

EXIM BANK: RESEARCH BRIEF

Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) -A Study of India's Trade and Investment Potential



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Introduction

The study focuses on member countries of Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), a 15-year old international organisation, formed in 1997 to promote mutually beneficial cooperation among countries in the Indian Ocean region through a consensus-based, evolutionary and non-intrusive approach. At present, IOR-ARC consists of 19 member countries, viz., Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, UAE and Yemen. It also has 5 dialogue partners- China, Egypt, France, Japan, and the UK; and two observers - Indian Ocean Research Group (IORG) and Indian Ocean Trade Organization (IOTO). The Secretariat of IOR-ARC is based in Cyber City, Ebène, Mauritius.

Economic Profile of IOR-ARC Member Countries

Despite the continuous difficulties impacting the global economy, IOR-ARC region is estimated to have performed well in 2011. In 2011, the combined GDP of IOR-ARC member countries increased to an estimated US\$ 6.5 trillion from US\$ 5.7 trillion in 2010. The combined GDP of IOR-ARC countries is expected to cross US\$ 9 trillion by 2016. The average per capita GDP, at current prices, of the region as a whole, was estimated at US\$ 14,041 in 2011.

The economies within the IOR-ARC region are at varying stages of development. For

instance, the combined GDP of India, Australia and Indonesia was much larger than the combined GDP of the remaining 16 member countries, and accounted for 61.5 percent of total GDP of the Association. Most of the member countries of IOR-ARC witnessed increased economic growth during the last few years. In 2011, Sri Lanka witnessed the highest growth of 8.2 percent among the member countries, followed by India and Mozambique with growth of 7.1 percent each (Chart).

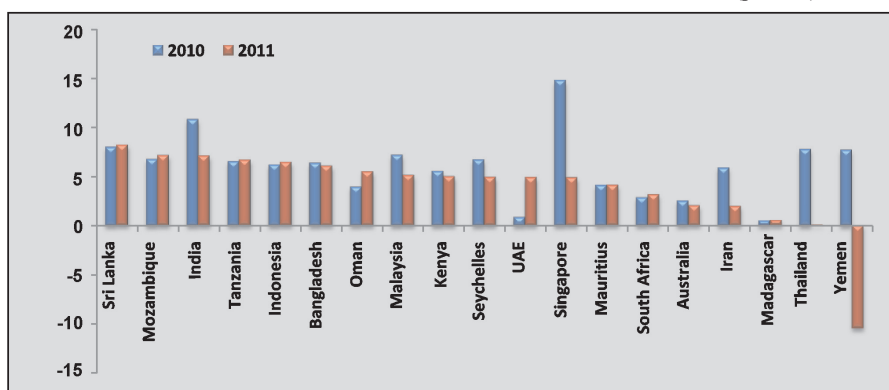
Inflation rates of the member countries also showed huge differences. Six member countries- Iran, Yemen, Kenya, Bangladesh, Madagascar and Mozambique witnessed double digit inflation in 2011. Seychelles and Malaysia, on the other hand, witnessed lower inflation at 2.6 percent and 3.2 percent, respectively.

Most of the IOR-ARC countries, with the exemption of Singapore, Oman, Malaysia, Iran, UAE, Thailand and Indonesia witnessed current account deficits in 2011.

Singapore recorded the highest current account surplus among member countries at 21.9 percent of the GDP, followed by Oman and Malaysia. Seychelles recorded the maximum current account deficit among the members during the same year at 21.6 percent of GDP, followed by Mozambique and Kenya.

As regards structural compositions of economies, Malaysia, Mozambique and Thailand witnessed increase in the share of agricultural sector in GDP in 2010 compared to 2000. A number of member countries, including Australia, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, South Africa and Yemen, have witnessed a decline in the contribution of secondary sector in GDP in the last decade. More than 80 percent of value addition to GDP of Seychelles was contributed by tertiary sector. Other countries where services sector plays a dominant role and accounted for over half of GDP include Australia, Singapore, Mauritius, South Africa, Yemen, Sri Lanka and India.

Chart: Real GDP Growth in IOR-ARC Member Countries, 2010- 2011 (percent)



Source: World Economic Outlook (WEO), International Monetary Fund (IMF), April 2012 and June 2012 update

Foreign Trade in the IOR-ARC Region

International trade of the IOR-ARC countries has witnessed a healthy growth in the recent years. During the last decade, total trade of the IOR-ARC region more than trebled, from US\$ 1.1 trillion in 2001 to US\$ 3.5 trillion in 2010. Exports increased from US\$ 564.3 billion in 2001 to US\$ 1.8 trillion in 2010, while imports increased from US\$ 507.6 billion in 2001 to US\$ 1.7 trillion in 2010. Due to the relatively higher growth in exports, the region maintained a trade surplus throughout the last decade, except in 2008 and 2009, when the global economic crisis affected almost all countries in the world. In 2010, trade surplus of the region stood at US\$ 16.1 billion.

The share of IOR-ARC region in global trade has increased from 8.6 percent in 2001 to 11.6 percent in 2010, showing the increasing importance of trade in their economic activity. IOR-ARC member countries accounted for 11.8 percent of total world exports and 11.4 percent of total world imports during 2010. Singapore remained the major exporter among the member countries, though its share has come down to 20 percent of IOR-ARC's exports in 2010 from 22.5 percent in 2005. India, which was the fifth largest exporter in 2005 with a 9.6 percent share in exports, became the second largest exporter in the region with an increase in its export share to 12.6 percent in 2010. Other major exporters in 2010 included Australia, accounting for 12 percent of global exports of IOR-ARC, followed by Malaysia, Thailand and UAE. Mineral fuels, oils, and distillation products continued to remain the largest export items of IOR-ARC countries, contributing 25 percent of the region's total exports in 2010, followed by electrical and electronic equipment, machinery and mechanical appliances and pearls and precious stones.

As regards imports, India overtook Singapore as the major importer in the recent years, accounting for 18.8 percent of total imports of the IOR-ARC region in 2010. Singapore was the second largest importer among the member countries, contributing 17.8 percent of total imports in 2010, followed by Australia, Thailand, UAE and Malaysia. Mineral fuels and oils accounted for 19.5 percent of total imports of the region. Other major import items of the region in 2010 include electrical and

electronic equipment, machinery, pearls and precious stones, vehicles other than railway, tramway and iron and steel.

Intra-IOR-ARC Trade

Total intra-regional trade of IOR-ARC member countries crossed US\$ 1 trillion in 2010, from US\$ 506.5 billion in 2005, growing at a CAGR of 14.6 percent. During 2010, total intra-IOR-ARC exports amounted to US\$ 513.1 billion which was 29.1 percent of the total exports that originated from these countries. Similarly, intra-IOR-ARC imports aggregated to US\$ 490.1 billion in 2010, which was 28 percent of total imports of the IOR-ARC member countries. Singapore, with total intra-regional exports of US\$ 123.2 billion, was the major intra-IOR-ARC exporter, accounting for 24 percent of total intra-regional exports in 2010. Other major intra-exporters in 2010 include UAE (14 percent), India (13.4 percent), Malaysia (12.6 percent) and Thailand (9.4 percent). India was the major intra-regional importer among IOR-ARC member countries with imports amounting to US\$ 87.3 billion, accounting for 17.8 percent of total intra-regional imports in 2010. Other major intra-regional importers in IOR-ARC during 2010 include Singapore (17.6 percent), UAE (11.1 percent), Malaysia (9.8 percent), Indonesia (9.3 percent) and Thailand (9 percent). Overall intra-IOR-ARC trade amounted to 28.6 percent of global trade of member countries in 2010.

Mineral fuels, oils and their distillation products replaced electrical and electronic equipment to become the largest export items, with their share in intra-IOR-ARC exports having increased from 17.9 percent in 2005 to 26.1 percent in 2010. The share of electrical and electronic equipment decreased from 19.5 percent in 2005 to 12.4 percent in 2010, making it the second largest export item in 2010. Commodity-wise analysis of intra-IOR-ARC imports revealed that mineral fuels and oils continued to remain the major imports of IOR-ARC member countries, accounting for 31 percent of total intra-regional imports in 2010.

Foreign Direct Investment in IOR-ARC Region

Trends in investment in IOR-ARC region during the last decade show pick up in

both FDI inflows as well as outflows. The total FDI inflows into IOR-ARC region increased to US\$ 201 billion in 2011 from US\$ 50 billion in 2001. During the period 2001-2011, the share of IOR-ARC in global FDI inflows increased from 6 percent in 2001 to 13.2 percent in 2011, indicating the increasing capability of the IOR-ARC member countries to attract FDI in the current global economic scenario. Though the general trend shows an increase in FDI flows, there are huge variations within member countries. Singapore was the largest recipient of FDI inflows in IOR-ARC in 2011, with a share of about 32 percent in IOR-ARC's total inflows, followed by Australia (20.5 percent), India (15.7 percent), and Indonesia (9.4 percent).

FDI outflows from IOR-ARC region was much lower compared to their inflows. In 2011, FDI outflows from IOR-ARC region stood at US\$ 96.4 billion, increased from US\$ 32.9 billion in 2001. The share of FDI outflows from the region accounted for 5.7 percent of total global outward FDI in 2011. Singapore accounted for the largest share of FDI outflows from the region in 2011, with a share of 26.2 percent, followed by Australia with 20.8 percent share in IOR-ARC FDI outflows, Malaysia (15.8 percent), India (15.3 percent) and Thailand (11 percent).

India's Bilateral Trade with IOR-ARC Countries

India's total trade with the IOR-ARC region has risen more than eight-fold from US\$ 19 billion to US\$ 156.3 billion during the decade 2001-2010, with India's exports to the region amounting to US\$ 69 billion, and India's imports from the region aggregating US\$ 87.3 billion in 2010. India is the third largest contributor to intra-IOR-ARC exports, with a 13.4 percent share in intra-exports and the largest contributor to intra-imports, which stood at 17.8 percent of total intra-IOR-ARC imports in 2010. India contributed 15.6 percent of total intra-IOR-ARC trade in 2010. India's trade balance with the region started experiencing a deficit from 2006 onwards and stood at US\$ 18.4 billion in 2010.

UAE is India's leading export destination, accounting for 42.7 percent of India's total exports to IOR-ARC region in 2010, followed by Singapore, Indonesia, South Africa and Malaysia. Major items in India's export basket to IOR-ARC countries in 2010

include mineral fuels, oils, and distillation products (accounting for 24.7 percent of India's total exports to IOR-ARC), pearls, precious stones, metals and coins (22.2 percent), vehicles other than railway and tramway (4.3 percent), and ships, boats and other floating structures (4.3 percent).

As far as imports are concerned, UAE is again the largest supplier to India among the IOR-ARC members, accounting for 30 percent of India's total imports from the region in 2010. Australia, Iran, Indonesia and Singapore are the other important import sources among the IOR-ARC member countries in the same year. India's major imports from IOR-ARC countries in 2010 include crude mineral fuels (38.8 percent of India's total imports from IOR-ARC), pearls and precious stones (30.2 percent), animal, vegetable fats and oils (4.9 percent), machinery (3.1 percent), and ores, slag and ash (3 percent).

Trends in India - IOR-ARC FDI Investment

During April 2000 to June 2012, the cumulative FDI inflows into India from IOR-ARC region amounted to US\$ 87.5 billion. The two largest global sources of FDI inflows to India, namely, Mauritius and Singapore, together accounted for 47.7 percent of global FDI inflows to India and 95 percent of inflows from IOR-ARC region. During April 2000 to June 2012, the largest investment flowed in from Mauritius to the tune of US\$ 65.6 billion, accounting for 75 percent of total FDI inflow into India from the IOR-ARC region. Singapore, the second largest FDI source of India among IOR-ARC countries at US\$ 17.6 billion, contributed 20.1 percent of FDI inflows from the region. The other main sources of investment flow from IOR-ARC into India during the same period were UAE, Indonesia, Australia, Oman, Malaysia and South Africa.

During April 1996 to March 2012, the cumulative Indian direct investments in IOR-ARC region in joint ventures (JVs) and wholly owned subsidiaries (WOS), in equity, loan and guarantees issued amounted to US\$ 82.4 billion, accounting for over 50 percent of India's global overseas investments during the period.

During the same period, Singapore was India's largest investment recipient among

the IOR-ARC member countries, attracting approximately 47 percent of India's total investments in the region, followed by Mauritius, UAE and Australia. In 2011-12, Mauritius was India's most favourable investment destination, attracting US\$ 7.4 billion worth investments (41.8 percent of India's total investments to the region and 24 percent of India's global FDI outflows), followed by Singapore with US\$ 5.9 billion investment, accounting for 33.5 percent of India's total investments to IOR-ARC region.

Export-Import Bank of India (Exim Bank) in the IOR-ARC Region

Exim Bank is India's leading trade and investment promotion, financing and advisory institution. It provides a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with other countries, including those in the IOR-ARC region. Since its commencement in 1982, Exim Bank plays the role of a catalyst for investments in the IOR-ARC region, by extending loans to Indian companies for investments in the region and entering into various collaborative programmes. Exim Bank has representative offices in Addis Ababa, Ethiopia; Dubai, UAE; Johannesburg, South Africa and Singapore in IOR-ARC region and plays a key role in facilitating economic cooperation within the region through its association with the regional banks and institutions.

Lines of Credit

Exim Bank extends Lines of Credit (LOCs) to overseas Governments, parastatal organisations, financial institutions, commercial banks and regional development banks to support export of eligible goods and services on deferred payment terms. Exim Bank also extends overseas buyers' credit directly to foreign entities for import of eligible Indian goods and related services or for financing eligible turnkey projects. Exim Bank also extends LOCs on behalf and at the behest of Government of India. As on August 31, 2012, Exim Bank has 22 GOI-supported operative LOCs valued at US\$ 2,808.8 mn in the IOR-ARC region, covering nine countries. Additionally, Exim Bank has also extended 7 direct LOCs to a number of institutions in the region valued at US\$ 105 mn.

Support for Project Exports

Exim Bank plays an important role in financing and promoting Indian exporters in international markets. Exim Bank extends both funded and non-funded facilities to Indian project exporters for overseas industrial turnkey projects, civil construction contracts, supplies, as well as technical and consultancy services contracts. As on May 31, 2012, the value of ongoing 102 project contracts secured by Indian project exporters in the IOR-ARC region, supported by Exim Bank, amounted to ₹ 36.96 billion in sectors such as pharmaceuticals, power transmission, construction, railway network, etc.

Finance for Joint Ventures Overseas

Exim Bank supports Indian companies in their endeavour to globalise their operations, through joint ventures (JVs) and wholly owned subsidiaries (WOS). Such support includes loans, guarantees, equity finance and in select cases direct participation in equity along with Indian promoter to set up such ventures overseas. These ventures serve to promote value addition, as also contribute to capacity building in host countries. Exim Bank also facilitates joint investments by Indian and overseas company in third country markets in addition to facilitating investments to India. In the IOR-ARC region, Exim Bank has supported companies in setting up JVs in sectors such as steel, oil and gas exploration, textile mills, pharmaceuticals etc.

Memorandum of Cooperation/Memorandum of Understanding (MOCs/MOUs)

With a view to build institutional linkages, Exim Bank has entered into MOUs / MOCs in the IOR-ARC region. As on August 31, 2012 there are eighteen active MOUs / MOCs between Exim Bank and various institutions in the region.

Global Network of Exim Banks and Development Finance Institutions (G-NEXID)

With a view to facilitate South-South trade and investment cooperation, at the joint initiative of Exim Bank and UNCTAD, a Global Network of Exim Banks and Development Finance Institutions (G-NEXID) was launched in March 2006 in Geneva. A number of institutions from IOR-ARC are G-NEXID members,

such as Bank Ekspor Indonesia, Jakarta; Development Bank of Southern Africa, Midrand; East African Development Bank, Kampala; Export Import Bank of Thailand, Bangkok; Industrial Development Bank of Kenya, Nairobi; Industrial Development Corporation South Africa, Sandton; African Export Import Bank, Cairo and PTA Bank, Nairobi.

Strategies and Recommendations for Enhancing Commercial Relations with IOR-ARC Region

Strategies to enhance trade and investment relations with countries in the IOR-ARC region would include, among others, the following:

Indian Ocean shipping routes are vital to economic interests, particularly for the energy and resources that meet rising demand in various parts of the world. This calls for the need to put in place information sharing and a common maritime law enforcement agency to deal with economic and security problems at sea. With approximately 90 percent of India's trade by volume and 70 percent by value routed through Maritime Transport, India could assume a leading role in maritime cooperation to enhance regional trade through sea.

Many countries in IOR-ARC are home to the world's richest agricultural resources. Indian companies could explore the possibilities of investment such as joint ventures or contract farming, setting up agro processing firms and investments in key stages of value chains in these countries. This could result in improving the agricultural sector of the host country through skill development, job creation, technological upgradation, supply of quality inputs like seed, better supply chain management, and biotechnology and hence, enhance farm productivity in these countries.

With many of the countries in IOR-ARC region endowed with mineral wealth and natural resources, enhanced bilateral cooperation for development/exploration of natural resources in these countries could benefit both India and other countries in the region. This could include cooperation in exploring natural and mineral resources,

with bilateral arrangements such as buy-back arrangements.

Many countries in IOR-ARC have emerged as major tourism destinations, receiving large number of global tourist population. With India being an emerging player in hospitality industry, Indian companies could explore the vast opportunities available in such countries.

With the strength and capability that India possesses in the realm of Information Technology sector, Indian IT firms could explore the opportunities in other IOR-ARC countries, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. An associated area of bilateral cooperation could be investing in human resource development. Businesses focusing on health, education and skill development are more likely stable businesses, which are in increasingly high demand in many countries due to their direct impact on improving the standard of life.

Another important area of bilateral cooperation could be infrastructure development in many IOR-ARC countries, which could prove to be mutually rewarding for both parties. Large Indian construction companies could explore business opportunities to meet the infrastructural requirements in IOR-ARC member states, also contributing largely to economic development in the host countries.

In view of the potential for enhancing bilateral trade and investment relations with the countries in IOR-ARC, Indian banks could be identified to take the lead role in promoting and creating a trade enabling environment. Towards this end, while existing Indian banks could consider expanding their operation in these countries, other Indian banks could also consider opening of representative offices (ROs)/ JVs/ branches in the region and developing correspondent banking relations with select banks in the region.

Besides streamlining their investment regimes, many countries in the region have

set up specialised investment promotion agencies/ Chambers of Commerce to promote and facilitate inflow of foreign investment into these countries, while also serving as one-stop-shop for investment related activities. In light of the key role of these institutions, building closer cooperation and linkages with these investment promotion agencies in IOR-ARC would serve to enhance access to information about investment opportunities in the region.

Towards developing entrepreneurship and human capability, India could share its expertise and experience with those countries in IOR-ARC, particularly in the SME sector wherein India has developed successful SME clusters.

Multilateral institutions such as the World Bank, ADB and the African Development Bank (AfDB) support and fund a number of projects region. Focus on these funded projects, and increased participation by Indian projects and services exporters, would serve to enhance Indian commercial presence in the region.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information

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