



South Africa and the Indian Ocean Rim

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From 9-11 September 1996, an intergovernmental meeting will be held in Port Louis, Mauritius, during which, some parties hope, a charter will be adopted, bringing an *Indian Ocean Rim Economic Association* officially into being. This meeting will be followed by another in Durban early next year. It is therefore important for South African business to be aware of these developments and to consider and make provision for the implications of the creation of this new regional organization.

History of the Indian Ocean Rim Initiative

During pre-colonial times, the Indian Ocean was a traditional trade route with Indian and Arab traders very active in the area. The arrival of the European colonial powers arguably destroyed this indigenous trade and replaced it with a vigorous new trade system, but this was not intra-regional, as most trade occurred between this region and Europe. Over time, much of the Indian Ocean came under the control of Great Britain and it became known colloquially as a 'British Lake'. As colonialism ended, however, the Indian Ocean became a focus for Cold War rivalries because of its strategic importance as a trade route.

The end of the Cold War, however, has finally provided the opportunity for closer cooperation between the countries surrounding the Indian Ocean. With Cold War ideologies no longer standing in the way, these countries are beginning to see the potential benefits of cooperation to help solve common problems such the need for economic development.

The Indian Ocean, the world's third largest, is the only one that is not covered by an economic cooperation arrangement. The potential for trade in this area is enormous as the Indian Ocean carries half of the world's container ships, one third of the

bulk carrier traffic and two thirds of its oil shipments. It also contains between a quarter and a third of the world's population and so represents a huge potential market, much larger than that of the EU (320 million) and NAFTA (350 million). India, for example, a country of about 900 million people, has a rising middle class estimated at over 70 million, or more than the population of Britain.¹

While it is generally agreed that the Indian Ocean Rim Initiative (IORI) is 'an idea whose time has come', the idea was first publically mooted in November 1993 by then South African Foreign Minister, Roelof 'Pik' Botha.² In January 1995, President Mandela again proposed the concept in a visit to India and it was enthusiastically received.³

The Process Thus Far

The first meeting on the Indian Ocean Rim Initiative was held in Port Louis, Mauritius, in March 1995 and was followed in June 1995 by another in Perth, Australia. These early meetings determined that the IORI would follow a 'two track process'.

The first track is a predominantly intergovernmental one with input by limited numbers of business and academic interests such as the meeting in Mauritius. The second track, such as the Perth meeting is a wider, more inclusive process to act in an advisory capacity to the first track.

The Mauritius meeting created the framework for further initiatives and included the identification of seven core countries, the so-called Mauritius seven or M7, to lead the process. These are Australia, India, Kenya, Mauritius, Oman, Singapore and South Africa. These all represent their respective sub-regions, Australasia, South Asia, East Africa,

the Indian Ocean Islands, the Gulf, South East Asia and Southern Africa.⁴

A decision was also made to restrict the IORI to economic issues at first and explicitly excluded sensitive security matters. This was partly a result of the contentious relationship between India and Pakistan and competing regional naval interests. It was also decided that the IORI would not interfere with existing regional economic cooperation arrangements.

Since then there have been several other meetings including a Work Group meeting in Mauritius in August 1995, one in New Delhi in December 1995 and another in Mauritius in May 1996. At the coming conference in Mauritius in September, the Draft Charter will be discussed and the formal members of the IORI will be increased to fourteen. The so-called New or N7 will be Indonesia, Madagascar, Malaysia, Mozambique, Sri Lanka, Tanzania and Yemen.

Problems Facing the IORI

Does the IOR Qualify as a 'Region'?

The first problem is a definitional one. The Indian Ocean Rim claims to be a 'region' in order to qualify for a process of 'regional integration'. It has been questioned whether the Indian Ocean Rim actually forms a 'region' at all in terms of international relations theory and therefore whether the whole process is not flawed *ab initio*.

Most world regions conform to some if not all of a range of criteria which include geographic proximity, shared culture, language, religion or ethnicity, or some form of shared history. They are also usually areas of similar economic development. The Indian Ocean Rim conforms to very few of these criteria. It is a heterogeneous area with great diversity of language, culture, ethnicity and religion. It contains countries of widely differing size and population, economic level and the distances between countries on the extremities of the area is vast. All of these factors make defining the area as a region problematic.

The counter argument is that there are indeed other examples of functioning regions which cross oceans, such as the North Atlantic Treaty Organization (NATO) and the Asia Pacific Economic Cooperation grouping, APEC. In fact, APEC is often referred to colloquially as the 'Pacific Rim'.

Closer examination, however, will show that other

factors bind these above mentioned regions together which are not present in the IOR. Where NATO and APEC were built on a network of pre-existing relationships, the IORI, while not starting altogether from scratch, will have far fewer institutional links to expand.

Thus while NATO and APEC were building on *existing* relationships, the IORI will be attempting to *create* them. In the IOR, intra-regional trade is still at a very low level, about 20% compared to 66% in the Asia-Pacific region and barely 2% of the world total.⁵

Another counter-argument is that far from being a stumbling block, the diversity of the region is in fact an asset. As has been outlined above, trade links in the region have always existed, but there is much room for expansion. The potential for growth of trade is huge as there are vast untapped markets and opportunities. There is also a good mix of relatively developed and less developed countries, producers and consumers. This could result in a self-sufficient trade area. As the entire region is situated in the South, the advice and technical assistance available to those countries lower down the development ladder from those higher up will be more relevant than advice from countries in the North, which have totally different histories.

This debate leaves us with two alternatives. Either a viable region exists or it doesn't. What implications flow from this?

No Region Exists

If no region exists, either the whole process is flawed *ab initio* or the process is actually something other than regionalism. For obvious reasons, the first view is not popular, but does come up from time to time.

(i) The IORI is Flawed

Proponents of this line of reasoning would rather encourage countries of the Indian Ocean Rim to conclude a network of bilateral rather than multilateral agreements which would result in greater interaction across the ocean. They argue that a more appropriate time to consider further integration would be when a feeling of community has emerged.

Participants in the IORI already realise that individually they represent several overlapping sub-regional groupings and from the outset it has been recognised that these previous agreements will

have to take priority over the IORI. Thus it is also argued that these sub-regional groupings first need to be developed further in order to make the potential for cooperation over a wider area more viable.

(ii) The IORI is not a 'Regional' Initiative

The second argument was identified by Mfundo Nkuhlu of the Department of Trade and Industry (DTI). That is, if an Indian Ocean Rim 'region' does not exist, then cooperation must be based on something else. Mr. Nkuhlu suggests that 'regionalism' in the Indian Ocean Rim may in fact be 'globalism masquerading under the banner of regionalism'.⁶ This view requires further discussion.

One of the major forces driving the IORI is the idea of South-South co-operation. The developing world is feeling increasingly marginalized in its dealings with the north. It sees the developed world becoming increasingly balkanized into large, powerful trade blocs such as the EU, NAFTA and APEC. There is thus a feeling that the only way to avoid becoming excluded is to cooperate in order to present a united front in negotiations for trade access with these groupings. It is believed that the combined strength of several countries will put developing states in a stronger bargaining position than if they negotiated individually.

Countering this trend, however, is the World Trade Organization (WTO) created in January 1995, which has as its aims the harmonization of world trade and the gradual elimination of tariffs and other barriers to trade. It views regional groupings as a stepping stone to global trade and does not want to see them become exclusive 'trade blocs'. The WTO therefore encourages the principle of 'open regionalism'.⁷

The idea is that it may be easier for countries to reduce tariffs in their region first and as they gain confidence, open their markets to global competition. Thus the IORI may be simply an expression of this process, and form part of a growing overlapping system of regional trade agreements which will eventually result in global free trade. It is in this sense then that IORI could be described as 'globalism masquerading under the banner of regionalism'.

A Region Does Exist

The other alternative is that if an Indian Ocean Rim 'region' does indeed exist, then the theory of

regions is obviously outdated and needs to be revised in order to bring it into line with current practice. The obvious commitment of the member states of the IORI to this process seem to indicate that they do not see these theoretical problems as obstacles and are moving ahead regardless.

Which Countries Qualify for Membership of the IORI?

An allied problem is how to define the limits of the region and thus eligibility of states for membership. This may sound a simple task, but is in fact complex and is a potential stumbling block to further cooperation in the IOR.

Depending on definition, the 'region' could consist of between 29 and 44 countries; this problem is aggravated by the adoption of the principle of 'open regionalism' which could, in theory at least, allow for the inclusion of sub-regions in their entirety, further enlarging an already unwieldy grouping.

Thus in order to remain within the precepts of the WTO, the IORI should adopt the principle of open regionalism. In order to make the region viable however, it is important to start small and increase membership as the organization gains momentum. There appear to be two approaches to this process, a slow track and a fast track.

Australia appears to favour the fast track and would like to see 35 countries quickly incorporated into the IORI. India, amongst others, feels that this would be too fast and wants to start with a smaller number of member states and expand only gradually.⁸ The recent increase in membership of the IORI from seven to fourteen has already been criticised as premature by those who believe that more progress should be made before further expansion.

What Type of Regionalism is most Appropriate for the IORI?

A final problem is that of defining the *type* of regionalism required in the IOR. The traditional model of integration is that of the European Union which aims to result eventually in political union. It is argued that this is not the model of choice for the IORI as much of the region has emerged from colonialism only comparatively recently. The surrender of sovereignty is out of the question. Thus relations between member states are likely to be more along the lines of cooperation rather than integration.

As has been mentioned earlier, the IORI is an attempt at South-South cooperation which is fundamentally different from customs union theory as applied in the developed world. Customs Union Theory attempts to *expand* existing free trade whereas the IORI needs to *create* trade. Thus the type of cooperation envisaged may have more in common with development economics than tariff theory.

It should thus be clear that the IORI is a long term initiative and while localized benefits should be visible fairly quickly, the region is unlikely to develop economically as rapidly as other regional organs especially those in the Asia-Pacific. This does not mean, however, that the initiative is doomed, but rather that considering the difficulties faced by many nations in the region it represents a means to sustainable growth and economic development. It is not a 'quick fix'.

How Will This Affect South Africa?

South Africa has been a major player in the development of the IORI from the inception of the project and Pik Botha and President Mandela's speeches. Recently, however, doubts have been expressed from various quarters, including sections of government as to whether the IORI will be of benefit to South Africa economically.

It is important that the government is aware of the potential pitfalls involved and thus enters negotiations with open eyes. It should thus make decisions and provide input at conferences that maximise the benefits of regional cooperation for South Africa and minimise the risks.

What are these benefits and risks?

Potential Benefits

- * Increasing South Africa's international profile;
- * Increasing our bargaining power vis-a-vis the developed world for market access as part of a larger economic grouping;
- * Reducing suspicion about South Africa's motives in the sub-region by having relations administered multilaterally in a transparent manner;
- * Gaining access to markets both in Africa and countries such as India with its huge potential market and growing middle class as well as markets in the Asia-Pacific;

- * Preventing potential economic competition from becoming too heated through multilateral negotiations;
- * Multilateral action on such common problems as sea rescue, pollution control, especially oil spill cleanup, smuggling, piracy, illegal immigration as well as education and health co-operation on issues such as AIDS; and
- * Guaranteed access to oil through the participation of countries such as Oman and possibly Iran.

Potential Risks

The primary risk to the South African economy is the potential for undermining certain industries by allowing preferential access to cheaper products from major producers in the IOR. An obvious example is the textile industry which is already marginal and fears imports of cheap textiles from such countries as India, Mauritius and the eastern part of the rim. The result of this could be an aggravation of the unemployment problem.

This problem needs to be seen in context, however. The South African economy during the Apartheid era became an extremely closed and protectionist one in order to try to offset the effects of sanctions. Thus industries were maintained with subsidies and protectionist tariffs that otherwise would not have survived. In order to modernize the South African economy, and to bring it in line with the precepts of the WTO, tariffs will, in any event, have to be lowered and subsidies phased out.

This is never an easy process and means that certain industries will have to restructure in order to survive and may even have to close down if they are unable to become competitive in the global market. This process is likely to be especially painful for the government because of its close relationship with organised labour and its commitment through the RDP to provide employment and improve the lives of the disadvantaged. If the IORI insists on preferential market access for goods at a rate lower than that dictated by the WTO this could aggravate the problem. Some government advisors believe that South Africa cannot afford to comply at this stage.

The second potential problem is that as South Africa is seen as a regional powerhouse, it may have to contribute a proportionately larger share of the development aid to the poorer countries of the Rim. While this will arguably lead to greater

stability in the region and perhaps help to alleviate migration for economic reasons, it may be hard to justify in the face of needs for domestic development.

The final problem is that if it is decided to exclude sub-regional groupings from the IORI at first, this will leave South Africa open to criticism by members of SADC that it is abandoning its neighbours for more lucrative markets outside the Southern African region. It is important therefore that South Africa supports the principle that existing regional arrangements take precedence over the IORI.⁹

Conclusion

Accession to the IORI can provide an impetus to South Africa's industry while at the same time providing it with new markets to expand into thus expanding those industries in which the country has a competitive advantage and thus generating employment. Malaysia, for example, has started investing in South Africa already and its Petronas gas and oil company has recently made the single largest post-apartheid investment of R1,88bn, buying a 30% stake in Engen.¹⁰ This was partly due to the prospects for these two companies to cooperate on developing assets in Yemen and elsewhere.

Endnotes

1. Campbell G & M Scerri, 'The Prospects for an Indian Ocean Rim (IOR) Economic Association', *South African Journal of International Affairs*, 2, 2, Winter 1995, p.21.
2. Ahmad T, 'A History of the Indian Ocean Rim', in Van Nieuwkerk A (ed.), *South Africa and the Indian Ocean Rim: Obstacles and Opportunities*. Braamfontein: Foundation for Global Dialogue, January 1996, p.1.
3. Chhabra HS, 'Economic Co-operation: The Indian Ocean Rim Concept', *India Digest*, 2/96, February/March 1996, p.7.
4. *Ibid.*, p.8.
5. Evans G, 'Indian Ocean Regional Co-operation: Exploring the Possibilities', *The Indian Ocean Review*, 8, 2-3, June/September 1995, p.7.
6. Nkuhlu M, 'South Africa and the Concept of the Indian Ocean Rim: A Strategic, Political and Economic Analysis', in Van Nieuwkerk A (ed.), *op.cit.*, p.17.
7. *Ibid.*, p.13.
8. Cherian J, 'Coming Together, Slowly', *India Digest*, 2/96, February/March 1996, p.18.
9. Ahmad T, *op.cit.*, p.2.
10. 'Asian Tiger Leaps Ahead as Major Investor', *Financial Mail*, 2 August 1996, p.26.

STATEMENT OF PURPOSE

The South African Institute of International Affairs is an independent organisation which aims to promote a wider and more informed understanding of international issues among South Africans.

It seeks also to educate, inform and facilitate contact between people concerned with South Africa's place in an interdependent world, and to contribute to the public debate on foreign policy.