The Developing Economies, XXXV-1 (March 1997): 3–27

YAMAZAWA'S OPEN ECONOMIC ASSOCIATION: AN INDIAN OCEAN GROUPING FOR ECONOMIC COOPERATION

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I. INTRODUCTION

IN the past, trade, investment, and economic cooperation links within the Indian Ocean region (IOR) have lagged behind those of other regions. Cooperative processes have been focused narrowly, and mostly with subregional focuses and without broad inclusive grouping. The few region-wide arrangements made little progress. Recently, however, new forces have opened up opportunities with far-reaching potential. The most important have been:

(1) conclusion of the cold war and the ending of superpower rivalry in the region,
(2) a transition in economic policies among regional states from economic autarchy towards openness and global liberalization in trade and investment, and
(3) South Africa's return to the international community as a democratic state and as an emergent regional player.

These factors have encouraged some recent initiatives towards regional cooperation in the Indian Ocean which are important as they coincide with the transition of the GATT to the World Trade Organization (WTO). The primary objective of the GATT was to set nondiscriminatory rules for trade in goods and services. Partly because the negotiating process to achieve this objective has proven hard and long, groups of economies which trade intensively with each other have sought to address common issues in smaller groups under the structures of regional economic cooperation.

Political forces, or in some cases, market forces can initiate such cooperation. Political initiation is exemplified by the case of the single market for EEC countries in 1992. Market-driven economic integration shaped the initial successful growth of economic cooperation in the Asia-Pacific for several decades, where cooperation at an inter-governmental level was only introduced recently, with Asia-Pacific Economic Cooperation (APEC). It is argued that robust and rapid economic integration depends upon whether intra-regional market forces are in fact dynamic and upon the ways in which attempts to stimulate the process of integration are designed and implemented. Both questions are addressed in this paper which is a part of an ongoing Indian Ocean Trade and Investment Project, undertaken by the authors in the Australia South Research Centre at the Australian National University.

In relation to the latter, a key economic issue in encouraging a framework for rapid growth and intra-regional integration in the IOR surrounds the rules of the association, and in particular, whether they are to be discriminatory, i.e., whether regional economic cooperation is to be treaty-based "institutional integration" as in the European Union (EU) and North American Free Trade Agreement (NAFTA), or "market-driven integration," without any formal region-wide integration as has occurred in the Asia-Pacific region with APEC. APEC's *modus operandi* is described as "open regionalism," or more recently as an "open economic association" (OEA) (Yamazawa 1992, 1993), described as being:

—open in that its structure and policies do not lead to discrimination against trade and investment with the rest of the world;
—economic in its primary policy focus; and
—a voluntary association in that its members do not cede sovereignty to any supranational regional institution.

> . . . liberalization is applied both to members and nonmembers on an MFN [most favored nation] basis, and the gradual liberalization of trade in goods and services is supplemented by facilitation to dismantle all impediments to all international transactions as well as those to development cooperation. This balanced program reflects the vast differences among members in stages of development, current levels of impediments to trade and investment, and preparedness for reform. (Yamazawa 1996, pp. 129–30)

Yamazawa (1996) traced the progress of economic integration in the Asia-Pacific leading up to the Osaka meeting in November 1995 of APEC, an emerging regional group of eighteen member states in the Asia-Pacific area. He noted that APEC started with a loose informal structure of regional integration, "reflecting the preferences of its Asian members." Despite this informality, the combined share of its eighteen members in total world GDP and export trade had reached 47.9 per cent in 1989 and 39.1 per cent in 1990 respectively. This has been achieved within an immense geographical spread around the Pacific and a great diversity among the countries in terms of size and natural resource endowment, and differing religious and cultural heritages, because of the inherent economic complementarity within the group which has stimulated dynamic intra-regional trade and investment and high economic growth rates. By 1990, intra-APEC trade (66 per cent) exceeded intra-EC12 trade (63 per cent).

Proposals for Pacific economic cooperation were first made by economists and businessmen and led to the establishment of the Pacific Basin Economic Council (PBEC) by businessmen in 1967 and the Pacific Trade and Development Conference (PAFTAD) by economists in 1968. The discussion circle was widened from

1979 to include politicians, diplomats, and other academics as a seminar series annually on economic cooperation known as the Pacific Economic Cooperation Council (PECC) forum. PECC is characterized by a tripartite membership of business, academic, and government, all in their private capacities, providing a free exchange of views and fundamental research to work towards a region-wide consensus on issues of economic cooperation in the Asia-Pacific. This form of intergovernmental economic cooperation is frequently referred to as "second track."

A third phase of economic cooperation developed in the late 1980s with a proposal to strengthen Asia-Pacific cooperation through an inter-governmental forum which led to the establishment of APEC. At inter-governmental level, this form of economic cooperation is generally dubbed as "first track."

Thus the path of economic cooperation in the Asia-Pacific has been evolutionary from informal beginnings characterized by minimal government intervention and maximum impetus forged in the market, but with effective contributions to the process of integration issuing from essentially second-track sources. Yamazawa (1996, p. 121) makes the point that "the real test of success or failure of the Osaka APEC meeting is not the existence or absence of a formal agreement, but whether business people are convinced that member governments in the Asia-Pacific region will steadily improve the business environment," by resolution of trade conflicts, elimination of impediments to the further expansion of trade and investment, and the resolution of bottlenecks in infrastructure and human resources. It is open to non-APEC members, consistent with the concept of "open regionalism," and it is supported by effective contributions from the nongovernment second-track organizations through advisory and working groups (Garnaut and Drysdale 1994).

In the past, attempts have been made in all subregions of the Indian Ocean region to establish processes of economic cooperation, but with very limited success. The South Asian Association for Regional Cooperation (SAARC) was established in 1985 including seven countries. Under the heading of trade and economic cooperation, one of the main achievements has been the SAARC Preferential Trade Agreement (SAPTA) which was adopted in 1993. Recent efforts have been made to accelerate action under SAPTA by agreement to move towards a SAARC Free Trade Agreement (SAFTA) in 1996, but currently trade between SAARC countries accounts for only 8 to 9 per cent of total SAARC exports.

The most successful subregional organization for cooperation has been ASEAN, established in 1967. Economic cooperation is fostered through, inter alia, the ASEAN Free Trade Area (AFTA) and external relations are promoted through cooperative relationships with ASEAN dialogue partners. AFTA was established in 1992 and promulgated a Common Effective Preferential Tariff (CEPT) in 1993 to expand ASEAN trade. Recently, intra-regional trade has accounted for about 20 per cent of total ASEAN exports.

Institutional regional integration is practiced in the Gulf by the Gulf Cooperation

Council (GCC), established in 1981. A Unified Economic Agreement (1982) sets out the framework of free trade and cooperation. So far, the GCC has abolished customs duties on intra-GCC trade (1993) and has created the Gulf Investment Corporation (1984). A common industrial strategy (1985) and a move for a unified system of tariffs (1993) are other achievements, though there is a generally held view that the GCC has made little headway towards economic integration.

A range of initiatives have been taken in Eastern and Southern Africa towards institutionalized economic cooperation. These include the East African Community (EAC) created in 1993, a Preferential Trade Area for Eastern and Southern Africa (PTA) founded in 1981, which was originally intended to include all countries in East, Central, and Southern Africa. Progressive liberalization of trade commenced in 1984. The PTA treaty made provision for transformation of the PTA into a common market in 1993, called the Common Market for Eastern and Southern Africa (COMESA). However, hopes for a regional common market under the PTA have remained remote. The South Africa Development Community (SADC) was established in 1992, superseding the Southern African Development Coordination Conference (SADCC). The SADC has made progress in high priority areas of transport, energy, and agriculture and less so in mining and human resource development. SADC countries' trade with each other accounted for 4.4 per cent of their exports in 1992.

Given the limited progress made to date within each of these subregional organizations, there is clearly a need to promote market-driven intra-regional trade and investment and economic integration in a wider regional context.

Recognition of the new potential for economic integration and economic cooperation within the Indian Ocean has recently led to two major initiatives towards the creation of regional processes of regional cooperation. The first has been described as the Mauritius process, essentially an inter-governmental or "first track" but tripartite process. The second was initiated by Australia as a "second-track" process with the establishment of an informal tripartite dialogue between the private sector, academics, and government officials acting in their private capacity and not as government representatives. The latter had its origins in the development of cooperative processes in the Asia-Pacific, while the former was closer to the cooperative model of the EU.

In sections to follow in this paper, evidence is presented which provides grounds for optimism for the future of economic integration within the Indian Ocean Rim region, first with an analysis of recent trends in intra-industry trade within the region, then by a review of recent initiatives taken within the region to establish cooperative mechanisms. A final section presents views about the implications of these initiatives for the future prospects for "market-driven" economic integration under the concept of OEA.

II. ECONOMIC INTEGRATION IN THE INDIAN OCEAN REGION

The role of market-driven economic linkages and integration are based on the concept of an OEA, developed by Yamazawa (1992) which does not require any intergovernmental agreements to promote or to restrain the linkages. Following the concept of OEA, the question examined in this paper is whether a market-driven economic integration is emerging among IOR countries. As the characteristic of OEA is purely economic and the driving force is commercial decision making, it becomes necessary to identify the core countries in the IOR, based on the growth triangle concept.

Such an identification can be done in several ways. One approach is to examine the intensity of trade among the "major countries" vis-à-vis other countries in the region. Major countries may be defined with respect to the size of markets measured in terms of effective demand, while the IOR countries are located in three different continents, namely, Africa, Asia, and Oceania, and South Africa, India, Southeast Asia,[1] and Australia can be considered as the major growth triangle countries among the IOR economies. Now, the interesting question to examine is the possibility of the emergence of an IOG grouping initially involving these core growth triangle countries which then leads on to draw in other countries in the region.

Calculating the share of intra-industry trade[2] in total trade between any two countries with the intra-industry trade index provides a methodological framework to examine whether economic cooperation among the IOG countries can be induced by market forces. Experience of the existing regional groups suggests that the economic grouping of countries with more or less similar factor endowments will be successful and sustainable, and the adjustment process following economic reforms with liberalization of trade policy within the grouping will be less disruptive, if that adjustment process takes place in the form of intra-industry trade[3] (Balassa 1962; Grubel and Lloyd 1975; Krugman 1981; Tharakan and Kol 1989). It is argued in the literature that intra-industry adjustment is less disruptive in newly reforming countries because it requires reallocation of resources mainly within firms in the same industry rather than across firms in different industries (Fukasaku 1992). This means that adjustment costs in the former case are lower than in the latter.

The evolution of groupings with more or less similar factor endowments will be

[1] Southeast Asia, for the purpose of this paper, includes Indonesia, Malaysia, Myanmar, Singapore, and Thailand.

[2] Intra-industy trade, as an undeniable fact of trade, is not a prediction of traditional trade theory.

[3] Not only the relevance but also the existence of intra-industry trade have been challenged in the literature. See, for example Lipsey (1976).

facilitated by the industrial characteristics comprising horizontal differentiation and increasing returns to scale. A question then arises as to whether vertical product differentiation would facilitate the growth of intra-industry trade among a group of countries. Studies by Falvey (1981), Schumacher (1983), and Tharakan (1984) indicate that countries with marked differences in factor endowments tend to produce different qualities which leads to intra-industry trade, given an "overlap in demand." Consequently, the number of models of intra-industry trade have proliferated. Briefly, intra-industry trade is invariably associated with imperfectly competitive product markets where consumers have diverse preferences (Lancaster 1980), and the production function is subject to increasing returns (Krugman 1979), and/or markets are segmented (Helpman and Krugman 1985).

Whatever the causes for its emergence, intra-industry trade creates closer links between the countries by providing more positive gains to all the countries involved than inter-industry trade could provide. This proposition is valid in the context of reform and internationalization of manufacturing activities, which enhance assembly production from imported parts and components in different countries (Dixit and Grossman 1982). Under these circumstances, political opposition to such market-driven economic cooperation will be minimal. Further, it is argued in the literature that changes in income distribution induced by trade liberalization would be less alarming if structural adjustment in industries takes the form of intra-industry rather than inter-industry characteristics (Fukasaku 1992). Thus, the prospect for closer economic cooperation among a group of countries can be examined by analyzing the status of intra-industry trade within the concerned group of countries.[4]

This proposition necessitates calculating the well-known Grubel-Lloyd (1975) intra-industry index.[5] This is expressed as a ratio of the value of exports which is matched by imports to the total value of exports and imports of an industry

$$\beta_j = \left(1 - [\sum_{k=1}^{m} | X_{kj} - M_{kj} | \ / \ (\sum_{k=1}^{m} X_{kj} + M_{kj})]\right) \times 100.$$

Where β_j is the share of intra-industry trade in the jth country; X_{kj} and M_{kj} are respectively exports from and imports to country j in industry k. The measure should,

[4] Although the growth in industrial activity in developing countries is likely to foster a pronounced intra-industry specialization in the production of manufactured products (Linder 1961), the possibility of agricultural products being a source of intra-industry trade should not be overlooked.

[5] Aquino (1978) criticized the Grubel-Lloyd index by saying that the index is a downward-biased measure of intra-industry trade in the presence of an imbalanced country's commodities' trade. Aquino's suggested correction of the Grubel-Lloyd index was rejected by many researchers (see, for example Greenaway and Milner 1981; Tharakan 1984). In fact, Aquino adopted Michaely's (1962) index which measures similarities in structures of exports and imports rather than inter-industry trade. In the literature, many researchers have effectively used the unadjusted Grubel-Lloyd index to measure inter-industry trade (see, for example Caves 1981; Vona 1991).

by definition, vary between 0 and 100 when expressed as an index. When exports exactly equal imports of an industry, $\beta_j = 100$, and where there are exports but no imports or vice versa, $\beta_j = 0$. In terms of the bilateral Grubel-Lloyd index of country i with country j,

$$\beta_{ij} = \left(1 - [\sum_{k=1}^{m} | X_{kij} - M_{kij} | \; / \sum_{k=1}^{m} (X_{kij} + M_{kij})]\right) \times 100.$$

$\beta_{ij} = 100$ indicates that all trade of country j with country i is intra-industry. When $\beta_{ij} = 0$, all trade is inter-industry and there is complete specialization in trade between two countries. The higher the ratio, the greater is the intra-industry trade and so, close cooperation in manufacturing activities of the countries concerned.

Intra-industry trade indices were calculated for SITC 5–8 at three-digit levels which represent the manufacturing sector. Data are taken from the UN trade data, available in the International Economic Data Bank at the Australian National University.

First, the share of intra-industry trade in total trade between the IOR and some of the major IOR countries was calculated in percentage terms (Table I). The share between IOR and Australia increased steadily from 14.96 in 1970 to 45.14 in 1990, which was the largest increase and highest value among intra-industry trade figures. With the recent accent on internationalization in IOR countries, and improving competitiveness of Australian manufacturing industries, this trend is expected to continue. While intra-industry trade indices between the IOR and Australia de-

TABLE I

INTRA-INDUSTRY TRADE INDEX OF THE INDIAN OCEAN GROUPING (IOG) WITH OTHER REGIONAL GROUPS AND COUNTRIES

Partner	1970	1975	1980	1985	1990	1992	Growth Rate (1970–92, %)
America-Developing	24.19	25.07	25.08	28.25	23.03	31.93	32.00
Australia	14.96	19.22	26.57	34.65	45.14	39.42	163.50
Canada	10.25	15.28	19.42	26.79	28.78	32.19	214.05
India	6.89	8.06	12.85	28.19	31.24	29.10	322.35
USA	13.17	16.66	24.18	38.20	42.68	41.75	217.01
North America	14.28	16.82	24.34	38.11	42.26	41.69	191.95
EEC-12	11.13	11.05	14.46	22.39	32.86	35.75	221.20
France	8.56	9.37	15.11	19.41	25.35	27.77	224.42
United Kingdom	10.97	10.67	13.73	29.44	34.81	39.92	263.90
Mauritius	9.17	17.84	15.11	9.87	16.97	21.57	135.22
Northeast Asia	6.79	7.57	9.21	12.55	27.70	31.36	361.86
South Africa Customs Union	29.64	35.36	28.49	34.50	34.68	34.39	16.03
ASEAN	47.67	62.87	69.75	79.56	82.94	82.97	74.05

Note: Reporter: Indian Ocean countries; Commodity total: SITC 5–8 at three-digit level.

clined to 39.42 in 1992, nevertheless, in 1992, the share of intra-industry trade in total trade between the IOR and Australia was still more significant in terms of magnitude than for India and South Africa (Table I).

The share of intra-industry trade in total trade between the IOR and South Africa increased from 28.49 in 1980 to 34.5 in 1985 and remained more or less at the same level until 1992. The share between the IOR and India increased from a mere 8 in 1975 to 31.24 in 1990 and declined slightly to 29.1 in 1992. However, with the introduction of more trade and industry policy reforms aimed at globalizing Indian agriculture and industries, the possibility of intra-industry trade index between the IOR and India increasing further appears highly likely. Examination of the trends of intra-industry trade between the IOR and Australia, India, and South Africa taken individually, suggests that there can be complementarity in production in relevant products between the IOR and Australia, India, and South Africa. A detailed study is necessary to identify the relevant products.

Next, the share of intra-industry trade in total trade was calculated bilaterally for countries within the IOR. The analyses covered the periods 1970 to 1992. Intra-industry trade between Australia and the world does not follow any pattern over the period of analysis. During the early 1970s, the index increased but then declined from the late 1970s until the mid-1980s. It increased from 20 in 1986 to 30 in 1992. Among the IOR countries which had the largest share of intra-industry trade with Australia in 1992 in order of magnitude were Singapore (38), Thailand (24), Malaysia (24), South Africa (21), Mauritius (20), Indonesia (15), and India (11). Intra-industry trade index between Australia and South Africa has fluctuated around 27 in the 1980s, but declined to 21 in 1992.

Shares of intra-industry trade in total trade between Southeast Asia and other IOR economies from 1980 to 1992, indicate a strong positive trend in the case of intra–Southeast Asian countries, Australia, and India.

Shares of intra-industry trade in total trade between India and other IOR countries from 1980 to 1992 show India's intra-industry trade with Indonesia (36), Singapore (34), Thailand (25), Malaysia (20), and Australia (15) have been increasing significantly recently. For example, India's intra-industry trade with Indonesia increased sharply from 11 in 1990 to 36 in 1992. This may be interpreted as a sign of convergence of the industrial structures in these countries. With the rest of the IOR, India appears to be reaping the advantages of complete specialization in trade in manufactures.

Shares of intra-industry trade in total trade between South Africa and the other IOR countries show that Australia and Mauritius are the only two countries which had some magnitude of trade in manufactures. In contrast, before apartheid in the early 1970s, South Africa had significant amounts of intra-industry trade with the IOR. This means that the potential for South Africa to increase its intra-industry trade within the IOR is positive.

Given the variations in factor endowments and technological developments in the IOR countries, it is useful to examine the influence of industrial structure on intra-industry trade and on market-driven economic cooperation. One method of analysis in this context is to regroup the trade data according to the "factor-intensity" criterion to obtain a more technologically homogeneous group of products (Kalirajan and Shand 1996). The following four "factor-intensity" groups were considered in this paper:

- Capital-intensive products: SITC 5, 62, 64, 71, 86, 672–79, 722–26, 729, 731–34, 891, 892, 896, and 897.
- Labor-intensive products: SITC 65, 81–85, 664–66, 735, 893–95, 899, and 951.
- Mineral-intensive products: SITC 27, 28, 3, 68, 661–63, 667, and 671.
- Agriculture-intensive products: SITC 0, 1, 4, 21–26, and 29 at three-digit level.

Table II shows the share of intra-industry trade between Australia and other IOR countries in the above-cited product groups from 1975 to 1992. The influence of product differentiation in terms of qualities on Australian trade with other IOR countries is evident in the case of capital-intensive products, as Australia exports and also imports capital-intensive products significantly. Similar arguments appear to hold for intra-industry trade in labor-intensive products. In both cases, Australia exports technologically high-quality products to other IOR countries and imports lower-quality products to meet local demands. The results also indicate the extent of links in terms of assembly and components production between Australian manufacturing and manufacturing in IOR countries. Australia has the highest share of intra-industry trade in mineral-intensive products with Southeast Asia and bilaterally with Indonesia. Petroleum products (SITC 33) are the major contributors in this group. Australia does not have considerable intra-industry trade in agriculture-intensive products with IOR countries. Agricultural liberalization in the IOR, particularly in food processing is expected to create strong intra-industry trade between Australia and other IOR countries.

Table III shows the shares of intra-industry trade in India's trade in different product groups with other IOR countries. In 1992, half of India's trade in capital-intensive products with Southeast Asia was intra-industry. Bilaterally, more than one-third of India's trade in capital-intensive products with Australia and Indonesia was intra-industry. In the case of Indonesia, SITC 51 (chemicals—elements and compounds) is a major two-way traded group. The share of intra-industry trade in India's trade in labor-intensive products with Southeast Asia is about 30 per cent in 1992, while with the rest of the IOR, it is not significant. The shares of intra-industry trade in India's both mineral-intensive and agriculture-intensive products trade with other IOR countries do not follow any pattern and are not significant.

The shares of intra-industry trade in South Africa's trade in different product groups with other IOR countries (Table IV) show that South Africa has considerable two-way trade in capital-intensive products with the region of Northeast Af-

TABLE II

AUSTRALIA VS. OTHER IOG COUNTRIES: INTRA-INDUSTRIAL TRADE (IIT) INDICES

IOG Countries	1975	1980	1985	1990	1992
A. IIT Indices for Capital-Intensive Products					
Southeast Asia	15.85	32.1	37.12	45.26	42.9
SAARC	20.91	15.48	20.28	28.45	27.54
West Asia	0.2	0.23	8.45	3.09	6.29
Northeast Africa	0.44	0.37	3.59	8.95	6.31
India	18.86	12.11	17.35	24.62	24.03
South Africa	21.11	28.71	34.4	34.71	28.57
B. IIT Indices for Labor-Intensive Products					
Southeast Asia	24.32	26.46	18.6	19.52	21
SAARC	1.11	1.74	1.88	1.83	1.85
West Asia	3.16	0.41	0.72	3.49	2.78
Northeast Africa	7.87	2.99	6.44	10.33	29.81
India	0.55	1.72	1.74	1.46	0.85
South Africa	25.95	17.95	23.75	33.78	32.84
C. IIT Indices for Mineral-Intensive Products					
Southeast	22.35	21.32	42.93	47.47	60.18
SAARC	4.78	9.2	5.16	5.35	4.68
West Asia	0.1	1.23	1.09	0.54	1.89
Northeast Africa	40.1	75.91	0.33	5.02	0.19
India	2.64	1	5.66	10.18	0.67
South Africa	12.03	3.89	9.87	7.76	10.77
D. IIT Indices for Agriculture-Intensive Products					
Southeast Asia	3.99	9.23	13.99	12.49	15.28
SAARC	2.14	3.26	2.57	4.05	5.51
West Asia	0.37	0.02	0.25	0.59	2.24
Northeast Africa	0.34	0.72	0.8	8.82	5.73
India	2.5	1.54	1.33	1.9	2.88
South Africa	12.63	19	12.05	13.26	4.71

rica and Australia. South Africa's two-way trade with Australia in this group occurs in SITC 51 and 68 (nonferrous metals). In other product groups, South Africa has significant intra-industry trade only with Northeast Africa. With ongoing economic reforms in South Africa and its recent shift towards openness, the share of intra-industry trade in South Africa's trade with other IOR countries is expected to increase considerably.

Table V indicates the share of intra-industry trade in Southeast Asia's trade in

TABLE III

INDIA VS. OTHER IOG COUNTRIES: IIT INDICES

IOG Countries	1975	1980	1985	1990	1992
A. IIT Indices for Capital-Intensive Products					
Southeast Asia	5.93	19.66	31.92	44.74	51.62
SAARC	3.12	3.27	6.77	4.52	3.27
West Asia	2.23	1.8	3.02	17.64	12.4
Northeast Africa	0.3	0.75	2.67	0.19	1.08
Australia	27.4	11.9	17.04	40.67	36.3
South Africa	0	0	0	0	0.64
B. IIT Indices for Labor-Intensive Products					
Southeast Asia	2	2.67	11.33	15.38	30.22
SAARC	4.51	2.81	12.29	10.88	4.69
West Asia	2.08	0.75	0.32	0.74	0.96
Northeast Africa	0.01	1.48	0.35	0	0
Australia	0.73	2.25	0.33	0.85	2.23
South Africa	0	0	0	0	0
C. IIT Indices for Mineral-Intensive Products					
Southeast Asia	1.12	4.37	1.98	7.11	8.3
SAARC	1.33	6.34	8.73	11.18	2.85
West Asia	6.5	0.06	0.38	0.81	1.96
Northeast Africa	2.42	1.21	2.08	1.14	2.33
Australia	1.13	1.4	0.57	0.34	0.77
South Africa	0	0	0	0	0
D. IIT Indices for Agriculture-Intensive Products					
Southeast Asia	4.54	4.87	11.07	10.55	9.2
SAARC	8.94	32.16	25.12	18.98	14.92
West Asia	2.69	10.3	3.81	5.01	6.81
Northeast Africa	1.1	9.1	12.3	3.16	3.35
Australia	1.89	1.57	1.02	1.69	1.04
South Africa	0	0	0.58	0	1.57

different product groups with other IOR countries. Southeast Asia has significantly more two-way trade with Australia and India in capital-intensive merchandise than in labor-intensive products. Southeast Asia appears to be have increased two-way trade in mineral-intensive products with Australia between 1980 and 1992. Intra–Southeast Asia two-way trade in all the four product groups confirms that this region is well integrated economically. These results also imply that Southeast Asia is an effective apex of a growth triangle connecting the other core countries, Aus-

TABLE IV

South Africa vs. Other IOG Countries: IIT Indices

IOG Countries	1985	1990	1992
A. IIT Indices for Capital-Intensive Products			
Southeast Asia	0	9.22	6.17
SAARC	2.58	3.78	8.6
West Asia	0	0	4.68
Northeast Africa	0	19.63	21.04
Australia	28.64	35.93	27.62
India	0	0	0.27
B. IIT Indices for Labor-Intensive Products			
Southeast Asia	0	5.15	0.93
SAARC	10.96	3.33	1.67
West Asia	0	0	1.04
Northeast Africa	0	43.63	30.75
Australia	25.96	41.02	33.3
India	0	0	0
C. IIT Indices for Mineral-Intensive Products			
Southeast Asia	0	0.37	13.28
SAARC	0	0.72	1.05
West Asia	0	0	0
Eastern Africa	0	26.96	33
Australia	9.37	7.97	9.32
India	0	4.76	6.72
D. IIT Indices for Agriculture-Intensive Products			
Southeast Asia	0	0.04	3.73
SAARC	1.52	0.59	5.08
West Asia	0	0	0.07
Northeast Africa	0	8.06	21.15
Australia	10.42	13.2	4.19
India	0	0	0.29

tralia, India, and South Africa. With increasingly effective economic reforms in India and South Africa, two-way trade in mineral- and agriculture-intensive products between the core countries would increase substantially.

Our interest was to examine the variations in the growth of the share of intra-industry trade in total trade among the IOG countries with the following two policy-oriented hypotheses, namely, that intra-industry trade will be greater when tariffs and non-tariff barriers are low, and when economies are subject to some

TABLE V

SOUTHEAST ASIA VS. OTHER IOG COUNTRIES: IIT INDICES

IOG Countries	1985	1990	1992
A. IIT Indices for Capital-Intensive Products			
Southeast Asia	84.1	89.35	90.23
SAARC	30.13	45.69	51.62
West Asia	13.06	8.69	8.68
Northeast Africa	20.9	10.51	16.72
Australia	40.53	49.18	45.53
India	39.9	53.24	53.87
South Africa	0	9.22	3.98
B. IIT Indices for Labor-Intensive Products			
Southeast Asia	77.04	70.77	71.19
SAARC	33.37	45.38	47.4
West Asia	0.69	2.7	2.34
Northeast Africa	7.87	2.27	2.03
Australia	24.75	21.9	25.58
India	22.35	29.05	28.41
South Africa	0	5.15	3.09
C. IIT Indices for Mineral-Intensive Products			
Southeast Asia	88.52	94.39	91.82
SAARC	19.44	19.91	20.15
West Asia	12.85	2.28	2.69
Northeast Africa	20.15	1.16	7.51
Australia	38.55	46.98	54.3
India	5.73	10.86	16.29
South Africa	0	0.08	6.72
D. IIT Indices for Agriculture-Intensive Products			
Southeast Asia	72.18	86.68	84.23
SAARC	12.47	10.85	13.48
West Asia	1.55	4.5	4.62
Northeast Africa	4.52	2.32	1.81
Australia	12.98	12.85	12.65
India	14.65	9.53	12.6
South Africa	0	0.06	2.9

form of economic cooperation. The empirical results of our analysis above indicate that the amount of intra-industry trade taking place within the IOR, particularly the IOG, is at a low level, but that the share of intra-industry trade in total trade between the IOG countries within the IOR has been increasing recently. It should be carefully noted here that this increase has taken place in a relatively unfavorable set of circumstances, with many countries following autarchic economic policies, with the constraints of the cold war, and with the exclusion of South Africa from the trading group. All these circumstances have now changed for the better. Thus, the possibility for the emergence of an "open economic association" which can stimulate more rapid economic growth and faster regional economic integration among IOR countries, initially at least involving Australia, Southeast Asia, India, and South Africa, is a feasible prospect.

The empirical results can partly be explained by the convergence of factor endowments. When the relative difference in capital stock per head between two countries is greater, then the share of intra-industry trade in total bilateral trade will be smaller. Next, an increase in intra-industry trade occurs when there is a simultaneous growth of economic size or a lowering of transaction costs among trading partners, whether from a relative decrease of prices for transport and communication services or by a removal of policy imposed trade barriers. Therefore, more liberalization within the IOR provides greater opportunities for intra-industry trade within the region which, in turn, facilitates the formation and the sustaining of an "open economic association" involving IOR countries.

III. DEVELOPMENT OF COOPERATION PROCESSES IN THE INDIAN OCEAN REGION

A. *The "First Track"*

The first formal move towards an "Indian Ocean Rim Initiative" was made by the Government of Mauritius in hosting a meeting from March 29–31, 1995 of representatives from seven (M7) countries, an "exclusive" grouping, the other members comprising Australia, India, Kenya, Oman, Singapore, and South Africa. Discussions were tripartite, with representatives drawn from governments, the private sector, and academia with the threefold objectives of

(1) building a consensus around an Indian Ocean Rim concept,
(2) identifying possible areas of cooperation, and
(3) charting out a course of action leading to the formation of an IOR grouping.[6]

At this first Inter-Governmental Meeting, a working group was set up to formulate ideas and proposals for objectives and to advance the implementation set out and adopted by the first meeting. An unresolved issue at this meeting was that of membership, i.e., the question of "inclusivity" versus "exclusivity," though there was agreement that membership would be expanded at a later date.

[6] See "Joint Statement on the Indian Ocean Rim Initiative," Paper presented to the International Meeting of Experts, Mauritius, March 29–31, 1995, Port Louis, Mauritius. See also, Australia, Department of Foreign Affairs and Trade, ed., *Indian Ocean Rim Initiative: List of Current Documents* (Canberra: Department of Foreign Affairs and Trade, 1996).

The first meeting of the working group took place in August 1995, where the tripartite nature of the Indian Ocean Rim Initiative (IORI) was reaffirmed. It was also agreed to double the membership of the IORI. The business group set up the Indian Ocean Rim Business Forum (IORBF), drew up a charter and considered projects. The academic group formed the Indian Ocean Rim Academic Group (IORAG). Its objectives were set down as:

(i) servicing the needs of government and business within the IORI,
(ii) promoting intellectual dialogue between the participating states,
(iii) serving as a vehicle for the development and dissemination of the Indian Ocean Rim concept, and
(iv) providing coordinated research to the region.

A second meeting of the working group was held in Mauritius in May 1996. The major objectives and decisions were:[7]

(i) to examine the IORI draft charter in terms of its fundamental principles, objectives, and the institutional setup of the IORI, and the draft work program. It was agreed to refer the draft charter to a second Inter-Governmental Meeting.
(ii) to develop the agenda of the IORBF and the IORAG. The working group agreed to refer these to the second Inter-Governmental Meeting.
(iii) the group further agreed that an Action Plan around the themes of trade and investment, and institutional capacity building and human resource development should be considered at the second Inter-Governmental Meeting.
(iv) it was also agreed that membership of the IORI should be increased to fourteen, with the admission of Indonesia, Madagascar, Malaysia, Mozambique, Sri Lanka, Tanzania, and Yemen.

A second Inter-Governmental Meeting was held in Mauritius on September 10–11, 1996 with the fourteen member states, preceded by an important preparatory meeting of the M7. The objectives of the second Inter-Governmental Meeting were:

(i) to consider the chairman's report on the outcome of the previous working-group meetings and the preparatory meeting on September 9, 1996 in line with the mandate entrusted to him by the first Inter-Governmental Meeting in March 1995,
(ii) to consider the draft charter and the draft work program,
(iii) to prepare for the first Ministerial Meeting to be convened in early 1997 in Mauritius for the formal launching of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC).

Government officials, the IORBF, and the IORAG convened meetings sepa-

[7] Working Group of the Indian Ocean Rim Initiative, *Second Meeting: Conclusions and Recommendations* (Port Louis, Mauritiuis, 1996).

rately to consider proposals contained in the work program. They presented reports to the Inter-Governmental Meeting and on the basis of discussions, the Inter-Governmental Meeting, inter alia:

(i) recommended the convening in Mauritius of the first Indian Ocean Rim Ministerial Meeting during the first week of March 1997 to launch the IOR-ARC,

(ii) noted that the IOR-ARC would provide for a full range of opportunities for cooperation among member states on trade and economic issues through the creation of common ground for regional economic cooperation, including technical cooperation,

(iii) approved the draft charter for submission to the first Indian Ocean Region Ministerial Meeting in 1997,

(iv) approved the work program also for submission to the Ministerial Meeting in 1997,

(v) agreed to study the need, functions, and financing of an IOR-ARC Secretariat,

(vi) agreed to the proposals of the IORBF, IORAG, and government officials, as appropriate for the following projects to be implemented by interested member states under the IOR-ARC Work Program:

—Cooperation in standards and accreditation.
—An Indian Ocean Rim business center.
—Investment facilitation and promotion.
—A chair in Indian Ocean studies and associate fellows.
—A trade promotion program.
—Development, upgrading, and management of seaports; maritime transport, insurance, and reinsurance.
—Human resource development cooperation.
—Working towards complementarity—a comparative analysis of existing multilateral and regional economic and trade policy arrangements and processes.
—Technology enhancement in the Indian Ocean region.
—Tourism promotion and development.

The charter agreed to by the second Inter-Governmental Meeting in Mauritius represents the most significant step towards defining the directions for regional cooperation within the "first-track" process. It is divided into sections dealing with fundamental principles, objectives, areas of cooperation, and other institutional and financial structures and arrangements; and is presented in Appendix.

There was concern expressed at the preparatory meeting before the second Inter-Governmental Meeting that the charter required sharper definition, particularly with respect to a legal standpoint and WTO-related economic implications. Accordingly, the meeting agreed to a series of "understandings to capture the spirit of the charter," as follows;

I. The charter is not a treaty;
II. The charter will be adopted by the IOR ministerial meeting to be convened in early 1997 when the IOR-ARC will be formally launched;
III. Member states are committed to global trade liberalization consistent with WTO principles;
IV. Member states are committed to the principle of nondiscriminatory treatment to nonmember states, on the basis of MFN status to member states who are WTO members;
V. Member states agree that IOR-ARC, as constituted in the charter, is not a preferential trading bloc;
VI. Member states note that they remain free to pursue their interests in trading arrangements; and
VII. Member states reaffirm their intention to pursue trade and investment facilitation and promotion within the IOR through special projects as identified jointly.

The significance of these understandings is that they effectively bring the charter into line with the concepts of an "open economic association."

B. *The "Second Track"*

Australia hosted an International Forum on the Indian Ocean Region (IFIOR) in Perth in June 1995. It was intended that the forum would be complementary to, and supportive of, the Mauritius process and would bring together a wide range of Indian Ocean littoral states and regional organizations "to examine the prospects for establishing habits of dialogue and cooperation." The IFIOR was the first-ever inclusive forum on the Indian Ocean region to address a comprehensive agenda of Indian Ocean regional issues. As a pioneering meeting it sought to "develop a sense of community among the countries of the Indian Ocean, to identify and explore opportunities for closer trade and investment prospects for enhanced regional cooperation in a wide range of areas, and to explore interest in the development of networks among business and academics of the region."[8]

In his opening address, Australia's foreign minister, Senator the Hon. Gareth Evans described the intention of this second-track activity "is simply that all participants in it attend in their personal, that is, nonofficial capacities. This allows for open and frank discussion, without the requirement that participants reflect national positions, and without participants being committed to particular outcomes. . . . The ideas which emerge can be accepted or rejected or modified by

[8] Australian report to the Mauritius Working Group on the "Proceedings of the International Forum on the Indian Ocean Region, Perth, 11–13 June 1995," presented to the first meeting of the working group on the Indian Ocean Rim Initiative, Port Louis, Mauritius, August 15–17, 1995.

governments later, as they choose. 'Second-track' dialogue is now a widely accepted feature of dialogue in many parts of the world, in particular in the Asia Pacific region."[9] He referred to the positive contributions from meetings hosted by the tripartite, Pacific Economic Cooperation Council (PECC) which have been able to explore options for economic policy development which were important in the lead up to the establishment of new structures such as APEC.

The IFIOR meeting was divided into two streams: an "economics issues group" and an "other issues working group." The economic working group covered issues of regional trade, investment, and economic cooperation. It looked at different levels of existing and potential cooperation. It identified two broad agendas, the first on business facilitation including the regulatory framework, visas, taxes, currency convertibility, trade promotion, and a regional business directory. The second broad agenda included technology transfer, transport, telecommunications, human resource development including educational exchanges, financial services, and research and development.

The other issues working group covered issues such as the environment, maritime cooperation drawing on existing structures such as IOMAC, human resource development including literacy, legal rights, health, economic opportunities for women, and options for security dialogue.

Business participants agreed to establish an India Ocean Consultative Business Network (IOCBN) open to all business groups in the region. This was to meet in New Delhi in December 1995. Five working groups were established to report on the following topics:

(i) a charter for a new business organization,
(ii) information technology, including telecommunications,
(iii) customs and trade documentation,
(iv) non-tariff barriers and impediments to investment, and
(v) maritime affairs.

The meeting of academics and other researchers at the IFIOR in June 1995 decided to form the Indian Ocean Research Network (IORN), the objectives of which are to facilitate interaction between researchers of the Indian Ocean region to promote regional cooperation.

Following agreement at IFIOR, the business and academic networks held meetings in New Delhi in December 1995. The first IOR-ARC Ministerial Meeting will be held in the first week of March 1997 in Durban, South Africa, immediately followed by a meeting of the second-track business and academic networks. Thus to that point in time, both tracks are functioning in parallel.

[9] "Indian Ocean Regional Cooperation: Exploring the Possibilities," Keynote Address to the International Forum on the Indian Ocean Region, Perth, June 11, 1995, *Indian Ocean Review* 8, nos. 2/3 (1995).

IV. AN OPEN ECONOMIC ASSOCIATION IN THE INDIAN OCEAN RIM REGION?

In considering alternative models of developing regional economic cooperation for the Indian Ocean region, we have two historical models as outlined above. In the Asia-Pacific region, de facto economic integration has proceeded through market-driven trade and investment activities within the region before governments in the region had agreed with each other to further activate the process. They have now taken a step to institutionalize the cooperative process, but only as a loose structure with minimal binding obligations, i.e., as an "open economic association" in Yamazawa's sense (1992, 1996). In contrast, the process of economic integration in Europe and North America was founded on an initial concern to establish an institutional framework of integration, on the basis of economic cooperation treaties and free trade agreements, before the emergence of actual economic integration.

This paper has indicated that the economic cooperation scheme involving the forty-seven Indian Ocean regional grouping countries fits in with the OEA type of regional economic integration. On the basis of analysis of trade interlinkages, trade patterns, intra-industry trade index, etc., we conclude that, within the region, the de facto economic integration has been in progress from the 1980s. It should be possible to accelerate the process if the IOR-ARC fully adopts and implements the concept of "open economic association" as its scheme for economic integration and gradually strengthens the framework for regional cooperation based on "market-driven" expansion of intra-regional trade and investment.

Thus far, the two initiatives for stimulating economic integration have, uniquely among regions, included both first and second tracks, i.e., they entertain essentially market-driven integration through the second track of business and research networks, but at the same time promote economic integration through participation of member governments under the charter and Action Plan of the IOR-ARC. As currently formulated, and provided the supplementary "understandings of the charter" are adhered to, the IOR-ARC can operate according to the concept of an OEA and can avoid an institutional framework for economic integration incorporating treaties and free trade agreements as in Europe and North America. If so, it will still have to deal with a range of subregional arrangements for economic cooperation with varying degrees of discrimination against nonmembers.

The charter and its "understandings" are yet to be enshrined at the IOR-ARC Ministerial Meeting in Mauritius in March 1997 and it is not yet clear how the "understandings" will be enshrined but if the nature of the agreements reached thus far in the Inter-Governmental Meetings are accepted, then the potential for an OEA to emerge may be realized. In this situation, under the provisions and understandings of a charter agreed to by the Inter-Ministerial Meeting in 1997, economic integration can be expected to follow a predominantly market-driven course, without penalties for nonmembers either within the Indian Ocean region or outside. If this proves accurate, then the issue of "inclusivity" in the IOR-ARC is resolved. It is likely that the work program of the IOR-ARC will take some time to finalize and implement, so that the advantages of early membership and early returns from it will be only slowly realized, even though the speed at which the process of promoting economic integration in the Indian Ocean region to date has outstripped that in other regions already referred to.

This leaves another question as to the future of the existing "double-track" process of pursuing economic integration, with business and academic groups in the second track in addition to those in the first-track process. It was argued at the IFIOR meeting in Perth that the second-track forum in, and presumably the research and business network processes following from it, "would be complementary to and supportive of the Mauritius process." This issue is yet to be resolved, for, as mentioned above, the two tracks are scheduled to meet in Durban, South Africa in March 1997. Presumably there will be some resolution of the question at that time.

It is worth considering the pros and cons of the continued existence of a PECC-like tripartite second-track process. A strong argument for its continuation is that a second-track process can act as an independent think tank for the first-track process and is not hindered by the essentially government-led agenda of the first-track process as in the PECC. However, circumstances in the IOR are not as favorable for this functional and intellectual complementarity. First, the IOR-ARC charter calls for a tripartite structure, which makes it a hybrid version of the Asia-Pacific counterparts. It is highly unlikely that agreement would emerge for two tripartite organizations. The first-track tripartite process appears likely be the preferred choice, possibly at the expense of some independence of advisory capacity. Under this scenario, an alternative is the continuation of the business and research networks established in Perth at the IFIOR, and these could be sustained as subsequently organized in New Delhi and be reaffirmed in Durban in 1997. But the other disadvantage in the IOR is the funding problem. Even in the Asia-Pacific region, which has a number of developed countries and a growing group of NIEs, the PECC is plagued with a shortage of finance. The IOR has no economic giants and a proliferation of small and/or low per capita income countries. Furthermore, four of the N14 members are also members of APEC with ongoing commitments in this other region. It will clearly be difficult for governments for these governments to even finance the continuation of two business and research networks, let alone two in the IOR.

The effectiveness of the tripartite arrangement in the first track, if this indeed does prove to be the eventual outcome, will depend principally upon the issues of the respective agendas of activities of the business and academic groups in the first track and the finance made available to the two groups. The answer to the first question may lie on the centrality of priorities placed in both groups on action programs dealing the growth of economic integration in the Indian Ocean Rim region.

Another significant question if the research tracks are merged into the first track is whether the research and business agendas of the IOR-ARC are to be confined to current member states. If the N14 are the driving force of economic integration in the region and other countries are to be admitted, the issue diminishes. In practice, the answer to this is encouraging because of the magnitude and direction of intra-industry trade among the largest economies in the IOR-ARC, and the fact that the majority of those countries which has the potential for contributing the most to dynamic economic integration are now included in the N14. Even so, however, the agenda of the research and business groups must retain an inclusive approach to issues of economic integration in the IOR to be able to assess region-wide perspectives on economic integration trends and prospects, regardless of IOR-ARC membership.

The central question as to whether the IOR-ARC will opt for an OEA-type process in stimulating economic integration, or something discriminatory cannot be answered with certainty as yet. But there are three important factors working in favour of an OEA. One is the overlapping membership of the IOR-ARC with APEC. It is hard to envisage the four countries with common membership (Australia, Indonesia, Malaysia, and Singapore) contemplating membership of regional associations with divergent concepts towards trade and investment rules. Hence there will be much pressure exerted to be WTO-consistent in the IOR-ARC in the lead-up to the first Inter-Ministerial Meeting in March 1997. The second is a reinforcement of the first, which is that the fundamental principle contained in the charter requires that "decisions on all matters and issues at all levels will be taken on the basis of consensus" (see Appendix). The third is that a commitment by IOR-ARC countries to an OEA-type charter would clearly facilitate the likelihood of eventual integration of the two regional groupings, and in the short term would certainly encourage increasing dialogue between the two groups when expanded membership in APEC including IOR-ARC countries remains only a prospect.

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APPENDIX

CHARTER OF THE INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL COOPERATION (IOR-ARC)

Fundamental Principles

The Association will facilitate and promote economic cooperation, bringing together representatives of government, business and academia. In a spirit of multilateralism, the Association seeks to build and expand understanding and mutually beneficial cooperation through a consensus-based, evolutionary and non-intrusive approach. The Association will apply the following fundamental principles without qualification or exception to all Member States:

(i) Cooperation within the framework of the Indian Ocean Rim will be based on respect for the principles of sovereign equality, territorial integrity, political independence, noninterference in internal affairs, peaceful coexistence and mutual benefit;

(ii) The Association will be open to all sovereign States of the India Ocean Rim which subscribe to the principles and objectives of the Charter and are willing to undertake commitments under the Charter;

(iii) Decisions on all matters and issues at all levels will be taken on the basis of consensus;

(iv) Bilateral and other issues likely to generate controversy and be an impediment to regional cooperation efforts will be excluded from deliberation;

(v) Cooperation within the Association is without prejudice to rights and obligations entered into by Member States within the framework of other economic and trade cooperation arrangements and will not automatically apply to Member States of the Association. It will not be a substitute for, but seek to reinforce, be complementary to and consistent with their bilateral, plurilateral and multilateral obligations;

(vi) Within the framework of the Association, Member States will pursue adequate measures to promote the achievements of its objectives, and will not take any action likely to prejudice its objectives and activities;

(vii) The Work Programs of the Association will be undertaken by Member States on a voluntary basis.

Objectives

The objectives of the Association will be:

(i) To promote the sustained growth and balanced development of the region and of the Member States, and to create common ground for regional economic cooperation;

(ii) To focus on those areas of economic cooperation which provide maximum opportunities to develop shared interests and reap mutual benefits. Towards this end, to formulate and implement projects for economic cooperation relating to trade facilitation, promotion and liberalization; promotion of foreign investment, scientific and technological exchanges, and tourism, movement of natural persons and service providers on a non-discriminatory basis; and development of infrastructure and human resources, as laid down in the Work Programs of the Association;

(iii) To identify other areas of cooperation as may be mutually agreed;

(iv) Towards promoting liberalization, to remove impediments to, and lower barriers towards, freer and enhanced flow of goods, services, investment and technology within the region;

(v) To explore all possibilities and avenues for trade liberalization with a view to augmenting and diversifying trade flows among Member States;

(vi) To encourage close interaction of trade and industry, academic institutions, scholars and the peoples of the Member States without any discrimination among Member States and without prejudice to obligations under other regional economic and trade cooperation arrangements;

(vii) To strengthen cooperation and dialogue among Member States in international fora on global issues, and where desirable to develop shared strategies and take common positions in the international fora on issues of mutual interest; and

(viii) To promote cooperation in development of human resources, particularly through closer linkages among training institutions, universities and other specialized institutions of the Member States.

Membership

All sovereign States of the Indian Ocean Rim are eligible for membership. To become members, States must adhere to the principles and objectives enshrined in the Charter of the Association. Expansion of membership of the Association will be decided by Member States.

Institutional Mechanism

There will be a Council of Ministers of the Association. The Council will meet once in two years, or more often as mutually decided, for formulation of policies, review of progress of cooperation, decisions on new areas of cooperation, establishment of additional mechanisms as deemed necessary, and decisions on other matters of general interest.

There will be a Committee of Senior Officials of the Association composed of government officials of member States. It will meet as often as mutually decided. It will review implementation of the decisions taken by the Council of Ministers; and in cooperation with the Indian Ocean Rim Business Forum (IORBF) and the Indian Ocean Academic Group (IORAG), establish priorities of economic cooperation, develop, monitor and coordinate Work Programs, and mobilize resources for financing of Work Programs. The Committee will submit periodic reports to the Council of Ministers, and refer, as and when necessary, policy matters for the Council's decision.

There will be a Secretariat of the Association to coordinate, service and monitor the implementation of policy decisions and Work Programs as laid down.

National Focal Points

Each Member State of the Association will set up a tripartite National Focal Point for Indian Ocean Rim cooperation to coordinate and advance implementation of its activities and achievement of its objectives.

Indian Ocean Rim Business Forum (*IORBF*) *and Indian Ocean Rim Academic Group* (*IORAG*)

The Association includes bodies known as the Indian Ocean Rim Business Forum (IORBF) and Indian Ocean Rim Academic Group (IORAG) in accordance with the tripartite nature of the Association. They may meet together with the Council of Ministers and the Committee of Senior Officials as mutually decided. They may also meet as and when they deem it necessary. They will interact with the Committee of Senior Officials and the Secretariat in the consideration, formulation and implementation of the policies and Work Programs of the Association. The IORBF and IORAG may draw upon other nongovernmental regional business and academic networks, as necessary.

Financial Arrangements

Each Member State will contribute to the finances of the Association as decided. Adequate arrangements will be made by participating Member States for providing finances for implementing the Work Programs. This will not exclude external sources of financing where appropriate.

The Member States will endeavor to promote the spirit of economic cooperation enshrined in the Charter of the Association.