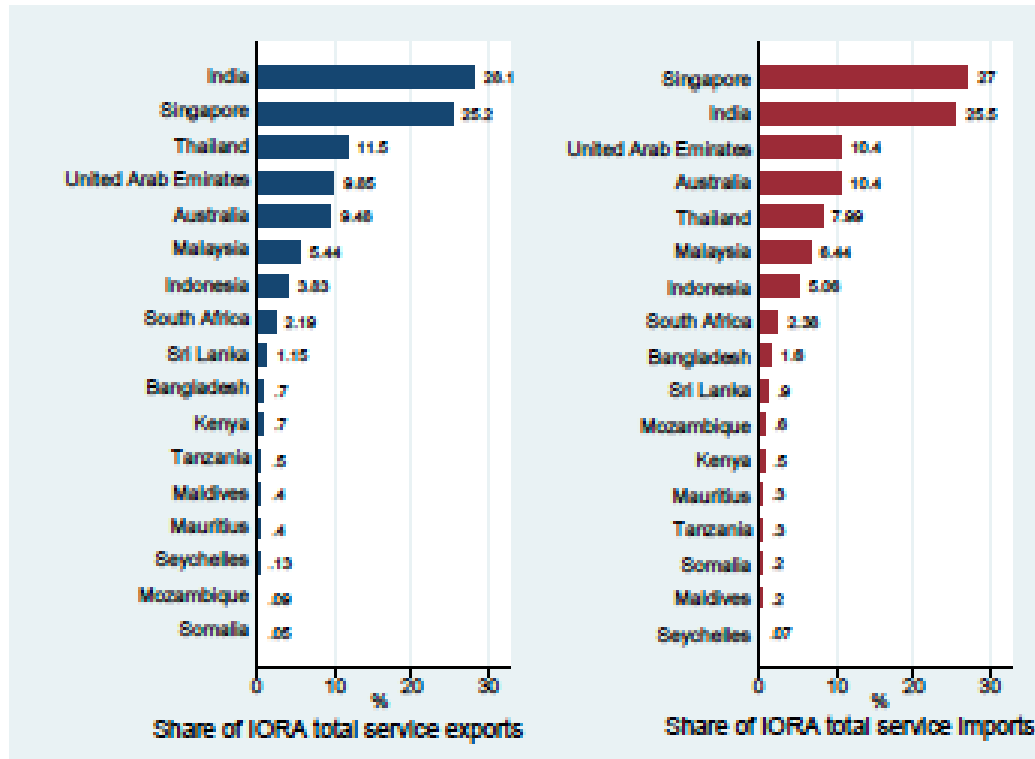


Figure 17: IORA exports and imports by service category, 2018

Source: Author's calculation using WTO's dataset on trade in commercial services

- Again, this is an aggregate view
- A country-by-country analysis would be required to deliver real insight

With some variation the country picture looks like goods trade, ie concentration



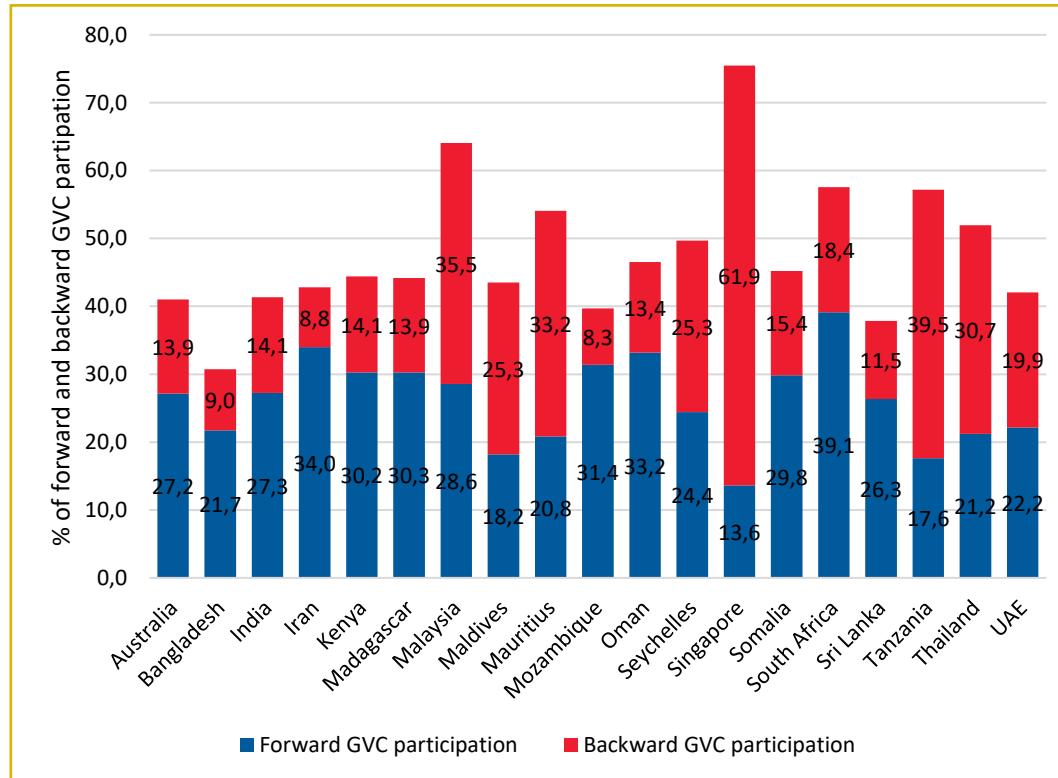
- Which reinforces the gateway story

Figure 18: Individual country's share of IORA service export and import, 2018

Source: Author's calculation using WTO's dataset on trade in commercial services

Integration into GVCs is relatively weak, and also mixed

GVC participation in IORA by country, 2018



Source: UNCTAD-Eora Global Value Chain Database

- Southeast Asian IORA members are relatively well-integrated into GVCs
- The Australian case demonstrates that lack of forward integration does not necessarily mean development suffers

FDI, a key driver of GVCs integration, is also concentrated

- Again, reinforcing the gateway story

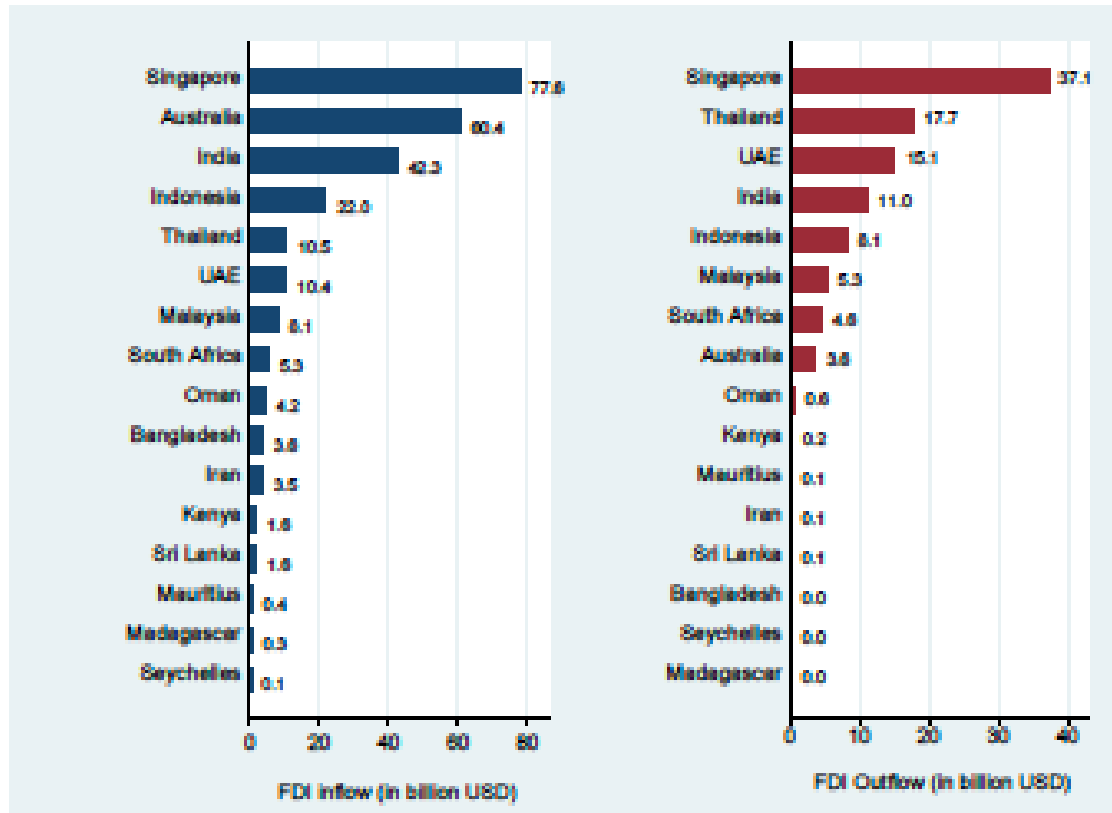
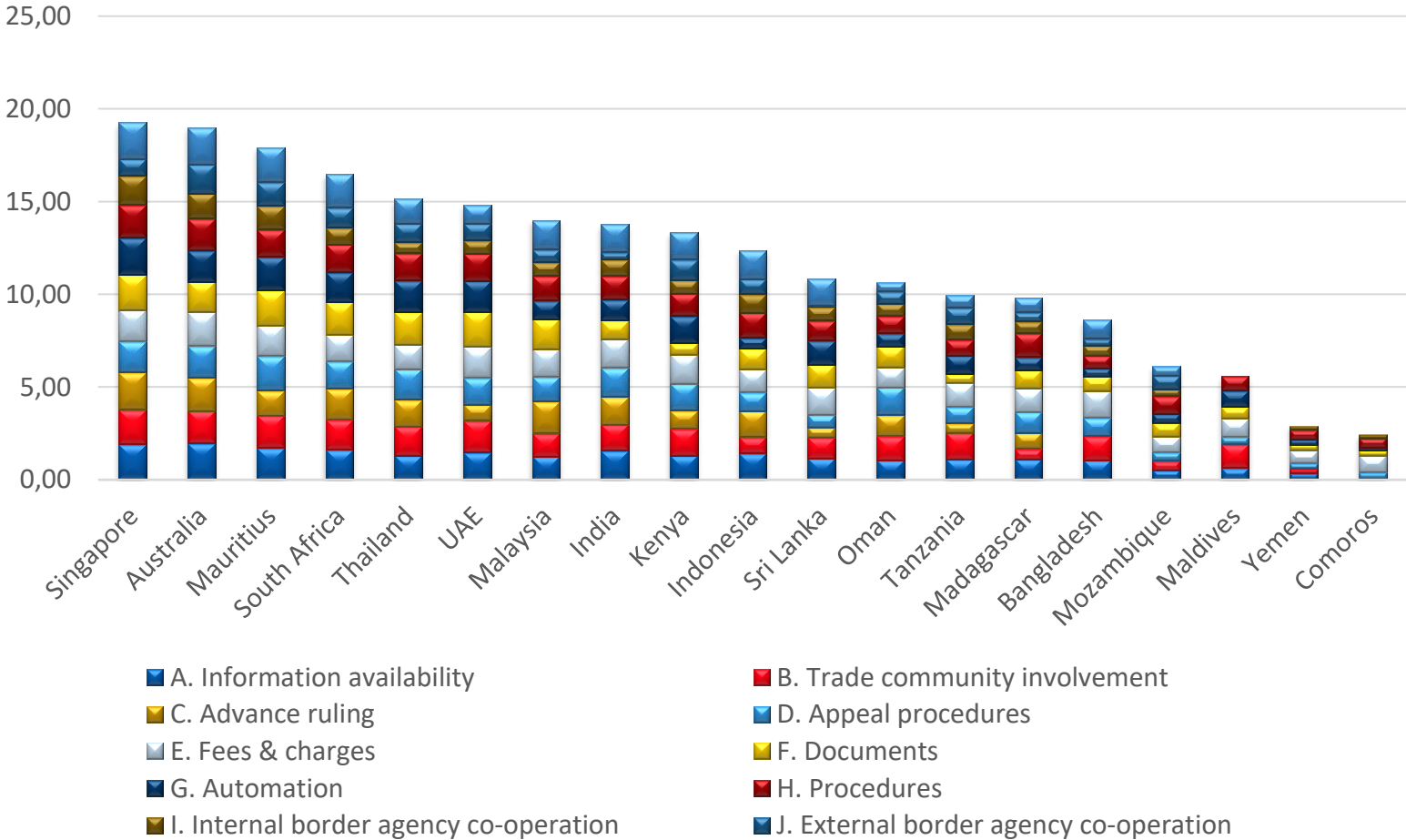


Figure 23: FDI flow by country, 2018

Source: Author's calculation using trade statistics from UNCTADStat

Trade facilitation practices are variable and in some cases hinder development of intra-IORA trade



Source: OECD Trade Facilitation indicators

Summary observations






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Options for enhancing IOIRA members trade integration

Trade integration options for IORA members: Key questions

Is it feasible to transform the IORA geographic space into a more dynamic regional production network?



If so, which sectors and economies could drive it?



What could IORA as a regional institution do to promote a GVC-centric agenda?

A framework for anchoring a strategy

Identifying a region beyond security imperatives

- Economic diversification opportunities
- Tapping into growth (potential)
- Variable geometry, anchored on gateways?

Building value chains connectivity: Focus on “gateway economies”

- Gateways connect their region to the world; the world to their region
- Value chains and network investments – hard and soft – are the arteries
- Therefore, build capacity in GVCs-connectivity related arenas
- Prioritise trade facilitation, since gateways must be open to function properly
- Promote bilateral, sub-region to sub-region (gateway to gateway), PTAs
- An umbrella agreement to govern/facilitate this?

What research could be done?

The dynamics of key value chains, eg electrical machinery

- What drives trade and investment flows in the value chain?
- How is the value chain governed?
- Does it have potential for dynamic take-off?
- What inhibits potential growth?
- How can hinterland economies be linked to gateways?
- What role(s) could PTAs play in catalysing value-chain integration?
- What can be learned from other large PTA projects, notably the AfCFTA; RCEP; and CPTPP?

What could that process look like?

- Dialogue partners could fund a series of case-studies
- This should include a synthesis report summarizing the opportunities, constraints, and implications
- It could lead to development of key projects to unlock value chain development
- It could be complemented through a Special Fund application, with sub-regional representation from policy institutes working on trade
- This could broach the issues around linking the main gateways to each other, and their respective hinterlands
- And/or conduct a feasibility study on PTAs

What dialogues could be activated?

Investment Promotion Authorities

- Sharing experiences with attracting lead firms in GVCs to invest in their home states
- That could extend to consideration of the Investment Facilitation plurilateral under consideration in the WTO
- The Trade Facilitation Agreement provides a model for thinking about how this could evolve to the benefit of IORA members

A Flagship Annual report: “The State of Integration in IORA”

- Along the lines of the World Bank’s “Doing Business” report
- Tailored to IORA members
- Research-driven, but for a policy-making audience
- Dashboards, heatmaps etc
- Benchmarking progress towards removing NTBs, bottlenecks, etc
- A good complement to Mauritian proposal to support countries to boost their Doing Business rankings

Discuss!