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

Occasional Paper No. 157

एक्ज़िम बैंक
EXIM BANK
भारतीय निर्यात-आयात बैंक
EXPORT-IMPORT BANK OF INDIA

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

Occasional Paper No. 157

EXPORT-IMPORT BANK OF INDIA

OCCASIONAL PAPER NO. 157

INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL CO-OPERATION (IOR-ARC) - A STUDY OF INDIA'S TRADE AND INVESTMENT POTENTIAL

CONTENTS

Project Team :
Mr. David Sinate, General Manager
Mr. Vanlalruata Fanai, Chief Manager
Ms. Sara Joy, Manager

LIST OF TABLES

LIST OF EXHIBITS

LIST OF CHARTS

EXECUTIVE SUMMARY

INTRODUCTION

The Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) is 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. IOR-ARC is the only regional forum linking most countries on the Indian Ocean Rim through an annual Foreign Ministers' meeting. South Africa, India, Australia and Mauritius played the major role in the formation of IOR-ARC. The IOR-ARC was formally launched at the first Ministerial Meeting in Mauritius during March 6-7, 1997, where the IOR-ARC Charter was adopted.

During the various Council of Ministers meeting, the member countries laid down various aspects of IOR-ARC to have realistic outcomes focused on Trade and Investment Agenda, based on Trade Facilitation, Trade Liberalisation, and Economic and Technical Cooperation. During the first Working Group on Trade and Investment (WGTI) meeting, the Ministers adopted a Trade and Investment Plan of Action, which included an agreement to compile a Compendia on Customs Regimes, Quarantine and Food Inspection and Investment Regimes. The subsequent meetings also made decisions to invite new members and dialogue partners.

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, United Arab Emirates (UAE) and Yemen. It also has 5 dialogue partners- China, Egypt, France, Japan, and the United Kingdom. The two observers are the Indian Ocean Research Group (IORG) and the Indian Ocean Trade Organization (IOTO). The Secretariat of IOR-ARC is based in Cyber City, Ebène, Mauritius.

VISION OF IOR-ARC

To formulate and implement projects for economic cooperation relating to trade facilitation, promotion and liberalisation; 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 Programme of the Association.

SPECIAL FUND

The Special Fund was established in 2008 as a financial mechanism for supporting and complementing the funding of Projects and Programmes adopted by the Association. The principal objectives of the Special Fund are to assist with the provision of funds needed for the preparation and implementation of projects and programmes; to support technical assistance for preparation and/or implementation of projects; and to assist member states with pre-feasibility and feasibility project studies.

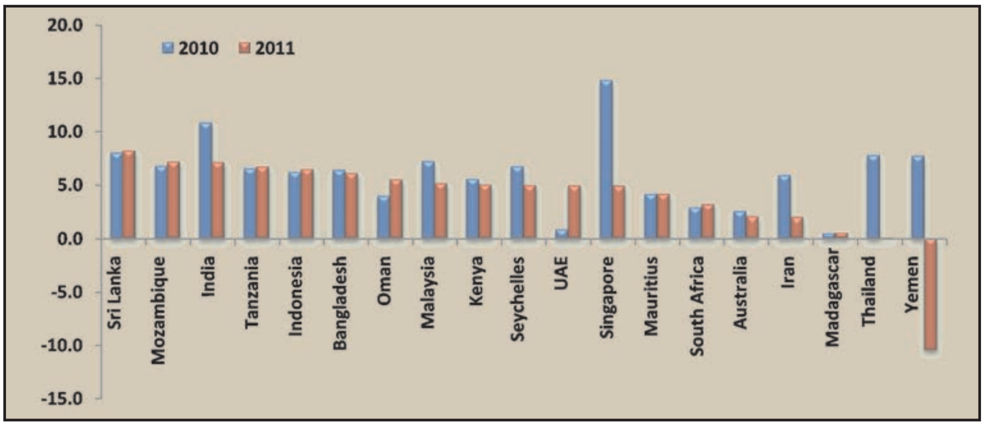
ECONOMIC PROFILE OF IOR-ARC MEMBER COUNTRIES

IOR-ARC accounts for 29.3 percent of global population, 15.4 percent of global land area and 22.5 percent of global arable land; but it only accounts for 9.4 percent of global gross domestic product (GDP), 13.2 percent of global foreign direct investment (FDI) inflows and 11.6 percent of global trade. 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 touch US$ 7 trillion in 2012. In 2016, it is forecasted to report over US$ 9 trillion. The average per capita GDP, at current prices, of the region as a whole, was estimated higher at US$ 14,041 in 2011 compared to US$ 12,171 in 2010.

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, accounting for 61.5 percent of total GDP of the Association. Given the significant differences in the size, economic structure and performance of IOR-ARC member countries, a higher level integration of these countries is necessary to achieve a balanced economic development of the region.

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, marginally increasing from the 8 percent growth in 2010, followed by India and Mozambique with growth of 7.1 percent each **(Chart 1)**. Madagascar

Chart 1: Real GDP Growth in IOR-ARC Countries, 2010- 2011 (Percent)



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

and Thailand were among the countries to witness the lowest economic growth in 2011, with 0.5 percent and 0.1 percent, respectively. Yemen's GDP contracted by 10.5 percent in 2011 mainly due to lack of oil derivatives and disruption of electricity services in the country. In 2010, all the member countries witnessed positive growth rates, with Singapore and India experiencing the highest growth rates of 14.8 percent and 10.6 percent, respectively.

In absolute terms, India's GDP stood at US$ 1.7 trillion in 2011, followed by Australia with a GDP of US$ 1.5 trillion. Seychelles has the lowest GDP size among member countries at US$ 1 billion. World Bank classifies countries on the basis of GNI per capita 2011, as low income countries with GNI per capita of US$ 1,025 or less; lower middle income with per capita income between US$ 1,026 and US$ 4,035; upper middle income, with per capita income between US$ 4,036 and US$ 12,475; and high income with per capita income of US$ 12,476 or more. The IOR-ARC member countries vary from low income group to high income group. Australia, which is an OECD member country, UAE, Oman and Singapore belong to high income category, whereas most of the African countries belong to low income category.

In terms of population size, the IOR-ARC includes member countries which vary from densely populated to sparsely populated. India, the world's second most populated country after China has a population of 1.2 billion in 2011, while Seychelles, which joined IOR-ARC in 2011, has a population of meagre 0.1 mn in 2011. 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.

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 (13.2 percent of GDP) and Malaysia (11.5 percent of GDP). Seychelles recorded the maximum current account deficit among members during the same year at 21.6 percent of GDP, followed by Mozambique (13 percent of GDP) and Kenya (11.8 percent of GDP).

IOR-ARC member countries, which have witnessed a significant growth in the last few years, have experienced increasing reliance on secondary and tertiary sectors. Agricultural sector still plays a prominent role in the case of Kenya, Madagascar, Mozambique and Tanzania, which accounted for over one-fourth of their GDP. Secondary sector dominates the economy in the case of four member countries, namely, Indonesia, Oman, Thailand and UAE. The remaining countries are dominated by services sector.

As regards shifts in structural compositions, the economies of Malaysia, Mozambique and Thailand witnessed an increase in their share of agricultural sector in GDP in 2010 compared to 2000. 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. Fall in the share of industrial sector was accompanied by corresponding increase in the share of services sector, except for Mozambique, which has witnessed lower share of services sector as well, in favour of agricultural sector. Indonesia, Iran, Madagascar, Mozambique, Tanzania, Thailand and UAE have seen a decline in the share of their tertiary sector value addition to 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 include Australia (77.9 percent of GDP), Singapore (72.1 percent), Mauritius (69.4 percent), South Africa (66.7 percent), Yemen (62.9 percent), Sri Lanka (57.8 percent) and India (55.1 percent).

Manufacturing has evolved as the major driving force for industrial activities in case of most member countries. Member countries where manufacturing plays an important role include Thailand (manufacturing contributed to 35.6 percent of GDP in 2010), Malaysia (26.1 percent), Indonesia (24.1 percent) and Singapore (22.1 percent).

Most of the IOR-ARC member countries have high levels of indebtedness. Most of the member countries recorded a growing external debt stock with relatively bigger and stronger economies like India, Indonesia, Malaysia and Thailand accounting for the bigger share. India recorded the maximum external debt stock at US$ 290.3 billion in 2010, followed by Indonesia with an external debt stock of US$ 179.1 billion. Irrespective of these wide range of indebtedness, short term debt as a percentage of total external debt in these economies are moderately low, except for few instances like Seychelles (64.9 percent), Thailand (54 percent), Iran (49 percent), and Malaysia (43 percent). Three of the African countries, namely, Madagascar, Mozambique and Tanzania had reached completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative of IMF and World Bank.

FOREIGN TRADE IN THE IOR-ARC REGION

The importance of international trade as a growth facilitator has been recognized by IOR-ARC member countries, which is evident from their growth performances in the recent years. International trade of the IOR-ARC countries has witnessed a healthy growth in the recent years. Rise in both exports and imports of IOR-ARC countries have underlined this increase in the total trade of the region. During the last decade, total trade of the IOR-ARC grew at a compound annual growth rate (CAGR) of 14.1 percent, from US$ 1.1 trillion in 2001 to US$ 3.5 trillion in 2010 **(Chart 2)**. Exports increased from US$ 564.3 billion in 2001 to US$ 1,764.7 billion in 2010, growing at a CAGR of 13.5 percent. Similarly, imports increased from 507.6 billion in 2001 to US$ 1,748.5 billion in 2010, with a CAGR of 14.7 percent. 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. Though trade surplus moderated from US$ 56.7 billion in 2001 to US$ 16.1 billion in 2010, the fact that the region witnessed a trade surplus in the current depressed global demand highlights the strong fundamentals in most of the countries in the region.

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. Similarly, IOR-ARC member countries accounted for 11.8 percent of total world exports and 11.4 percent of total world imports during 2010.

The Association's contribution to global trade is much less compared to many other similar associations, given the abundant resources – both human and natural resources of the region, suggesting the need for a focused approach on enhancing the foreign trade of member countries, especially intra IOR-ARC trade.

There also exist wide disparities in trade among member countries. For instance, the top four member countries together accounted for 57 percent of total trade of IOR-ARC region, and 6.6 percent of global trade in 2010. Singapore, Seychelles, Malaysia, UAE, Thailand and Mauritius are highly dependent on external sector with high levels of trade openness ratio (Trade-GDP ratio), while Australia is the least open country in the IOR-ARC region in this respect, followed by Bangladesh and Indonesia.

As regards dynamics of exports, a notable change from 2005 to 2010 is the increasing share of India and Australia in IOR-ARC's total exports. 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

Chart 2: Foreign Trade of IOR-ARC Region, 2001-2010 (US$ billion)

Source: Direction of Trade Statistics (DOTS), IMF 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, Malaysia (11.3 percent of IOR-ARC exports), Thailand (11.1 percent) and UAE (9.6 percent).

Commodity-wise analysis of exports from IOR-ARC member countries for the year 2010 as derived from Trade Map, ITC Geneva, shows that the top 4 export items represented over 53 percent share in 2010, though lower than 55 percent share of the same commodities in 2005, indicating high export concentration of the region. Mineral fuels, oils, and distillation products continued to remain the largest export items of IOR-ARC countries, contributing 25 percent of the Association's total exports in 2010 (increasing from 23.3 percent in 2005), followed by electrical and electronic equipment (13.4 percent share in total exports), machinery and mechanical appliances (8.5 percent) and pearls and precious stones (6.4 percent). Further analysis revealed that the composition of the top 10 export items has changed, with 2 new items making it to the list in 2010 as compared to the list of exports in 2005. Rubber and articles, and animal, vegetable fats and oils with 1.6 percent shares each, replaced articles of apparel, accessories, not knit or crochet and iron steel in 2010.

As regards mineral fuels, UAE supplied 20 percent of IOR-ARC's total exports of mineral fuels in 2010, lower than 21.1 percent share in 2005. Iran was the second largest supplier of mineral fuels, contributing 14.5 percent of total mineral fuels exports of IOR-ARC region. Other major exporters of mineral fuels in 2010 include Australia (13.8 percent), Singapore (13.1 percent) and Indonesia (10.8 percent).

In the case of electrical and electronic equipment, Singapore was the major exporter, contributing more than half of IOR-ARC's exports of the commodity (51.3 percent) in 2010. Other major exporters of electrical and electronic equipment in 2010 include Malaysia, accounting for 24.1 percent of total exports of electrical and electronic equipment, Thailand (12.5 percent), Indonesia (4.5 percent) and India (3.8 percent).

The major exporters of machinery and mechanical appliances include Singapore (36.4 percent of exports), Thailand (22.6 percent), Malaysia (20.1 percent), India (5.5 percent) and UAE (4.2 percent). Australia, South Africa, India, Indonesia and Iran were the major exporters of ores, slag and ash in 2010. In case of pearls and precious stones, majority of exports were made by India, South Africa, Australia, Thailand and UAE in 2010.

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 (up from 14 percent in 2005). Singapore was the second largest importer among the member countries, contributing 17.8 percent of total imports in 2010, followed by Australia (11.1 percent of total imports), Thailand (10.6 percent), UAE (9.8 percent) and Malaysia (8.4 percent). The top four countries together accounted for around 58 percent of total imports to the region.

Similarly, mineral fuels and oils accounted for 19.5 percent of total imports of the region, higher than 16.6 percent witnessed in 2005. Other major import items of the region include electrical and electronic equipment, contributing 15.6 percent of total imports of the region, machinery (13 percent of total imports), pearls and precious stones (7.3 percent), vehicles other than railway, tramway (4.7 percent) and iron and steel (3.2 percent). The top ten commodities accounted for over 72 percent of total imports of the region in 2010. The top ten import commodities of the region in 2010 remain the same as in 2005, though there is a shift in their share. For instance, in 2005 electrical and electronic equipment was the major import item of IOR-ARC region, accounting for 18.7 percent of total imports of the region, but was replaced by mineral fuels in 2010.

Country-wise analysis shows that India continued to remain the major importer of mineral fuels in 2010, accounting for 33.2 percent of total imports of the region, up from 28.6 percent in 2005. Other major importers of mineral fuels in 2010 included Singapore (24.3 percent of imports of mineral fuels), Thailand (9.5 percent), Indonesia (8.2 percent), Australia (7.8 percent), and Malaysia (4.9 percent).

In the case of electrical and electronic equipment, Singapore was the major importer in 2010, contributing 32.2 percent of total imports. Other major importers of the same product in 2010 include Malaysia (19.1 percent of total imports), Thailand (12.3 percent), India (9.5 percent), Australia (7.6 percent) and UAE (6.7 percent). Singapore accounted for 21.1 percent of total imports of machinery and mechanical appliances to the region, followed by Australia (12.6 percent), India (12.5 percent), Thailand (11 percent), Malaysia (9.6 percent) and UAE (9.1 percent). India, UAE, Thailand, Singapore and Australia were the major importers of pearls and precious stones in 2010. Imports of vehicles other than railway, tramway was dominated by Australia, UAE, Thailand, South Africa and Indonesia in 2010.

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, which was 28 percent of total imports of the IOR-ARC member countries.

Singapore, with total intra-regional exports of US$ 123.2 billion, is 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 of total intra IOR-ARC exports), India (13.4 percent), Malaysia (12.6 percent) and Thailand (9.4 percent). India is 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. However, there is wide variance among countries in terms of their trade dependence with other member economies. Tanzania was the country with the maximum trade dependence with the IOR-ARC members with as much as 40.2 percent of its total trade in 2010. Other member economies which had high trade dependence with IOR-ARC members included Mozambique, Sri Lanka, UAE, Mauritius, Yemen and Oman. All these countries had more than one-third of their international trade with other IOR-ARC members in 2010. In 2005, Mozambique was the largest intra-trade dependent country, followed by Sri Lanka, Tanzania and Singapore. In the case of exports, Yemen and UAE had the maximum export dependence within the region in 2010 which can be mainly attributed to their crude oil exports. Other member countries which highly depend on IOR-ARC members countries for their exports include Singapore, Oman, Malaysia and India. In 2005, Singapore was the largest intra-IOR-ARC export dependent country, followed by Yemen, Malaysia, Oman, India and UAE. In 2010, Sri Lanka replaced Mozambique as the largest import dependent country on other IOR-ARC member countries, with its imports from other members accounting for more than half of its total imports. Other member economies with high import dependence with IOR-ARC members included Mozambique, Tanzania, Mauritius and Iran.

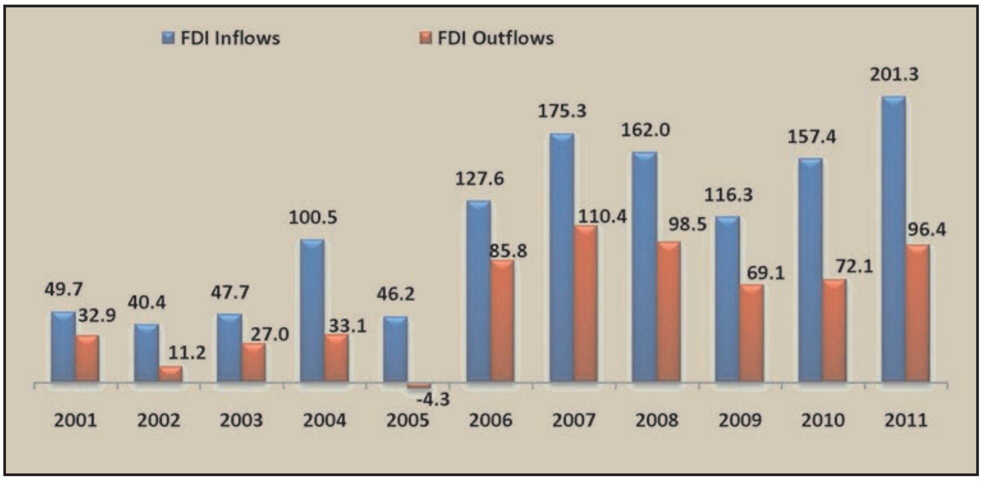
Product-wise analysis of intra-IOR-ARC exports shows that the top ten intra export items continued to remain the same in 2010 as in 2005, even though their shares and ranks have changed. The top ten export items together accounted for 75 percent of total intra-IOR-ARC exports in 2010. Mineral fuels, 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, higher from 25 percent in 2005. Similarly, in 2010, the top ten import commodities remain the same as in 2005, together accounting for more than three-fourths of total intra-regional imports.

FOREIGN DIRECT INVESTMENT IN IOR-ARC REGION

FDI inflows into the IOR-ARC region have increased at a healthy pace during the last decade, having outpaced global investment. IOR-ARC member countries are seen as a favourable investment destination with their abundant natural resources. Trends in investment during the last decade show pick up in both FDI inflows as well as outflows **(Chart 3)**. Though the general trend shows an increase in FDI flows, there are huge variations within member countries.

Chart 3: Trends in Investment in IOR-ARC Region, 2001-2011 (US$ billion)



Source: UNCTAD Stat

During the period 2001-2011, FDI inflows to the IOR-ARC recorded a CAGR of 15 percent as against 6.3 percent for the world as a whole. The difference in the growth of FDI flows were more pronounced in 2010, when FDI inflows to IOR-ARC registered a growth rate of 35.3 percent, nearly four times higher than the world's growth of 9.3 percent. Accordingly, the share of IOR-ARC in global FDI inflows increased from 6 percent in 2001 to 13.2 percent in 2011. This connotes the increasing capability of the IOR-ARC member countries to attract FDI in the current global economic scenario.

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). Yemen, Seychelles, and Mauritius received the lowest FDI among the IOR-ARC member states.

FDI outflows from IOR-ARC were much lower compared to their inflows. FDI outflows from the IOR-ARC during 2001-2011, recorded a CAGR of 11.3 percent as against 8.5 percent for the world as a whole. FDI outflows peaked in 2007 to US$ 110.4 billion and started decreasing thereafter before picking up in 2010. In 2011, FDI outflows from IOR-ARC region stood at US$ 96.4 billion, accounting for 5.7 percent of total global outward FDI. The cumulative outward IOR-ARC investment during 2001-2011 amounted to US$ 632.3 billion, which is 4.7 percent of the total global outward FDI.

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 RELATIONS 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 (**Table 1**). 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. India contributed 15.6 percent of total intra-IOR-ARC trade in 2010.

The importance of IOR-ARC in India's international trade can be gauged

Table 1: India's Trade with IOR-ARC Region, 2001-2010 (US$ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	8.0	11.0	15.2	20.1	25.6	33.5	44.1	54.0	49.2	69.0
% Change	1.3	37.2	38.8	31.7	27.6	31.0	31.4	22.6	-9.0	40.3
Imports	11.0	9.3	13.1	18.2	22.8	40.3	57.1	70.2	67.8	87.3
% Change	31.4	-15.4	41.2	38.7	25.3	76.6	41.7	22.9	-3.4	28.8
Total Trade	19.0	20.3	28.4	38.3	48.4	73.8	101.2	124.2	117.0	156.3
Trade Balance	-3.0	1.7	2.1	1.8	2.8	-6.8	-13.1	-16.2	-18.7	-18.4

Source: DOTS, IMF

from the fact that the region accounted for 30.9 percent of India's total global exports in 2010, up from 17.6 percent recorded in 2001. India's total imports from IOR-ARC accounted for 26.6 percent of India's total global imports during 2010, up from 18.6 percent in 2001. Countries such as Singapore, Mauritius, UAE, Australia and Kenya, among others, are not only important trading partners for India, but also major destinations for India's global overseas investments.

India's exports to other IOR-ARC member countries witnessed a robust growth increasing by a CAGR of 27 percent during the period 2001 to 2010, while India's imports from IOR-ARC grew at 25.9 percent during the same period. On account of increased imports from the region, 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, and 13 percent of India's global exports in 2010. The other major export destinations of India in the IOR-ARC region during the same year were Singapore (13.2 percent of exports to IOR-ARC), Indonesia (6.6 percent), South Africa (5.4 percent), and Malaysia (5.2 percent). Singapore, Indonesia, South Africa, Malaysia, Sri Lanka and Bangladesh are also among the top 20 global exporters of India. India's exports to Mozambique, UAE, South Africa, Tanzania, Kenya and Indonesia have shown a sharp rise in recent years compared to its 2001 exports levels.

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 (accounting for 13 percent), Iran (12 percent), Indonesia (11 percent), and Singapore (8 percent) are the other important import sources among the IOR-ARC member countries in the same year. India's imports from Oman, UAE, Iran, Mozambique and South Africa have registered a sharp rise in the last decade.

Commodity Composition of Bilateral Trade

There has been a shift in the composition of India's export basket to IOR-ARC during the last decade. In 2001, articles of apparel, accessories, not knit or crochet, iron and steel, and residues and animal fodder were among India's top export items to IOR-ARC, but was replaced by mineral fuels, vehicles and ships, boats and other floating structure in 2010. 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), ships, boats and other floating structures (4.3 percent), machinery and instruments (3.4 percent), electrical and electronic equipment (3 percent), cotton (2.5 percent), organic chemicals (2.3 percent), cereals (2.3 percent), and articles of iron and steel (2.3 percent).

Similarly, there has been a shift in the composition of India's imports from other IOR-ARC member countries. India's imports from other IOR-ARC member countries became more concentrated in the recent years compared to 2001 and 2005, as evident from the fact that the top two items alone account for around 70 percent of total imports from the region in 2010. 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), ores, slag and ash (3 percent), electrical and electronic equipment (2.8 percent), organic chemicals (2.5 percent), plastics and articles (1.5 percent), and iron and steel (1.1 percent).

TRENDS IN INDIA - IOR-ARC FDI INVESTMENT

As far as cumulative inflow of foreign direct investments (FDI) into India is concerned, IOR-ARC region plays a significant role. The two largest global sources of FDI inflows to India, namely, Mauritius and Singapore together accounts 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 investment flow into India from the IOR-ARC region during the period. Singapore is the second largest FDI source of India among IOR-ARC at US$ 17.6 billion, contributing 20.1 percent of FDI inflows from the region. The other main sources of investment flow from IOR-ARC into India were UAE, Indonesia, Australia, Oman, Malaysia and South Africa. Investments from UAE amounted to US$ 2.3 billion, while investments from Indonesia amounted to US$ 605.8 mn during the period.

In the recent years, India's FDI outflows to IOR-ARC has also risen significantly. India's FDI outflows to IOR-ARC surged from US$ 3.6 billion during April 1996 to March 2006 to US$ 78.8 billion during April 2006 to March 2012. 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. In 2011-12, investments in IOR-ARC region dropped by 56.3 percent to US$ 17.7 billion from US$ 27.7 billion during 2010-11, reflecting a fall in investments to Mauritius. Out of the total investments of India in IOR-ARC region in 2011-12, 81.8 percent were in the form of WOS.

Cumulatively, during the period April 1996 to March 2012, Singapore was India's largest investment recipient among the IOR-ARC member countries, attracting approximately 47 percent of India's total investments in the IOR-ARC region, followed by Mauritius, UAE and Australia. The favourable business environment and availability of supportive infrastructure has made Singapore a favourable Indian investor destination in the IOR-ARC region.

During 2010-11, Mauritius with FDI outflows of US$ 17.7 billion replaced Singapore as the most favourable investment destination, supported by its business friendly investment climate. In 2011-12, Mauritius continued to remain 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 and 19.3 percent of India's total investments to IOR-ARC region and world, respectively.

As on July 2012, India entered into Bilateral Investment Promotion and Protection Agreements (BIPA) with ten IOR-ARC member countries, for the reciprocal encouragement, promotion and protection of investments in each other's territories by the companies based in either country. India also signed a BIPA with Seychelles in 2010 which is yet to come into force. There are also negotiations on BIPA underway with Kenya, South Africa, Tanzania and UAE. The purpose of BIPA is to create such conditions which are favourable for fostering greater investments by the investors of one country in the territory of the other country. Such agreements are beneficial for both the countries because they stimulate their business initiatives and thus enhance their prosperity. India has also signed a comprehensive Double Taxation Avoidance Agreement (DTAA) for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, with Australia, Bangladesh, Indonesia, Kenya, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, Thailand and UAE.

EXPORT POTENTIAL OF INDIA TO IOR-ARC MEMBER COUNTRIES

Identification of export potential of India to IOR-ARC member countries has been done based on following criteria: analysis of import basket of IOR-ARC nations; matching of India's export capability with corresponding import demand of target countries, and selection of potential items, based on low share of India in IOR-ARC member countries' import basket of major commodities. Accordingly, some of the major commodities in which India has potential for exports to the IOR-ARC member countries are listed below.

UAE - Machinery and instruments (HS-84); Electrical and electronic equipment (HS-85); Vehicles other than railway, tramway (HS-87); Optical and medical apparatus (HS-90); Rubber and articles (HS-40); Pharmaceutical products (HS-30); Miscellaneous chemical products (HS-38); Sugars and sugar confectionery (HS-17); Footwear, gaiters and parts (HS-64) and Oil seeds (HS-12).

Singapore – Electrical and electronic equipment (HS-85); Machinery and instruments (HS-84); Optical and medical apparatus (HS-90); Plastics and articles (HS-39); Vehicles other than railway (HS-87); Miscellaneous chemical products (HS-38); Articles of iron or steel (HS-73); Iron and steel (HS-72); Pharmaceutical products (HS-30); Rubber and articles (HS-40); Copper and articles (HS-74); Inorganic chemicals, precious metal compound, isotopes (HS-28) and Ships, boats and other floating structures (HS-89).

Indonesia – Mineral fuels, oils and distillation products (HS-27); Machinery and instruments (HS- 84); Electrical and electronic equipment (HS-85); Iron and steel (HS-72); Vehicles other than railway, tramway (HS-87); Plastics and articles (HS-39); Articles of iron or steel

(HS-73); Cereals (HS-10); Optical and medical apparatus (HS-90); Rubber and articles (HS-40); Miscellaneous chemical products (HS-38); Aluminium and articles (HS-76); Inorganic chemicals, precious metal compound, isotopes (HS-28); Sugars and sugar confectionery (HS-17) and Copper and articles (HS-74).

South Africa - Machinery & instruments (HS-84); Electrical and electronic equipment (HS-85); Optical and medical apparatus (HS-90); Plastics and articles (HS-39); Miscellaneous chemical products (HS-38); Rubber and articles (HS-40); Inorganic chemicals, precious metal compound, isotopes (HS-28); Cereals (HS-10); Footwear, gaiters and parts (HS-64); Articles of apparel, accessories, knit or crochet (HS-61); Ceramic products (HS-69); Residues and animal fodder (HS-23); Copper and articles (HS-74); Aluminium and articles (HS-76) and Meat and edible meat offal (HS-02).

Malaysia - Electrical and electronic equipment (HS-85); Machinery and instruments (HS-84); Mineral fuels, oils, and distillation products (HS-27); Vehicles other than railway, tramway (HS-87); Iron and steel (HS-72); Plastics and articles (HS-39); Optical and medical apparatus (HS-90); Pearls, precious stones, metals, coins (HS-71); Rubber and articles (HS-40); Articles of iron or steel (HS-73); Miscellaneous chemical products (HS-38); Inorganic chemicals, precious metal compound, isotopes (HS-28); Ships, boats and other floating structures (HS-89); Pharmaceutical products (HS-30); Sugars and sugar confectionery (HS-17); Residues, and animal fodder (HS-23); Ores, slag and ash (HS-26); Glass and glassware (HS-70); Essential oils, perfumes, cosmetics, toiletries (HS-33) and Tanning, dyeing extracts, tannins, pigments (HS-32).

Sri Lanka - Pearls, precious stones, metals, coins (HS-71); Cereals (HS-10); Dairy products, eggs, honey, edible animal product (HS-04); Special woven or tufted fabric, lace, tapestry (HS-58); Animal, vegetable fats and oils (HS-15) and Furniture, lighting, signs, prefabricated buildings (HS-94).

Bangladesh – Machinery and instruments (HS-84); Electrical and electronic equipment (HS-85); Mineral fuels, oils and distillation products (HS-27); Iron and steel (HS-72); Animal, vegetable fats and oils (HS-15); Manmade staple fibres (HS-55); Sugars and sugar confectionery (HS-17); Paper & paperboard, articles of pulp, paper and board (HS-48) and Optical and medical apparatus (HS-90).

Iran - Machinery and instruments (HS-84); Iron and steel (HS-72);

Electrical and electronic equipment (HS-85); Vehicles other than railway, tramway (HS-87); Plastics and articles (HS-39); Optical and medical apparatus (HS-90); Pharmaceutical products (HS-30); Residues and animal fodder (HS-23); Sugars and sugar confectionery (HS-17); Rubber and articles (HS-40); Miscellaneous chemical products (HS-38); Aluminium and articles (HS-76); Edible fruit and nuts (HS-08) and Oil seeds (HS-12).

Thailand - Electrical and Electronic equipment (HS-85); Mineral fuels, oils and distillation products (HS-27); Machinery and instruments (HS-84); Iron and steel (HS-72); Pearls, precious stones, metals, coins (HS-71); Vehicles other than railway, tramway (HS-87); Plastics and articles (HS-39); Articles of iron or steel (HS-73); Organic chemicals (HS-29); Optical and medical apparatus (HS-90); Copper and articles (HS-74); Aluminium and articles (HS-76); Miscellaneous chemical products (HS-38); Rubber and articles (HS-40); Oil seed (HS-12); Ships, boats and other floating structures (HS-89) and Manmade filaments (HS-54).

Kenya - Animal, vegetable fats and oils (HS-15); Cereals (HS-10); Sugars and sugar confectionery (HS-17); Other made textile articles, sets, worn clothing (HS-63); Optical and medical apparatus (HS-90); Furniture, lighting, signs, prefabricated buildings (HS-94); Cotton (HS-52) and Tobacco and manufactured tobacco substitutes (HS-24).

Australia - Machinery and instruments (HS-84); Mineral fuels and distillation products (HS-27); Vehicles other than railway, tramway (HS-87); Electrical and electronic equipment (HS-85); Pharmaceutical products (HS-30); Optical and medical apparatus (HS-90); Plastics and articles (HS-39); Articles of iron or steel (HS-73); Organic chemicals (HS-29); Furniture, lighting, signs, prefabricated buildings (HS-94); Rubber and articles (HS-40); Paper & paperboard, articles of pulp, paper and board (HS-48); Toys, games, sports requisites (HS-95); Articles of apparel, accessories, knit or crochet (HS-61); Iron and steel (HS-72); Miscellaneous chemical products (HS-38) and Miscellaneous edible preparations (HS-21).

Tanzania - Plastics and articles (HS-39); Cereals (HS-10); Animal, vegetable fats and oils (HS-15); Rubber and articles (HS-40); Sugars and sugar confectionery (HS-17); Optical and medical apparatus (HS-90); Ceramic products (HS-69); Beverages, spirits and vinegar (HS-22) and Essential oils, perfumes, cosmetics, toiletries (HS-33).

Oman - Vehicles other than railway, tramway (HS-87); Machinery and instruments (HS-84); Dairy products, eggs, honey, edible animal product (HS-04); Organic chemicals (HS-29); Cereal, flour, starch, milk preparations and products (HS-19); Inorganic chemicals, precious metal compound, isotopes (HS-28); Pearls, precious stones, metals, coins (HS-71); Optical and medical apparatus (HS-90); Rubber and articles (HS-40); Furniture, lighting, signs, prefabricated buildings (HS-94); Salt, sulphur, earth, stone, plaster, lime and cement (HS-25); Paper & paperboard, articles of pulp, paper and board (HS-48); Aluminium and articles (HS-76); Animal, vegetable fats and oils (HS-15); Vegetable, fruit, nut, etc food preparations (HS-20); Tobacco and manufactured tobacco substitutes (HS-24); Soaps, lubricants, waxes, candles, modelling pastes (HS-34) and Edible fruit and nuts (HS-08).

Mauritius-Machinery and instruments (HS-84); Fish, crustaceans, aquatic invertebrates (HS-03); Vehicles other than railway, tramway (HS-87); Pearls and precious stones (HS-71); Plastics and articles (HS-39); Paper & paperboard, articles of pulp, paper and board (HS-48); Furniture, lighting, signs, prefabricated buildings (HS-94); Tobacco and manufactured tobacco substitutes (HS-24); Animal, vegetable fats and oils (HS-15); Miscellaneous chemical products (HS-38) and Aluminium and articles (HS-76).

Mozambique - Vehicles other than railway, tramway (HS-87); Machinery and instruments (HS-84); Cereals (HS-10); Animal, vegetable fats and oils (HS-15); Paper & paperboard, articles of pulp, paper and board (HS-48); Optical and medical apparatus (HS-90); Furniture, lighting, signs, prefabricated buildings (HS-94); Fish, crustaceans, aquatic invertebrates (HS-03); Essential oils, perfumes, cosmetics, toiletries (HS-33); Miscellaneous chemical products (HS-38); Tools, implements, cutlery, etc of base metal (HS-82); Tanning, dyeing extracts, tannins, pigments (HS-32) and Glass and glassware (HS-70).

Yemen - Machinery and instruments (HS-84); Vehicles other than railway, tramway (HS-87); Electrical and electronic equipment (HS-85); Sugars and sugar confectionery (HS-17); Iron and steel (HS-72); articles of iron and steel (HS-73); Meat and edible meat offal (HS-02); Rubber and articles (HS-40); Articles of apparel, accessories, knit or crochet (HS-61); Optical and medical apparatus (HS-90) and Animal, vegetable fats and oils (HS-15).

Madagascar - Machinery and instruments (HS-84); Mineral fuels and oils (HS-27); Electrical and electronic equipment (HS-85); Articles of iron and steel (HS-73); Vehicles other than railway (HS-87); Plastics and articles (HS-39); Cereals

(HS-10); Animal and vegetable fats and oils (HS-15); Sugars and sugar confectionery (HS-17); Made textile articles (HS-63); Paper and paper board (HS-48); Miscellaneous chemical products (HS-38); Optical and medical apparatus (HS-90); Rubber and articles (HS-40) and Fish and Crustaceans (HS-03).

Seychelles - Fish and crustaceans (HS-03); Machinery and instruments (HS-84); Electrical and electronic equipment (HS-85); Ships boats and other floating structures (HS-89); Articles of iron and steel (HS-73); Furniture and lightings (HS-94); Miscellaneous articles of base metals (HS-83); Wood and wood articles (HS-44); Animal and vegetable fats and oils (HS-15) and Mineral fuels (HS-27).

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. Exim Bank has also assisted several other Indian programmes in the region.

Exim Bank has extended Lines of Credit (LOCs) in the region at competitive rates. LOCs enable buyers in those countries to import goods and services from India on deferred credit terms. Exim Bank will make the payment of the eligible value to the Indian exporters. It has also signed Memorandum of Understanding (MOUs) and Memorandum of Cooperation (MOCs) through the Government of India with the Governments in the IOR-ARC region to promote trade and investment. It has also financed various Indian joint ventures in the region.

FINANCING PROGRAMMES

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. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. 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 amounted to ₹ 36.96 billion.

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 serves 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.

MEMORANDUM OF COOPERATION/ MEMORANDUM OF UNDERSTANDING (MOCs/MOUs)

With a view to build institutional linkages, Exim Bank has entered into MOUs and 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, the details of which are as follows:

- Export Finance & Insurance Corporation (EFIC), Australia;
- Industrial Promotion and Development Co. of Bangladesh Ltd.;
- PT Bank Ekspor Indonesia (PERSERO);
- PTA Bank (Eastern & Southern African Trade Development Bank), Kenya;
- Asian ECAs (Multilateral L/C Confirmation Facility Agreement), Malaysia;
- Board of Investment of Mauritius;
- Nanyang Technological University Entrepreneurship Development Centre (ENDEC), Singapore;
- ECICS Ltd., Singapore;
- Development Bank of Southern Africa under BRICS Framework;
- Industrial Development Corporation of South Africa Ltd. (IDC);
- Hatton National Bank Ltd., Sri Lanka;
- Ceylon Chamber of Commerce, Sri Lanka;
- Board of Investment of Sri Lanka;
- SME Bank of Sri Lanka;
- Export-Import Bank of Thailand; and
- Sharjah Chamber of Commerce & Industry, UAE.

EXIM BANK RESEARCH STUDIES

Exim Bank conducts periodic research studies in order to promote the existing institutional linkages and external competitiveness of the Indian companies. The studies range from areas of international trade (including sector specific studies) to international investments; it also focuses on areas of bilateral/ multilateral cooperation among countries and their potential for further development. These are published in the form of Occasional Papers, Working Papers, and Books.

GLOBAL NETWORK OF EXIM BANKS AND DEVELOPMENT FINANCE INSTITUTIONS (G-NEXID)

With a view to facilitating South-South trade and investment cooperation, at the joint initiative of Exim Bank and UNCTAD, a Global Network of Exim Banks and Development Financial Institutions (G-NEXID) was launched in March 2006 in Geneva. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. 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 TO ENHANCE COMMERCIAL RELATIONS WITH IOR-ARC REGION

Countries in the IOR-ARC region have witnessed increased economic activities in recent years, reflected in their GDP growth as also rise in foreign trade. The analysis also traced recent trends in India's trade and investment relations with countries in the IOR-ARC region, and identified potential areas for boosting bilateral trade relations. Broad strategies and recommendations which could serve to facilitate and enhance two-way trade and investment between India and IOR-ARC member states, based upon the analysis and findings of the study are given below.

Maritime Cooperation and Effective Maritime Governance

Indian Ocean is a significant avenue in international trade of goods, especially oil. In 2010, the world seaborne trade rebounded from the contraction of 2009 and grew by an estimated 7 percent, taking the total of goods loaded to 8.4 billion tons, surpassing the pre-crisis levels[1]. In 2010, about 1.8 billion tons of crude oil, equivalent to 45 percent of world crude oil production, were loaded on tankers and carried through fixed maritime routes. Further, 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. The economic benefits of international trade also necessitate safe and secure sea lines of communication. Hence, there is a great need for maritime cooperation 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[2], India could assume a

[1]Review of Maritime Transport 2011, UNCTAD

[2]Ministry of Shipping, Government of India

leading role in maritime cooperation to enhance the trade through sea.

Cooperation in Agriculture Sector Development

Agriculture and related activities constitutes the bedrock of many of the IOR-ARC countries, and exports from the sector are important foreign exchange earners for these countries. Many countries in IOR-ARC are home to the world's richest agricultural resources. Indian companies can 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. India's investment in specific countries 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. Indian investors could also focus on providing quality infrastructure to enhance farm productivity in these countries.

Natural Resource Development

With many of the countries in IOR-ARC 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. Mineral production and development constitute a significant part of many IOR-ARC countries, and remain a key factor in their future economic growth. For instance, according to World Gold Council, India, along with China, demanded more than half of the world's jewelry and bar and coin purchases of gold, while South Africa and Australia are famous for gold production; Malaysia and Indonasia are the largest producers of Palm oil in the world; and UAE and Iran are among the top global producers of petroleum crude. In light of these, increased cooperation between India and the resource-rich countries in IOR-ARC in developing/ exploring natural and mineral resources, with bilateral arrangements such as buy-back arrangements, could be an important strategy to enhance Indo-IOR-ARC commercial relations.

Cooperation in Hotel and Tourism Industry

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. Indian companies can focus more on developing world-class hotels and resorts. Indian hotel groups could also try to acquire and renovate some hotels in the region. Given the rich cultural and geographical diversities and vast biodiversity in flora and fauna of these nations, Indian entrepreneurs could also specifically focus on different kinds of tourism products, such as adventure tourism, coastal and safari tourism, medical tourism, wildlife tourism, eco-tourism and cultural tourism.

Focus on Information Technology (IT) Development

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. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. Designing specialized e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities.

Investment in Human Resource Development

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. Towards this end, IOR-ARC member countries could also tie up with Indian institutions such as the Central Food Technological Research Institute (CFTRI), Mysore and Entrepreneurship Development Institute of India (EDI), Ahmadabad and National Small Industries Corporation Ltd. (NSIC), New Delhi. Further, Indian institutions could also share their expertise in the fields of export capability creation in the region, institutional strengthening and export development in the form of technical assistance and sharing of expertise through site visits. Also, setting up of various academic 'twinning arrangements' between Indian and IOR-ARC universities will boost academic mobility between India and other countries in the IOR-ARC region.

Cooperation in Infrastructure Development

Another important area of bilateral cooperation could be infrastructure development in many IOR-ARC countries. Investment in infrastructure development could prove to be a mutually rewarding area of bilateral cooperation. Lack of forward and backward linkages between different modes of transportation, low level of air connectivity, poorly equipped ports, ageing rail networks, and inadequate access to all-season roads are key problems facing many of the low income IOR-ARC economies. Areas that hold immense investment opportunities include development of highways and roadways, development of railway networks and power systems, which would also help in regional integration, to a great extent. 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.

Cooperation in the Banking/ Financial Sector

With a view to enhance commercial relations with countries in the IOR-ARC region, some Indian banks have set up operations in select countries in the IOR-ARC region. As on 2011, in IOR-ARC region, SBI has offices in Australia, Bangladesh, Oman, Singapore, Sri Lanka, South Africa and UAE; Bank of India in Kenya and Singapore; Bank of Baroda in Mauritius, Oman, Seychelles, Singapore, South Africa and UAE; Punjab National Bank in UAE; Indian Bank in Singapore and Sri Lanka; Indian Overseas Bank in Singapore, Sri Lanka and Thailand; UCO Bank in Singapore; ICICI Bank in Singapore, Sri Lanka and UAE; IDBI Bank in UAE and Axis Bank in Singapore and UAE[3]. 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, 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.

Developing Linkages with Investment Promotion Agencies/ Chambers Of Commerce

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.

A national-level industry association/ trade chamber could be identified which could undertake various trade promoting activities such as organising Business-to-Government

[3] RBI, Statistical Tables Relating to Banks of India, 2010-11

(B2G) and Business-to-Business (B2B) delegation visits relating to identified potential sectors; organising fairs in IOR-ARC member countries to showcase the competencies of Indian SMEs and to capture market opportunities in IOR-ARC member countries.

Cooperation in SME Sector

Small and Medium Enterprises (SME) sector development in many IOR-ARC countries are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training and lack of finance. 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. An important element in this direction could be for delegations from these countries to visit India to study success factor of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. SME financing is another area where India could support this sector. Exim Bank has also extended several LOCs to various countries for the development of their SME sectors.

Focus on Multilateral Funded Projects

Besides participating in investment activities that are promoted by the respective governments of countries in IOR-ARC, Indian companies could also endeavor to participate in multilateral funded projects. Multilateral institutions such as the World Bank, ADB and the African Development Bank (AfDB) support and fund a number of projects in IOR-ARC. They broadly cover areas such as agriculture and related activities; infrastructure development such as roads, telecommunication, postal services, electricity, water supply and sanitation; mining and quarrying; rural and urban development; environment and natural resource development; health care and education; financial market development and tourism development. Focus on these funded projects and increased participation by Indian project and service exporters in such projects would serve to enhance India's commercial presence in these countries. At the same time, efforts to participate in technical assistance in terms of project preparation and advisory services in such funded projects would support increased presence in the region.

1. INDIAN OCEAN RIM ASSOCIATION FOR REGIONAL CO-OPERATION (IOR-ARC): ENHANCING ECONOMIC SYNERGY

The Indian Ocean Rim (IOR) - defines a distinctive area in international politics consisting of coastal states bordering the Indian Ocean. It is a region of much diversity, in culture, race, religion, economic development, and strategic interests. The countries vary in the size of their population, trade, technological development and in the structure of their economies. The region forms a domain for a number of sub-regions including Southern and Eastern Africa, Gulf of Aden, Oman Sea, South-Asia, Southeast Asia, and Australasia. It also includes a number of regional organisations, such as Association of Southeast Asian Nations (ASEAN), Gulf Cooperation Council (GCC), South Asian Association for Regional cooperation (SAARC) and Southern African Development Community (SADC).

The Indian Ocean region is among the most important global trade routes. Indian Ocean, being the world's third largest ocean, carries half of the world's container ships, one-third of the bulk cargo traffic, two-thirds of the world's oil shipments and connects four major land bodies – Asia, Africa, Australia and Antarctica. The region is woven together by trade routes and commands control of major sea-lanes.

The IOR region consists of countries from three continents – Asia, Africa and Australia. The Indian Ocean "Rim" consists of 29 littoral countries and six island countries which are either directly located in the Indian Ocean or facing the Ocean through a linking body of water. The IOR region constitutes around 30 percent of global population which makes it a massive market.

The IOR region countries are rich in strategic and precious minerals and metals and other natural resources, valuable marine resources ranging from fisheries to raw material and energy for industries. It has abundant agricultural wealth in terms of variety and mass of arable land and has significant human resources and technological capabilities. Many countries of the Rim are becoming globally competitive and are developing new capacities, which can be jointly harnessed through regional cooperation efforts.

FORMATION OF IOR-ARC[4]

The Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) is 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. IOR-ARC is the only regional forum linking most countries on the Indian Ocean Rim through an annual Foreign Ministers' meeting. South Africa, India, Australia and Mauritius played the major role in the formation of IOR-ARC.

The idea of the formation of the Indian Ocean community was first mooted by the Foreign Minister of South Africa, Mr. Pick Botha in 1990. During March 29-31, 1995, government of Mauritius convened a meeting to discuss the enhancement of economic cooperation among countries of the Indian Ocean Rim. Representatives from the government, business sectors and academia, from Australia, India, Kenya, Mauritius, Sultanate of Oman, Singapore and South Africa, known as the "Core Group States" or M-7, attended the meeting. The participants' countries had agreed on "Principles of Open Regionalism and Inclusivity of Membership, with the objectives of Trade Liberalization and Promoting Trade Cooperation". They also decided that the activities would focus on Trade Facilitation, Investment Promotion and Economic Cooperation.

A tripartite Working Group (Government, Academic and Private Sector) met in Mauritius during August 15-17, 1995. This meeting decided to create a "Second Track" process as complimentary to an Inter-Governmental Movement. A later meeting during September 1996 in Mauritius finalised a Charter for the creation of the IOR-ARC, and expanded the membership to include Indonesia, Malaysia, Sri Lanka, Yemen, Tanzania, Madagascar and Mozambique- known as the M-14. The IOR-ARC was formally launched at the first Ministerial Meeting in Mauritius during March 6-7, 1997, where the IOR-ARC Charter was adopted.

During the various Council of Ministers meeting, the member countries laid down various aspects of IOR-ARC to have realistic outcomes focused on Trade and Investment Agenda, based on Trade Facilitation, Trade Liberalisation, and Economic and Technical Cooperation. During the first Working Group on Trade and Investment (WGTI) meeting, the Ministers adopted a Trade and Investment Plan of Action, which included an agreement to compile a

[4] ww.iorarc.org

Exhibit 1.1: Indian Ocean Rim Countries

Source: Geographic Guide

Compendia on Customs Regimes, Quarantine and Food Inspection and Investment Regimes. The subsequent meetings also made decisions to invite new members and dialogue partners.

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 United Kingdom. The two observers are the Indian Ocean Research Group (IORG) and the Indian Ocean Trade Organization (IOTO). The Secretariat of IOR-ARC is based in Cyber City, Ebène, Mauritius.

ORGANISATION STRUCTURE

The Council of Ministers

The Council of Ministers (COM) of IOR-ARC is the apex decision making body, which meets annually, or more often as mutually decided. The COM make decisions on formulation of policies, review of progress of cooperation, decisions on new areas of cooperation, establishment of additional mechanisms and specialized agencies as deemed necessary, and decisions on other matters of general interest. The COM is usually attended by Foreign Ministers. The COM elects a Chair and Vice Chair of the Association for a period of two years, respectively. India is the current IOR-ARC Chair and Australia, the Vice Chair from November 2011 till 2013 COM. Past IOR-ARC Chairs are Mauritius (1997-1998), Mozambique (1999-2000), Oman (2001-2002), Sri Lanka (2003-2005), Iran (2006-2008) and Yemen (2009-2011).

The Committee of Senior Officials (CSO)

The Committee of Senior Officials (CSO) of IOR-ARC composed of senior government officials of member states. The CSO meets annually or as often as mutually decided. It reviews implementation of the decisions taken by the COM and works in cooperation with the Indian Ocean Rim Academic Group (IORAG), Indian Ocean Rim Business Forum (IORBF) and Working Group on Trade and Investment (WGTI). The CSO considers proposals from these bodies and makes recommendations to the COM for final approval.

The CSO establishes the priorities for economic cooperation, develops, monitors and co-ordinates the work programmes, and mobilises resources for the financing of the work programmes. The CSO submits periodic reports to the COM, and refers as and when necessary, policy matters for the Council's decision.

Working-Level Bodies - Indian Ocean Rim Business Forum (IORBF), Indian Ocean Rim Academic Group (IORAG) and Working Group on Trade and Investment (WGTI)

The Academic Group (IORAG), Business Forum (IORBF), and Working Group on Trade and Investment (WGTI) are the three working-level bodies of the Association. These bodies meet together with the COM and the CSO or as mutually decided.

Troika

A 'Troika' consisting of the Chair, the Vice Chair and the previous Chair will apply to the COM and the CSO. It will meet during the period between the meetings of the COM and CSO as often as mutually decided.

The troika reports to the member states on any important matters relating to the Association, including a review of progress, establishment of additional mechanisms, policy direction to IOR-ARC institutions, and the appointment and term of office, mandate, duties and the termination of the services of the Secretary-General.

Working Group of Heads of Mission

A Working Group of Heads of Mission (WGHM), consisting of Heads of Diplomatic Mission of IOR-ARC member states based in Pretoria, South Africa or as otherwise decided, meets to review the periodic work programme presented by the Chair of the COM and acts as a follow-up mechanism and focus on issues directly referred to the WGHM by the CSO and COM.

The Secretariat

The Secretariat of the IOR-ARC is based in Cyber City, Ebène, Mauritius. It manages, coordinates, services and monitors the implementation of policy decisions and work programmes, as well as prioritization of projects adopted by the COM.

The Secretariat is responsible for servicing of all IOR-ARC meetings, the representation and promotion of the Association, the collation and dissemination of information, the maintenance of an archive, depository and registry for IOR-ARC documentation and research material and mobilization of resources.

Since, the Secretariat is hosted by the Government of Mauritius, it functions in accordance with the provisions of the Agreement between the Government of Mauritius and IOR-ARC relating to the rights, privileges and immunities of IOR-ARC Secretariat approved by the COM and signed between the Government of the host country and the Secretary General.

The Secretariat is headed by a Secretary-General who is assisted by two Directors and Experts, on voluntary secondment from member states. The Secretary-General is appointed by the COM for a term of three years renewable for one additional term, from among candidates nominated by the member states. The Secretary-General is responsible to the COM for all activities of the Association.

OPERATION OF IOR-ARC

Open Regionalism

The IOR-ARC is a regional forum, tripartite in nature, bringing together representatives of Government, Business and Academia, for promoting cooperation and closer interaction among them. It is based on the principles of Open Regionalism for strengthening Economic Cooperation particularly on Trade Facilitation and Investment, Promotion as well as Social Development of the region. The open regionalism includes three key components namely, the Trade Liberalisation, Trade and Investment Facilitation and Economic and Technical Cooperation.

Member Driven Approach

IOR-ARC seeks to build and expand understanding and mutually beneficial cooperation through an evolutionary and non-intrusive approach. A member driven approach is followed by member states to achieve the goals and objectives of the Association.

It promotes a principle of good governance which enables smooth implementation of its work programmes through its three separate Working Groups, namely the Working Group on Trade and Investment (WGTI), the Indian Ocean Rim Business Forum (IORBF), and the Indian Ocean Rim Academic Group (IORAG).

PRINCIPLES OF THE IOR-ARC

IOR-ARC is characterised by consensus decision making and minimal institutionalisation.

1. Open Regionalism

The Charter declares that the IOR-ARC seeks to build and expand understanding and mutually beneficial cooperation through a consensus based, evolutionary and non-intrusive approach. There are no laws and binding contracts. Compliance with consensus based decision remains without any rigid institutional structure to specify any rules and regulations.

2. Basis of Cooperation

Cooperation is based on principles of Sovereignty, Equality, Territorial Integrity, Political Independence, Non-interference in Internal Affairs, Peaceful Coexistence and Mutual Benefit.

The IOR-ARC explicitly excludes bilateral relations and other issues likely to generate controversy and be an impediment to Regional Cooperation. Cooperation within the Association does not prejudice the rights and obligations of the member states within the framework of other economic and trade cooperation arrangements and will not apply automatically to member states of the Association. It does not seek to be a substitute for, but to reinforce, be complementary to and consistent with, the bilateral, plurilateral and multilateral rights and obligations of member states.

3. Voluntarism

The work programmes of the Association will be undertaken by member states on a voluntary basis.

4. Consensus

Decisions on all matters and issues at all levels will be taken on the basis of consensus.

VISION OF IOR-ARC

To formulate and implement projects for economic cooperation relating to trade facilitation, promotion and liberalisation; 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 Programme of the Association.

ACTION PLANS

The priority areas identified for the Association in medium to long term, in the Charter include Poverty Alleviation, Promotion of Maritime Transport and related matters, Cooperation in the fields of Fisheries Trade, Research and Management, Aquaculture, Education and Training, Energy, Information Technology, Health, Protection of the Environment, Agriculture, and Disaster Management.

POLICY GUIDELINES

1. Enhancement of Trade, Investment, Finance and Energy Cooperation within the Region

Sectoral approach in investment, trade and finance; cooperation and investment in energy security and support for joint action on fossil, and renewable sources of energy; facilitating the evolvement of a Clearing Payment Arrangement (CPA) for IOR-ARC including the issue of joining the Asian Clearing Union (ACU); finalisation and implementation of a framework for a preferential trade arrangement (PTA) by 2012; linking of existing agencies and institutions of export promotion boards, overseas marketing organisations, tourism promotion boards, research bodies, export credit banks and the like that normally deal with capacity building in trade and infrastructure development mechanism in member states; and supporting the establishment of a shipper's council.

2. Education, Culture and Technology

Support the setting up and the operationalisation of a Regional Centre on Science and Transfer of Technology; fortifying the activities of the University Mobility in Indian Ocean Rim (UMIOR) including active student/staff exchange programmes; supporting capacity building in the area of Science and Technology for academics and researchers; and supporting cultural cooperation among member states.

3. Enhancing Cooperation on Fisheries

Enhancing cooperation in the Fisheries Support Unit (FSU).

4. Promotion of Tourism Cooperation

Participation in regional trade and tourism exhibitions; infrastructure investments in tourism related projects; and supporting the existing feasibility study on tourism.

5. Disaster Management and Risk Reduction

To carry out study on the sources of pollution, distribution mechanisms and their impact on the coastal ecosystems including the marine environment of the Indian Ocean; modelling of effect of tsunami in the Gulf of Oman; and supporting the efforts of member states on avian flu.

6. Information and Communication Technology (ICT)

Optimisation of the iornet.com website as a tool for sharing economic information including updating of information on web links of Customs and Quarantine Standards; and assist in the early completion of Compendia on Customs and Quarantine and Standards.

Besides the above priority sectors, provision was also kept to add new areas bearing focus on the Indian Ocean which would be unique to the Association and have a higher bearing on member states thus adding value to regional cooperation within IOR-ARC. The new areas could be added to the priority areas, subject to adoption by the COM.

IMPLEMENTATION MECHANISM

To ensure proper implementation of the projects, following steps have to be taken:

- Strengthening of the National Focal Points as the implementing framework;
- A regional level project-based facilitator role for the Heads of Missions in Pretoria to expedite the completion of projects;
- Setting up of sectoral working groups after finalization of priority areas; and
- Half yearly meetings at the level of Senior / Technical officials of member states.

FINANCING MECHANISM

The prime responsibility for financing any project of IOR-ARC is with the participating member states; resources of the IOR-ARC Special Fund may be approached as a complementary mechanism; and the financial and technical assistance of Dialogue Partner States, and other National, Regional, International and Donor Organizations should also be mobilised.

SPECIAL FUND

The Special Fund was established in 2008 as a financial mechanism for supporting and complementing the funding of Projects and Programmes adopted by the Association. The principal objectives of the Special Fund are to assist with the provision of funds needed for the preparation and implementation of projects and programmes; to support technical assistance for preparation and/ or implementation of projects; and to assist member states with pre-feasibility and feasibility project studies.

ACHIEVEMENTS OF IOR-ARC

Since its inception in 1997, the creation of IOR-ARC has experienced steady progress. Its founding principles viz; Open Regionalism, unilateral Trade Liberalisation, Trade and Investment Facilitation and Economic and Technical Cooperation has become a distinctive feature of its establishment. Since its launch, there has always been a very high level of political commitment and there was consensus on many fronts. Some of the notable milestones are:

- The Charter establishing the IOR-ARC was adopted in March 1997 and was amended in August 2010.

- A Headquarters Agreement between IOR-ARC and the Government of Mauritius was also signed making provision for the Secretariat to enter into contr-actual obligations and enjoy the facilities, immunities and privileges that are normally extended to international organisations.

FLAGSHIP PROJECTS

IOR-ARC has also been able to evolve its agenda to include pressing regional priorities in three flagship projects namely,

- The Maritime Transport Council (MTC);
- The Regional Centre for Science & Transfer of Technology (RCSTT); and
- The Fisheries Support Unit (FSU).

These projects have tremendous potential for the Fisheries and Maritime related industries, as well as the promotion and transfer of Science and Technology in the region - all of which are considered effective tools for the upliftment of member states.

2 IOR-ARC COUNTRIES: AN ECONOMIC OVERVIEW

IOR-ARC was formed with the aim of promoting the sustained growth and balanced development of the region and of the member states, and to create a common ground for regional economic cooperation. The common factor connecting these countries is the Indian Ocean which serves as both a sea separating these countries and a bridge linking them together.

The IOR-ARC spans a wide geographical spectrum in all aspects and has a population of over 2 billion people. The Association is characterized by a significant degree of heterogeneity in terms of population size, income levels, rates of economic growth and trade and investment openness. The countries in IOR-ARC are rich in strategic and precious minerals and metals and other natural resources, valuable marine resources and energy for industries. IOR-ARC accounts for 29.3 percent of global population, 15.4 percent of global land area and 22.5 percent of global arable land; but it only accounts for 9.4 percent of global GDP, 13.2 percent of global FDI inflows and 11.6 percent of global trade.

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 touch US$ 7 trillion in 2012. In 2016, it is forecasted to record over US$ 9 trillion. The average per capita GDP, at current prices, of the region as a whole, was estimated higher at US$ 14,041 in 2011 compared to US$ 12,171 in 2010.

ECONOMIC STRUCTURE AND GROWTH OF IOR-ARC MEMBER COUNTRIES

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, accounting for 61.5 percent of total GDP of the Association. Given the significant differences in the size, economic structure and performance of IOR-ARC member countries, a higher level integration of these countries

Table 2.1: Classification of IOR-ARC Member Countries on the basis of Income

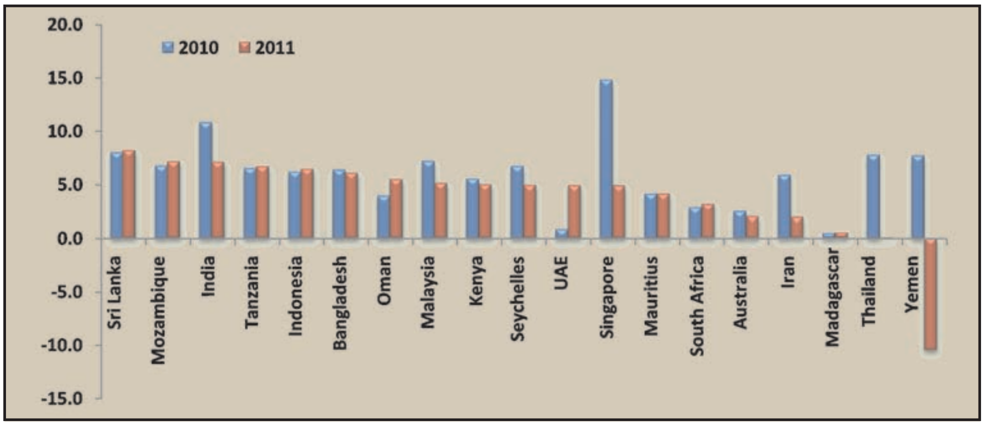
Country	Income Group
Australia	High income
Oman	High income
Singapore	High income
UAE	High income
Iran	Upper middle income
Malaysia	Upper middle income
Mauritius	Upper middle income
Seychelles	Upper middle income
South Africa	Upper middle income
Thailand	Upper middle income
Indonesia	Lower middle income
Sri Lanka	Lower middle income
Yemen	Lower middle income/LDC
Kenya	Low income
Bangladesh	Low income/LDC
Madagascar	Low income/LDC
Mozambique	Low income/LDC
Tanzania	Low income/LDC

Source: World Development Indicators (WDI) 2012; United Nations (UN)

is necessary to achieve a balanced economic development of the region.

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, marginally increasing from the 8 percent growth in 2010, followed by India and Mozambique with growth of 7.1 percent each **(Chart 2.1)**. Madagascar and Thailand were among the countries to witness the lowest economic growth in 2011, with 0.5 percent and 0.1 percent, respectively. Yemen's GDP contracted by 10.5 percent in 2011 mainly due to lack of oil derivatives and disruption of electricity services in the country. In 2010, all the member countries witnessed positive growth rates, with Singapore and India experiencing the highest growth rates of 14.8 percent and 10.8 percent, respectively.

Chart 2.1: Real GDP Growth in IOR-ARC Countries, 2010- 2011 (Percent)



Source: WEO, IMF, April 2012 and June 2012 update

World Bank classifies countries on the basis of GNI per capita 2011, as low income countries with GNI per capita of US$ 1,025 or less; lower middle income with per capita income between US$ 1,026 and US$ 4,035; upper middle income, with per capita income between US$ 4,036 and US$ 12,475; and high income with per capita income of US$ 12,476 or more. The IOR-ARC member countries vary from low income group to high income group **(Table 2.1)**. Australia, which is an OECD member country, UAE, Oman and Singapore belong to high income category, whereas most of the African countries belong to low income category.

In absolute terms, India's GDP stood at US$ 1.7 trillion in 2011, followed by Australia with a GDP of US$ 1.5 trillion. Seychelles has the lowest GDP size among member countries at US$ 1 billion **(Table 2.2)**. In terms of population size, the IOR-ARC includes member countries which vary from densely populated to sparsely populated. India, the world's second most populated country after China, has a population of 1.2 billion in 2011, while Seychelles, which joined IOR-ARC in 2011, has a population of meagre 0.1 mn in 2011. 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.

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 (13.2 percent of GDP) and Malaysia (11.5 percent of GDP). Seychelles recorded the maximum current account deficit among members during the same year, at 21.6 percent of GDP, followed by Mozambique (13 percent of GDP) and Kenya (11.8 percent of GDP).

IOR-ARC member countries, which have witnessed a significant growth in the last few years, have experienced increasing reliance on secondary and tertiary sectors **(Table 2.3)**. Agricultural sector still plays a prominent role in the case of Kenya, Madagascar, Mozambique and Tanzania, which accounted for over one-fourth of their GDP. Secondary sector dominates the

Table 2.2: Select Macroeconomic Indicators of IOR-ARC Member Countries, 2010-2011

	GDP (US$ billion)		GDP Per Capita (US$)		CPI (avg; % Change)		Current Account Balance (% of GDP)	
	2010	**2011e**	**2010**	**2011e**	**2010**	**2011e**	**2010**	**2011e**
India	1597.9	1676.1	1342.2	1388.8	12.0	8.6	-3.3	-2.8
Australia	1245.3	1488.2	55474.4	65477.0	2.8	3.4	-2.8	-2.2
Indonesia	708.4	845.7	2980.8	3508.6	5.1	5.4	0.8	0.2
Iran	419.1	482.4	5608.2	6359.8	12.4	21.3	6.0	10.7
South Africa	363.5	408.1	7270.8	8066.1	4.3	5.0	-2.8	-3.3
UAE	297.6	360.1	57042.9	67008.0	0.9	0.9	3.1	9.2
Thailand	318.9	345.6	4992.4	5394.4	3.3	3.8	4.1	3.4
Malaysia	237.8	278.7	8417.6	9699.7	1.7	3.2	11.5	11.5
Singapore	227.4	259.8	43864.7	49270.9	2.8	5.2	24.4	21.9
Bangladesh	105.6	113.0	642.0	678.0	8.1	10.7	1.7	-0.4
Oman	57.8	71.9	19404.8	23315.5	3.3	4.0	8.8	13.2
Sri Lanka	49.5	59.1	2428.1	2877.0	6.2	6.7	-2.2	-7.5
Kenya	32.1	34.8	808.1	850.6	4.1	14.0	-6.5	-11.8
Yemen	31.0	33.7	1272.5	1340.0	11.2	17.6	-3.7	-3.5
Tanzania	22.6	23.3	547.0	553.2	10.5	7.0	-9.3	-9.7
Mozambique	9.5	12.8	439.2	582.6	12.7	10.4	-11.7	-13.0
Mauritius	9.7	11.3	7582.2	8776.8	2.9	6.5	-8.2	-10.3
Madagascar	8.7	10.0	410.3	458.8	9.2	10.6	-9.7	-7.4
Seychelles	1.0	1.0	10727.5	11170.3	-2.4	2.6	-20.1	-21.6
IOR-ARC	**5743.6**	**6515.9**	**12171.4**	**14040.8**	**-**	**-**	**-**	**-**

Note: - not available; e-Estimates

Source: WEO, IMF, April 2012

economy in the case of four member countries, namely, Indonesia, Oman, Thailand and UAE. The remaining countries are dominated by services sector.

As regards shifts in structural compositions, the economies of Malaysia, Mozambique and Thailand witnessed an increase in their share of agricultural sector in GDP in 2010 compared to 2000. 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. Fall in the share of industrial sector was accompanied by corresponding increase in the share of services sector, except for Mozambique, which has witnessed lower share of services sector as well, in favour of agricultural sector. Indonesia, Iran, Madagascar, Mozambique, Tanzania, Thailand and UAE have seen a decline in the share of their tertiary sector's value addition to 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 include Australia (77.9 percent of GDP), Singapore (72.1 percent), Mauritius (69.4 percent), South Africa (66.7 percent), Yemen (62.9 percent), Sri Lanka (57.8 percent) and India (55.1 percent).

Manufacturing has evolved as the major driving force for industrial activities in case of most member countries. Member countries where manufacturing plays an important role include Thailand (manufacturing contributed to 35.6 percent of GDP in 2010), followed by Malaysia (26.1 percent), Indonesia (24.1 percent), and Singapore (22.1 percent).

Most of the IOR-ARC member countries have high levels of indebtedness. Most of the member countries recorded a growing external debt stock with relatively bigger and stronger economies like India, Indonesia, Malaysia and Thailand accounting for the bigger share. India recorded the maximum external debt stock at US$ 290.3 billion in 2010, followed by Indonesia with an external debt stock of US$ 179.1 billion **(Table 2.4)**. Irrespective of these wide range of indebtedness, short term debt as a percentage of total external debt in these economies are moderately low, except for few instances like Seychelles (64.9 percent), Thailand (54 percent), Iran (49 percent), and Malaysia (43 percent). Three of the African countries, namely, Madagascar, Mozambique and Tanzania had reached completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative of IMF and World Bank.

Table 2.3: Value Added as Percentage of GDP: Inter-temporal Comparison of IOR-ARC Member Countries, 1990-2010

	1990			2000			2010*		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
Australia	4.9	31.2	63.9	3.5	26.9	69.6	2.3	19.8	77.9
Bangladesh	30.3	21.5	48.3	25.5	25.3	49.2	18.6	28.5	53.0
India	29.0	26.5	44.5	23.1	26.1	50.8	17.7	27.1	55.1
Indonesia	19.4	39.1	41.5	15.6	45.9	38.5	15.3	46.9	37.7
Iran	19.1	28.7	52.2	13.7	36.7	49.5	10.2	44.5	45.3
Kenya	29.5	19.0	51.4	32.4	16.9	50.7	25.2	19.8	55.0
Madagascar	28.6	12.8	58.6	29.2	14.2	56.6	29.1	16.0	54.9
Malaysia	15.2	42.2	42.6	8.6	48.3	43.1	10.6	44.4	45.0
Mauritius	12.9	32.8	54.4	7.0	31.0	62.1	3.6	27.0	69.4
Mozambique	37.1	18.4	44.5	24.0	24.5	51.5	31.9	23.4	44.8
Oman	2.6	54.1	43.3	2.0	57.2	40.8	1.9	55.1	43.0
Seychelles	4.8	16.3	78.9	3.0	29.0	68.0	1.8	17.9	80.3
Singapore	0.3	31.9	67.8	0.1	34.5	65.4	0.0	27.9	72.1
South Africa	4.6	40.1	55.3	3.3	31.8	64.9	2.5	30.8	66.7
Sri Lanka	26.3	26.0	47.7	19.9	27.3	52.8	12.8	29.4	57.8
Tanzania	46.0	17.7	36.4	33.5	19.2	47.3	28.1	25.5	46.5
Thailand	12.5	37.2	50.3	9.0	42.0	49.0	12.4	44.7	43.0
UAE	1.1	58.9	40.0	2.3	48.5	49.2	0.9	55.5	43.6
Yemen	24.4	34.3	41.3	13.8	46.4	39.8	7.7	29.4	62.9

Note:* 2009 data for Madagascar and Seychelles; 2007 data for Iran; and 2004 data for Oman

Source: WDI, World Bank

Table 2.4 : External Debt Position of IOR-ARC Member Countries, 2008-2010

	Total External Debt (US$ billion)			Short-term Debt as Percent of Total External Debt		
	2008	2009	2010	2008	2009	2010
Australia	-	-	-	-	-	-
Bangladesh	22.9	23.8	25.0	8.3	8.2	11.9
India	226.0	250.0	290.3	19.4	18.6	19.4
Indonesia	147.6	162.9	179.1	13.9	14.8	17.5
Iran	14.0	13.5	12.6	36.0	43.9	49.0
Kenya	7.5	8.2	8.4	12.1	12.4	12.0
Madagascar	2.1	2.2	2.3	12.3	11.9	9.3
Malaysia	66.1	66.3	81.5	34.5	35.8	43.0
Mauritius	0.6	0.8	1.1	-	0.9	0.3
Mozambique	3.4	4.0	4.1	17.1	15.7	23.6
Oman	-	-	-	-	-	-
Seychelles	1.5	1.7	1.5	56.1	56.2	64.9
Singapore	-	-	-	-	-	-
South Africa	42.6	42.5	45.2	42.2	31.3	27.2
Sri Lanka	15.6	17.2	20.5	13.4	10.9	8.7
Tanzania	6.0	7.3	8.7	22.6	18.3	17.5
Thailand	49.8	57.9	71.3	38.5	46.7	54.0
UAE	-	-	-	-	-	-
Yemen	6.3	6.4	6.3	7.7	6.9	5.0

Note: '-' denotes not available

Source: WDI, World Bank

ECONOMIC PROFILES OF SELECT IOR-ARC COUNTRIES

The following section provides a broad overview of the prevailing economic environment in select IOR-ARC member countries.

AUSTRALIA

Australia is the smallest of the world's continents, and the largest country in IOR-ARC region, with an area of 7.7 mn sq. km. Though the country lies between the Indian and Pacific oceans with a total coastline of 36,735 km, its Indian Ocean coastline is longer than its Pacific Ocean coastline.

Australia had an estimated population of 22.7 mn in 2011, which is the eleventh-highest among IOR-ARC member countries. Urban population comprises 89.1 percent of total population, with only 10.9 percent staying in rural areas. Australia has a predominantly young population, with working population i.e. age group 15-64 years, accounting for 67.4 percent of total population, indicating the potential for a skilled and educated work force.

Lying between two oceans, Australia is rich in marine resources. Australia's marine environment is home to 4000 fish species, 1700 coral species, around 50 types of marine mammals and a wide range of seabirds. About 80 percent of marine species found in southern Australian waters occur nowhere else in the world. Australia has an abundance of mineral resources and land is suitable for agriculture. Australia is endowed with abundant, high quality and diverse energy resources, including both renewable and non-renewable resources.

According to Energy in Australia 2012 report of Australian Government, Australia has around 33 percent of the world's uranium resources, 10 percent of world's black coal resources, and almost 2 percent of world's conventional gas resources. Australia is the world's ninth largest energy producer, accounting for around 2.5 percent of world energy production and 5 percent of world energy exports. Australia is among the top ten mineral producers and has a large inventory of resources of most of the world's key minerals. Australia is the world's leading producer of bauxite, alumina, rutile, and zircon; the second largest producer of gold, iron ore, lead, zinc, lithium and manganese ore; the third largest producer of uranium; the fourth largest producer of nickel; and the fifth largest producer of aluminium, brown coal, industrial diamond and silver in 2009. The mineral industry is Australia's largest export earner with mineral exports accounting for nearly 50 percent of the annual value of total exports of goods and services in recent years.

Domestic Economy

Australia is a high income OECD country, with an estimated GDP of US$ 1.5 trillion in 2011 **(Table 2.5)**. Australia has a dynamic service sector, accounting for around 78 percent of GDP value addition. Among the service sector, banking, finance and insurance sub-sector is the best performing and one of the fastest growing in Australia. Services sector was followed by industry, accounting for around 20 percent of Australia's GDP and agriculture sector with a share of 2 percent in Australia's GDP. Mining sector of the economy has been booming in the recent years, acting as the catalyst for economic growth in the past decade.

Australia is the second largest economy among IOR-ARC countries and the thirteenth largest economy in the world in terms of nominal GDP. Australia's economic growth moderated to 2 percent in 2011, from 2.5 percent witnessed in the previous year, due to slowing global demand for commodities and devastating floods of late 2010 and early 2011. Australia has the sixth largest per-capita GDP globally at US$ 65,477 in 2011. Average consumer price inflation of the country is estimated to have increased to 3.4 percent in 2011 compared to 2.8 percent in the previous year, due to high fuel prices and reduced supplies of fruit and vegetables resulting from floods.

Table 2.5: Select Macroeconomic Indicators of Australia, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	945.6	1,054.6	991.9	1,245.3	1,488.2	1,586.0	1,651.4
Real GDP Growth (%)	4.7	2.5	1.4	2.5	2.0	3.0	3.5
GDP Per Capita (US$)	44,471	48,530	44,817	55,474	65,477	68,916	70,874
Consumer Price Inflation (avg, %)	2.3	4.4	1.8	2.8	3.4	2.7	3.0
Population (mn)	21.3	21.7	22.1	22.4	22.7	23.0	23.3
Current Account Balance (US$ bn)	-58.5	-45.6	-42	-35.4	-33.0	-73.2	-83.9
International Reserves (US$ bn)	26.9	32.9	41.7	42.3	46.8	47.7	49.7

Note: e- Estimates; f- Forecasts

Source: WEO, IMF, April 2012 and EIU

Supported by high commodity prices and the substantial interest rate differentials with other developed countries, Australian dollar has performed well in the recent years. In 2011, Australian dollar averaged A$ 0.97: US$ 1. Buoyed by the trade surplus, current account deficit of the country narrowed to US$ 33 billion (2.2 percent of GDP) in 2011 from US$ 35.4 billion in 2010. Australia recorded foreign exchange reserves of US$ 46.8 billion in 2011, representing an import cover of over 2 months.

Financial Sector of Australia

Australia has a strong and sophisticated financial sector, with well developed banking industry and capital market. The financial sector is the largest industry by capitalization and largest contributor to Australia's GDP. Australia ranked 5th amongst the world's leading financial systems and capital markets in the World Economic Forum Financial Development report, 2011. Australian Prudential Regulation Authority (ARPA) established on July 1, 1998, oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, and most members of the superannuation industry in Australia.

Australia's retail banking sector is relatively concentrated. According to Australia's Banking Industry Report, Australia has 56 banks (12 domestic banks, 9 foreign subsidiary banks and 35 foreign branch banks) as on June 2011. Australia's four large domestic banks known as the "four pillars"- Australia and New Zealand Bank (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank (NAB), and Westpac Banking Corporation (WBC) - have the largest market shares in the retail and commercial banking sectors.

Australia has the 4th largest pension fund pool in the world, creating a favourable environment for banks, asset management, financial planning and insurance companies. The Australian stock market is the second largest in the Asia behind Japan, based on free-float market capitalisation. The Australian Securities Exchange is also the 11th largest stock exchange in the world in terms of market capitalisation.

INDONESIA

In terms of land area, Indonesia is the 3rd largest country among IOR-ARC member countries, and 15th largest country in the world with a land area of 1.8 mn sq. km. Total arable land area of country as a percent of total land area is 13 percent. Indonesia is the world's largest archipelago comprising around 17,000 islands, with 54,720 km of coastline.

In 2011, Indonesia ranked the 4th most populous country in the world. The huge population and increasing purchasing power makes Indonesia a significant global market. Around 54 percent of population lives in urban areas. Indonesia has 67.6 percent of population belonging to working age, indicating the availability of skilled and educated workers.

Indonesia has an abundance of renewable (agricultural products) and non-renewable (mining and minerals) natural resources. The country is rich in energy sources such as liquefied natural gas (LNG) and oil reserves. It also has substantial coal, bauxite, and nickel reserves. Indonesia has 12 percent of world's nickel reserves (4th largest in the world). It is also the 4th largest producer of bauxite. Indonesia used to be a member of Organisation of Petroleum Exporting Countries (OPEC), but withdrew its membership in 2009, as the country became a net importer of oil.

Domestic Economy

According to IMF, the Indonesian economy is the world's sixteenth largest economy in terms of nominal GDP in 2011. Indonesia has made tremendous progresses in its economic development after six decades of independence. The country has transformed itself from a traditionally agricultural-based economy, towards a manufacturing and service oriented economy. In 2010, industrial sector dominated the

Table 2.6: Select Macroeconomic Indicators of Indonesia, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	432.2	511.0	538.7	708.4	845.7	928.3	1,055.0
Real GDP Growth (%)	6.3	6.0	4.6	6.2	6.5	6.1	6.6
GDP Per Capita (US$)	1,898	2,212	2,299	2,981	3,509	3,797	4,255
Consumer Price Inflation (avg, %)	6.7	9.8	4.8	5.1	5.4	6.2	6.0
Population (mn)	227.8	231.0	234.3	237.6	241.0	244.5	248.0
Current Account Balance (US$ bn)	10.5	0.1	13.6	5.6	2.1	-3.9	-9.4
International Reserves (US$ bn)	56.9	51.6	66.1	96.2	110.1	114.9	118.8

Note: e- Estimates; f- Forecasts
Source: WEO, IMF, April 2012 and EIU

economy, contributing 46.9 percent of Indonesia's GDP. It was followed by services sector contributing 37.7 percent of GDP, and agricultural sector contributing 15.3 percent of GDP. Within the industrial sector, manufacturing played the key role contributing 27.7 percent of GDP in 2010.

Indonesia is one of the fastest growing global economies, with a nominal GDP of US$ 845.7 billion in 2011, increasing from US$ 708.4 billion in 2010 **(Table 2.6)**. Real GDP of Indonesia grew by 6.5 percent in 2011, compared to a 6.2 percent growth in 2010, supported by strong domestic consumption and revival of various investment plans. Indonesian people enjoy a high per capita income of US$ 3,509 in 2011, increasing from US$ 2,981 in 2010. Consumer price inflation averaged to 5.4 percent in 2011, up from 5.1 percent in 2010, as a result of strong domestic demand in line with relatively rapid economic growth and high international prices for commodities. Supported by the rapid GDP growth and foreign investment, Indonesia's currency, the rupiah appreciated against US dollar in 2011.

Indonesia is structurally a trade surplus country with its huge commodity and resources exports. The country also has a current account surplus of US$ 2.1 billion (0.2 percent of GDP) in 2011, though lower than US$ 5.6 billion recorded in 2010. After more than a decade of having a current account surplus, Indonesia is expected to record a deficit of US$ 3.9 billion in 2012 in its current account, due to increased demand for foreign goods necessitated by the strong growth in investments and increased disposable income of the people. Indonesia's external debt stood at US$ 179.1 billion in 2010, an increase from US$ 162.9 billion in 2009. Indonesia has high foreign exchange reserves. In 2011, reserves increased to US$ 110.1 billion, from US$ 96.2 billion in 2010. Reserves reflected a healthy import cover of 7.5 months.

Financial Sector

The Indonesian financial sector is composed of the commercial-banking sector, the non commercial-banking sector and the non-bank sector. Three authorities are the prominent safeguards of the stability of financial system in Indonesia- Bank Indonesia, Ministry of Finance (through the Capital Market Supervision Body and Financial Institutions or Bapepam -LK) and the Indonesia Deposit Insurance Corporation (LPS - as the deposit insurer). The financial system is dominated by banks. According to Bank Indonesia, the Central Bank of Indonesia, the banking system of Indonesia consists of 120 commercial banks (4 State Banks and 116 Private National Banks) as on October

2011. Within the banking system, activities are concentrated in a few large commercial banks. The top three state-owned commercial banks (SOCBs) account for one-third of the banking sector asset. Foreign banks are increasingly playing an important role in the Indonesian banking sector, supported by a liberal foreign investment regime. The non-bank financial sector of Indonesia is relatively small. Non-bank financial sector includes insurance companies, pension funds, mutual funds, finance companies and securities companies. Though Indonesian Stock market is relatively small compared to most other stock markets of emerging economies, it is one of the best performing indices among these countries.

IRAN

Iran is the 18th largest country in the world, with a land area of 1.6 mn sq. km. Iran is a strategically important country because of its geographic location in three spheres of Asia (West, Central and South). Iran has a coastline of around 2,440 kilometres. Iran has an estimated population of 75.9 mn in 2011. Around 70 percent of population resides in urban areas. Also, around 72 percent of population of the country belongs to working age group, indicating the huge human resource potential of the country.

Iran holds an important position in the world economy as a result of its large reserves of petroleum and natural gas. Iran has the second largest proven natural gas reserves in the world and the 4th largest proven petroleum reserves. Iran's hydrocarbon sector remains the base of the country's economy.

Domestic Economy

Iran is the 25th largest global economy in terms of nominal GDP. Nominal GDP of Iran has risen from US$ 307.4 billion in 2007 to an estimated US$ 482.4 billion in 2011 **(Table 2.7).** Real GDP of Iran, which stood at 6.4 percent during 2007, moderated to 0.6 percent in 2008. Growth, however, picked up in 2009 to 4 percent, but moderated again to an estimated 2 percent in 2011, mainly owing to fall in production of hydrocarbons. Iran heavily depends on its services and industry sectors, which accounted for 45.3 percent and 44.5 percent of GDP, respectively. Agriculture value addition to Iran's GDP was a moderate 10.2 percent in 2007.

Iranian real GDP growth is likely to be held back by tougher sanctions, subsidy cuts and overall declining oil production. Real GDP growth is expected to reach 0.4 percent in 2012, as exports of crude are hit by tightening embargoes by the EU, with the Iranian authorities holding back oil production. Iran has a high per

Table 2.7: Select Macroeconomic Indicators of Iran, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	307.4	350.6	360.6	419.1	482.4	496.2	518.2
Real GDP Growth (%)	6.4	0.6	4.0	5.9	2.0	0.4	1.3
GDP Per Capita (US$)	4,297	4,830	4,896	5,608	6,360	6,445	6,630
Consumer Price Inflation (avg, %)	18.4	25.4	10.8	12.4	21.3	21.8	18.2
Population (mn)	71.5	72.6	73.7	74.7	75.9	77.0	78.2
Current Account Balance (US$ bn)	32.6	22.8	9.5	25.3	51.4	32.7	26.3
International Reserves (US$ bn)	82.1	96.6	81.3	75.1	79.9	69.9	66.9

Note: e- Estimates; f- Forecasts

Source: WEO, IMF, April 2012 and EIU

capita income of US$ 6,360 in 2011. Tight monetary policy and falling global commodity prices led overall CPI inflation to fall significantly from 25.4 percent in 2008 to 12.4 percent in 2010. Due to removal of subsidies, however, CPI inflation is estimated to have exceeded 21 percent in 2011.

On the external front, Iran's current account surplus increased from US$ 32.6 billion in 2007 to an estimated US$ 51.4 billion in 2011. Current account surplus is expected to narrow during 2012-13. Iran's external position will depend on oil prices being high enough to offset the difficulty in exports caused by sanctions. The non-merchandise deficit is expected to remain relatively steady. The Iranian rial (IR) is subject to volatility as Iranians seek to shift their savings into safer assets such as gold or the US dollar. Bank Markazi Jomhouri Islami Iran (the Central Bank of Iran) has changed around 15 percent of its foreign exchange reserve to gold stock in 2010-11. Bank Markazi announced a new official rate of IR 12,260: US$ 1 in mid-January 2012. However, there is a possibility of a continued depreciation from this level to an average of IR 14,996: US$ 1 by 2016-17 as Iran's access to foreign exchange continued to be limited due to ongoing sanctions. In 2011, total foreign exchange reserves of Iran stood at US$ 79.9 billion, with an import cover of over 15 months.

Financial Sector of Iran

Iran's financial system is the largest Islamic financial system in the world.

The financial sector plays a central role in Iran's growth strategy. Iranian banking is unique in that all banking activities have to follow Shari'a principles. According to Central Bank of Iran, Iran's banking sector consists of 28 institutions under five categories; three commercial government owned banks, five specialized government banks (agriculture, housing, export, mining, and industry), 17 non-government-owned banks, two Gharzolhasaneh banks and one near-bank. Capital market of Iran is also quite developed. Iran also has around 7,000 registered non-bank credit institutions. In the recent years, Iran has been improving banking practices, standards of information disclosure and corporate governance. Iran's equity markets have developed considerably over the past few years. Mutual funds are gaining prominence as a means to encourage secondary market activity. The seven largest private banks are listed on the stock exchange and are counted among the most actively traded stocks. Iran has two venues for listing and trading shares: the Stock TSE, and an OTC exchange for small and medium-sized enterprises. The Iran Mercantile Exchange (IME) actively trades spot contracts of agricultural commodities, metals, gold and petrochemicals.

SOUTH AFRICA

South Africa is the fifth-largest country in IOR-ARC and ninth-largest country in Africa, occupying a land area of 1.2 mn sq. km. It is located at the Southern tip of Africa, with Namibia, Botswana and Zimbabwe forming the northern border, Mozambique and Swaziland to the east, and Lesotho as an enclave surrounded by South Africa. It has one of the highest coastlines in the region with 2,798 kilometres on the Atlantic and Indian oceans.

In 2011, South Africa had an estimated population of 50.6 mn, which is the sixth-highest in IOR-ARC region. Urbanized population comprise 61.7 percent of total population. South Africa has a predominantly young population, with working population accounting for 65.2 percent of total population, indicating the potential for a better skilled and educated work force.

With a great diversity in climate, large range of crops are grown in South Africa. Total arable land is 11.8 percent of the total land, and around 67 percent is meadow and pasture. South Africa is well endowed with mineral resources. The country's mineral wealth is significant, with gold, platinum, coal, iron and diamonds being some of its key exports. Other important natural resources include reserves of aluminium, copper, feldspar, garnet, gypsum, ferro-alloys, manganese ore, phosphate rock, antimony, chromium, fluorspar, cobalt, lead, zinc, and uranium.

Domestic Economy

According to IMF, South Africa is the largest economy in Africa and twenty-ninth-largest in the world in terms of nominal GDP. Considered an upper middle income country by World Bank, South Africa has an estimated GDP of US$ 408.1 billion in 2011. South Africa is a service-oriented economy, with the sector accounting for around 66.7 percent of its GDP, followed by the industrial sector (30.8 percent) and agricultural sector (2.5 percent). South Africa has a comparative advantage in minerals and metals due to its rich natural resources. Mining activities accounted for 9.8 percent of GDP. The finance, real estate and business service was the largest contributor to GDP within the services sector, accounting for 21.2 percent of GDP.

In 2009, real GDP growth of South Africa declined to 1.5 percent due to continued contraction of domestic demand resulting from the impact of global financial crisis **(Table 2.8)**. However, the economy rebounded in 2010 to 2.9 percent growth resulting from the FIFA World Cup dividends, robust exports and increased activities in mining and manufacturing. The trend continued in 2011, when South African economy is estimated to have grown by 3.1 percent. The economy has not yet reached the pre-crisis levels as a surge in unemployment, high household debt, low capacity utilization, the slowdown in advanced economies, and substantial real

Table 2.8: Select Macroeconomic Indicators of South Africa, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	285.8	274.2	284.2	363.5	408.1	419.9	438.9
Real GDP Growth (%)	5.5	3.6	-1.5	2.9	3.1	2.6	3.3
GDP Per Capita (US$)	5,910	5,606	5,746	7,271	8,066	8,202	8,470
Consumer Price Inflation (avg, %)	7.1	11.5	7.1	4.3	5.0	5.7	5.3
Population (mn)	48.4	48.9	49.5	50.0	50.6	51.2	51.8
Current Account Balance (US$ bn)	-19.9	-19.6	-11.5	-10.2	-13.5	-20.2	-24.1
International Reserves (US$ bn)	32.9	34.1	39.7	43.8	48.9	54.5	55.3

Note: e-Estimates; f-Forecasts

Source: WEO, IMF, April 2012 & June 2012 update and EIU exchange rate appreciation hampering the full recovery of the economy. South Africa's close integration with developed economies of EU and the US has also hampered the economy from attaining its full potential. Tertiary sector grew consistently faster than overall GDP with higher growth in financial services, wholesale and retail trade and transport services.

The Government of South Africa has introduced strong stimulus packages including expansionary monetary and fiscal policies to counter the effects of global economic crisis. The GDP per capita is estimated to have increased to US$ 8,066 in 2011 from US$ 7,271 in 2010. Average inflation rose in 2011 to 5 percent and has remained well above the upper limit of the 3-6 percent range of the South African Reserve Bank, spurred by rising electricity prices and wage growth. Monetary policy of the South African Reserve Bank focuses mainly on inflation targeting.

The South African rand has appreciated in 2011 underpinned by strong foreign investment inflows and high commodity prices and inflows into local bonds. Also, the ongoing large interest rate differential of the country with rich-country markets has further strengthened the currency. However, South Africa's persistent current-account deficit, relatively high inflation and political uncertainty surrounding the 2014 elections are expected to weaken the rand in 2012. Current account deficit is estimated to have widened moderately to US$ 13.5 billion in 2011 (3.3 percent of GDP) from US$ 10.2 billion due to higher invisible deficits. South Africa's international reserves stood at US$ 48.9 billion in 2011, representing an import cover of 4.8 months.

Financial System

South Africa has a sophisticated financial sector with well-developed financial institutions. The banking sector of the country was relatively resilient during the global economic crisis. South African banks are well-capitalized and have little exposure to sub-prime debt or other sources of financial contagion. South Africa's banks are well capitalized and comply with international banking standards. Six of the 35 banks in South Africa are foreign-owned and 12 are branches of foreign banks. The "Big Four" (Standard, ABSA, First Rand, and Nedcor) dominate the sector; accounting for almost 85 percent of the country's banking assets, which total over US$ 240 billion. The South African Reserve Bank (SARB) regulates the sector according to the Bank Act of 1990. The Financial Services Board (FSB) governs South Africa's non-bank financial services industry. The FSB regulates insurance companies, pension funds, unit trusts (i.e., mutual funds), participation bond schemes, portfolio management, and the financial markets. The Johannesburg Stock Exchange (JSE) is the fourteenth largest exchange measured by market capitalization in the world. The Bond Exchange of South Africa (BESA) is licensed under the Financial Markets Control Act. Its membership includes banks, insurers, investors, stockbrokers, and independent intermediaries. The JSE acquired BESA in June 2009.

UAE

The UAE is a federation of seven emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al Khaimah, Sharjah and Umm Al-Quwain), located in the southeast of the Arabian Peninsula in Western Asia. The economy of UAE remains heavily dependent on the hydrocarbon sector despite the recent successes of the diversification efforts of some of the emirates, particularly Dubai. Underpinned by its oil wealth, the economy has grown at a steady pace, with its growth increasing from US$ 258.2 billion in 2007 to an estimated US$ 360.1 billion in 2011 **(Table 2.9)**.

While hydrocarbon remains the most important sector in the economy, the contribution of oil to GDP has been declining in the recent years, from about 60 percent in 1980 to 27 percent in 2011, reflecting UAE's economic diversification initiatives. Nevertheless, the figure understates the sector's real importance to the economy, as oil earnings are the central aspects of government income, with revenues determining the public-sector expenditure on which much of the non-oil economy directly or indirectly relies. Non-oil GDP has been a major driver of growth in recent years. The combination of government policy and enormous petrodollar wealth has transformed the economic landscape from seven small desert principalities to a modern state with a high standard of living, an advanced educational system and a cutting-edge infrastructure.

Real GDP of UAE grew by 4.9 percent in 2011, buoyed by the ongoing projects and a modest increase in oil production. UAE has the 5th highest per capita income in the world at US$ 67,008 in 2011, increasing from US$ 57,043 in 2010. Consumer price inflation increased by 0.9 percent in 2011 same as in the previous year on the back of increase in prices of sugar, grains and other basic commodities. Inflationary pressures are contained in part by the maintenance of the dirham's peg against the US dollar, which has helped to limit imported price growth. The central bank also monitors liquidity trends carefully and intervene to mop up excess liquidity as it sees fit.

Table 2.9: Select Macroeconomic Indicators of UAE, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	258.2	314.8	270.3	297.6	360.1	386.4	394.5
Real GDP Growth (%)	6.6	5.3	-3.3	0.9	4.9	2.3	2.8
GDP Per Capita (US$)	57,520	66,074	53,363	57,043	67,008	69,799	69,185
Consumer Price Inflation (avg, %)	11.1	12.3	1.6	0.9	0.9	1.5	1.7
Population (mn)	4.5	4.8	5.1	5.2	5.4	5.5	5.7
Current Account Balance (US$ bn)	17.7	24.8	9.1	9.1	33.3	40	40.9
International Reserves (US$ bn)	77.2	31.7	26.1	32.8	37.3	43.8	47.9

Note: e-Estimates; f-Forecasts

Source: WEO, IMF, April 2012 and EIU

According to the BP Statistical Review of World Energy in June 2012, the UAE accounted for around 5.9 percent of the world's proven oil reserves in 2011. Oil exports are the main driver of the economy, generating an overwhelming majority of the state's foreign exchange and government revenue. As a result of improved technology and ongoing exploration, recoverable reserves have more than doubled over the past decade. UAE typically exports around 88-95 percent of the oil it produces. At the end of 2011, UAE had an estimated gas reserve of 6.1 trillion cu metres, around 2.9 percent of the world's total. UAE is estimated to have total international reserves of US$ 37.3 billion in 2011, representing an import cover of 2.2 months in 2011.

Financial System

The Central Bank of the UAE is entrusted with the task of organizing banks in upgrading their management and to ensure their financial soundness. Banks in the UAE are divided into two major categories: Locally Incorporated Banks (23 banks) and Foreign Banks (28 banks) in 2011. There are also 10 foreign banks having representative offices in UAE. There are also 24 finance companies and 22 investment companies in UAE as on end 2011.

There are three principal financial markets in UAE- Abu Dhabi Securities Exchange (ADX), the Dubai Financial Market (DFM), and NASDAQ Dubai (previously known as the Dubai International Financial Exchange), mainly dealing with four types of securities; shares of UAE public companies, shares of foreign public companies, bonds and debenture instruments, and other types of securities approved by Emirates Securities and Commodities Authority (ESCA). In July 2010, NASDAQ Dubai outsourced its trading and other key operational functions for equities to Dubai Financial Market (DFM). The capital market of UAE is in a developed state, with Dubai trying to become a financial market hub for the Middle East, North Africa, and South Asia.

BANGLADESH

According to IMF, Bangladesh is the 60th largest economy in the world in 2011. Over the last decade, nominal GDP has more-than-doubled from US$ 47.2 billion in the year 2001 to US$ 113 billion in 2011.

In the early 1980's, Bangladesh's growth rate averaged around 4 percent but over the past five years (2007-11), it has averaged to over 6 percent. In spite of the recent global recession, Bangladesh's economy has shown resilience. In 2011, the economic growth was at 6.1 percent, underpinned by a steady expansion in private consumption and investment. The main determinants of private consumption growth were the performance of the agricultural sector and increase in remittances from Bangladeshis working overseas. Although the agricultural sector accounted for only around 18.6 percent of GDP in 2010, it continued to be the country's largest employer and the main source of income for around one-half of the working population. This sector grew by an average of 5.2 percent in 2010, compared with 4.1 percent in 2009. GDP per capita of Bangladesh more than doubled from US$ 329.4 in 2001 to US$ 678 in 2011 **(Table 2.10)**.

Higher prices for wheat and oil led to annual average inflation reaching 10.7 percent in 2011. Since May 2003, Bangladesh adopted a floating exchange rate regime. From mid-2009, Bangladesh Bank (central bank of Bangladesh) has mediated in the local currency market, by initially selling Taka and purchasing the US dollar so that an extreme appreciation in the value of Taka is prohibited, and subsequently buys the Taka in order to prohibit a sharp depreciation in its value. The Taka depreciated from Tk 69.70: US$ 1 in 2010 to Tk 74.15: US$ 1 in 2011. Historically international reserves of Bangladesh have been quite low. Bangladesh's total foreign exchange reserves rose significantly to US$ 10.3 billion in 2009, from US$ 5.8 billion in the previous year mainly due to increased remittances, and the injection of IMF's special drawing rights (SDR) into the country during the year. International reserves of Bangladesh increased further

Table 2.10: Select Macroeconomic Indicators of Bangladesh, 2007-2013

	2007	2008	2009	2010	2011[e]	2012[f]	2013[f]
Nominal GDP (US$ bn)	74.0	84.5	94.9	105.6	113.0	118.4	126.6
Real GDP Growth (%)	6.3	6.0	5.9	6.4	6.1	5.9	6.4
GDP Per Capita (US$)	469	528	585	642	678	701	739
Consumer Price Inflation (avg, %)	9.1	8.9	5.4	8.1	10.7	10.4	7.9
Population (mn)	157.8	160.0	162.2	164.4	166.7	169.0	171.4
Current Account Balance (US$ bn)	0.6	1.2	2.7	1.8	-0.5	-1.2	-0.8
International Reserves (US$ bn)	5.3	5.8	10.3	11.2	9.2	10.2	11.1

Note: e-Estimates; f-Forecasts

Source: WEO, IMF, April 2012 and EIU

to US$ 11.2 billion in 2010, before settling at US$ 9.2 billion in 2011.

Over the years, there has been a structural change in the economy of Bangladesh with the gradual increase in the importance of services and industrial sectors. Accordingly, while the shares of services and the industrial sectors in GDP increased from 49.2 percent and 25.3 percent, respectively, in 2000, to 53 percent and 28.5 percent, respectively, in 2010, the share of agriculture in GDP declined from 25.5 percent in 2000 to 18.6 percent in 2010.

Financial System

According to Bangladesh Bank (BB), the banking system of Bangladesh consists of Bangladesh Bank (BB) as the central bank, and 47 scheduled banks including 4 State Owned Commercial Banks (SCB), 4 government owned specialized banks, 30 private commercial banks, 9 foreign banks and 4 non-scheduled banks. There are also 31 Non-Bank Financial Institutions (FIs) operating in the country. The commercial banking system dominates the financial sector with limited role of Non-Bank Financial Institutions and the capital market. The Banking sector alone accounts for a substantial share of assets of the financial system. The Bank Company Act, 1991, empowers BB to issue licenses to carry out banking business in Bangladesh.

The primary segment of capital market of Bangladesh is operated through private and public offering of equity and bond instruments. The secondary segment of capital market is institutionalized by two stock exchanges-Dhaka Stock Exchange and Chittagong Stock Exchange. The instruments in these exchanges are equity securities (shares), debentures, corporate bonds and treasury bonds. The capital market in Bangladesh is governed by Securities and Commission (SEC).

Conclusion

Though IOR-ARC is a regional corporation which is more than a decade old, it remained largely inactive. As the only pan-Indian Ocean organisation, it is beyond doubt that the Association holds enormous untapped potential. With a population of more than 2 billion, the region is an attractive market. A higher level of integration among the member countries would help them to tackle their various problems by pooling in resources and sharing experiences. The revival of the Association to its full potential is important in solving a number of common problems affecting the Indian Ocean region including the latest piracy issues. Consolidation of economic ties among the member countries is very important for the achievement of charter objectives of the Association. This will not only enable IOR-ARC as an association to reckon with in the new changing world order, but will also make it more relevant in its efforts towards sustainable development by promoting trade and investment amongst the member countries. Thus, by forming a common binding platform, IOR-ARC can act as a catalyst to the comprehensive economic development of the member countries.

3 TRENDS IN INTERNATIONAL TRADE OF IOR-ARC MEMBER COUNTRIES

The Indian Ocean region is well endowed with natural resources, including strategic and precious minerals and metals and valuable marine resources ranging from fisheries to raw material and energy for industries. The Indian Ocean region holds two thirds of the world's oil reserves. The region also has abundant agricultural wealth in terms of the variety and mass of arable land and has significant human resources and technological capabilities. Most of the global energy trade crosses the Indian Ocean. The region also controls the major sea-lines of communication (SLOCs). IOR-ARC was formed to realize the potential of the Indian Ocean Rim countries through enhancing their trade and investment.

The importance of international trade as a growth facilitator has been recognized by IOR-ARC member countries, which is evident from their growth performances in the recent years. International trade of the IOR-ARC countries has witnessed a healthy growth in the recent years. Rise in both exports and imports of IOR-ARC countries have underlined this increase in the total trade of the region. During the last decade, total trade of the IOR-ARC grew at a CAGR of 14.1 percent, from US$ 1.1 trillion in 2001 to US$ 3.5 trillion in 2010 **(Chart 3.1 and Table 3.1)**. Exports increased from US$ 564.3 billion in 2001 to US$ 1,764.7 billion in 2010, growing at a CAGR of 13.5 percent. Similarly, imports increased from 507.6 billion in 2001 to US$ 1,748.5 billion in 2010, with a CAGR of 14.7 percent.

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. Though trade surplus moderated from US$ 56.7 billion in 2001 to US$ 16.1 billion in 2010, the fact that the region witnessed a trade surplus in the current depressed global demand highlights the strong fundamentals in most of the countries in the region.

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. Similarly, IOR-ARC member

Chart 3.1: Foreign Trade of IOR-ARC Region, 2001-2010 (US$ billion)

Source: DOTS, IMF

countries accounted for 11.8 percent of total world exports and 11.4 percent of total world imports during 2010.

The Association's contribution to global trade is much less compared to many other similar associations, given the abundant resources – both human and natural resources of the region, suggesting the need for a focused approach on enhancing the foreign trade of member countries, especially intra-IOR-ARC trade.

There also exists wide disparities in trade among member countries. For instance, the top four member countries together accounted for 57 percent of total trade of IOR-ARC region, and 6.6 percent of global trade in 2010 **(Table 3.2)**.

Singapore, Seychelles, Malaysia, UAE, Thailand and Mauritius are highly dependent on external sector, with high levels of trade openness ratio (Trade-GDP ratio), while

Table 3.1: Trends in IOR-ARC Trade, 2001-2010 (US$ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	564.3	582.4	692.1	851.0	1022.0	1211.8	1390.1	1680.0	1327.6	1764.7
Imports	507.6	529.3	624.6	824.7	998.1	1167.1	1383.1	1716.0	1378.8	1748.5
Total Trade	1071.9	1111.7	1316.7	1675.7	2020.1	2378.9	2773.2	3396.0	2706.4	3513.2
Trade Balance	56.7	53.1	67.5	26.2	23.8	44.7	6.9	-36.0	-51.1	16.1

Source: DOTS, IMF

Table 3.2: International Trade of IOR-ARC Economies, 2010 – Ranked by Value

Rank	Country	Value (US$ billion)			Share in IOR-ARC (%)		
		Exports	Imports	Total Trade	Exports	Imports	Total Trade
1	Singapore	353.6	310.9	664.5	20.0	17.8	18.9
2	India	223.2	328.7	551.9	12.6	18.8	15.7
3	Australia	211.8	194.7	406.5	12.0	11.1	11.6
4	Thailand	195.4	184.6	380.0	11.1	10.6	10.8
5	Malaysia	198.9	164.9	363.8	11.3	9.4	10.4
6	UAE	170.3	171.5	341.7	9.6	9.8	9.7
7	Indonesia	157.8	135.7	293.5	8.9	7.8	8.4
8	Iran	99.0	66.4	165.4	5.6	3.8	4.7
9	South Africa	77.9	81.2	159.1	4.4	4.6	4.5
10	Oman	32.5	21.5	54.0	1.8	1.2	1.5
11	Bangladesh	14.7	27.8	42.4	0.8	1.6	1.2
12	Sri Lanka	8.3	15.5	23.8	0.5	0.9	0.7
13	Kenya	5.2	14.9	20.1	0.3	0.9	0.6
14	Yemen	8.1	10.5	18.6	0.5	0.6	0.5
15	Tanzania	2.4	8.1	10.5	0.1	0.5	0.3
16	Mauritius	2.0	4.2	6.2	0.1	0.2	0.2
17	Mozambique	2.2	3.6	5.8	0.1	0.2	0.2
18	Madagascar	1.1	2.8	3.9	0.1	0.2	0.1
19	Seychelles	0.4	1.0	1.3	0.02	0.1	0.04
	Total IOR-ARC	**1764.7**	**1748.5**	**3513.2**	**100.0**	**100.0**	**100.0**
	Total World	**14,903.2**	**15,319.4**	**30,222.6**			
	Share of IOR-ARC (percent)	**11.8**	**11.4**	**11.6**			

Source: DOTS, IMF

Australia is the least open country in the IOR-ARC region in this respect, followed by Bangladesh and Indonesia **(Table 3.3).** Despite better trade openness ratio compared to 1997 (when IOR-ARC was formed), many of the member countries have a small trade openness ratio, indicating the scope to further increase trade especially within the Association.

Another important aspect of IOR-ARC trade is the huge difference in trade balance among the member countries. Although IOR-ARC as a region experienced trade surplus in

Table 3.3: Trade Openness of IOR-ARC Countries, 1990-2010

Country	1990	1997	2000*	2010**
Australia	31.9	37.7	40.7	39.9
Bangladesh	19.7	30.0	33.2	43.4
India	15.2	22.2	26.5	49.7
Indonesia	49.1	56.0	71.4	47.5
Iran	37.7	32.7	40.1	53.7
Kenya	57.0	54.1	53.3	65.4
Madagascar	44.6	51.8	68.7	81.6
Malaysia	147.0	185.7	220.4	176.8
Mauritius	137.1	127.8	123.3	116.3
Mozambique	44.2	38.0	53.5	71.3
Oman	74.8	88.6	90.5	94.1
Seychelles	129.2	142.2	159.6	224.3
Singapore	344.8	328.4	371.8	385.9
South Africa	43.0	48.0	52.8	54.9
Sri Lanka	68.2	80.1	88.6	52.5
Tanzania	50.1	41.9	33.5	63.8
Thailand	75.8	94.6	124.9	135.1
UAE	-	-	89.9	146.7
Yemen	29.4	81.4	75.4	65.1

Source: WDI 2012, World Bank

Note: '-' denotes not available; * - Data of UAE is for 2001; **- Data of Oman and Seychelles are for 2009 and Iran for 2007

2010, 12 member countries witnessed an unfavourable trade balance. India recorded the maximum trade deficit among these countries at US$ 105.5 billion in 2010, followed by Bangladesh (US$ 13.1 billion) and Kenya (US$ 9.7 billion). Among the 6 trade surplus countries, Singapore recorded the maximum trade surplus at US$ 42.7 billion, followed by Malaysia (US$ 34 billion) and Iran (US$ 32.6 billion) in 2010.

Direction and Composition of Exports

During the period 2006-2010, exports of IOR-ARC countries witnessed a healthy increase, growing at a CAGR of 9.9 percent though lower than CAGR of 16 percent during 2001-2005, but higher than the world's CAGR of exports of 5.6 percent during 2006-2010. The growth of exports of IOR-ARC countries for the period

2006-2010 was lower vis-à-vis that of 2001-2005 primarily due to decrease in international demand during the global financial crisis. India, Australia, Indonesia, Tanzania and Oman witnessed the highest export growth among IOR-ARC member countries during 2006-2010 **(Table 3.4)**.

Though most of the countries, except Australia and Indonesia, witnessed a fall in their growth rates during 2006-2010 compared to 2001-2005, only Madagascar, Mozambique and Mauritius witnessed a negative growth. Exports from IOR-ARC countries peaked at US$ 1.7 trillion in 2008, but declined by 20.6 percent in 2009. Bangladesh was the only IOR-ARC member country whose exports have not declined due to the crisis, but increased by 5.5 percent instead in 2009. Economies in IOR-ARC rebounded strongly in 2010, due to strong performances by all the member countries, especially UAE, Singapore, India and Australia.

As regards dynamics of exports, a notable change from 2005 to 2010 is the increasing share of India and Australia in IOR-ARC's total exports. 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 in 2010, with a higher export share of 12.6 percent in 2010. Other major exporters in 2010 included Australia, accounting for 12 percent of global exports of IOR-ARC region, Malaysia (11.3 percent of IOR-ARC exports), Thailand (11.1 percent) and UAE (9.6 percent).

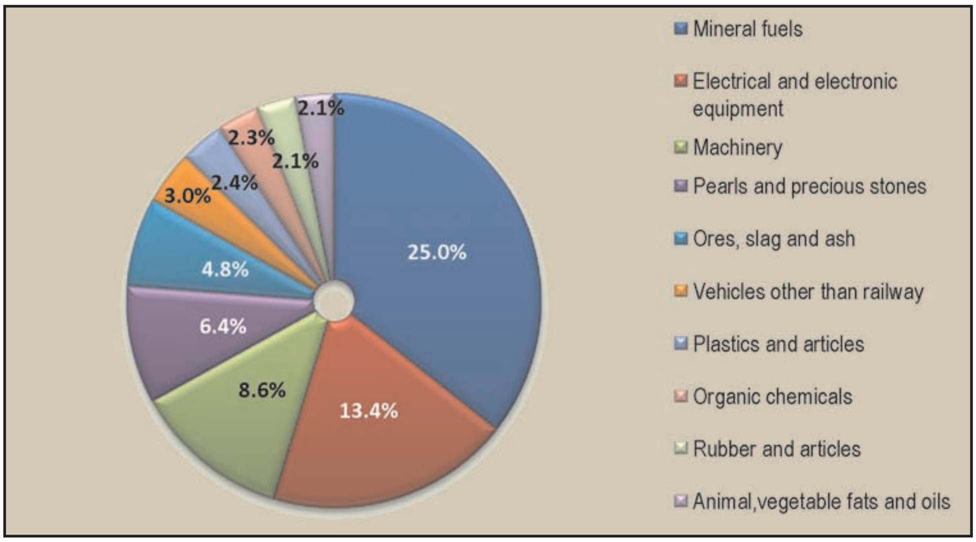
Commodity-wise analysis of exports from IOR-ARC member countries for the year 2010 as derived from Trade Map, ITC Geneva, shows that the top 4 export items represented over 53 percent of total exports in 2010, though lower than 55 percent share of the same commodities in 2005, indicating high export concentration of the region. Mineral fuels, oils, and distillation products continued to remain the largest export item of IOR-ARC countries, contributing 25 percent of the Association's total exports in 2010 (increasing from 23.3 percent in 2005), followed by electrical and electronic equipment (13.4 percent share in total exports), machinery and mechanical appliances (8.5 percent) and pearls and precious stones (6.4 percent). Further analysis revealed that the composition of the top 10 export items has changed, with 2 new items making it to the list in 2010 as compared to the list of exports in 2005. Rubber and articles, and animal, vegetable fats and oils with 1.6 percent shares each, replaced

Table 3.4: Trends in Exports of IOR-ARC Countries (Ranked on the basis of 2006-2010 CAGR)

	Value (US$ mn)				CAGR (Percent)	
	2001	2005	2006	2010	2001-2005	2006-2010
India	45,513	98,212	120,550	223,179	21.2	16.6
Australia	63,399	105,222	121,934	211,814	13.5	14.8
Indonesia	56,318	85,660	100,842	157,791	11.1	11.8
Tanzania	774	1,495	1,534	2,395	17.9	11.8
Oman	10,681	18,462	21,462	32,482	14.7	10.9
Thailand	65,113	110,160	130,556	195,360	14.0	10.6
South Africa	29,510	51,567	52,443	77,883	15.0	10.4
UAE	39,879	96,331	118,573	170,259	24.7	9.5
Kenya	1,873	3,448	3,776	5,169	16.5	8.2
Iran	24,337	55,219	75,764	99,010	22.7	6.9
Singapore	121,826	229,708	272,549	353,644	17.2	6.7
Bangladesh	5,736	8,494	11,623	14,666	10.3	6.0
Malaysia	88,201	140,980	160,659	198,945	12.4	5.5
Sri Lanka	4,722	6,384	6,883	8,346	7.8	4.9
Yemen	3,370	5,611	6,691	8,062	13.6	4.8
Seychelles	152	424	354	356	29.2	0.1
Madagascar	674	848	1,116	1,100	5.9	-0.4
Mozambique	704	1,745	2,381	2,243	25.5	-1.5
Mauritius	1,525	2,001	2,111	1,956	7.0	-1.9
Total IOR-ARC	**564,307**	**1,021,971**	**1,211,800**	**1,764,660**	**16.0**	**9.9**
Global Exports	**6,139,500**	**10,376,800**	**11,987,400**	**14,903,200**	**14.0**	**5.6**
Share of IOR-ARC	**9.2**	**9.8**	**10.1**	**11.8**		

Source: DOTS, IMF

Chart 3.2: Top Export Items of IOR-ARC Member Countries, 2010



Source: Trade Map, ITC Geneva

articles of apparel, accessories, not knit or crochet and iron steel in 2010.

As regards mineral fuels, UAE supplied 20 percent of IOR-ARC's total exports of mineral fuels in 2010, lower than 21.1 percent share in 2005. Iran was the second largest supplier of mineral fuels, contributing 14.5 percent of total mineral fuels exports of IOR-ARC region. Other major exporters of mineral fuels in 2010 include Australia (13.8 percent), Singapore (13.1 percent) and Indonesia (10.8 percent).

In the case of electrical and electronic equipment, Singapore was the major exporter, contributing more than half of IOR-ARC's exports of the commodity (51.3 percent) in 2010. Other major exporters of electrical and electronic equipment in 2010 include Malaysia, accounting for 24.1 percent of total exports of electrical and electronic equipment, Thailand (12.5 percent), Indonesia (4.5 percent) and India (3.8 percent).

The major exporters of machinery and mechanical appliances include Singapore (36.4 percent of exports), Thailand (22.6 percent), Malaysia (20.1 percent), India (5.5 percent) and UAE (4.2 percent). Australia, South Africa, India, Indonesia and Iran were the major exporters of ores, slag and ash in 2010. In case of pearls and precious stones, majority of exports

Table 3.5: Trends in Imports of IOR-ARC Countries (Ranked on the basis of 2006-2010 CAGR)

	Value (US$ mn)				CAGR (Percent)	
	2001	2005	2006	2010	2001-2005	2006-2010
Indonesia	30,961	57,714	61,073	135,691	16.8	22.1
Oman	5,797	8,827	10,897	21,534	11.1	18.6
Tanzania	1,780	3,564	4,258	8,072	18.9	17.3
India	59,151	139,888	176,669	328,731	24.0	16.8
Bangladesh	9,012	13,851	16,096	27,771	11.3	14.6
Kenya	3,693	6,874	8,784	14,947	16.8	14.2
Iran	17,690	38,904	40,686	66,395	21.8	13.0
Sri Lanka	5,731	8,863	10,253	15,498	11.5	10.9
Australia	60,779	119,067	133,273	194,695	18.3	9.9
UAE	29,608	101,305	118,486	171,473	36.0	9.7
Thailand	62,057	118,143	130,605	184,630	17.5	9.0
Yemen	2,466	4,800	7,933	10,489	18.1	7.2
Singapore	116,020	200,197	238,799	310,885	14.6	6.8
Malaysia	73,358	113,619	130,487	164,857	11.6	6.0
Mozambique	1,063	2,467	2,914	3,564	23.4	5.2
South Africa	25,236	54,230	67,983	81,239	21.1	4.6
Seychelles	470	764	842	994	12.9	4.2
Mauritius	1,996	3,165	3,640	4,236	12.2	3.9
Madagascar	749	1,908	3,451	2,824	26.3	-4.9
Total IOR-ARC	**507,617**	**998,150**	**1,167,128**	**1,748,525**	**18.4**	**10.6**
Global Imports	**6,381,200**	**10,742,800**	**12,327,700**	**15,319,400**	**13.9**	**5.6**
Share of IOR-ARC	**8.0**	**9.3**	**9.5**	**11.4**		

Source: DOTS, IMF

in 2010 were made by India, South Africa, Australia, Thailand and UAE.

Sources and Composition of Imports

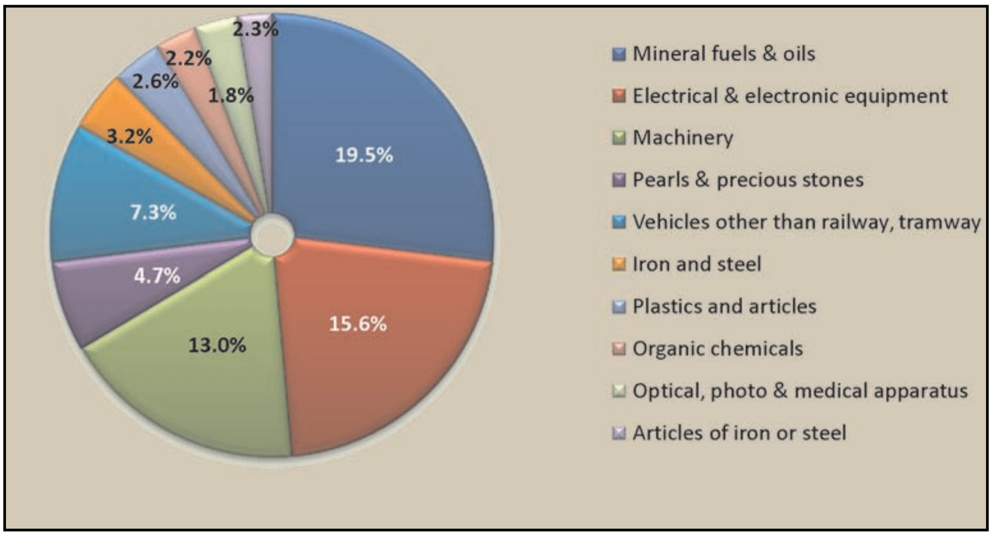
Imports of IOR-ARC countries witnessed a gradual increase during 2006-2010, growing at a CAGR of 10.6 percent, though lower than CAGR of 18.4 percent during 2001-2005, but higher than the world's CAGR of 5.6 percent during the same period. Indonesia, Oman, Tanzania, India and Bangladesh witnessed the highest import growth among IOR-ARC member countries during 2006-2010 **(Table 3.5).**

Most of the member countries of IOR-ARC maintained their high import appetites during 2006-2010. Eight member countries witnessed a double digit CAGR during this period. Though import growth of majority of the countries has decreased compared to 2001-2005, only Madagascar witnessed a decline in imports (a negative CAGR of 4.9 percent) during 2006-2010. India continued to remain as the major importer in the region, accounting for 18.8 percent of total imports of the IOR-ARC region in 2010 (up from 14 percent share in 2005). Singapore was the second largest importer among the member countries, contributing 17.8 percent of total imports in 2010, followed by Australia (11.1 percent of total imports), Thailand (10.6 percent), UAE (9.8 percent) and Malaysia (8.4 percent). The top four countries together accounted for around 58 percent of total imports to the region. The share of IOR-ARC region in global imports has also gone up from 8 percent in 2001 to 11.4 percent in 2010.

Similarly, mineral fuels and oils accounted for 19.5 percent of total imports of the region in 2010, higher than 16.6 percent witnessed in 2005. Other major import items of the region in 2010 include electrical and electronic equipment, contributing 15.6 percent of total imports of the region, machinery (13 percent of total imports), pearls and precious stones (7.3 percent), vehicles other than railway, tramway (4.7 percent) and iron and steel (3.2 percent). The top ten commodities accounted for over 72 percent of total imports of the region in 2010. The top ten import commodities of the region in 2010 remain the same as in 2005, though there is a shift in their share. For instance, in 2005 electrical and electronic equipment was the major import item of IOR-ARC region, accounting for 18.7 percent of total imports of the region, but was replaced by mineral fuels in 2010.

Country-wise analysis shows that India continued to remain the major

Chart 3.3: Top Import Items of IOR-ARC Member Countries, 2010



Source: Trade Map, ITC Geneva

importer of mineral fuels in 2010, accounting for 33.2 percent of total imports of the region, up from 28.6 percent in 2005. Other major importers of mineral fuels in 2010 included Singapore (24.3 percent of imports of mineral fuels), Thailand (9.5 percent), Indonesia (8.2 percent), Australia (7.8 percent), and Malaysia (4.9 percent).

In the case of electrical and electronic equipment, Singapore was the major importer of the region in 2010, contributing 32.2 percent of total imports. Other major importers of the same product in 2010 include Malaysia (19.1 percent of total imports), Thailand (12.3 percent), India (9.5 percent), Australia (7.6 percent) and UAE (6.7 percent). Singapore accounted for 21.1 percent of total imports of machinery and mechanical appliances to the region in 2010, followed by Australia (12.6 percent), India (12.5 percent), Thailand (11 percent), Malaysia (9.6 percent) and UAE (9.1 percent). India, UAE, Thailand, Singapore and Australia were the major importers of pearls and precious stones in 2010. Imports of vehicles other than railway and tramway was dominated by Australia, UAE, Thailand, South Africa and Indonesia in 2010.

INTRA – IOR-ARC TRADE

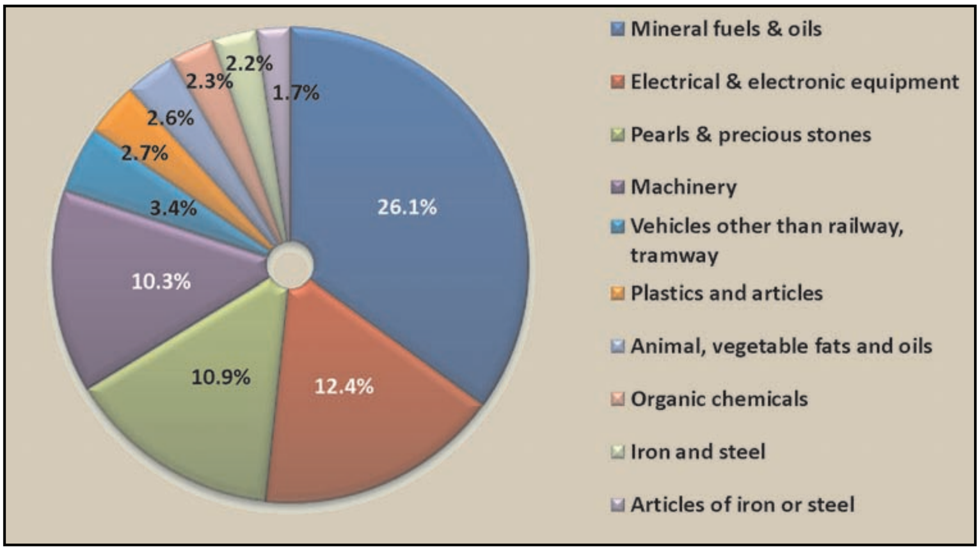
Total intra-regional trade of IOR-ARC member countries crossed US$ 1 trillion in 2010, from US$ 506.5 billion in 2005, growing at a CAGR of 14.6 percent. During 2010, total intra-IOR-ARC exports amounted to US$ 513.1 billion which was 29.1 percent of the total exports that originated from these countries. Similarly, intra-IOR-ARC imports aggregated to US$ 490.1 billion, 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 of total intra IOR-ARC exports), 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 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 the global trade of member countries in 2010.

However, as is evident from **Table 3.6**, there is wide variance among countries in terms of their trade dependence with other member economies. Tanzania was the country with the maximum trade dependence with the IOR-ARC members with as much as 40.2 percent of its total trade in 2010. Other member economies which had high trade dependence with IOR-ARC members included Mozambique, Sri Lanka, UAE, Mauritius, Yemen and Oman. All these countries had more than one-third of their international trade with other IOR-ARC members in 2010. In 2005, Mozambique was the largest intra-trade dependent country, followed by Sri Lanka, Tanzania and Singapore. In the case of exports, Yemen and UAE had the maximum export dependence within the region in 2010 which can be mainly attributed to their crude oil exports. Other member countries which highly depend on IOR-ARC members countries for their exports include Singapore, Oman, Malaysia and India. In 2005, Singapore was the largest intra-IOR-ARC export dependent country, followed by Yemen, Malaysia, Oman, India and UAE. In 2010, Sri Lanka replaced Mozambique as the largest import dependent country on other IOR-ARC member countries, with its imports from other members accounting for more than half of its total imports. Other member economies with high import dependence with IOR-ARC members included Mozambique, Tanzania, Mauritius and Iran.

Product-wise analysis of intra-IOR-ARC exports shows that the top ten

Chart 3.4: Top Intra-IOR-ARC Exports, 2010



Source: Trade Map, ITC Geneva

intra-export items continued to remain the same in 2010 as in 2005, even though their shares and ranks have changed. The top ten export items together accounted for 75 percent of total intra-IOR-ARC exports 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 **(Chart 3.4)**. 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, higher from 25 percent in 2005 **(Chart 3.5).** Similarly, in 2010, the top ten import commodities remain the same as in 2005, together accounting for more than three-fourths of total intra-regional imports.

INTERNATIONAL TRADE OF SELECT IOR-ARC MEMBER COUNTRIES

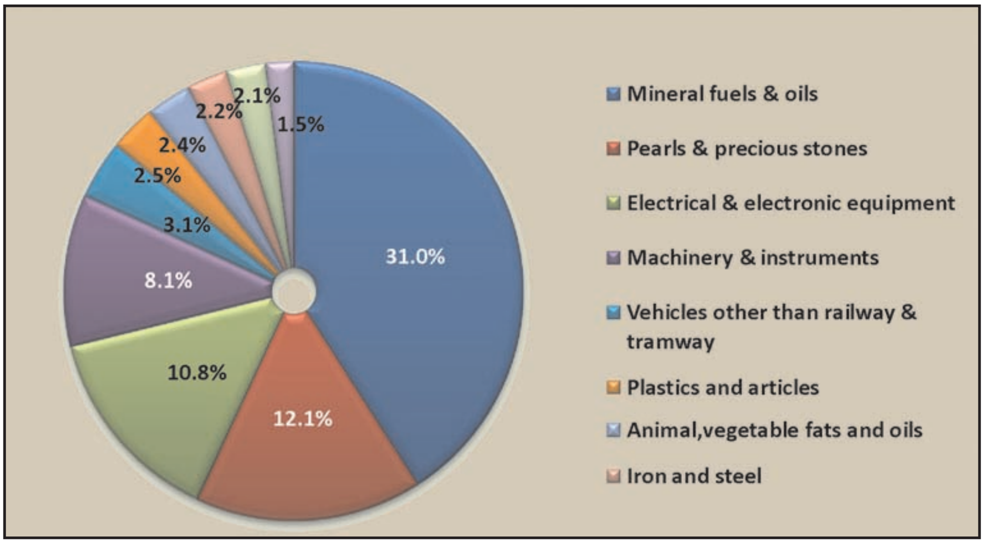
Foreign trade of select IOR-ARC member countries is analyzed in this section.

Table 3.6: Intra-IOR-ARC Trade: 2005 vs 2010 (Values in US$ mn)

Country	2005									2010								
	Exports to World	Exports to IOR-ARC	Share of IOR-ARC (%)	Imports from World	Imports from IOR-ARC	Share of IOR-ARC (%)	Trade with World	Trade with IOR-ARC	Share of IOR-ARC (%)	Exports to World	Exports to IOR-ARC	Share of IOR-ARC (%)	Imports from World	Imports from IOR-ARC	Share of IOR-ARC (%)	Trade with World	Trade with IOR-ARC	Share of IOR-ARC (%)
Australia	105,222	19,728	18.7	119,067	20,425	17.2	224,289	40,153	17.9	211,814	38,096	18.0	194,695	38,509	19.8	406,509	76,605	18.8
Bangladesh	8,494	341	4.0	13,851	4,352	31.4	22,345	4,693	21.0	14,666	846	5.8	27,771	9,614	34.6	42,437	10,460	24.6
India	98,212	25,597	26.1	139,888	22,823	16.3	238,100	48,420	20.3	223,179	68,967	30.9	328,731	87,349	26.6	551,910	156,316	28.3
Indonesia	85,660	21,143	24.7	57,714	19,440	33.7	143,374	40,583	28.3	157,791	46,671	29.6	135,691	45,761	33.7	293,482	92,432	31.5
Iran	55,219	5,570	10.1	38,904	9,867	25.4	94,123	15,437	16.4	99,010	18,808	19.0	66,395	27,304	41.1	165,405	46,112	27.9
Kenya	3,448	467	13.5	6,874	2,218	32.3	10,322	2,685	26.0	5,169	929	18.0	14,947	5,731	38.3	20,116	6,660	33.1
Madagascar	848	67	7.9	1,908	368	19.3	2,756	435	15.8	1,100	106	9.6	2,824	733	26.0	3,924	839	21.4
Malaysia	140,980	45,639	32.4	113,619	29,112	25.6	254,599	74,751	29.4	198,945	64,831	32.6	164,857	47,809	29.0	363,802	112,640	31.0
Mauritius	2,001	365	18.2	3,165	1,033	32.6	5,166	1,398	27.1	1,956	349	17.8	4,236	1,894	44.7	6,192	2,243	36.2
Mozambique	1,745	334	19.1	2,467	1,311	53.1	4,212	1,644	39.0	2,243	562	25.0	3,564	1,683	47.2	5,807	2,245	38.7
Oman	18,462	5,373	29.1	8,827	3,398	38.5	27,289	8,771	32.1	32,482	10,806	33.3	21,534	8,349	38.8	54,016	19,155	35.5
Seychelles	424	28	6.5	764	223	29.2	1,188	251	21.1	356	71	20.0	994	273	27.4	1,350	344	25.5
Singapore	229,708	82,787	36.0	200,197	57,039	28.5	429,905	139,826	32.5	353,644	123,183	34.8	310,885	86,300	27.8	664,529	209,483	31.5
South Africa	51,567	6,816	13.2	54,230	7,642	14.1	105,797	14,458	13.7	77,883	13,067	16.8	81,239	15,632	19.2	159,122	28,699	18.0
Sri Lanka	6,384	1,069	16.7	8,863	4,353	49.1	15,247	5,422	35.6	8,346	1,245	14.9	15,498	7,938	51.2	23,844	9,182	38.5
Tanzania	1,495	302	20.2	3,564	1,468	41.2	5,058	1,770	35.0	2,395	591	24.7	8,072	3,622	44.9	10,468	4,213	40.2
Thailand	110,160	25,431	23.1	118,143	30,699	26.0	228,303	56,130	24.6	195,360	48,398	24.8	184,630	43,940	23.8	379,990	92,338	24.3
UAE	96,331	24,447	25.4	101,305	21,905	21.6	197,636	46,352	23.5	170,259	72,069	42.3	171,473	54,490	31.8	341,732	126,559	37.0
Yemen	5,611	1,907	34.0	4,800	1,399	29.1	10,411	3,306	31.8	8,062	3,460	42.9	10,489	3,138	29.9	18,551	6,599	35.6

Source: Derived from DOTS, IMF and Exim Bank Research

Chart 3.5: Top Intra-IOR-ARC Imports, 2010



Source : Trade Map, ITC Geneva

SINGAPORE

In terms of international trade and foreign investment, Singapore is one of the most open, and most competitive country in the world. Singapore ranked 1st in World Bank's Ease of Doing Business and World Economic Forum's 'Global Enabling Trade Index 2010' as the economy that is most open to trade. It has one of the best domestic and foreign market access, most efficient customs administration and import-export procedures, best quality of transport infrastructure, and best regulatory environment. Singapore is the largest exporter and second largest importer among IOR-ARC member countries. Singapore was the 14th largest global exporter and 15th largest global importer in 2010. Singapore has bilateral trade agreements with most of the countries and has foreign trade agreements (FTA) with a number of countries and associations.

Singapore is a global trade hub, and is generally considered as a re-export destination. Singapore's liberal import regime consists of only a few restrictive measures based mainly on environmental, health, and public security concerns, with the exception of rice, which is subject to import licensing for reasons of ensuring food security and price stability. With the exception of alcohol products subject to specific rates of duty, Singapore has an applied MFN tariff of zero percent; although the overall simple average bound tariff rate was 9.9 percent in

2010. Ministry of Trade and Industry, Singapore is responsible for trade policy related aspects of Singapore.

Singapore's liberal trade policy and pro-business climate is responsible for the continuous increase of foreign trade of the country. Total foreign trade of the country has grown by a CAGR of 12.1 over the period 2001-2010. Total Trade has increased from US$ 238 billion in 2001 to US$ 659 billion in 2008, before declining by 21.6 percent to US$ 517 billion in 2009. The country rebounded in 2010 in line with the improved international demand and the total trade has increased by 28.5 percent to reach US$ 665 billion, higher than its pre-crisis trade level **(Chart 3.6)**. Similarly, exports and imports have increased by a CAGR of 12.6 percent and 11.6 percent to reach US$ 354 billion and US$ 311 billion in 2010. At present Singapore accounts for more than one-fifth of total exports of IOR-ARC. Singapore is structurally a trade surplus country with its trade surplus touching US$ 43 billion in 2010.

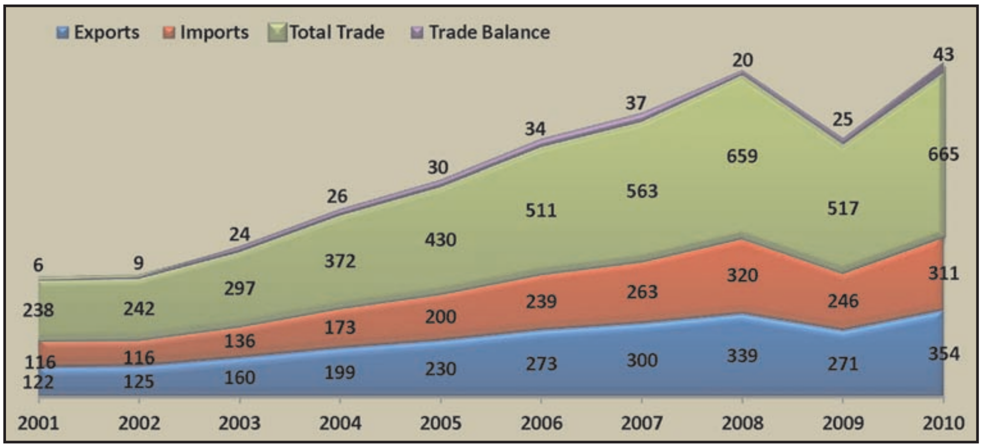
Malaysia, the traditional export destination continued to be the leading export destination of Singapore in 2010, accounting for 11.9 percent of total exports of the country. Other major export destinations in 2010 include Hong Kong (11.7 percent of exports), China (10.3 percent), Indonesia (9.4 percent), the US (6.5 percent), Japan (4.7 percent), Republic of Korea (4.1 percent) and India (3.8 percent).

At two digit HS-code level, electrical and electronic equipment continued to remain the major export item of Singapore accounting for 33.7 percent of total exports of the country in 2010. Other major export items of Singapore include mineral fuels, oils and distillation products (16.1 percent of Singapore's total exports), machinery and instruments (15.4 percent), organic chemicals (4.2 percent), plastics and articles (3.2 percent), optical, photo, technical, and medical apparatus (2.8 percent), pearls, precious stones and metals (2.2 percent) and pharmaceutical products (1.5 percent). The top three export items together accounted for more than 65 percent of total exports of the country in 2010.

Similarly, Malaysia is the leading import source of Singapore, accounting for 11.7 percent of total imports of the country in 2010. Malaysia was followed by the US (11.5 percent of total imports), China (10.8 percent), Japan (7.9 percent) and Taiwan (6.4 percent). India accounted for 3 percent of total imports of Singapore in 2010.

In 2010, electrical equipment was the major import item of Singapore, contributing 27.8 percent of total imports of the country, followed by

Chart 3.6: Trends in Trade Performance of Singapore, 2001-2010 (US$ billion)



Source: DOTS, IMF and Exim Bank Research

mineral fuels (26.1 percent of total imports), machinery (15.1 percent), optical and medical apparatus (2.7 percent) and pearls and precious stones (2.6 percent).

AUSTRALIA

Australia is the third largest exporter and importer among IOR-ARC member countries, after Singapore and India, accounting for 12 percent of total exports and 11.1 percent of total imports of the region. The Department of Foreign Affairs and Trade is responsible for the Australian Government's international relations, trade and development assistance programs. Australia is among the top producers and exporters of most mineral ores. It has the world's greatest reserves of numerous strategic resources such as uranium, of which it has around one-fourth of the world's proven reserves. The country is currently experiencing the biggest resource boom since the gold rush in the 1850s, with the discovery of iron ore, coal and natural gas. The country is becoming more and more dependent on Asian economies, with China and Japan becoming the two major trading partners of the Country. Australia has 6 existing Free trade Agreements with important trading partners and is in negotiations and discussions for further agreements with a number of countries. The average MFN import duty of the country was 2.8 percent in 2010.

Total international trade of the country grew at a CAGR of 14.1 percent from US$ 124.2 billion in 2001 to US$ 406.5 billion in 2010 **(Chart 3.7)**.

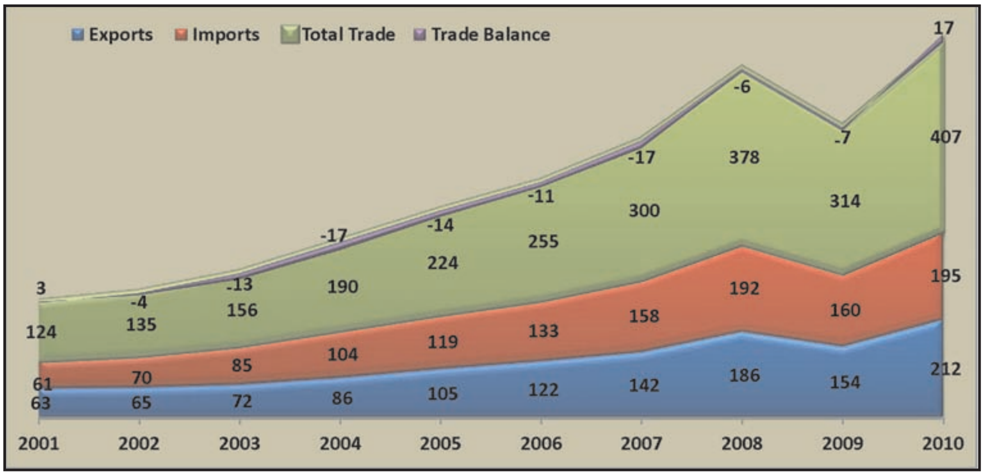
Australia's external trade is characterized by a structural trade deficit. For the first time since 2002, country experienced a trade surplus of US$ 17.1 billion in 2010, supported by the increased demand for minerals especially iron ore and coal from fast-growing Asian economies including China and India. The increase in exports has compensated for the high imports of the country which are stimulated by a strong Australian dollar.

Australia's exports grew by a CAGR of 14.3 percent to US$ 211.8 billion in 2010 from US$ 63.4 billion in 2001. The surge in exports was led mainly by strong demand and firm prices for metal ores, minerals and coal by developing countries especially China and India. Rich in natural resources, Australia is a major exporter of agricultural products, particularly wheat and wool, minerals such as iron-ore and gold, and energy in the form of liquefied natural gas and coal. Mineral fuels, oils and distillation products were the major export items of Australia in 2010, accounting for 28.9 percent of total exports of the country, up from 25.6 percent in 2005. Other principal export items in 2010 included ores, slag and ash (27 percent of total exports), pearls and precious stones (6.7 percent), meat and edible meat offal (2.9 percent), inorganic chemicals, precious metal compound, isotopes (2.5 percent), machinery (2.4 percent) and cereals (2.2 percent). The top export items of the country remains the same as in 2005.

China replaced traditional export partner Japan as the major export destination of Australia in 2008. In 2010, China accounted for 25.3 percent of total exports of the country, increasing from 11.6 percent share in 2005. China was followed by Japan (18.9 percent of total exports), Republic of Korea (8.9 percent), India (7.1 percent), the US (4 percent), Taiwan (3.6 percent) and the UK (3.6 percent) in 2010.

Similarly, total imports of Australia increased at a CAGR of 13.8 percent over the decade to reach US$ 194.7 billion in 2010, from US$ 60.8 billion in 2001. Traditionally, Australia is a finished goods importer with huge imports of machinery and transport equipment, computers and office machines and telecommunication lasers. At two digit HS-code level, machinery was the major import item of Australia, accounting for 14.9 percent of total Australian imports. Machinery remains Australia's major import throughout the last decade. Other major import items in 2010 include mineral fuels (13.7 percent), vehicles other than railway or tramway (12.7 percent), electrical and electronic equipment (10.7 percent), pharmaceutical products (4.4 percent) and pearls and precious stones (4.3 percent).

Chart 3.7: Trends in Trade Performance of Australia, 2001-2010 (US$ billion)



Source: DOTS, IMF and Exim Bank Research

China continued to remain the major import source of Australia in 2010, contributing 18.7 percent of total imports in 2010, up from 13.7 percent in 2005. Other major import sources in 2010 include the US (11.1 percent of total imports), Japan (8.7 percent), Thailand (5.2 percent), Singapore (5.1 percent), Germany (5 percent) and Malaysia (4.3 percent). The share of India in Australia's imports remained more or less the same at 0.9 percent in 2010, up from 0.8 percent in 2005 and 0.7 percent in 2001.

IRAN

Iran is one of the world's major oil exporters, with hydrocarbon related exports accounting for around three-fourth of total export revenue. Iran is a founding member of the Organization of the Petroleum Exporting Countries (OPEC) and the Organization of Gas Exporting Countries. Iran has 12.7 percent of world's proven oil reserves, and is the world's fourth largest oil producer and OPEC's second-largest producer after Saudi Arabia. Since the economy heavily depends on hydrocarbon exports and dominated by the oil industry, economic growth and export revenue is strongly influenced by oil market developments. The country is trying to diversify its exports with the result of increase in the non-oil export revenues in the recent years, but oil is still the most important Iranian export commodity internationally. Although Iran has vast petroleum reserves, the country has insufficient refining capacity and imports gasoline to meet its domestic energy needs.

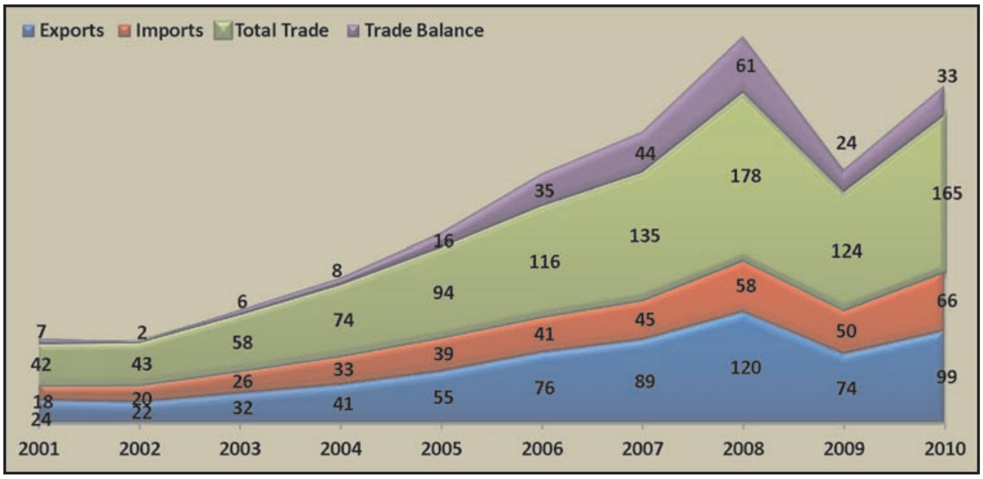
The Ministry of Commerce, Iran is responsible for the regulation and implementation of policies applicable to domestic and foreign trade of the country. There is also a Trade Promotion Organization affiliated to the Ministry of Commerce, which is in charge of promoting non-oil exports in Iran.

Iran's international trade accounts for around 50 percent of the country's GDP. Iran's total trade increased over four-fold during 2001-2008, from US$ 42 billion to US$ 177.9 billion, aided by growth in both exports and imports. Total trade declined in 2009, mainly reflecting sharp fall in export demand, before picking up to US$ 165.4 billion in 2010 **(Chart 3.8)**. Iran is structurally a trade surplus country, supported by huge oil exports revenues. Total trade surplus of the country has increased from US$ 6.6 billion to US$ 32.6 billion in 2010, but is yet to reach the pre-crisis level of surpluses.

Iran's total exports in 2010 stood at US$ 99 billion, as against US$ 24.3 billion in 2001, mainly on account of increase in exports of oil, organic chemicals, plastics and ores. Mineral fuels and oils remain the main foreign exchange earner for Iran, despite attempts to diversify, which have been prevented by low levels of foreign investment. Crude petroleum oil is the key exported item under this category accounting for over 55 percent of total mineral fuels and oils exported. Although still accounting for around three-fourth of total exports, share of mineral fuels and oils in Iran's exports has decreased in the recent years from 86.7 percent in 2005 to 74.8 percent in 2010. Petrochemicals are expected to represent an increasing share of exports in the medium term. However, despite the government's attempt to significantly increase gas exports, growth has been curtailed by rising domestic consumption, which is likely to outgrow increases in production in the short to medium term. The imposition of sanctions over Iran's refusal to suspend its nuclear programme has impacted exports (other than hydrocarbons), as banks from western countries refuse to extend trade-credit facilities or transfer funds to Iranian banks.

Mineral fuels and oils were followed by organic chemicals (3.5 percent of total exports), plastics and articles (3.4 percent), edible fruits and nuts (2.8 percent), ores, slag and ash (1.5 percent) and carpets and other textile floor coverings (1 percent). Taiwan was the major export destination of Iran in 2010, accounting for 43.5 percent of total exports of the country. Taiwan's share in Iran's exports witnessed a sharp increase from 10.2 percent in 2005, mainly due to increased mineral fuels and oils exports to the country. Other major export destinations

Chart 3.8: Trends in Trade Performance of Iran, 2001-2010 (US$ billion)



Source: DOTS, IMF and Exim Bank Research

of Iran in 2010 were Iraq (5.5 percent of total exports), China (5.3 percent), UAE (4.2 percent) and India (2 percent). India's share in Iran has seen an improvement over the last decade from 0.8 percent in 2001 to 1.1 percent in 2005 and 2 percent in 2010, due to increased oil exports to the country.

Iran's imports also increased over three-fold from US$ 17.7 billion in 2001 to US$ 66.4 billion in 2010, driven by higher imports of machinery and instruments, iron and steel, electrical and electronic equipments, vehicles other than railways, cereals and plastics. Machinery and related products were the largest items in Iran's import basket in 2010, with a share of 21.2 percent in the country's total imports. Other major import items in 2010 include iron and steel (14.1 percent), electrical and electronic equipment (5.5 percent), vehicles (4.5 percent), cereals (4.2 percent), plastics and articles (4 percent), and articles of iron or steel (3.4 percent).

UAE was the primary import source of Iran, contributing 28.6 percent of total import needs of the country. The share of UAE in Iran's imports have undergone a vast increase from 9.2 percent in 2001 to 18.8 percent in 2005 and to 28.6 percent in 2010, mainly because of its supply of machinery and related products. Other major import sources include China (10.4 percent of total imports), Germany (8.2 percent), Republic of Korea (6.7 percent), Turkey (4.2 percent), Switzerland (3.9 percent), France (3.6 percent) and Italy (3.3 percent).

SOUTH AFRICA

South Africa is the largest economy in Africa. The nation emerged from Apartheid and reentered the global economy in 1990s. With the aim of establishing a fast growing economy, the government of South Africa unveiled its ‘Growth, Employment, and Redistribution’ (GEAR) strategy in 1995. To achieve the necessary growth, GEAR emphasized the need for a “transformation towards a competitive outward-oriented economy” and accordingly, trade liberalization has been one of the central policies of South Africa’s development strategy. In line with WTO commitments, South Africa adapted various trade liberalization, tariff rationalization and tariff reduction measures. In line with the Common External Tariff (CET) of the SACU, South Africa’s average MFN applied tariff is 7.7 percent.

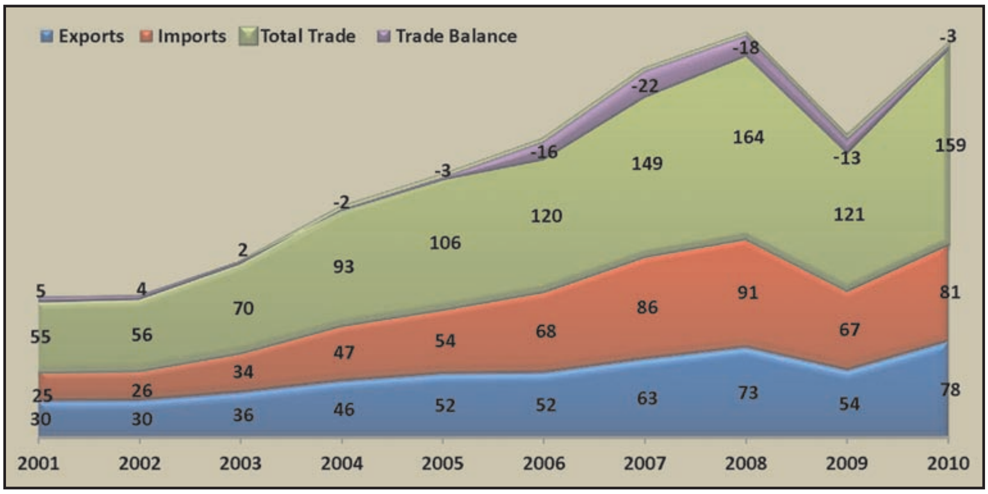
Department of Trade and Industry (DTI) is responsible for trade policy related aspects of South Africa. The Trade and Investment South Africa (TISA) department of DTI aims to increase export capacity and support direct investment flows via the implementation of strategies directed at targeted markets, and effectively manage the DTI’s network of foreign trade offices. The country is also a member of SACU and SADC which played a greater role in enhancing trade promotion among the member nations as well as other countries. The country has entered into comprehensive FTAs with EU and SADC and preferential trade agreement with MERCOSUR.

South Africa’s trade is heavily dependent on the nation’s natural resources and highly liberal trade incentives of the government. It has a comparative advantage in terms of cheap energy and other natural resources. South Africa ranked 50th in the Global Competitiveness Report 2011-12, up by 4 positions from its 2010-11 rank. Net gold exports of the country have shown a remarkable increase in the recent days on the back of a strong demand from China and India as well as high gold prices.

South Africa’s total trade has grown at a CAGR of 12.6 percent in the last decade, from US$ 54.7 billion in 2001 to US$ 163.5 billion in 2008, before declining sharply to US$ 121.5 billion in 2009, owing to the global economic crisis. The trend has reversed in 2010 with trade increasing to US$ 159.1 billion, although the country is yet to surpass its pre-crisis level trade figures. The strong demand from China and India especially for gold as well as high commodity prices were the main reasons behind this positive growth in trade.

Exports recorded a CAGR of 11.4 percent in the last decade. Rapid growth in Chinese and Indian

Chart 3.9: Trends in Trade Performance of South Africa, 2001-2010 (US$ billion)



Source: DOTS, IMF and Exim Bank Research

economies has strengthened the exports of South Africa, two of the largest recipients of South African exports. However, the collapse in global demand in 2009 resulted in a reduction in the export revenue of the country by 25.5 percent to US$ 54.4 billion from US$ 73 billion of the preceding year. Exports recovered in 2010 by 43.1 percent to reach an all time high level of US$ 77.9 billion **(Chart 3.9)**. Buoyant mining exports to both China and India were the main contributors to this positive growth.

China became the major destination of South Africa's exports in 2009, surpassing the traditional partners like Japan, the US, Germany and the UK and the trend continued in 2010. South Africa exported 11.4 percent of its total exports to China in 2010, followed by the US (9.9 percent), Japan (9 percent), Germany (7.7 percent), the UK (5.2 percent) and India (4.2 percent). Other major destinations include the Netherlands and Switzerland. South Africa's exports to India have seen a remarkable increase from 1.5 percent in 2006 to 4.2 percent in 2010, reflecting the growing importance of India in country's trade. Export demand from emerging economies, particularly from Asia, gained further ground in 2010.

South Africa is one of the largest producers of platinum, manganese, gold, and chrome in the world. It also has significant coal, copper and aluminum production. Exports of mining products witnessed a significant rise in 2010. The steep rise in the price of gold, copper and aluminum have resulted in increased exports of these commodities. Some of the major commodities exported by the nation in 2010 were pearls, precious stones and metals (16.5 percent of total exports), ores, slag and ash (13.7 percent), iron and steel (11.1 percent), mineral fuels and distillation products (10.1 percent), and transport equipments (9 percent). There were also significant exports of machinery, edible fruits, aluminium, and electrical and electronic equipments.

Although Imports were growing at a CAGR of 14.3 percent in the last decade, it did not witness the same remarkable recovery as exports after the global economic crisis and is yet to surpass the pre-crisis levels. South Africa's imports dropped by 25.9 percent in 2009 to US$ 67.1 billion, but increased by over 21 percent in 2010 to US$ 81.2 billion, reflecting huge demand for infrastructure projects for the 2010 FIFA World Cup tournament. Lower imports of raw materials due to relatively weak levels of domestic production and investment, however, restrained the imports in 2010 from reaching the 2008 level of US$ 90.5 billion.

China became the major supplier of import requirements of South Africa in 2009, replacing Germany. China accounted for 14.3 percent of South Africa's imports in 2010, and was followed by Germany (11.3 percent), the US (7.3 percent), Japan (5.3 percent), Saudi Arabia (4 percent), Iran (3.9 percent) and the UK (3.8 percent). South Africa's import from China mainly comprised electrical and electronic equipments and machinery, where as Germany imports more of transport equipments. India's contribution to South Africa's imports increased from 2.4 percent in 2006 to 3.5 percent in 2010.

South Africa's major imports in 2010 included mineral fuels and mineral oils that accounted for 19.6 percent of the total imports, machinery and equipments (14.8 percent), electrical and electronic equipment (10.7 percent) and vehicles other than railway or tramway (8.8 percent).

The trade deficits of the country witnessed a decrease in 2010 to US$ 3 billion compared to US$ 16 billion in 2006. A combination of strong commodity prices and less than expected imports resulted in this improvement in the trade sector of South Africa.

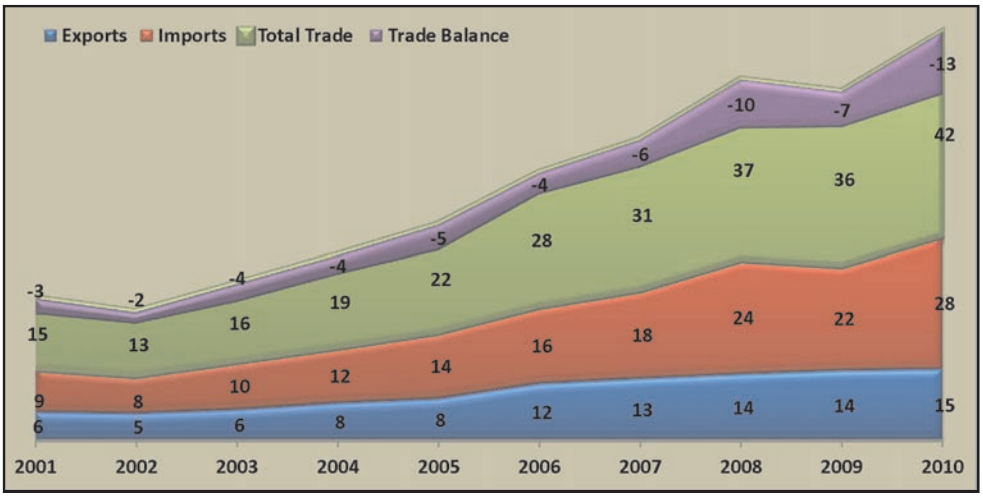
BANGLADESH

Since independence, Bangladesh has experienced a substantially weak foreign trade account. This is largely because it relies heavily on imports of most essential goods, especially petroleum. Moreover, the biggest component of Bangladesh's exports, readymade garments (RMG), also requires a large percentage of imported inputs. In the recent years, there has been an increased pressure in the trade account mainly due to the liberalisation of the import regime and the growing demand for industrial inputs, mainly capital goods. Still the simple average MFN import duty of Bangladesh remains at a high level of 14.7 percent in 2010. The Ministry of Commerce, Government of Bangladesh is responsible for the overall trade and commerce related activities of Bangladesh.

Bangladesh also has a high deficit on its combined services and income accounts, mainly because of the costs of freight and insurance on imports, and also due to costs pertaining to technical and financial services for development projects, as well as interest payments on foreign debt. This trade deficit on the merchandise trade account and the combined services and income accounts are largely offset by current transfers. Current account deficit was reversed to a surplus in 2002, and since then it has maintained a surplus, except in 2004.

Over the past decade, Bangladesh's total merchandise trade increased almost three-fold, crossing US$ 40 billion in 2010, supported by more than four-fold increase in exports, and doubling of imports. Exports

Chart 3.10: Trends in Trade Performance of Bangladesh, 2001-2010 (US$ billion)



Source: DOTS, IMF and Exim Bank Research from Bangladesh have increased by almost three-fold from US$ 5.7 billion in 2001 to US$ 14.7 billion in 2010, while imports increased more than three-fold from US$ 9 billion in 2001 to US$ 27.8 billion in 2010 **(Chart 3.10)**. The country, being one of the poorest countries in the world has substantial import needs, resulting in trade deficit throughout the last decade.

In 2010, textiles alone accounted for 88 percent of Bangladesh's global exports. Share of articles of apparel (including knit or crochet) which accounted for 26.6 percent of the total exports in 2002, increased to 44.8 percent in 2010. Bangladesh stood third in the export of articles of apparel (including knit or crochet), after China and Hong Kong. The main destinations of Bangladesh's exports in 2010 include the US (25.7 percent), Germany (15.2 percent), the UK (9.5 percent), France (6.5 percent), and Italy (4.0 percent).

As compared to exports, Bangladesh's imports have been highly diversified. Bangladesh's import composition has mostly been concentrated with capital goods. The major components of Bangladesh's import basket in 2010 include cotton (13.1 percent of the total imports), machinery and equipments (9.4 percent), electrical and electronic equipments (7.9 percent), mineral fuels, oils and distillation products (7.2 percent), iron and steel (4.6 percent), cereals (4.3 percent) and animal, vegetable fats and oils (4.2 percent). The main import sources of Bangladesh in 2010 were China (15.6 percent), India (13.2 percent), Kuwait (7.2 percent), Indonesia (7.2 percent), and Japan (5.1 percent).

4 FOREIGN INVESTMENT IN IOR-ARC REGION: AN ANALYSIS

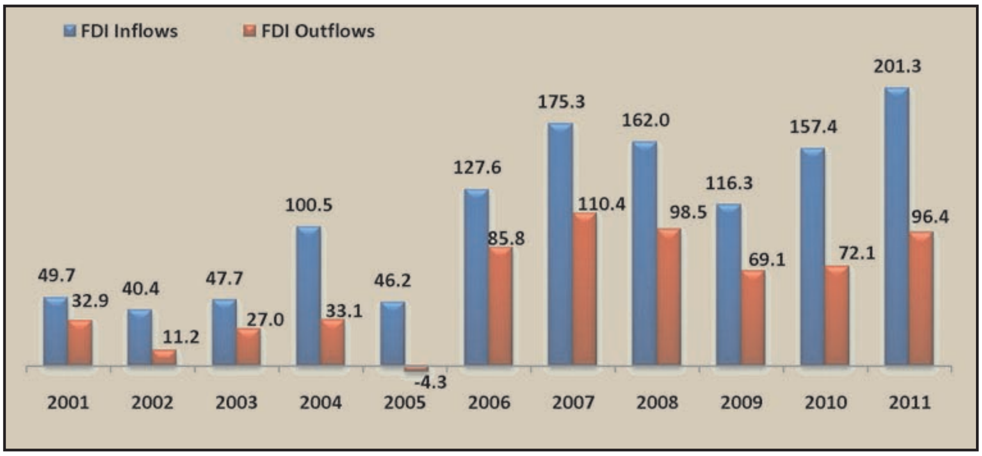
In an attempt to encourage the economic development of its member countries, IOR-ARC offers a wide market area and a big consumer population to investors. The formation of IOR-ARC was a great step for the 19 Indian Ocean Rim countries towards their economic development. The major goal of IOR-ARC is to promote the sustained growth and balanced development of the region and of the member states, and to create common ground for regional economic cooperation. The IOR-ARC Working Group on Trade and Investment (WGTI) is established with the objectives of reducing impediments and lowering of barriers towards freer and enhanced flow of Goods, Services, Investment and Technology within the region. All IOR-ARC member states welcome foreign direct investment (FDI) and claim to provide a liberal FDI regime, though there are variations between them with respect to the extent of liberalisation. Though some IOR-ARC member states are fully open to foreign investment in many sectors, there are still limits on foreign investment in sectors that are considered strategic and of national importance.

TRENDS IN INVESTMENT IN IOR-ARC REGION

FDI inflows into the IOR-ARC region has increased at a healthy pace during the last decade, having outpaced global investment. IOR-ARC member countries are seen as a favourable investment destination with their abundant natural resources. Trends in investment during the last decade show pick up in both FDI inflows as well as outflows **(Chart 4.1)**. Though the general trend shows an increase in FDI flows, there are huge variations within member countries.

During the period 2001-2011, FDI inflows to the IOR-ARC region recorded a CAGR of 15 percent as against 6.3 percent for the world as a whole. The difference in the growth of FDI flows were more pronounced in 2010, when FDI inflows to IOR-ARC registered a growth rate of 35.3 percent, nearly four times higher than the world's growth of 9.3 percent. Accordingly, the share of IOR-ARC in global FDI inflows increased from 6 percent in 2001 to 13.2 percent in 2011 **(Chart 4.2)**. This connotes the increasing capability of the IOR-ARC member countries to attract FDI in the current global economic scenario.

Chart 4.1: Trends in Investment in IOR-ARC Region, 2001-2011 (US$ billion)



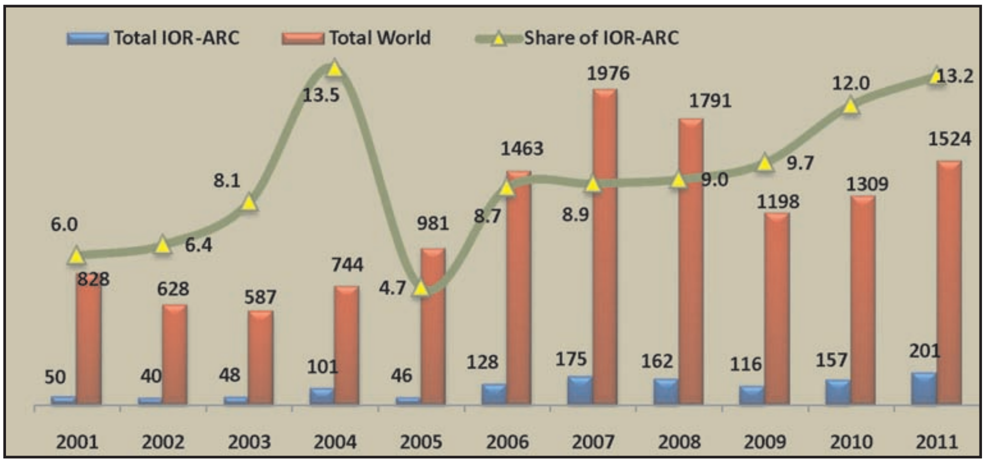
Source: UNCTAD Stat

Total FDI inflows to the IOR-ARC region has peaked at US$ 175.3 billion in 2007, before declining continuously in the next two years. The declining trends witnessed during 2008 and 2009 in most of the IOR-ARC member countries can be mainly attributed to the global financial crisis. With improved global economic scenario, the FDI inflows started picking up in 2010 by 35.3 percent to US$ 157.4 billion and further by 27.9 percent in 2011 to US$ 201.3 billion. Although FDI inflows to the region have increased, a few member countries are still witnessing a fall in their FDI inflows.

The cumulative FDI inflows into IOR-ARC region during 2001-2011 was US$ 1.2 trillion. Singapore was the largest recipient of FDI inflows into IOR-ARC region 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). Yemen, Seychelles, and Mauritius received the lowest FDI among the IOR-ARC member states.

FDI has been unevenly distributed among the member countries in IOR-ARC. Sri Lanka witnessed an estimated decline of 37.2 percent in 2011 to US$ 300 mn from US$ 477.6 mn in 2010. Similarly, Mauritius witnessed a decline of 36.4 percent in 2011 to US$ 273.4 mn from US$ 430 mn in 2010. On the other hand, South Africa witnessed a growth of more than four-fold in 2011 to US$ 5.8 billion, from US$ 1.2 billion in 2010. Mozambique also witnessed a two-fold increase in its total FDI inflows from US$ 989 mn in 2010 to US$ 2.1 billion in 2011.

Chart 4.2: Trends in FDI Inflows into IOR-ARC Region, 2001-2011 (US$ billion)



Source: UNCTAD Stat

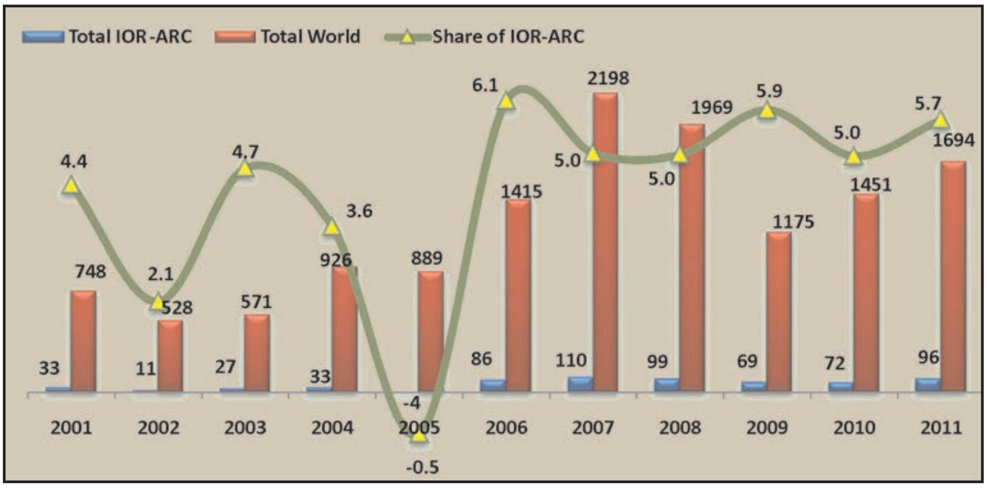
Table 4.1: Inward FDI Flows, Annual, 2001-2011 (US$ billion)

	2001	2005	2006	2007	2008	2009	2010	2011	Aggre-gate (2001-11)
Australia	11.0	-24.2	31.1	45.5	47.2	26.6	35.6	41.3	280.9
Bangladesh	0.4	0.8	0.8	0.7	1.1	0.7	0.9	1.1	7.6
India	5.5	7.6	20.3	25.5	43.4	35.6	24.2	31.6	209.4
Indonesia	-	8.3	4.9	6.9	9.3	4.9	13.8	18.9	68.7
Iran	1.1	3.1	1.6	2.0	1.9	3.0	3.6	4.2	29.8
Kenya	0.01	0.02	0.1	0.7	0.1	0.1	0.2	0.3	1.7
Madagascar	0.1	0.1	0.3	0.8	1.2	1.1	0.9	0.9	5.5
Malaysia	0.6	4.1	6.1	8.6	7.2	1.5	9.1	12.0	59.3
Mauritius	-0.03	0.04	0.1	0.3	0.4	0.2	0.4	0.3	1.9
Mozambique	0.3	0.1	0.2	0.4	0.6	0.9	1.0	2.1	6.4
Oman	0.0	1.5	1.6	3.3	3.0	1.5	1.1	0.8	13.7
Seychelles	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.1	1.2
Singapore	17.0	18.1	36.7	46.9	11.8	24.4	48.6	64.0	315.2
South Africa	6.8	6.6	-0.5	5.7	9.0	5.4	1.2	5.8	43.1
Sri Lanka	0.2	0.3	0.5	0.6	0.8	0.4	0.5	0.3	4.1
Tanzania	0.5	0.9	0.4	0.6	1.2	1.0	1.0	1.1	7.7
Thailand	5.1	8.1	9.5	11.4	8.5	4.9	9.7	9.6	81.1
UAE	1.2	10.9	12.8	14.2	13.7	4.0	5.5	7.7	84.3
Yemen	0.1	-0.3	1.1	0.9	1.6	0.1	-0.1	-0.7	3.0
IOR-ARC	**49.7**	**46.3**	**127.6**	**175.3**	**162.0**	**116.3**	**157.4**	**201.3**	**1,224.7**
Global Inflows	**827.6**	**980.7**	**1,463.4**	**1,975.5**	**1,790.7**	**1,197.8**	**1,309.0**	**1524.4**	**13,028.4**
Share of IOR-ARC	**6.0**	**4.7**	**8.7**	**8.9**	**9.0**	**9.7**	**12,0**	**13.2**	**9.4**

Note: '-' denotes nil or marginal
Source: UNCTAD Stat

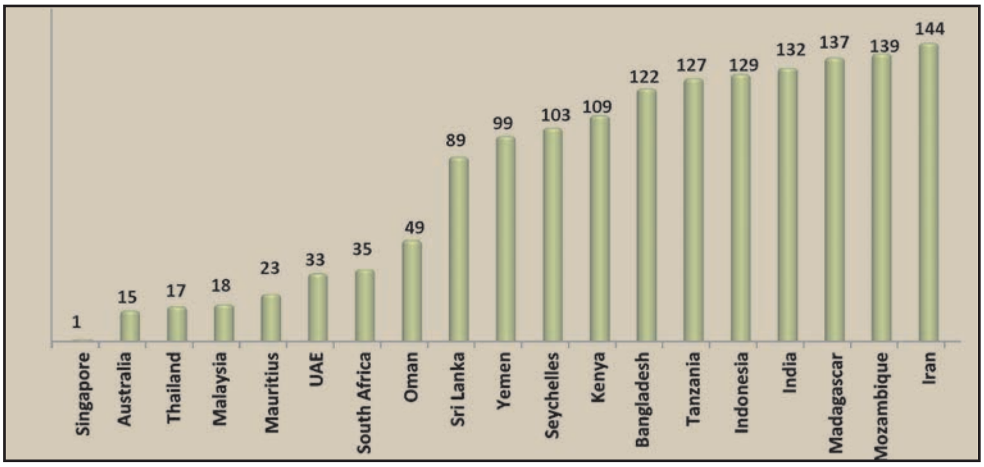
FDI outflows from IOR-ARC were much lower compared to their inflows. FDI outflows from the IOR-ARC during 2001-2011, recorded a CAGR of 11.3 percent as against 8.5 percent for the world as a whole. FDI outflows peaked in 2007 to US$ 110.4 billion and started decreasing thereafter before picking up in 2010. In 2011, FDI outflows from IOR-ARC region stood at US$ 96.4 billion, accounting for 5.7 percent of total global outward FDI. The cumulative outward IOR-ARC investment during 2001-2011 amounted to US$ 632.3 billion, which is 4.7 percent of cumulative global outward FDI during the same period.

Chart 4.3: Trends in FDI Outflows from IOR-ARC Region, 2001-2011 (US$ billion)



Source: UNCTAD Stat

Chart 4.4: Ease of Doing Business Rankings, 2012



Source: Doing Business 2012 Report

Table 4.2: Outward FDI Flows, Annual, 2001-2011 (US$ billion)

	2001	2005	2006	2007	2008	2009	2010	2011	Aggre-gate (2001-11)
Australia	13.7	-31.1	25.4	16.9	33.6	16.7	12.8	20.0	144.5
Bangladesh	0.02	-	-	0.02	0.01	0.03	0.02	0.01	0.1
India	1.4	3.0	14.3	19.6	19.3	15.9	13.2	14.8	107.1
Indonesia	-	3.1	2.7	4.7	5.9	2.2	2.7	7.8	32.9
Iran	-	0.5	0.4	0.3	0.4	0.4	0.3	0.4	2.3
Kenya	-	0.01	0.02	0.04	0.04	0.05	-	0.01	0.2
Madagascar	-	-	-	-	-	-	-	-	-
Malaysia	0.3	3.1	6.0	11.3	15.0	7.8	13.3	15.3	77.3
Mauritius	-	0.05	0.01	0.1	0.1	0.04	0.1	0.1	0.5
Mozambique	-	-	-	-	-	-	-	-	-
Oman	0.1	0.2	0.3	-0.04	0.6	0.1	1.0	0.6	3.0
Seychelles	-	0.03	0.01	0.02	0.01	0.01	0.01	0.01	0.1
Singapore	20.0	11.6	18.6	36.9	6.8	17.7	21.2	25.2	171.9
South Africa	-3.2	0.9	6.1	3.0	-3.1	1.2	-0.1	-0.6	5.6
Sri Lanka	-	0.04	0.03	0.1	0.1	0.02	0.05	0.1	0.3
Tanzania	-	-	-	-	-	-	-	-	-
Thailand	0.4	0.5	1.0	3.0	4.1	4.2	5.4	10.6	30.1
UAE	0.2	3.8	10.9	14.6	15.8	2.7	2.0	2.2	55.8
Yemen	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6
IOR-ARC	**32.9**	**-4.3**	**85.8**	**110.4**	**98.5**	**69.1**	**72.1**	**96.4**	**632.3**
Global FDI Outflows	**747.7**	**888.6**	**1,415.1**	**2,198.0**	**1,969.3**	**1175.1**	**1,451.4**	**1,694.4**	**13,564.4**
Share of IOR-ARC	**4.4**	**-0.5**	**6.1**	**5.0**	**5.0**	**5.9**	**5.0**	**5.7**	**4.7**

Note: '-' denotes nil or marginal
Source: UNCTAD Stat

Singapore accounted for the largest share of 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).

DOING BUSINESS IN IOR-ARC MEMBER COUNTRIES

According to the Doing Business 2012 report of World Bank and International Finance Corporation (IFC), 183 economies across the world are ranked in terms of their ease of doing business with respect to starting a business from 1 to 183. A high ranking on the ease of doing business index means the regulatory environment in the country is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. In Doing Business 2012 ranking, Singapore stood first globally and among IOR-ARC member countries. Singapore was followed by Australia and Thailand with 15th and 17th rank **(Chart 4.4)**.

INVESTMENT REGIME AND MAJOR INVESTMENT INCENTIVES IN IOR-ARC COUNTRIES

AUSTRALIA[5]

Australia is a globally competitive location for business. Strong institutions, flexible markets and effective and well-targeted economic policies provide a solid platform for business. Political stability and a sound regulatory climate strongly support business growth. Companies operating in Australia and Australian companies operating overseas are expected to act in accordance with the principles set out in the OECD Guidelines. The Australian Government fully supports foreign investment.

Australia's Foreign Investment Policy: The Government's foreign investment framework is implemented through the Foreign Acquisitions and Takeovers Act 1975 (FATA) and the Government's foreign investment policy. The policy provides the framework for Government scrutiny of proposed foreign acquisitions of Australian businesses and real estate. The FATA provides for the notification and review of all investment proposals covered by it that could potentially raise national interest concerns. FATA was recently amended in February 2009, to clarify its operation to ensure that it applies equally to all foreign investments irrespective of the way they are structured. The FATA also provides a legal mechanism for ensuring compliance with the Policy.

Under FATA, the Treasurer reviews investment proposals on a case-by-case basis to decide if they are contrary to Australia's national interest. This maximises investment flows, while protecting Australia's interests. But, if ultimately it is determined that a proposal is contrary to the national interest, it will not be approved. Proposals may also be approved subject to conditions or undertakings. The Government typically considers the following factors while assessing foreign investment proposals in any sector- National Security, Competition,

[5]Australia's Foreign Investment Policy, January 2012; Foreign Investment Review Board and 2012 Investment Climate Statement, US Department of State

Other Australian Government Policies (including tax) and Character of the Investor.

The Foreign Investment Review Board (FIRB): FIRB is a non-statutory body established in 1976 to advise the Treasurer and the Government on Australia's Foreign Investment Policy and its administration. The FIRB examines proposals by foreign persons to invest in Australia and makes recommendations to the Treasurer on those subject to the Foreign Acquisitions and Takeovers Act 1975 and Australia's foreign investment policy.

Foreign Governments and their Related Entities: All foreign governments and their related entities should notify the Government and get prior approval before making a direct investment in Australia, regardless of the value of the investment. They also need to notify the Government and get prior approval to start a new business or to acquire an interest in Australian urban land (except when buying land for diplomatic or consular requirements). Where a proposal involves a foreign government or a related entity, the Australian Government also considers if the investment is commercial in nature or if the investor may be pursuing broader political or strategic objectives that may be contrary to Australia's national interest.

Privately-Owned Foreign Investors –Business Acquisitions: Foreign persons should notify the Government before acquiring an interest of 15 percent or more in an Australian business or corporation that is valued above A$ 244 mn, or an offshore company whose Australian subsidiaries or gross assets are valued above A$ 244 mn. Notification requirements also apply where an acquisition by a foreign person would result in foreign persons holding an aggregate interest of 40 percent or more in such Australian businesses or corporations. The exception is for the US investors, where the A$ 244 mn threshold applies only for investments in prescribed sensitive sectors, but a A$ 1062 mn threshold applies to the US investment in other sectors.

Foreign persons should also be aware that separate legislation includes other requirements and/or imposes limits on foreign investment in the following instances:

- foreign investment in the banking sector must be consistent with the Banking Act 1959, the Financial Sector (Shareholdings) Act 1998 and banking policy;
- total foreign investment in Australian international airlines (including Qantas) is limited to 49 percent;

- the Airports Act 1996 limits foreign ownership of airports offered for sale by the Commonwealth to 49 percent, with a 5 percent airline ownership limit and cross ownership limits between Sydney airport (together with Sydney West) and Melbourne, Brisbane and Perth airports;
- the Shipping Registration Act 1981 requires a ship to be majority Australian-owned if it is to be registered in Australia; and
- aggregate foreign ownership of Telstra is limited to 35 percent of the privatised equity and individual foreign investors are only allowed to own up to 5 percent.

Expropriation and Compensation: The Australian legal system is firmly grounded on the principles of equal treatment before the law, procedural fairness, judicial precedent, and the independence of the judiciary. Strong safeguards exist to ensure that people are not treated arbitrarily or unfairly by governments or officials. Private property can be expropriated for public purposes in accordance with established principles of international law. Due process rights are well-established and respected, and prompt, adequate and effective compensation is the norm.

Dispute Settlement: Australia has an established legal and court system for the conduct or supervision of litigation and arbitration, as well as alternate dispute processes. The traditional approach to commercial dispute resolution involves litigation, arbitration, and more modern methods of alternative dispute resolution. Australia is a world leader in the development and provision of non-court dispute resolution mechanisms. It is a signatory to all the major international dispute resolution conventions and has organizations that provide international dispute resolution processes. Property and contractual rights are enforced through the Australian court system, which is based on English Common Law. There are few investment disputes involving foreign companies. Australia is a member of the International Center for the Settlement of Investment Disputes.

Performance Requirements and Incentives: As a general rule, foreign firms establishing themselves in Australia are not subject to performance requirements and incentives.

Right to Private Ownership and Establishment: The common law system which forms the basis of Australian jurisprudence guarantees the right to private ownership and the establishment of private business enterprises.

Protection of Property Rights: A strong rule of law protects property rights in Australia and operates against corruption. Both foreign and domestically-owned businesses enjoy considerable flexibility in their licensing, regulation, and employment practices.

Transparency of the Regulatory System: Australia subscribes to the 1976 declaration of the Organization for Economic Cooperation and Development (OECD) concerning International Investment and Multinational Enterprises. These instruments cover national treatment and investment incentives and disincentives, and spellout voluntary guidelines for the conduct of multinational enterprises in member countries. Australia also subscribes to two OECD codes of liberalization, one covering capital movements and the other invisible transactions.

BANGLADESH[6]

Bangladesh has made frequent efforts to make itself a favourable foreign investment destination, since foreign investment serves as an important source of funding for their developmental procedures.

The Bangladesh Board of Investment (BOI) promotes and facilitates the domestic and foreign investments in the country. As per Global Investment Promotion Best Practices 2012, a publication released by the World Bank Group (the World Bank, IFC, and MIGA), among the eight Investment Promotion Intermediaries in South Asia, Bangladesh was the only one to have a best practice web site.

As per the BOI, Bangladesh is a favourable destination for investments due to the following advantages:

- Low-cost workforce
- Strategic location, in addition to regional connectivity
- Strong local market
- Low cost of energy (mainly compressed natural gas)
- Export competitiveness through tariff-free access to the European Union, Canada, Australia and Japan
- Competitive incentives, including allowing 100 percent foreign equity with unrestricted exit policy, easy remittance of royalty, and repatriation of profits and incomes
- Export and Economic Zones providing infrastructural and logistic services
- Positive Investment Climate

Further, in order to encourage foreign investments in the country, the Government of Bangladesh offers liberal investment policies along with a host of incentives. Select facilities

[6]Board of Investment, Bangladesh

and incentives that Bangladesh provides to foreign investors, as per the BOI include:

a) **Tax Exemption** – General business investments can avail a tax incentive of five to seven years; however, investments in electric power generation are eligible for a 15-year exemption. There are also tax exemptions on capital gains from transfer of shares by the investing company. Investments are also eligible for a tax exemption on royalties, technical knowhow and technical assistance fees and facilities for their repatriation. There is also tax exemption on interests on foreign loans.

b) **Import Duties** – Export Oriented Industries are exempted from import duty, while for other industries import duties are at 5 percent ad valorem. A concessionary duty of 3 percent ad valorem is payable on capital machinery and spares imported for initial installation of the existing industry.

c) **Income Tax** – Income Tax exemption of three years is provided for the expatriate employees in industries that are specified in the relevant schedules of the income tax ordinance. Bangladesh also has entered into double taxation avoidance agreements and bilateral investment agreements with several countries.

d) **Remittance** – Full repatriation of invested capital, profits and dividends is the norm for most investments.

e) **Tax Holiday** - Industries are eligible for a tax holiday determined by the National Board of Revenue (NBR). They also qualify for an accelerated depreciation in lieu of a tax holiday, which is allowed at the rate of 80 percent of actual cost of machinery or plant for the year in which the unit starts commercial production and 20 percent for the following years. The rate of depreciation is 100 percent for years specified by the NBR.

f) No restrictions on issuance of work permits to project related foreign nationals and employees.

g) Six months multiple entry visa for investors. Investments that are of minimum of US$ 500,000 or by transferring US$ 1,000,000 to any recognised financial institution (non-repatriable) qualify for Citizenship. An individual investor can get permanent residency by investing a minimum of US$ 75,000 (non-repatriable).

h) Additional incentives to export oriented or export linked industries include:

i. Local products supplied to local projects against foreign exchange under international tender are treated as indirect exports and the producer is entitled to avail of all export facilities;

ii. Concessionary duty is charged on the import of capital machinery and spare parts for setting up export-oriented industries or expanding the existing one. For 100 percent export-oriented industries no import duty is payable;

iii. Facilities such as special bonded warehouse against back-to-back letters of credit or notional import duty and non payment of Value Added Tax (VAT) facilities are available;

iv. An exporter will be able to get back the duty draw-back directly from the concerned commercial bank;

v. Bank loans up to 90 percent are available, if the values against irrevocable and confirmed letters of credit or sales agreement are provided;

vi. With the intention of encouraging backward linkages, export-oriented industries including export-oriented readymade garment industries using indigenous raw materials instead of imported materials are given additional facilities and benefits at prescribed rates. Similar incentives are extended to the suppliers of raw materials to export-oriented industries;

vii. Export-oriented industries are allocated foreign exchange for publicity campaigns and for opening offices abroad,

viii. Entire export earnings from handicrafts and cottage industries are exempted from income tax. In case of other industries, proportional income tax rebates on export earnings is given between 30 percent and 100 percent. Industries which export 100 percent of their products are given tax exemption up to 100 percent;

ix. Import of specified quantities of duty-free samples for manufacturing exportable products is allowed. The quantity and value of samples is determined jointly by the concerned sponsoring agency and the NBR;

x. Export oriented industries are exempted from paying local taxes (such as municipal taxes);

xi. Leather industries exporting at least 80 percent manufactured products will be treated as 100 percent export oriented industries; and

xii. Manufactures of indigenous fabrics (such as woven, knit, hosiery, grey, printed, dyed, garment check, hand loom, silk and specialised fabrics) supplying their products to 100 percent export oriented garment industries are entitled to avail a cash subsidy equivalent to 25 percent of the value of the fabrics, provided the manufacturers of the fabrics do not enjoy duty draw back or duty free bonded warehouse facility; and

xiii. Tax exemption on dividend income of non-resident shareholders during tax exemption period of an industry set up in an export processing zone and also after the expiry of tax exemption period if the dividend is re-invested in the same project. Exemption of tax on income from industrial undertakings set up in an export processing zone for ten years from the date of commercial production.

INDONESIA[7]

With its abundant natural resources, a young and technically trained work force and a large and growing domestic market, combined with an improving investment climate and a higher global profile, Indonesia is a favourable investment destination.

The Investment Coordinating Board (BKPM): BKPM is responsible for issuing investment licenses to foreign entities. It has taken steps to simplify the application process through better coordination between various government institutions. BKPM launched a National Single Window for Investment which will eventually allow foreign investors to apply for licenses and other services online. Although BKPM is meant to act as a one-stop service institution, investments in the mining, oil and gas, plantation, and other sectors require further licenses from related ministries and authorities. Likewise, certain tax and land permits, among others, typically must be obtained from local government authorities. Though Indonesian companies only require one approval at the local level, businesses report that foreign companies must obtain both administrative and legislative approval in order to establish a business.

National Single Window for Investment (NSWi): In order to facilitate the One-door Integrated Services of BKPM even further, the National Single Window for Investment (NSWi) was created. NSWi is an electronic platform for investments that enables investors to apply for license and non-license services online. The ability to fully automate the investment license process would significantly enhance the efficiency of licensing services. The system was first launched in January 2010 in the Free Trade Zone and Free Port of Batam.

Restrictions on FDI are, for the most part, outlined in presidential decree 36/2010, commonly referred to as the Negative List. It sets out to what extent foreigners can invest in specific industries in Indonesia. The Negative List aims to consolidate FDI restrictions from numerous decrees

[7]Indonesia Investment Coordinating Board (BKPM) and 2012 Investment Climate Statement, US Department of State

and regulations to create greater certainty for foreign and domestic investors. The Regulation has changed business fields to be more open to include construction services, film technical services, hospital and health care, and small-scale electric power plants.

EXPROPRIATION AND COMPENSATION

The Government of Indonesia continues to recognize and uphold property rights of foreign and domestic investors, and there have been no overt expropriatory actions forced on investors in recent years. The 2007 Investment Law opened major sectors of the economy to foreign investment while assuring investors' protection from nationalization, except where corporate crime is involved.

The new Law on Land Acquisition Procedures for Public Interest Development passed in December 2011 seeks to significantly increase the feasibility of land acquisition projects. The law seeks to clarify roles, impose time limits on each phase of the land acquisition process, deter land speculation, and curtail obstructionist litigation, while still ensuring safeguards for land-right holders. The crucial power of revoking land rights rests with provincial governors.

PERFORMANCE REQUIREMENTS/ INCENTIVES

The 2007 Investment Law states that the Government shall provide the same treatment to both domestic and foreign investors originating from any country pursuant to the rules of law. The Government also announced a tax holiday scheme to exempt certain businesses from paying corporate income taxes for up to ten years under Ministry of Finance Decree No. 130/ PMK.011/2011. Businesses must have operated as a legal entity in Indonesia for at least 12 months prior to the issue of the tax holiday regulation, among other requirements. Priority is given to investment in resource extraction, resource refinement, industrial machinery, renewable resources, telecommunications equipment, or pioneer sectors. Government Regulation No. 62 of 2008 provides a tax incentive program for projects conducted in national high-priority sectors which encompass 128 different fields.

TAX INCENTIVES AND TAX HOLIDAY

Tax incentives are provided to certain entities with capital investments in certain approved industry sectors or those operating in certain specified geographic locations. Incentives include a thirty percent tax investment allowance; accelerates depreciation and amortization; and a reduced withholding tax rate of 10 percent on dividends paid to non residents. It also allows the carry-forward of losses for at least five years and up to 10 years, adding one year if, the investment employs at least 500 Indonesian workers for five consecutive years; at least 5 percent of the investment value is spent within five years on research and development in Indonesia to develop products and efficiency; and/ or the investment utilizes at least 50 percent of its raw materials or components from products already produced within Indonesia. An income tax reduction of 5 percent may be provided to a company listed on Indonesian Stock Exchange provided a number of conditions are satisfied.

Indonesia has a new tax holiday regime for new domestic or foreign investors in specified business sectors. It provides beneficial tax treatment to manufacturing projects in 5 high priority sectors - the base metal, petroleum and refining (or basic chemicals derived from petroleum and natural gas), industrial machinery, renewable energy and telecommunications equipment industries. The tax incentives include:

- An exemption from corporate income tax for 5 to 10 years beginning from the date of commencement of commercial production;
- 50 percent reduction in corporate income tax liability for two years after the end of tax holiday period; and
- An extension of the exemption of reduction in corporate income tax depending on the competitiveness and strategic value of the industry.

To qualify for this, the investor must meet following conditions:

- Invest at least 1 trillion Indonesian Rupiah (approx US$ 117 mn) in a qualified pioneer industry;
- Deposit at least 10 percent of the total investment in an Indonesian Bank, which cannot be withdrawn before the company undertakes its investment plan; and
- Should be a new tax payer with Indonesian legal entity status (existing investors opertated for less than 12 months also qualified for tax holiday).

If investors could be eligible for both a tax holiday and a tax allowance, then they have the option of choosing the appropriate incentive for their purpose.

NEGATIVE LIST

In 2010, Indonesia undertook the second revision of its investment negative list. This limits foreign ownership in various sectors. Restrictions for investment include:

- Restrictions in telecom sector, concerning telecom towers and service providers;
- Restrictions in courier/express delivery services, where only minority ownership is allowed;
- Foreign investment is capped to 49 percent in maritime services;
- The recent horticulture law adopted by Indonesian government limits foreign ownership to 30 percent from 95 percent; and
- Limitations in the manufacturing and distribution aspects of pharmaceutical sector.

IRAN[8]

The government ratified the Foreign Investment Promotion and Protection Act (FIPPA) in October 2002. FIPPA overhauled and consolidated various older laws that had loosely regulated foreign investment. Though technically implemented in late 2002, most FIPPA regulations were not common public knowledge or used until late 2003. Despite the enactment of the FIPPA, political instability and on-going international sanctions against Iran continued to deter foreign investments in the country.

The 26-article FIPPA streamlined procedures for foreign investors while setting certain limits. It allows for international arbitration in legal disputes, a major issue for foreign investors unwilling to subject themselves to Iranian judicial system. Iran had previously allowed equity participation in companies, but the FIPPA formally provides the first legal framework for foreign investment under contracts such as build-operate-transfer (BOT), buy-back (under which foreign oil companies operate) and civil partnerships. The legislation states that foreign investment will be guaranteed compensation in the event of nationalisation.

Iran's constitution prohibits granting oil concessions to foreign investors; instead, the Ministry of Petroleum may grant "buy-back" contracts to foreign investors. These contracts are a hybrid service contract/production-sharing agreement, through which foreign companies invest in and develop oilfields and then transfer the completed facility to the National

[8]ran Investment.Org (www.iran-investment.org)

Iranian Oil Company (NIOC). Then they recoup their investments from the proceeds of oil and gas sales; the amount is based on an agreed profit, and it is paid in the form of an allocation of a share of NIOC's production. Under the regulations addressing "Conditions of Non-Oil Buy-Back Contracts", which the Council of Ministers ratified in January 2001, buy-back contracts were extended to non-oil goods.

According to the Foreign Investment Law 1988, nine sectors of the economy are opened for foreign investment. These sectors are:

1. Agriculture
2. Mining
3. Industry
    - Food and beverage
    - Textile, clothing
    - Cellulosic print and publication
    - Chemicals, oil derivatives, rubber and plastics
    - Non-metallic minerals other than coal and oil
    - Basic metals
    - Machinery and equipments
    - Medical, optical and precision instruments
    - Electrical and electronic machinery & equipments

4. Electricity, Gas supply
5. Construction
6. Transport and Communications
7. Services

    - Financial Services
    - Tourism
    - Public Affairs
    - Urban Services
    - Education and research
    - Other services (engineering & design)

RESTRICTIONS

The Foreign Investment Promotion and Protection Act (FIPPA) of 2002 prohibit foreign dominance in Iranian industry. Article 2 (d) states that the foreign share of the market may not exceed 25 percent in any one sector or 35 percent in an individual industry. However, these ratios do not apply to foreign investment for the production of goods and services for export purposes, other than for crude oil. The Council of Ministers determines the fields and extent of investment in each case.

FORMS OF FOREIGN INVESTMENTS

Foreign investments are admitted under two categories:

- In areas where the activity of private sector is permitted; and

- Foreign investment in all sectors within the framework of "Civil Partnership", "Buy Back" and BOT schemes where the return of capital and profits accrued is solely emanated from the economic performance of the project in which the investment is made, and such return of capital and shall not be dependent upon a guarantee by the Government or government companies and /or banks.

TAXATION

According to Article 3 of the Law Concerning the Attraction and Protection of Foreign Investment, all capital invested in Iran and the profits that accrue therefrom, shall be subject to government protection. All rights, tax exemptions, and facilities accorded to domestic and private productive enterprises are also available to foreign capital and corporations.

Branches and agencies of foreign companies which have been registered according to the relevant regulations in Iran, and by virtue of their articles of association are not authorized to engage in profitable activities but can do marketing and collect economic information, are not liable to any taxation on the sums received from the mother company as a revolving fund. However, if it is proven that the said branches and agencies are engaged in profitable activities in Iran and are acquiring an income therefrom, the sums earned shall be subject to taxation according to the respective regulations.

Articles 132 of the law of Direct Taxation specify the major tax exemptions are as follows:

- Income earned by productive enterprise and mining units which have obtained an establishment license, or an identification card from the Ministry of Industry, Ministry of Mines and Metals or the Ministry of Jihad-e-Sazandegi, shall be exempt from taxation for a period of eight, six, or four years from the commencement date of their operation.

- If such units are developed in deprived regions of Iran, an equivalent of half of the aforementioned periods of tax exemptions shall be added to their legal period of tax exemption.

- In addition, 20 percent of taxable income earned from manufacturing and mining which have or will receive an operating license from the said ministries, are exempted from taxation.

- 100 percent of income earned through the export of finished industrial goods, and 50 percent of income gained from the export of other items and goods, shall be exempted from taxation.

- Income earned from all agricultural activities, farming, animal husbandry, fisheries and the like are also exempted from taxation.

- In addition to the above cases, other exemptions and tax breaks have been outlined in the Law of Direct Taxation. Ministries, governmental organizations, municipalities, some public utility institutions, cultural, religious and scientific foundations are also exempted from taxation.

- Taxable income of foreign contractors in Iran, active in areas such as construction, technical installations, transportation, designing plans for buildings and installations, topographical surveying, drawing, supervision and technical calculations, is a flat rate of 12 percent of their annual receipts in all instances.

- Foreign insurance companies which earn their profit through reinsurance may be subject to a tax at the rate of 2 percent of the premium collected and the interest accrued from their deposits in Iran. In cases where Iranian insurance companies acting in the country of citizenship of the foreign reinsurance company, are exempted from payment of taxes on reinsurance activities, the foreign establishments shall also be exempted from payment of taxes to the Iranian government.

MAURITIUS[9]

Board of Investment (BOI) - The Investment Promotion Act 2000 sets out the legal framework and makes provision for the promotion and facilitation of investment in Mauritius including the establishment of BOI. The aims of BOI are (a) to stimulate the development, expansion and growth of the economy by promoting Mauritius as an international investment, business and service centre; (b) to promote and facilitate the development of all forms of investment and business activities; (c) to formulate investment promotion policies, plans and marketing strategies and undertake promotions to attract foreign and local investments; and (d) to advise Government on strategies for investment policies, national investment marketing and investment after care, economic and industrial planning and country image building.

Investment Opportunities - BOI indicate that investment opportunities exist in a wide variety of sectors including: Agro industries, Financial Services, Healthcare and Life

[9]Southern African Development Community (SADC) (www.sadc.int)

Sciences, Hospitality and Property Development, Information Technology and Business Process Outsourcing, Logistics and Distribution, Creative Industries, Manufacturing and Light Engineering, Renewable Energy, Environment, Seafood and Aquaculture and Land Based Oceanic industry.

Tourism Authority - The Tourism Authority Act 2006 regulates tourism activities and establishes the Authority with the following objectives: promote the sustainable development of the tourism industry; foster and encourage the conduct of activities in the tourism industry in a responsible manner in order to preserve the integrity of the Mauritian destination; co-ordinate, support and interact with organisations and institutions aimed at promoting the tourism industry; foster research for the effective implementation of tourism policies; promote public understanding and interest in the tourism industry; develop and implement tourism and tourism related projects; promote co-ordination and cooperation between the public sector agencies and the private sector organisations engaged in the tourism industry.

The Mauritius Tourism Promotion Authority (MTPA) - MTPA was established by the MTPA Act 1996 with a view to promote, among others, Mauritius abroad as a tourist destination by conducting advertising campaigns, participating in tourism fairs and organising, in collaboration with the local tourism industry, promotional campaign and activities in Mauritius and abroad.

Development Bank of Mauritius (DBM) - The role and functions of DBM Ltd has been reviewed to ensure a more effective channeling of funds and to strengthen the delivery of business development services to SMEs. DBM is concentrating on enterprises with an annual turnover of less than Rs 15 mn, while commercial banks will cater for SMEs with annual turnover between Rs 15 mn and Rs 50 mn.

TAX INCENTIVES

Mauritius offers an advantageous tax jurisdiction:

(i) corporate and income tax of 15 percent,
(ii) tax free dividends,
(iii) no capital gains tax,
(iv) up to 100 percent foreign ownership,
(v) exemption from customs duty on equipment,
(vi) free repatriation of profits, dividends, and capital,
(vii) no minimum foreign capital required,
(viii) 50 percent annual allowance on declining balance for the

purchase of electronic and computer equipment, and

(ix) an extensive tax treaty network with several countries.

Global business companies have special fiscal regimes and incentives such as possibility to benefit from foreign tax credit, no withholding tax on dividends, interest and royalties, no Capital Gains Tax, possibility to benefit from a wide network of double taxation treaty.

Import and Export Permits - There are a limited number of products subject to import control related to health, sanitary and phyto-sanitary, security, social and environmental concerns. Permits are provided by relevant ministries or agencies including Commerce, Health, Agriculture, and Fisheries. There are no restrictions on exports except for a few products of strategic importance where export permits e.g. cement, silver and gold.

Enterprise Mauritius - Export promotion has been undertaken by Enterprise Mauritius (EM) mainly by organising participation in trade fairs, market surveys and improving export capacity. EM is a Trade Promotion Organisation, resulting from a partnership between the Mauritian public and private sectors. It supports locally based business through market development, financial assistance, consultancy, product and quality improvement, market intelligence, skills and trends monitoring, networking, and strategy development. EM provides services to companies in textile, garments and accessories, light engineering and jewellery, agro-industry (including beverages and seafood), consultancy services, ICT/BPO, logistics, printing, packaging, publishing and plastics, furniture, paints and chemicals.

FOREIGN INVESTMENT & CAPITAL MOBILITY

The Investment Promotion Act 2000 defines investor as:

(a) any person carrying on or who intends to carry on any economic activity and satisfying the criteria referred to in item 1 of Part I of the Schedule;

(b) and includes:

i. a person who is not a citizen of Mauritius; or

ii. an association or body of persons, whether corporate or incorporate, the control or management of which is vested in persons who are not citizens of Mauritius, and registered as such under this Act; but

iii. does not include a small enterprise or handicraft enterprise registered under the Small Enterprises and Handicraft Development Authority Act 2005.

The Investment Promotion (Amendment of Schedule) Regulations 2010 sets out following criteria for registration:

1. Company: Initial Investment US$ 100,000 or eqivalent in freely convertible currency and annual turnover exceeding 4 mn rupees (US$ 120,000),

2. Self-employed person: Initial investment of US$ 35,000 or equivalent in freely convertible currency at time of issue of occupation permit, engaged in services sector only and with annual income exceeding 600,000 rupees (US$ 18,300),

3. Professional: Monthly salary exceeding 75,000 rupees (US$ 1800), and

4. Retired non-citizen: transfer US$ 40,000 or equivalent in freely convertible currency at time of grant of residence permit and annual transfer of at least US$ 40,000 or its equivalent in convertible foreign currency.

The Government of Mauritius suspended foreign exchange controls in 1994. Approval is not required for the repatriation of profits, dividends, and capital gains earned by a foreign investor in Mauritius.

FOREIGN INVESTMENT ESTABLISHMENT, REGISTERING AND LICENSING PROCESSES

The **Business Registration Act 2002** provides for the registration of persons carrying on business in Mauritius, registration of business names, allocation of a single business registration number and issue of a business registration card.

Regulations governing incorporation of a company are contained in the Companies Act of 2001. The Insolvency Act 2009 simplifies winding up while protecting rights of creditors. Companies can be formed as either a **public or private company**. A private company cannot have more than 25 members, may restrict share transfers and cannot offer its shares to the public. A company is considered to be a public company unless its constitution or application for incorporation states that it is private. A company may be limited by shares, limited by guarantee or limited by both shares and guarantee or may be an unlimited company. A company can be incorporated with a single shareholder, without a Constitution and no minimum paid-up share capital, within 3 working days – in practice it may be completed in a half day. According to Companies Act 2001 s (276)(1)(e), for foreign companies, there should be two or more members residing in Mauritius.

Branch of Foreign Company - A foreign company which desires to establish a place of business in Mauritius but does not want to incorporate a local company may register as a branch of a foreign company. A foreign company must register as a branch in Mauritius within one month of establishing a place of business in Mauritius.

Management companies (MCs) - MCs are specially licensed by the Financial Services Commission (FSC) to provide services such as company formation, trusteeship, administration and management to the Global Business Sector. Applications for a Global Business Licence must be channelled through a MC which is required to exercise due diligence and perform Know Your Client (KYC) duties on its clients. Applications for licences are processed and approved by the FSC. A Category 1 or a Category 2 Global Business Licence is issued by the Financial Services Commission of Mauritius.

FOREIGN INVESTMENT OPERATIONS

Business Taxation

From January 2010 the fiscal year is on the basis of a calendar year. Income Tax Act 1995 is amended by subsequent Finance Acts. Corporate and Personal Taxes are embodied under one heading of Income Tax and are payable by all resident companies and individuals on non-exempt income derived from Mauritius and from other sources. The profits of all Resident Sociétés (Partnerships) are taxable in the hands of the associates based on receipts of profits.

Resident

In relation to an income year resident means:

- A company which is incorporated in Mauritius or has its central management and control in Mauritius;
- An individual who (a) has his / her domicile in Mauritius unless his / her permanent place of abode is outside Mauritius, (b) has been present in Mauritius in that income tax year for a period of, or an aggregate period of, 183 days or more or has been present in Mauritius in that income year and the two preceding income years for an aggregate period of 270 days or more;
- A societé which has its seat in Mauritius and includes a societé which has at least one associate resident in Mauritius;
- Trust where the trustees administered in Mauritius and a majority of the trustees are resident of Mauritius or where the settler of the trust was a resident in Mauritius

at the time the instrument creating the trust was executed; and

- Any other association - an association or body of persons which is administered in Mauritius.

Tax Rate

The rate of tax applicable for companies is 15 percent but there is an alternative minimum tax in certain specific cases. Where in the case of a company the normal tax payable is less than 7.5 percent of its book profit, the tax payable for that income year is deemed to be 7.5 percent of its book profit or 10 percent of any dividends declared in respect of that year, whichever is the lesser. Offshore Companies (known as Corporation Holding Category 1 Global Business Licence) pay tax at a rate of 15 percent. Tax credit is up to 80 percent or the tax paid whichever is higher. Offshore International Companies (Corporation Holding Category 2 Global Business Licence) are exempted from tax. There is no branch profits tax in Mauritius.

Losses are carried forward for a period of five years, except for losses arising from capital allowances which can be carried forward beyond five years. There is no capital gains tax in Mauritius. Value added tax rate is 15 percent with certain essential items zero rated.

Foreign Exchange and Foreign Investors

There are no foreign exchange controls in Mauritius since 1994. Approval is not required for the repatriation of profits, dividends, and capital gains earned by a foreign investor in Mauritius and there is no difficulty in obtaining foreign exchange.

Investment Protection and Dispute Settlement

Mauritius is a contracting state to the Convention on Settlement of Investment Disputes (ICSID) and a member state of MIGA. Mauritius has also in place Bilateral Investment Treaties and Double Tax Agreements with a number of countries.

MOZAMBIQUE[10]

The **Centro de Promoção de Investimentos (CPI),** established in 1993, is responsible for all investment procedures and the promotion of Mozambique as an investment destination. It works under the Ministry of Planning and Develop-

[10]SADC (www.sadc.int)

ment which is the responsible Ministry for investment in Mozambique. CPI intends to develop a One-Stop-Shop one day. It also provides “After Care Services” helping the investor to settle in the country.

GAZEDA is the institution in charge of the Industrial Free Zones and Economic Special Zones.

The **Ministry of Industry and Commerce (MIC)** is in charge of trade and industrial policy formulation.

The **Instituto para a Promoção de Exportações (IPEX)** is the traditional trade promotion body promoting exports from Mozambique in destination markets. Its role covers the identification and advice to exporters and investors on market access opportunities and export-related logistical services. The core activity is organizing missions to trade fairs.

INVESTMENT AND EXPORT INCENTIVES

Investment incentives are provided to registered and authorised investors according to the Code of Fiscal Benefits, Law No. 4/2009, of 12 January. It provides foreign and national investors the same set of incentives covering: customs duty exemptions, tax credits, VAT exemption, deductions from taxable income, deductions from tax, investment tax credit, and accelerated depreciation for new immovable assets.

Requirements for Qualification

Requirement for entitlement to fiscal benefits according to the Code is that the investment is entitled to incentives according to the Investment Law. In addition, investments that do not qualify according to the Law are entitled if they are:

- Investments carried out outside the scope of the investment law in commercial and industrial activities in rural areas;
- Investment in new infrastructures that are built for retail and wholesale commerce; and
- Manufacturing and assembly industries.

Besides this exception, investments in commercial activities are generally excluded to enjoy fiscal benefits.

General Benefits

General benefits granted are:

- Exemption on import duties on equipment of class “K” of the Customs Tariff Schedule (with the exception of VAT); and

- Investment tax credit of 5 percent to 10 percent of the total investment realized, deductible from the Corporate Income Tax (IRPC) payable but which shall not exceed the tax otherwise payable, for a period of five tax years from the commencement of operations.

Export

IPEX provides support for exporters and investors market access opportunities and any export-related logistical services. The most important export promotion strategy is the Industrial Free Zones. Aside of that, Mozambique does not provide any export subsidies.

TAX INCENTIVES

Customs Duties

The Code of Fiscal Benefits (2009) specifies in Article 6, that exemption from customs duties is granted for goods imported and not produced in Mozambique, or if they are produced in Mozambique do not satisfy the specific characteristics for the purpose of function required. Food, drinks, tobacco, clothing, passenger vehicles and other articles of personal and domestic use are excluded from this incentive.

For project implementation, exemption from customs duties and VAT are granted for a period of 5 years.

Investment Tax Credit (CFI)

Investment Tax credit is a deduction from the corporate income tax granted during 5 fiscal exercises and applies to x percent of the total investment realised. The percentage is as follows:

- 5 percent for Maputo Cidade;
- 10 percent for investment projects carried out in the other provinces; and
- 20 percent for investment projects in the Rapid Development Zones.

Infrastructure

For private investments or investments conducted under public-private partnerships in the infrastructural sector, custom duties and VAT payments are exempted for goods classified under category “K” in the Customs Tariffs Schedule including accompanying spare parts and accessory parts.

Investments with exclusive objective of establishing basic public infrastructure receive:

- 80 percent reduction in Corporate Income Tax (IRPC) rate in the first 5 years;

- 60 percent reduction in the IRPC rate from year 6 to 10; and

- 25 percent reduction in the IRPC rate from year 11 to 15.

Rural Commerce and Industry

Investments in the construction and/or rehabilitation of infrastructure to be used exclusively for the conduct of commercial and industrial activity in rural areas, receive customs duty and VAT exemption for import goods of category "K", as well as the goods: freezers, scales, weights, and cash registers, oil and fuel meters, counter.

Manufacturing and Assembly Industry

Investments in this sector receive the following incentives:

- Manufacturing industry: duty exemption on import of raw materials to be used in the manufacturing process; and

- Assembly of motor vehicles, electronic equipment, computer and communications technology: exemption on import duties for material to be used in the industrial production process.

Agriculture and Fishery

This sector has the following incentives:

- Customs duty and VAT exemption for import goods of category "K" and accompanying spare and accessory parts;

- 80 percent reduction on IRPC until December 31, 2015;

- 50 percent reduction on IRPC from 2016 until 2025; and

- Costs for training is deductable on IRPC.

Tourism and Hotels

Specific incentives are applicable for investments in:

- Construction, rehabilitation, expansion or modernization of hotelery units and the respective complementary and related parts, with the principal purpose being the provision of tourism services;

- Development of infrastructure for the establishment of camping and caravan parks with a minimum three star classification;

- Equipment for the development and exploration of marinas; and

- Development of wild life reserves, national parks and game reserves for tourism.

FOREIGN INVESTMENT & CAPITAL MOBILITY

According to the Law on Investment, Law No. 3/93, article 1, the definition of Foreign Direct Investment (FDI) is the following:

"any form of foreign capital contribution valuable in monetary terms which constitutes own equity capital or resources at the own account and risk of the foreign investor, brought from external sources and to be used in an investment project for carrying out an economic activity, through a company registered in Mozambique and operating from Mozambican territory."

Equality of Treatment

The Law on Investment, 1993, guarantees equal treatment to foreign investors, employers and workers in terms of rights, obligations and requirements of Mozambican nationals in accordance with Mozambican legislation. An exception applies to cases when projects of nationals may merit special treatment and support by the Government due to their nature of scale of investment. Private investors are free to invest in any economic activity that is not exclusively reserved to the Government or public sector initiative. These areas can be defined by the Council of Ministers and included to a certain degree of private investment.

Minimum Investment Requirement

Article 6 of the Regulations of the Investment Law, 2009 sets the minimum value for foreign direct investment at MZN2,500,000 (about US$ 84,000) for eligibility for external remittance of profits and re-export of invested capital.

Investment Restrictions

Most economic sectors are open to foreign equity ownership with the exception of media and telecommunications. Foreign ownership in media enterprises including TV channels and newspapers is only allowed up to a maximum of 20 percent. The fixed-line telecommunication sector is reserved for public investment and only the Mozambican company 'Telecommunications of Mozambique S.A.R.L.' is allowed to operate in this sector.

FOREIGN INVESTMENT OPERATIONS

Business Taxation

The **general corporate income tax (IRPC rate)** is 32 percent, except for agriculture and cattle breeding activities which shall benefit from a reduced tax rate of 10 percent until December 31, 2015.

VAT - The standard Value Added Tax (VAT) is 17 percent and a new system was developed in 2008. VAT is assessed on the c.i.f. customs value for imported goods originally. Exemption from VAT are bread, bicycles, condoms, corn flour, corn, fresh and refrigerates tomatoes, garlic, jet fuel, lamp oil, onion, powdered milk for children, flour, salt, smoked fish, and wheat.

Foreign Exchange and Foreign Investors

All foreign exchange operations have to be registered and authorised by the Bank of Mozambique (BoM – the Central Bank). Residents are allowed to hold foreign exchange accounts in Mozambique and abroad. Repatriation of net profits and dividends is also subject to authorisation by BoM. The Law on Investment guarantees the remittance of funds abroad in connection with:

- Exportable profits resulting from investments eligible for export of profits under the regulations of the Law;
- Royalties and other payments for remuneration of indirect investments that are associated to the granting and transfer of technology;
- Amortization of loans and payment of interest on loans that are contracted in the international financial market and apply to the respective investment projects;
- Proceeds of any compensation paid in case of nationalisation or expropriation; and
- Invested and re-exportable foreign capital, independent of eligibility of the investment project to export profits under the regulations of the Law.

Investment Protection and Dispute Settlement

Mozambique is member of the Multilateral Investment Guarantee Agency (MIGA) which offers investor guarantees for non-commercial risks. Mozambique also has in place Bilateral Investment Treaties and Double Taxation Agreements with a number of countries.

OMAN[11]

Over the years, the Sultanate of Oman has been actively seeking foreign investments with focus on importing technology, management expertise and providing training and employment opportunities to local residents. Oman possesses a modern infrastructure, a growing industrial base, a stable government, financial and monetary stability, a freely convertible currency and, most notably, the institutions that protects investors and ensures their access to the market. Areas that Oman specifically promotes for foreign investment are: manufacturing, information technology, tourism, marine and higher education. Since

[11] The Public Authority for Investment Promotion and Export Development (PAIPED)

1999, Oman has witnessed increased foreign direct investment through the privatization process.

The Public Authority for Investment Promotion & Export Development (PAIPED), originally known as the Omani Centre for Investment Promotion & Export Development (OCIPED), is tasked with attracting foreign investors and smoothing the path for business formation and private sector project development. PAIPED's Directorate General of Investment Promotion provides information on investment climate, laws, procedures and also project specific information of Oman. It is also charged with assisting investors in their various requirements.

The Foreign Capital Investment Law provides the legal framework for non-U.S. and non-GCC foreign investors. Oman's Foreign Capital Investment Law has been liberalized, permitting 70 percent foreign participation in companies automatically in most of the sectors and even 100 percent foreign capital investment is permitted with the approval of the Ministerial Cabinet for projects of national importance. As per the Foreign Capital Investment Law, Ministry grants license to applicants if the paid up capital of the company is at least RO 150,000 (US$ 390,000).

The Law on Income Tax for companies has been amended providing for completely non-discriminatory treatment between fully Omani owned companies and other companies incorporated in Oman, irrespective of the extent of foreign participation. An array of incentives are offered and in the Ministry of Commerce & Industry, a “One-Stop-Shop” for assisting the domestic and foreign investors for obtaining all required clearances quickly and from one window has been established.

INVESTMENT INCENTIVES

Investment incentives include provision of plots for nominal lease charges in specified areas, reduced utility charges and exemption from taxes. Tax exemptions from corporate tax and customs duties are granted to entities engaged in manufacturing, mining, agriculture, fishing, fish farming, fish processing, aquaculture, animal breeding, tourism, export of manufactured and processed products and public utilities. The exemptions are granted for five year from the date of production or services first rendered and a five year extension may also be granted subject to certain conditions.

Foreign airlines and shipping companies are exempted from taxation based on reciprocal treatment. Universities, colleges, higher education institutes, private sector schools, training institutes, and private hospitals are also exempted from tax.

Opening of branch and representative office: Companies conducting business through special contracts or agreements with the government are allowed to establish a branch in Oman. In practice, contracts awarded by the government, Petroleum Development Oman LLC (PDO) and Oman LNG LLC (LNG) enable foreign companies to establish branches in Oman by registering with the Ministry of commerce & Industry. Foreign companies engaged in trade, industry and service sectors may open commercial representative offices in Oman. However they may not import, export or sell its products; promote productions or services other than those produced by the company or communicate directly with the consumers.

TAX RATES

Companies are taxed at a single rate of 12 percent of the taxable income exceeding RO 30,000 irrespective of the percentage of foreign ownership. Branches of foreign companies are taxed at a single rate according to the entire amount of branch's taxable income. The tax rate varies from 5 percent to 30 percent. Foreign companies that do not have a permanent establishment in Oman are subject to a flat tax of 10 percent of gross income on the following types of income: royalties, management fees, rent for equipment, transfer of technical know-how and R & D fees.

REPATRIATION

Oman is a free economy and does not restrict the remittance abroad of equity, debt, capital, interest, dividends, profits and personal savings.

SEYCHELLES[12]

Seychelles Investment Bureau (SIB) is a one-stop-shop for all matters relating to business and investment in Seychelles. SIB's main function is to promote investment and facilitate the investment process in a way which is in line with the administrative, policy and legal framework.

Seychelles International Business Authority (SIBA), established by the SIBA Act 1994, seeks to promote Seychelles as a location for international business and to monitor, supervise and co-ordinate the conduct of international business activities. SIBA is a one-stop shop that covers licensing and regulation of the primary offshore business activities. It is the

[12]SADC (www.sadc.int)

authority or Registrar for International Business Companies, International Trusts, Protected Cell Company, Companies Special License and Limited Partnerships. SIBA regulates International (Free) Trade Zone activities.

The Small Enterprise Promotion Agency (SEnPA) was created in August 2004 to help to promote and develop small enterprises, crafts and cottage industries in Seychelles.

Development Bank of Seychelles (DBS) has a primary role to provide long term financing to Seychelles entrepreneurs. It supports the implementation of sound and viable projects and invests in sectors sch as agriculture, fishing, and tourism.

FOREIGN INVESTMENT & CAPITAL MOBILITY

Foreign investment in Seychelles (portfolio, direct investment, additional investments in existing entities in the form of loans or equity capital) is freely permitted, provided it does not involve alienation of land.

Reserved Activities & Strategic Sectors

The Investment Code of Seychelles Act 2005 reserves a number of activities for Seychellois investors and lists strategic sectors in which investment by a foreign or domestic investor may be permitted subject to conditions to protect the public interest. Strategic areas include activities in which state enterprises currently operate. Strategic areas listed in the Code are:

- production and national distribution of electricity and water,
- storage and distribution of petroleum,
- airport and seaport infrastructure, and other sectors,
- mining of natural resources,
- manufacture of arms and ammunition,
- airspace related activity,
- genetic centres,
- broadcasting and telecommunications services (except for internet reseller),
- animal feed, hatchery, parent stock and abbatoir, and production, and
- distribution and storage of hazardous substances.

Tourism

Seychelles Tourism Board (STB) is responsible for all tourism-related activities, which includes policy formulation, marketing and promotional activities, establishment and monitoring of standards of tourism products and services and the management of the Seychelles Tourism Academy. Foreign investment in the tourism is welcomed, especially where major capital investment is required or local expertise is not available. In line with the programme of economic liberalisation and diversification, most State owned tourism enterprises have been privatised mainly to foreign owners. Ownership and investment in small hotels of not more than 20 rooms is reserved for Seychelles nationals and majority ownership of tour operators must be held by Seychelles nationals.

Foreign Exchange and Foreign Investors

All companies operating in Seychelles can raise capital from commercial banks in the country. Foreign and local companies may hold foreign exchange accounts to facilitate business. The Investment Code provides that investors shall have the right to convert payments in Seychelles rupees (SCR), received through an investment, converted to another currency in accordance with Seychelles law and shall have the right to remit funds abroad including capital relating to the investment and various forms of earnings and fees related to the investment. In practice, prior to the reforms of recent years, because of shortages of convertible currency, foreign investors faced difficulties in repatriating accumulated foreign exchange earnings.

Foreign companies operating in Seychelles, may remit dividends, transfer management fees, royalties and proceeds from the sale of assets subject to a 15 percent withholding tax. Payments for loan principal and interest can be remitted through banks. Investment outside Seychelles by permanent residents and by companies and other organisations operating in Seychelles is not subject to any limitation.

SINGAPORE[13]

The Singapore Economic Development Board (EDB) is the leading government agency for planning and executing strategies to enhance Singapore's position as a global business centre. EDB designs and delivers solutions that create value for investors and companies in Singapore. EDB is a one-stop agency to facilitae and support foreign and local investors in manufacturing and services sector. Singapore's pro-business policies make country an attractive investment destination for investors.

---

[13]Singapore Economic Development Board (EDB) and 2012 Investment Climate Statement, US Department of State

Singapore's legal framework and public policies are generally favorable towards foreign investors. Foreign investors are not required to enter into joint ventures or cede management control to local interests, and local and foreign investors are subject to the same basic laws. Apart from regulatory requirements in some sectors, the government screens investment proposals only to determine eligibility for various incentive regimes. Singapore places no restrictions on reinvestment or repatriation of earnings or capital. The judicial system upholds the sanctity of contracts, and decisions are effectively enforced.

Limits on National Treatment and Other Restrictions: Exceptions to Singapore's general openness to foreign investment exist in telecommunications, broadcasting, the domestic news media, financial services, legal, other professional services, and property ownership. Under Singapore law, Articles of incorporation may include shareholding limits that restrict ownership in corporations by foreign persons. The Telecoms Competition Code opened the industry in 2000 to foreign or domestic companies seeking to provide facilities-based (fixed line or mobile) or services-based (local, international, and callback) telecommunications services.

The local free-to-air broadcasting, cable and newspaper sectors are effectively closed to foreign firms. Section 44 of the Broadcasting Act restricts foreign equity ownership of companies broadcasting to the Singapore domestic market to 49 percent or less, although the Act does allow for exceptions. Individuals cannot hold more than five percent of the shares issued by a broadcasting company without the government's prior approval.

The Newspaper and Printing Presses Act restricts equity ownership (local or foreign) to five percent per shareholder and requires that directors be Singapore citizens. Newspaper companies must issue two classes of shares, ordinary and management, with the latter available only to Singapore citizens or corporations approved by the government. Holders of management shares have an effective veto over selected board decisions. The government controls distribution, importation and sale of any "declared" foreign newspaper.

The Monetary Authority of Singapore (MAS) regulates all banking activities as provided for under the Banking Act. Singapore maintains legal distinctions between foreign and local banks, and the type of license (i.e., full service, wholesale, and offshore) held by foreign banks. Except in retail banking, Singapore laws do not distinguish operationally between foreign and domestic banks.

Singapore has no trading restrictions on foreign-owned stockbrokers. There is no cap on the aggregate investment by foreigners regarding the paid-up capital of dealers that are members of the Singapore Exchange (SGX). Direct registration of foreign mutual funds is allowed, provided MAS approves the prospectus and the fund. In case of legal services, restrictions remain in certain areas, including conveyance, criminal law, family law, and domestic litigation. Foreign law firms can otherwise provide legal services in relation to Singapore law only through a Joint Law Venture (JLV) or Formal Law Alliance (FLA) with a Singapore law firm, subject to the Ministry of Law's guidelines.

Singapore completed its efforts to liberalize its gas market with the amendment of the Gas Act and implementation of a Gas Network Code in 2008, which were designed to give gas retailers and importers direct access to the onshore gas pipeline infrastructure. However, key parts of the local gas market, such as gas retailing and access to offshore gas pipelines, remain controlled by incumbent Singaporean firms.

REGISTERING A BUSINESS IN SINGAPORE

All businesses must be registered with the **Accounting & Corporate Regulatory Authority (ACRA)**. This includes any individual, firm or corporation that carries out business for a foreign company. A foreign company that wants to set up a branch in Singapore will need to appoint two local agents to act on its behalf. These agents must be Singapore residents, that is, either citizens or permanent residents, or foreigners with employment or dependant passes. Special licenses are needed for some businesses such as banking, insurance and stock broking. Special licenses are also required for the manufacture of goods such as cigars and firecrackers.

PERFORMANCE REQUIREMENTS/ INCENTIVES

In general, Singapore complies with WTO Trade-Related Investment Measures (TRIMS) obligations. There are no discriminatory or preferential export or import policies affecting foreign investors. The government does not require investors to purchase from local sources or specify a percentage of output for export. The government also does not require local equity ownership in the investment. There are no rules forcing the transfer of technology. Foreign investors face no requirement to reduce equity over time and are free to obtain their necessary financing from any source. Employment of host country nationals is not required. Singapore offers numerous incentives to encourage foreign investors to start up businesses, particularly in targeted growth sectors.

INCENTIVES ADMINISTERED BY THE MONETARY AUTHORITY OF SINGAPORE (MAS)

As part of the government's strategy to develop Singapore into a premier financial center, MAS offers tax incentives for financial institutions looking to set up operations in the country.

- Financial Sector Incentive ("FSI") Scheme;
- Tax Incentive Scheme for Qualifying Processing Services Company;
- Tax Incentive Scheme for Offshore Insurance Business;
- Tax Exemption Scheme for Marine Hull & Liability Insurance Business;
- Abolition of Withholding Taxes on Financial Guaranty Insurance Contracts;
- Tax Incentive Scheme for Approved New Derivative Products traded on the Singapore Exchange;
- Tax Incentive Scheme for Finance and Treasury Centers;
- Tax Incentive Scheme for Approved Trustee Companies;
- Tax Incentive Scheme for Syndicated Facilities;
- Innovation in Financial Technology & Infrastructure Grant Scheme;
- Tax Incentive for Trading Debt Securities;
- Financial Sector Development Fund;
- Financial Investor Scheme for Singapore Permanent Residence;
- Foreign Charitable Trust Incentive;
- Tax Incentive for Approved Fund Managers;
- Over-the-Counter (OTC) Financial Derivative Payments;
- Insurance and Re-insurance Broking Tax Incentive; and
- Wealth Management Tax Incentive.

INCENTIVES ADMINISTERED BY THE ECONOMIC DEVELOPMENT BOARD (EDB)

- Pioneer Status;
- Development & Expansion Incentive;
- Investment Allowance Incentive;
- Approved Foreign Loan Scheme;
- Approved Royalties Incentive;
- Entrepreneurship Investment Incentive;
- HQ Program;
- Double Deduction for Research and Development (R&D) Expenses;
- Research Incentive Scheme for Companies;
- Exemption of foreign sourced interest and royalty income for R&D purposes;
- Innovation Development Scheme;
- Initiatives in New Technology;
- Integrated Industrial Capital Allowance;
- Special Goods & Services Tax Scheme for 3rd Party Logistics Service Providers;
- The Enterprise Challenge (TEC) Scheme; and
- Writing Down Allowance (WDA) for IP rights acquisition.

SOUTH AFRICA[14]

The Department of Trade and Industry (DTI) is responsible for formulating and coordinating the country's trade and industrial policies. However, other departments and agencies also take important initiatives on trade and investment policy, such as the Departments of Finance, Agriculture, Health, and Mineral and Energy Affairs, as well as the South African Reserve Bank.

Trade and Investment South Africa (TISA) is a division of DTI with three business units - Investment Promotion and Facilitation, Export Development and Promotion and International Operations. TISA is responsible for increasing and retaining the level of foreign and domestic direct investment, increasing South Africa's capability and capacity to promote exports into targeted markets and managing DTI's network of foreign offices. TISA's investment promotion and facilitation responsibilities include:

[14]SADC (www.sadc.int)

Identifying investment opportunities in South Africa; Packaging investment opportunities; Identifying potential investors; Promoting investment opportunities; Facilitating investment in South Africa; Providing a dedicated after-care service; Providing general information on investing in South Africa and the domestic business environment; Arranging inward and outward investment missions; and Facilitating funding and government support.

Provincial Investment Promotion Agencies (IPAs): Eastern Cape Development Corporation, Free State Development Corporation, Gauteng Economic Development Agency, Trade and Investment KwaZulu-Natal, Trade and Investment Limpopo, Mpumalanga Economic Growth Agency, Investing in the Northern Cape, Invest North West, and Western Cape Investment and Trade Promotion Agency. The role of these agencies is to stimulate economic growth in a province through exports by established business and attracting foreign investment through building an enabling environment. TISA is working to coordinate national and provincial investment promotion activities.

The Industrial Development Corporation (IDC): Industrial Development Act, No. 22 of 1940 constituted the Industrial Development Corporation (IDC) to promote the establishment of new industries and industrial undertakings, as well as the development of existing industries and industrial undertakings. IDC provides equity, quasi-equity and medium term loan finance to the private sector to promote industrial development and innovation.

Development Bank of Southern Africa (DBSA): DBSA provides policy advice, planning, programming and financing for infrastructure provision. It cooperates with the private financial sector in support of local authority infrastructure needs, and also promotes public private partnerships.

Investment and Export Incentives

Enterprise Investment Programme (EIP): DTI administers the EIP, an investment incentive in the form of a grant designed to stimulate investment growth in manufacturing and tourism. To justify the awarding of a grant for any project, a funding gap analysis is applied to ensure a grant is only approved where it will have an impact on the timing, scale and quality of the project. Projects in the following categories will not be required to indicate the existence of a funding gap: (a) All projects below R (Rand) 5 mn (€500,000); and (b) New entities not linked to an existing entity, where B-BBEE shareholding is greater than 50 percent. The latter provision does not apply to a new project of an existing entity.

Manufacturing Investment Programme (MIP): MIP aims to enhance the sustainability of manufacturing investment projects by small enterprises and to support large-to-medium-sized investment projects in manufacturing that would otherwise not be established without the grant. MIP provides investment support to both local and foreign owned entities, by offering an investment grant up to 30 percent of the value of qualifying investment costs in machinery, equipment, commercial vehicles, land and buildings, required for establishing a new production facility; expanding an existing production facility; or upgrading production capability in an existing clothing and textile production facility. Investment projects of R5 mn (about €500,000) and below may qualify for an investment grant equal to 30 percent of their total qualifying investment cost, payable over a three year period. Investment projects of above R5 mn may qualify for an investment grant between 15 percent and 30 percent of their qualifying investment costs, calculated on a regressive scale and payable over a period of two years. This investment grant cannot exceed R30 mn (about €3 mn).

INCOME TAX ALLOWANCE INCENTIVE TO SUPPORT GREENFIELD AND BROWNFIELD INVESTMENT PROJECTS

In 2010, under Section 12i of the Income Tax Act 1962, a tax incentive was introduced to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). Section 12i of the Income Tax Act is a tax allowance based on investment in new manufacturing assets and training, provided to employees in the project. The two components of the programme comprise an investment allowance up to a maximum of R900 mn, and a training allowance up to a maximum of R30 mn per project, dependent on compliance with certain criteria. Both allowances are deductible from the taxable income of the applicant company and reduces tax liability.

The objectives of the incentive programme are to support:

- Investment in manufacturing assets, to improve the productivity of the South African manufacturing sector; and
- Training of personnel, to improve labour productivity and the skills profile of the labour force.

The incentive offers:

- R900 mn in the case of any Greenfield project with a preferred status;

- R550 mn in the case of any other Greenfield project;

- R550 mn in the case of any Brownfield project with a preferred status;

- R350 mn in the case of any other Brownfield project;

- An additional training allowance of R36,000 per employee may be deducted from taxable income; and

- A maximum total additional training allowance per project, amounting to R20 mn, in the case of a qualifying project, and R30 mn in the case of a preferred project.

TOURISM SUPPORT PROGRAMME (TSP)

DTI administers a targeted incentive programme to support the development of tourism enterprises that will stimulate job creation and encourage a geographic spread of tourism investment. As tourism is highly concentrated in the metropolitan (metros) areas of Johannesburg, Cape Town and eThekwini, projects located within these metros are excluded from the programme unless the projects are in marginalised areas within the metros. Marginalised areas are those with higher than the national average unemployment rate.

AUTOMOTIVE INVESTMENT SCHEME (AIS)

The AIS provides investment support to light motor vehicle and automotive component manufacturers. It is an incentive designed to grow and develop the automotive sector through investment in new and / or replacement models and components that will increase plant production volumes, sustain employment and / or strengthen the automotive value chain.

The AIS provides investment support to light motor vehicle and automotive component manufacturers. It provides for a taxable cash grant of 20 percent of the value of qualifying investment in productive assets approved by DTI. An additional taxable cash grant of 5 percent to 10 percent may be available to projects that are found to be strategic by the DTI. A further taxable cash grant of 5 percent to 10 percent of the value of qualifying investment in productive assets may be available to projects that meet specified requirements.

OTHER INVESTMENT AND EXPORT INCENTIVE PROGRAMMES

Other investment and export incentive programmes include: Clothing and Textile Competitiveness Improvement Programme (CTCIP); Production Incentive (PI); Critical

Infrastructure Programme (CIP); Business Process Out-sourcing and Off-shoring (BPO&O); Sector Specific Assistance Scheme (SSAS); Co-operative Incentive Scheme (CIS); Film Production Incentive; Black Business Supplier Development Programme (BBSDP); Export Marketing & Investment Assistance Scheme (EMIA) and Capital Projects Feasibility Programme.

TAX INCENTIVES

South African Revenue Services (SARS) is responsible for tax incentives. The Income Tax Act, 1962 contains specific tax incentives including:

- Double taxation avoidance agreements;
- Depreciation may be claimed in respect of the cost of plant and machinery, implements, utensils and other articles used for the purpose of trade;
- Capital allowance write-off over 5 years at 20 percent per annum on a straight line basis in respect of machinery and equipment used for the first time in a manufacturing or similar process.
- A wear-and-tear allowance is available annually for machinery and equipment, which do not qualify for the 20 percent capital allowance;
- Five percent depreciation allowance is allowed annually on cost of buildings (and improvements);
- Writing off of patents, copyright, trademarks, designs and other intellectual property acquiring and developing costs; and
- Capital investment on buildings and equipment used exclusively for scientific research and approved by the Council for Scientific and Industrial Research (CSIR) may be written off, on a straight line basis, at the rate of 25 percent per year.

EXPORT CREDIT AND FOREIGN INVESTMENT INSURANCE

The Export Credit Insurance Corporation of South Africa Ltd. (ECIC) provides export credit insurance for goods and services. Insurance cover is provided for losses arising from political risk, expropriation, loss incurred due to any action taken by the host government that prevents the conversion of a local currency, war and civil disturbance, breach of contract, protracted default and insolvency. The ECIC provides credit insurance for 2-10 years. Credit insurance covers up to 90 percent of the contract value but it is contingent on a national content of at least 50 percent of the export value.

South Africa offers subsidised medium term and long term loans to promote the export of capital goods and services. Financing facilities offered by banks and financial institutions, such as IDC, are enhanced by the credit insurance cover and interest support from ECIC. This support enables exporters of capital goods and services to offer extended credit facilities to foreign buyers by underwriting bank loans and investments outside South Africa.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

Broad-Based Black Economic Empowerment (B-BBEE) is to advance economic transformation and enhance the economic participation of black people in the South African economy. “Black people” is defined in the BEE Act as a generic term which means Africans, Coloureds and Indians, who are citizens of RSA by birth, descent or naturalisation, (a) occurring before the commencement date of the Constitution of RSA Act 1993, or (b) occurring after the commencement date of the Constitution but who, without the Apartheid policy would have qualified for naturalisation before then.

There is a generic BEE Scorecard which measures empowerment progress in direct empowerment through ownership and control of enterprises and assets, human resource development and employment equity, and indirect empowerment through preferential procurement and enterprise development.

FOREIGN INVESTMENT ESTABLISHMENT, REGISTERING AND LICENSING PROCESSES

There is no limit on foreign ownership, except in banking and media. When establishing a business, a business licence is required to be obtained from the local authority. The licence is valid indefinitely, except for businesses handling foodstuffs and those where people gather, such as clubs or theatres, which require renewable licences. There is a choice of entity through which a South African or foreign investor may carry out business in South Africa.

Restrictions on Investments

Two restrictions to foreign investment remain in place in South Africa: (i) local minimum equity requirements for banks and insurance companies; and (ii) businesses with non-resident ownership or control equal to or greater than 75 percent are restricted as to the amount they may borrow from local financial markets. In addition, a foreign bank establishing a branch may be required to employ a minimum number of local residents to obtain a banking licence, and to have a minimum capital base. Foreign companies are also required to register as “external companies” before immovable property can be registered in their name. With the exception of financial institutions, any foreign company may establish a place of business in South Africa, and conduct its activities without having to incorporate as a local entity. The establishment of a branch requires registration as an “external company” within 21 days of establishment of a place of business. Additional approval is required for a business entity that will be involved in import and export activities.

MINING & PETROLEUM

Mining and petroleum are regulated by the Mineral and Petroleum Resources Development Act (MPRDA) (Act No. 28) 2002 and the Minerals and Energy Laws Rationalisation Act (Act No. 47) 1994. The MPRDA Act provides that foreigners and nationals have the right to apply for a prospecting right, mining permit, reconnaissance permit, beneficiation right, exploration right, and / or mining right as long as they comply with the requirements set out in the law. The law makes no reservations for South African citizens but it empowers the Minister to give preference to applications from historically disadvantage people when considering applications received on the same date.

DIAMONDS & PRECIOUS METALS

The South African Diamond and Precious Metals Regulator (SADPMR) regulates the diamond and precious metals (gold and platinum-group metals) industries, under the Diamond Act No. 56 of 1986 and the Precious Metals Act No. 37 of 2005. SADPMR administers, and controls the purchase, sale, beneficiation, import, and export of diamonds. It also administers and controls the acquisition, possession, smelting, refining, fabrication, use, and disposal of precious metals. SADPMR issues licences, permits, and certificates for all activities related to diamonds and precious metals. SADPMR ensures that all diamond dealers comply with the Kimberley Process certification scheme.

ENERGY SECTOR

The National Energy Regulator of South Africa (NERSA) regulates petroleum, gas, and electricity. It issues licences for building petroleum pipelines, loading and storage facilities, constructing and operating gas transmission, distribution, and re-gasification facilities, conversion of infrastructure, trade in gas, and electricity generation and distribution.

COMMUNICATIONS

The Department of Communications (DoC) is responsible for policies and legislation related to communications technology (ICT), ensuring reliable and affordable ICT infrastructure, strengthening the Independent Communications Authority of South Africa (ICASA), the regulator, enhancing the capacity of and overseeing state-owned enterprises (SOEs), and meeting South Africa's international ICT responsibilities. The **Electronic Communications Act No. 36 of 2005** is aimed at facilitating the synergies between telecom, broadcasting, and information technologies services, while promoting competition in the sector through inter alia, facilitating access to networks.

FOREIGN INVESTMENT OPERATIONS

Business Taxation

New enterprises file with SARS for income tax, value added tax (VAT), employee tax – standard income tax on employees (SITE) and pay as you earn (PAYE).

Corporate income tax rate is 28 percent and there is also a 12.5 percent secondary tax companies (STC) levied on declared dividends. Foreign resident companies that earn income from a South Africa source face a tax rate of 33 percent as STC is not payable by a foreign resident company.

Value Added Tax - VAT is levied on domestically produced and imported goods and services at a standard rate of 14 percent. Exports, some basic foodstuffs, goods used or consumed for agricultural, pastoral or other farming purposes, fuels, and international transport of goods and passengers are zero-rated. Goods and services exempt from VAT include financial services, donated goods or services or any other goods made or manufactured with donated inputs, the supply of residential accommodation, educational services and transport services. VAT is not payable on temporary imports and imports for export-processing.

Export Levy - South Africa levies a diamond export levy on the value of exports of unpolished diamonds to promote the development of the local economy, develop skills, and create employment. Exports of unpolished diamonds are prohibited unless undertaken by a producer, a manufacturer (synthetic diamonds), a dealer, or a holder of an export permit. There are also export levies on citrus fruit (R0.0213 per kg) and wine (in bulk R0.05 per litre and R0.08 per litre otherwise).

Foreign Exchange and Foreign Investors

There is no general screening or review process for foreign investment in RSA, but foreign investment is subject to exchange control policy and regulations. Non-residents that comply with exchange control policy and regulations may invest in South Africa with evidence that the transaction is at arm's length and at fair market related prices, financed by the introduction of foreign currency, rands from a non-resident account, or local financial assistance to non-residents or an "affected person". The proceeds of a sale or redemption of assets owned by a non-resident may be remitted from South Africa, or used in the Common Monetary Area (Republic of South Africa, Lesotho, Namibia and Swaziland), for investment and other purposes and credited to a non-resident account.

A South African registered entity that is 75 percent or more foreign controlled is an "affected person" and is restricted in the amount it may borrow from South African lenders. A company that is wholly owned by non-residents may borrow up to 300 percent of total shareholder investment for use in the business. Effective capital for shareholder investment includes paid-up equity capital, preference shares, undistributed earned profit, shareholders' loans from abroad and, in some cases shareholders trade credit. Where there is South African as well as non-resident ownership additional sums may be borrowed.

TANZANIA[15]

The Tanzania Investment Centre (TIC), a government institution established in 1990, is the key agency for promotion of investment in the country. Responsibilities of TIC include: registration of companies, registration and approval of investments, investment promotion, investment facilitation, tax registration, land issues, immigration issues, and After Care Services.

The Tanzania Revenue Authority (TRA) is in charge of all tax laws and related issues and is a semi-autonomous government agency.

Zanzibar Investment Promotion Authority has been established by the Zanzibar Investment Promotion and Protection Act, 2004. The Act regulates all investments that are undertaken on Zanzibar and the island of Pemba.

Investment and Export Incentives

Investment incentives are dominantly tax incentives, and many of these are also relevant for the export promotion.

[15]SADC (www.sadc.int)

Besides these, other incentives provided to foreign investors are:

- Unrestricted right to international arbitration in case of disputes with the Government;

- Straight-line accelerated depreciation allowance on capital goods;

- Fast track to obtain permits such as work/residence permits and industrial and trading licenses with the assistance of TIC;

- Permission to employ 5 foreign expatriates upon following the procedures laid down by the Immigration Department for issuance of Resident's Permits; and

- Recognition by the Government which helps to facilitate assistance when needed from Government.

Import Duty Drawback - Import duty charged on imported inputs and which are used for producing goods for export and goods sold to foreign institutions such as the UN in Tanzania, is refunded.

Manufacturing under bond - Businesses/ Factories manufacturing goods under bond for export purpose are exempted from the import duty and other taxes on inputs which are used for manufacture of such goods.

INVESTMENT OPPORTUNITY SECTORS

The government has identified investment opportunities in Tanzania according to sectors and sub-sectors. Priority sectors are:

- Agriculture including livestock,
- Air Aviation,
- Commercial Buildings,
- Commercial Development and Micro finance Banks,
- Export processing,
- Geographical special development areas,
- Human resources development,
- Manufacturing,
- Natural resources, including fishing,
- Radio and Television broadcasting, and
- Tourism and Tour operation.

TAX INCENTIVES

The Tanzania Investment Act, 1997 provides a variety of incentives for both national and international investors. Tax incentives granted are in the form of capital deductions and allowances.

Economic Infrastructure - Tax incentives in the economic infrastructure sector for the road, railways, air and sea transport, port facilities, telecommunication, banking & insurance are the following:

	Duty	VAT
All capital goods	0 percent	Relieved
Corporate tax	30 percent	
Listed company to DSE	25 percent	
Withholding tax on dividends	10 percent	
Withholding tax on interest	10 percent	

Losses can be carried forward indefinitely. Companies with a perpetual tax loss for 3 consecutive years as a result of tax incentives on its investment are in such case charged 0.3 percent of the annual turnover.

Mineral Sector - The general tax incentives in the mineral sector are:

	Duty	VAT
All capital goods	0 percent	Relieved
Spare parts	0 percent	Relieved
Explosive and other supplies	0 percent	Relieved
Fuel & oils	0 percent	Relieved
Corporate tax	30 percent	
Listed company to DSE	25 percent	
Capital allowance	100 percent	
Withholding tax on technical services	5 percent	
Withholding tax on dividends	10 percent	
Withholding tax on interest	10 percent	

In addition, the following taxes and levies apply:

- Royalty of 3 percent except on diamond, which is 5 percent and 12.5 percent for petroleum & gas;
- No tax, duty, fee or other fiscal impost on dividends;
- No capital gain tax;
- Losses are carried forward for unrestricted period;
- A duty tax of 5 percent and VAT is charged after the first 5 years of commercial production;
- Yearly appreciation of unrecovered capital in investment; and
- Importation by or supply to a registered licensed exploration, prospecting, mineral assaying, drilling or mining company, of goods which if imported will be eligible for duty under customs law, and service for exclusive use in exploration, prospecting, drilling or mining activities.

Agriculture - General tax incentives in the agricultural sector are:

	Duty	VAT
All capital goods	0 percent	Relieved
Agricultural machinery/ equipment	0 percent	Exempt
Fertilizers and pesticides	0 percent	Exempt
Farm implements & inputs	0 percent	Exempt
Corporate tax	30 percent	
Capital allowance	100 percent	
Withholding tax on interest	10 percent	
Withholding tax on dividends	10 percent	

Losses are carried forward indefinitely.

Tourism - General tax incentives in the tourism sector are:

	Duty	VAT
All capital goods	0 percent	Relieved
Corporate tax	30 percent	
Capital allowance	50 percent	
Withholding tax on interest	10 percent	
Withholding tax on dividends	10 percent	

Losses are carried forward indefinitely.

Exemption on Import Duty are:

- Imported four wheel drives designed and built for tourist purposes. They are subject to satisfying criteria set by the East African Community Secretariat; and

- Hotel equipment which were engraved or printed or marked with the hotel logo imported by a licensed hotel for its use.

Manufacturing and Fish Farming Sector - The law allows for a 50 percent capital allowance for plant and machinery that is used in the manufacturing and fish farming sectors. The rest will follow the depreciable chart of the Income Tax Act, 2004.

In the **Petroleum and Gas sector**, there are:

- tax exemptions for equipment and material used for exploration;

- negotiated levels of cost of oil or gas split after the discovery of oil or gas for the purposes of recovering costs for exploration, development and production; and

- negotiated levels of profit from oil or gas split.

Exceptions for major investments - According to the Tanzanian Investment Act, the National Investment Steering Committee can offer additional incentives and benefits that are not yet provided by the act, or are above it for strategic or major investment projects.

FOREIGN INVESTMENT & CAPITAL MOBILITY

Mining Sector Legislation

Investments in mining and petroleum exploration are guided by two pieces of legislation, the Mining Act No. 5 of 1998 and the Petroleum (Exploration and Development) Act of 1980. The Mining Act grants investors the right to trade in mineral rights and provides special incentives for companies operating in this sector.

Investment requirements

An investor who likes to be granted incentives has to acquire a certificate of incentives from TIC. The minimum requirement is an investment above US$ 300,000 for foreign investors and US$ 100,000 for local investors.

Types of Companies

Investors can register as a Private Limited Company, a Public limited company, or a branch of an overseas company, as per the Companies Act, 2002.

FOREIGN INVESTMENT OPERATIONS

Business Taxation

The main taxes are the corporate income tax, withholding tax on dividends, interest, royalties and natural resource payments and rent, and personal income tax as direct taxes, and the VAT and duties as indirect taxes.

Corporate Income Tax - Income tax is applied to profits of Tanzanian resident companies and foreign companies trading in Tanzania through a branch or agency. Tax for a resident company is paid on the worldwide income. A foreign incorporated company is treated as resident if the management and control of the entity's affairs is exercised in Tanzania. The general corporate **income tax is 30 percent.** Several exceptions apply to investors according to the sector of investment.

VAT - Value added tax is at 20 percent, with certain goods and services for export being eligible to zero tax rate. Claims for VAT refund must be supported by an auditor's certificate. Businesses that are constantly in a refund position such as exporters can apply for lodging their refund on a monthly basis.

Local Taxes - There are property taxes paid to local governments on the value of the premise. Rates depend on the value and location of the premises. Local governments can charge a 0.3 percent service levy that is based on the turnover generated in the respective district. A cess tax applies to agricultural produce and livestock which cannot exceed 5 percent of the producer price.

Foreign Exchange and Foreign Investors

Foreign exchange controls have been liberalised with the enactment of the Foreign Exchange Act 1992. It liberalised external trade and payments in order to provide an enabling environment for efficient allocation of foreign exchange and market-determined exchange rates.

Repatriation

The Investment Act 1997 guarantees in article 21 the following: Subject to this section, a business enterprise to which this Act applies shall be guaranteed unconditional transferability through any authorised dealer bank in freely convertible currency of-

a) net profits or dividends attributable to the investment;

b) payments in respect of loan servicing where a foreign loan has been obtained;

c) royalties, fees and charges in respect of any technology transfer agreement registered under this Act;

d) the remittance of proceeds (net of all taxes and other obligations) in the event of sale or liquidation of the business enterprise or any interest attributable to the investment; and

e) payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

Even though there are no restrictions, certain foreign exchange transactions require approval of the Bank of Tanzania such as investments outside the country and foreign lending operations in favour of non-residents.

Investment Protection and Dispute Settlement

Tanzania is member of the International Centre for the Settlement of Investment Disputes (ICSID), and the Multilateral Investment Guarantee Agency (MIGA). A number of Bilateral Investment Treaties and Double Taxation Agreements have also been signed by the country.

5 INDIA'S ENDEAVOURS IN IOR-ARC MEMBER COUNTRIES

India's bilateral trade and investment with other IOR-ARC member countries have risen significantly in recent years. IOR-ARC is a strategic region for India, significant for its geopolitical importance. At present, India is the Chair of the Council of Ministers of IOR-ARC. This chapter discusses trends in India's bilateral trade with select IOR-ARC member countries, major trading partners and the major items of bilateral trade. This chapter also discusses trends in investment flows between India and other member countries of IOR-ARC and the role of Export-Import Bank of India (Exim Bank) in promoting India's trade and investment in IOR-ARC countries.

TRENDS IN INDIA-IOR-ARC TRADE

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 to 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 **(Table 5.1)**. 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. India contributes 15.6 percent of total intra-IOR-ARC trade in 2010.

The importance of IOR-ARC in India's international trade can be gauged from the fact that the region accounted for 30.9 percent of India's total global exports in 2010, up from 17.6 percent recorded in 2001. India's total imports from IOR-ARC accounted for 26.6 percent of India's total global imports during 2010, up from 18.6 percent in 2001. Countries such as Singapore, Mauritius, UAE, Australia and Kenya, among others, are not only important trading partners for India, but also major destinations for India's global overseas investments.

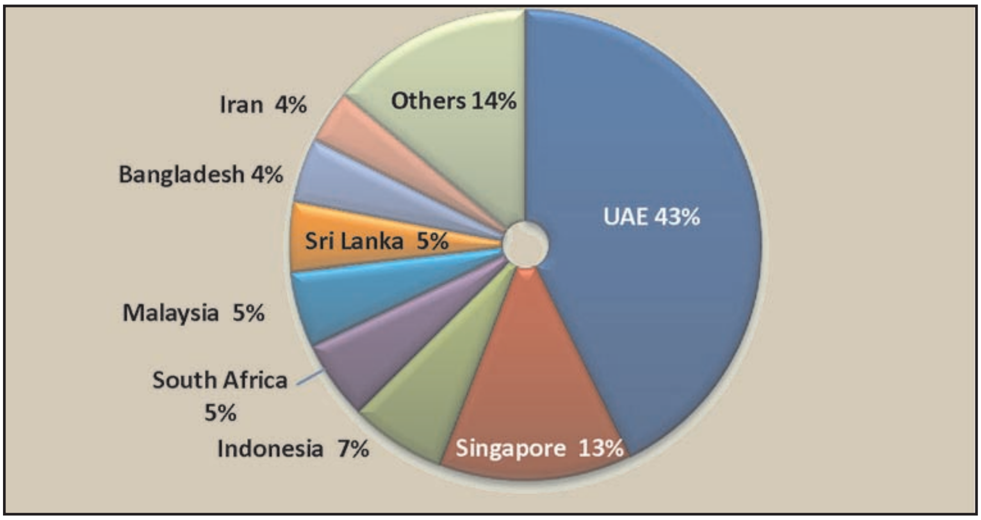
India's exports to other IOR-ARC member countries witnessed a robust growth, increasing by a CAGR of 27 percent during the period 2001 to 2010, while India's imports from IOR-ARC increased at 25.9 percent

Table 5.1: India's Trade with IOR-ARC Region, 2001-2010 (US$ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	8.0	11.0	15.2	20.1	25.6	33.5	44.1	54.0	49.2	69.0
% Change	1.3	37.2	38.8	31.7	27.6	31.0	31.4	22.6	-9.0	40.3
Imports	11.0	9.3	13.1	18.2	22.8	40.3	57.1	70.2	67.8	87.3
% Change	31.4	-15.4	41.2	38.7	25.3	76.6	41.7	22.9	-3.4	28.8
Total Trade	19.0	20.3	28.4	38.3	48.4	73.8	101.2	124.2	117.0	156.3
Trade Balance	-3.0	1.7	2.1	1.8	2.8	-6.8	-13.1	-16.2	-18.7	-18.4

Source: DOTS, IMF

Chart 5.1: India's Exports to IOR-ARC Countries, 2010 (Percent Share)



Source: DOTS, IMF

during the same period. On account of increased imports from the region, India's trade balance with the region started experiencing a deficit from 2006 onwards and stood at US$ 18.4 billion in 2010.

India's Trade with Other IOR-ARC Member Countries

UAE is India's leading export destination, accounting for 42.7 percent of India's total exports to

Table 5.2: India's Exports to IOR-ARC Member Countries, 2001-2010 (US$ mn)

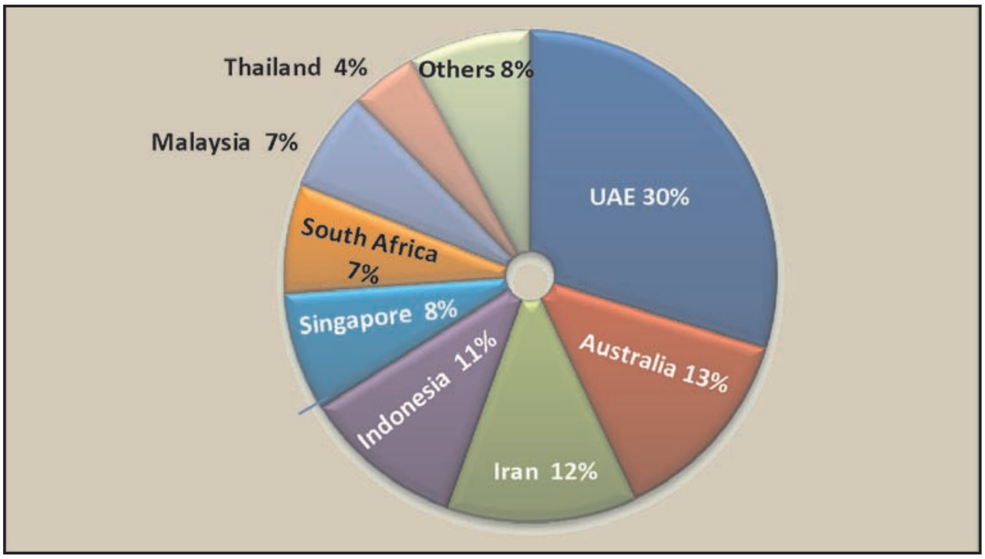
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
UAE	1,679	3,119	4,676	6,605	8,281	11,172	14,728	21,848	20,667	29,455
Singapore	1,017	1,309	1,949	3,378	5,069	5,908	7,043	7,997	6,721	9,107
Indonesia	442	754	1,053	1,251	1,368	1,866	2,126	2,428	2,873	4,579
South Africa	245	451	526	854	1,391	2,067	2,555	2,139	1,865	3,757
Malaysia	702	755	857	970	1,142	1,269	2,252	3,215	3,464	3,587
Sri Lanka	547	848	1,220	1,345	1,872	2,198	2,683	2,484	1,733	3,316
Bangladesh	1,087	1,133	1,600	1,625	1,656	1,637	2,595	2,575	2,181	3,022
Iran	510	554	852	1,139	1,199	1,385	1,824	2,369	1,953	2,522
Thailand	612	692	802	850	1,032	1,352	1,717	1,936	1,592	2,164
Kenya	148	192	223	368	539	1,131	1,513	1,396	1,351	2,001
Australia	409	483	564	661	796	899	1,094	1,357	1,315	1,657
Tanzania	80	109	161	170	226	277	513	918	887	1,125
Oman	206	186	244	257	373	575	861	813	982	905
Mauritius	145	164	193	237	214	602	999	989	385	687
Mozambique	23	43	64	76	116	176	382	424	338	496
Yemen	123	160	204	233	271	959	1,060	830	741	493
Madagascar	17	14	33	35	41	45	54	196	86	64
Seychelles	6	6	9	10	11	12	57	85	19	30
Total IOR-ARC	**7,998**	**10,972**	**15,230**	**20,064**	**25,597**	**33,530**	**44,056**	**53,999**	**49,153**	**68,967**
India's Global Exports	**45,513**	**50,522**	**61,130**	**75,387**	**98,212**	**120,550**	**153,775**	**177,700**	**165,186**	**223,179**
% Share in India's Global Exports	**17.6**	**21.7**	**24.9**	**26.6**	**26.1**	**27.8**	**28.6**	**30.4**	**29.8**	**30.9**

Source: DOTS, IMF

IOR-ARC, and 13 percent of India's global exports in 2010. The other major export destinations of India in the IOR-ARC region during the same year were Singapore (13.2 percent of exports to IOR-ARC), Indonesia (6.6 percent), South Africa (5.4 percent), and Malaysia (5.2 percent) **(Chart 5.1 and Table 5.2).** India's exports to Mozambique, UAE, South Africa, Tanzania, Kenya and Indonesia have shown a sharp rise compared to its 2001 exports levels.

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 (accounting for 13 percent), Iran (12 percent), Indonesia (11 percent), and Singapore (8 percent) are the other important import sources among the IOR-ARC member countries in the same year. India's imports from Oman, UAE, Iran, Mozambique and South Africa have registered sharp rise during 2001-2010 **(Chart 5.2 and Table 5.3)**.

Chart 5.2: India's Imports from IOR-ARC Member Countries, 2010 (Percent Share)



Source: DOTS, IMF

Table 5.3: India's Imports from IOR-ARC Member Countries, 2001-2010 (US$ mn)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
UAE	1,163	947	1,784	3,951	4,426	7,582	12,267	18,821	15,418	25,933
Australia	1,367	1,329	2,321	3,333	4,667	6,493	7,630	8,277	10,744	11,525
Iran	508	265	265	366	629	5,896	10,093	11,829	10,574	10,907
Indonesia	1,159	1,295	1,937	2,412	2,911	3,879	4,660	6,212	7,864	9,210
Singapore	3,018	1,402	1,923	2,458	3,178	4,956	7,461	7,603	6,047	6,831
South Africa	398	1,930	1,948	2,085	2,403	2,472	3,328	4,984	4,901	6,221
Malaysia	1,735	1,382	1,901	2,177	2,386	4,575	5,827	6,767	4,923	5,739
Thailand	530	390	552	777	1,125	1,612	2,162	2,567	2,684	3,810
Oman	157	12	42	28	204	412	965	1,174	2,550	3,614
Yemen	680	44	33	30	15	1,511	1,604	913	1,146	2,228
Sri Lanka	79	85	169	322	528	497	591	420	328	481
Bangladesh	67	61	74	61	110	203	250	296	235	355
Tanzania	90	87	105	124	123	104	148	191	250	256
Kenya	33	33	40	44	48	54	79	83	76	108
Mozambique	4	22	25	37	48	34	43	36	44	87
Madagascar	2	4	5	7	14	19	17	18	22	21
Mauritius	2	13	10	7	7	13	11	13	9	15
Seychelles	-	-	-	-	1	1	1	1	1	8
Total IOR-ARC	**10,992**	**9,301**	**13,134**	**18,219**	**22,823**	**40,313**	**57,137**	**70,205**	**67,816**	**87,349**
India's Global Imports	**59,151**	**58,912**	**74,078**	**99,838**	**139,888**	**176,669**	**235,025**	**281,467**	**257,665**	**328,731**
% Share in India's Global Imports	**18.6**	**15.8**	**17.7**	**18.2**	**16.3**	**22.8**	**24.3**	**24.9**	**26.3**	**26.6**

Note: '-' denotes nil or marginal

Source: DOTS, IMF

Commodity Composition of Bilateral Trade

There has been a shift in the composition of India's export basket to IOR-ARC during the last decade. In 2001, articles of apparel, accessories, not knit or crochet, iron and steel and residues and animal fodder were among India's top export items to IOR-ARC, but was replaced by mineral fuels, vehicles and ships, boats and other floating structure in 2010. 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), ships, boats and other floating structures (4.3 percent), machinery and instruments (3.4 percent), electrical and electronic equipment (3 percent), cotton (2.5 percent), organic chemicals (2.3 percent), cereals (2.3 percent), and articles of iron and steel (2.3 percent).

Similarly, there has been a shift in the composition of India's imports from other IOR-ARC member countries. India's imports from IOR-ARC member countries became more concentrated in the recent years compared to 2001 and 2005, as evident from the fact that the top two items alone account for nearly 70 percent of total imports from the region in 2010. 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), ores, slag and ash (3 percent), electrical and electronic equipment (2.8 percent), organic chemicals (2.5 percent), plastics and articles (1.5 percent), and iron and steel (1.1 percent).

INDIA'S BILATERAL TRADE WITH SELECT IOR-ARC MEMBER COUNTRIES

UAE

Bilateral trade between India and UAE has increased significantly in the recent years. UAE is India's largest trade partner, largest export destination and largest import source in IOR-ARC region. UAE accounted for 35.4 percent of total trade, 42.7 percent of total exports and 29.7 percent of total imports of India in IOR-ARC region in 2010. India's bilateral trade with UAE increased from US$ 2.8 billion in 2001 to US$ 55.4 billion in 2010, supported by increase in both exports and imports. India structurally has a trade surplus with UAE, with the surplus increasing from US$ 516 mn in 2001 to US$ 3.5 billion in 2010, supported by India's growing exports to the country.

During the last decade, India's exports to UAE have shown a steady rise, an almost 18-fold increase from US$ 1.7 billion to US$ 29.5 billion in 2010 except for a 5.4 percent decrease in 2009. India's exports to UAE are dominated by pearls, precious stones, metals, and coins, especially unset diamonds, accounting for half of India's exports to the country in 2010 **(Table 5.4)**.

UAE is the largest destination for India's global exports of pearls and precious stones, accounting for 49.9 percent of India's total exports to UAE during 2010. Other main items in India's export basket to UAE in 2010 include mineral fuels and distillation products (19.5 percent of total exports), cereals (2.4 percent), electrical and electronic equipment (2.2 percent), copper and articles (2.2 percent), articles of iron or steel (2 percent), and articles of apparel, accessories, not knit or crochet (1.9 percent).

During the last decade, India's imports from UAE have shown a steady rise, increasing by more than 22-fold from US$ 1.2 billion to US$ 25.9 billion in 2010. India's imports from UAE are highly concentrated with the top two import commodities together accounting for around 93 percent of India's total imports from UAE. With regard to India's imports from UAE, the import basket is dominated by pearls, and precious stones, accounting for 65 percent of India's total imports from the country during 2010. In 2010, UAE was also the second largest source of India's global imports of the same. Other imported commodities include crude mineral fuels (27.9 percent of total imports), iron and steel (1 percent) and aluminium and articles (0.8 percent) **(Table 5.5).**

Table 5.4: India's Major Exports to UAE (Percent Share)

Commodities	**2001**	**2005**	**2010**
Pearls, precious stones, metals and coins	21.6	35.6	49.9
Mineral fuels, oils and distillation products	0.1	13.2	19.5
Cereals	2.2	1.2	2.4
Electrical and electronic equipment	2.3	2.4	2.2
Copper and articles	0.4	3.5	2.2
Articles of iron or steel	4.3	3.5	2.0
Articles of apparel, accessories, not knit or crochet	11.1	3.4	1.9
Machinery and instruments	2.8	3.4	1.8
Articles of apparel, accessories, knit or crochet	4.2	1.9	1.7
Iron and steel	2.4	2.5	1.3

Source: Trade Map, ITC Geneva

Table 5.5: India's Major Imports from UAE (Percent Share)

Commodities	2001	2005	2010
Pearls and precious stones	51.6	75.0	65.0
Mineral fuels	19.7	4.8	27.9
Iron and steel	4.6	2.7	1.0
Aluminium and articles	3.5	1.5	0.8
Copper and articles	1.7	1.0	0.7
Plastics and articles	1.2	1.3	0.7
Ships, boats and other floating structures	0.2	2.5	0.5
Salt, sulphur, earth, stone, plaster, lime and cement	3.2	1.3	0.4
Electrical and electronic equipment	1.2	2.8	0.4
Machinery	2.4	1.1	0.4

Source: Trade Map, ITC Geneva

With a view to enhance bilateral trade and investment relations, India and the GCC member countries including UAE have signed 'The Framework Agreement on Economic Cooperation" in August 2004. An Indo-UAE Joint Commission for Economic, Scientific and Technical Cooperation was set up in January 1975 and India-UAE Trade Policy Forum was set up in May 2007 for facilitation of trade between the two countries.

SINGAPORE

Singapore is the second largest trading partner, second largest export destination and fifth largest import source of India in the IOR-ARC region. India's bilateral trade with Singapore has expanded significantly after the conclusion of the Comprehensive Economic Cooperation Agreement (CECA) between both countries in 2005. India's CECA with Singapore was the first such agreement to be signed by India with any country. The agreement integrated agreements on trade in goods and services, investment protection, and economic cooperation in fields like education, intellectual property and science & technology. It also provides Mutual Recognition Agreements (MRAs) that eliminates duplicative testing and certification of products in sectors where there are mandatory technical requirements.

Singapore's total trade with India has increased around four-fold over the last decade to US$ 15.9

billion in 2010 from US$ 4 billion in 2001. Singapore accounted for 10.2 percent of total trade, 13.2 percent of total exports and 7.8 percent of total imports of India from IOR-ARC. Though India had a trade deficit with Singapore in the beginning of the decade, it has turned into a surplus in the recent years. Currently, India's trade surplus with Singapore stood at US$ 2.3 billion. India's exports to Singapore increased nine-fold during this decade to reach US$ 9.1 billion in 2010 from US$ 1 billion in 2001. India's exports to Singapore is dominated by mineral fuels, oils and distillation products, accounting for 53.9 percent of India's exports to the country in 2010. Other main items in India's export basket to Singapore in 2010 include ships, boats and other floating structures (8.5 percent of total exports), pearls and precious stones (5 percent), machinery and instruments (4 percent), and electrical and electronic equipment (3.1 percent) **(Table 5.6**).

Similarly, India's imports from Singapore more than doubled during the decade to reach US$ 6.8 billion in 2010 from US$ 3 billion in 2001. With regard to India's import items from Singapore, there has been a major shift in the commodity composition. At present, crude mineral fuels and oils dominated India's imports from Singapore with a share of 32.5 percent in total imports **(Table 5.7)**, whereas its share was marginal till 2005. Other principal import items from Singapore include machinery (14.6 percent of total imports), electrical equipment (14.6 percent), and organic chemicals (12.5 percent).

Table 5.6: India's Major Exports to Singapore (Percent Share)

Commodities	2001	2005	2010
Mineral fuels, oils and distillation products	0.03	39.4	53.9
Ships, boats and other floating structures	0.8	4.5	8.5
Pearls, precious stones, metals and coins	12.4	27.5	5.0
Machinery and instruments	6.1	3.6	4.0
Electrical and electronic equipment	12.3	2.7	3.1
Organic chemicals	5.2	3.6	3.0
Optical, photo, technical, and medical apparatus	1.5	1.0	2.1
Aircraft, spacecraft, and parts	0.6	-	1.7
Vehicles other than railway and tramway	0.6	0.5	1.3
Aluminium and articles	9.9	2.5	0.9
Residues and animal fodder	6.5	1.1	0.2

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

Table 5.7: India's Major Imports from Singapore (Percent Share)

Commodities	2001	2005	2010
Mineral fuels and oils	0.6	0.3	32.5
Machinery	29.3	30.8	14.6
Electrical and electronic equipment	21.2	20.0	14.6
Organic chemicals	10.3	13.0	12.5
Ships, boats and other floating structures	1.8	4.1	4.7
Plastics and articles	3.6	3.9	4.5
Optical, photo, technical and medical apparatus	3.9	4.5	4.0
Iron and steel	2.1	2.1	1.4
Miscellaneous chemical products	1.8	1.3	1.3
Pearls and precious stones	1.7	0.5	1.2
Printed books, newspapers and pictures	7.7	7.0	0.4

Source: Trade Map, ITC Geneva

INDONESIA

Indonesia is the third largest trading partner, third largest export destination and fourth largest import source of India in the IOR-ARC region. Bilateral trade between the countries has reached US$ 13.8 billion in 2010 from 1.6 billion in 2001. Indonesia is one of the few countries whose trade with India has not been affected much by the global economic crisis. India's trade with Indonesia has shown dynamism both in terms of exports and imports. India's exports to Indonesia have made a quantum jump from US$ 442 mn in 2001 to US$ 4.6 billion in 2010, growing at a CAGR of 29.7 percent. Mineral fuels and distillation products accounted for 41.3 percent of total exports of India to the country in 2010, increasing from 0.9 percent in 2001 and 13.2 percent in 2005 **(Table 5.8)**. Other major export commodities in the same year include organic chemicals (10.5 percent of exports), transport equipment (10.2 percent) and oil seeds (4.2 percent).

India's imports from Indonesia have also witnessed significant jump rising from US$ 1.2 billion in 2001 to US$ 9.2 billion in 2010. Thus, it is discernable that Indonesia has remained a more attractive imports source for India as compared to India's export destination. Indonesia is the largest supplier of edible vegetable oil and second largest supplier of coal, coke & briquettes to India. Major imported items of India from Indonesia in 2010 include animal and vegetable fats and oils (40.1 percent of total imports), mineral fuels and oils (31.6 percent),

Table 5.8: India's Major Exports to Indonesia (Percent Share)

Commodities	2001	2005	2010
Mineral fuels, oils and distillation products	0.9	13.2	41.3
Organic chemicals	5.5	22.3	10.5
Transport equipment	3.0	1.5	10.2
Oil seeds	7.8	4.1	4.2
Machinery	2.9	5.6	3.7
Electrical and electronic equipment	1.7	1.9	3.6
Cotton	4.1	2.0	3.1
Residues and animal fodder	13.5	8.1	3.0
Iron and steel	6.7	13.3	2.4
Aluminium and articles	1.1	0.5	1.8
Plastics and articles	5.0	1.9	1.7
Sugars and sugar confectionery	15.2	0.4	-

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

Table 5.9: India's Major Imports from Indonesia (Percent Share)

Commodities	2001	2005	2010
Animal and vegetable fats and oils	38.4	35.9	40.1
Mineral fuels and oils	11.9	25.8	31.6
Ores, slag and ash	5.4	6.2	7.1
Ships, boats and other floating structures	-	0.8	3.6
Rubber and articles	0.7	0.9	3.1
Organic chemicals	4.1	1.8	2.0
Electrical and electronic equipment	1.0	3.0	1.9
Pulp of wood, fibrous cellulosic material	2.2	2.1	1.7
Miscellaneous chemical products	4.5	1.5	1.2
Machinery	2.0	3.0	0.7
Wood and articles of wood, wood charcoal	7.6	0.3	0.3

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

ores, slag and ash (7.1 percent), ships, boats and other floating structures (3.6 percent) and rubber and articles (3.1 percent) **(Table 5.9).**

SOUTH AFRICA

India has strong economic and commercial ties with South Africa. India and South Africa are members of two developing country groupings, IBSA and BRICS. India's bilateral trade with South Africa witnessed a CAGR of 35.6 percent over the last decade from US$ 643 mn in 2001 to US$ 10 billion in 2010.

South Africa is India's fourth largest export destination in the IOR-ARC region, with total exports amounting to US$ 3.8 billion in 2010 increasing from US$ 245 mn in 2001. Ships, boats and other floating structures alone accounted for 26 percent of total exports, showing a sharp pick up in 2010 over the previous years. Other major exported items in 2010 include mineral fuels and distillation products (20.6 percent of total exports), vehicles (12.8 percent) and pharmaceutical products (7 percent). Trends in India's exports to South Africa are presented in **Table 5.10.**

Table 5.10: India's Major Exports to South Africa (Percent Share)

Commodities	2001	2005	2010
Ships, boats and other floating structures	0.003	-	26.0
Mineral fuels, oils and distillation products	0.002	26.6	20.6
Vehicles other than railway, tramway	5.0	18.1	12.8
Pharmaceutical products	4.0	3.4	7.0
Electrical and electronic equipment	2.8	2.1	3.9
Machinery and instruments	4.9	2.9	3.3
Plastics and articles	1.9	1.8	2.0
Organic chemicals	2.7	3.4	1.9
Iron and steel	5.1	5.2	1.9
Articles of iron or steel	3.2	2.0	1.6
Pearls and precious stones	4.8	1.5	1.3
Articles of apparel, accessories, not knit or crochet	10.3	3.3	1.0
Cotton	7.1	0.7	0.4
Cereals	6.4	7.4	0.3

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

Table 5.11: India's Major Imports from South Africa (Percent Share)

Commodities	2001	2005	2010
Pearls, precious stones, metals and coins	69.3	69.9	62.0
Mineral fuels and oils	8.5	7.0	20.2
Ores, slag and ash	1.0	0.5	4.8
Iron and steel	3.1	7.4	3.5
Inorganic chemicals, precious metal compound, isotopes	7.1	6.4	2.7
Aluminium and articles	0.5	0.7	1.1
Organic chemicals	1.1	1.7	1.0
Machinery	0.9	1.1	0.8
Ships, boats and other floating structures	-	0.1	0.5
Pulp of wood, fibrous cellulosic material and waste	1.2	1.5	0.5

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

With regard to India's imports from South Africa, which is the sixth largest import source of India in the region, total imports amounted to US$ 6.2 billion in 2010, increasing from US$ 398 mn in 2001. The import basket is dominated by pearls, precious stones, metals and coins, especially gold, accounting for 62 percent of India's total imports from the country during 2010. Other commodities include mineral fuels and oils (20.2 percent), ores, slag and ash (4.8 percent) and iron and steel (3.5 percent) **(Table 5.11)**.

IRAN

Bilateral trade between India and Iran have witnessed significant rise, during the last decade, with India's bilateral trade (exports plus imports) with Iran rising from US$ 1 billion in 2001 to US$ 13.4 billion in 2010. This buoyant trend has been supported by both rise in India's exports to and imports from Iran, with India's imports showing a much higher growth as compared to India's exports to Iran. In 2010, Iran was India's fourth largest trading partner in IOR-ARC region, with a share of 8.6 percent of India's total trade with IOR-ARC member countries. India's trade balance with Iran, which showed a surplus of US$ 570 mn in 2005, turned into a deficit of US$ 4.5 billion in 2006 owing to sharp increase in crude oil imports. By 2010, India's trade deficit with Iran stood at US$ 8.4 billion.

During 2010, Iran was the eighth largest export market of India, with a share of 3.7 percent of India's total exports to IOR-ARC region. India's exports to Iran increased by a CAGR

Table 5.12: India's Major Exports to Iran (Percent Share)

Commodities	2001	2005	2010
Inorganic chemicals, precious metal compound, isotopes	2.6	3.1	18.6
Articles of iron or steel	4.0	9.7	17.4
Cereals	0.2	0.1	14.7
Iron and steel	12.4	14.0	7.7
Machinery and instruments	5.3	6.4	5.6
Organic chemicals	10.0	5.1	3.6
Electrical, electronic equipment	6.4	2.8	3.6
Coffee, tea, mate and spices	7.6	1.9	3.0
Manmade staple fibres	1.3	0.9	2.7
Pharmaceutical products	5.1	2.5	2.2
Mineral fuels, oils and distillation products	0.1	31.4	1.3
Meat and edible meat offal	6.1	1.4	1.8
Rubber and articles	6.0	2.0	1.8
Ores, slag and ash	5.9	0.1	0.1

Source: Trade Map, ITC Geneva

of 19.4 percent over the decade to reach US$ 2.5 billion in 2010 from US$ 510 mn in 2001, due to rise in exports of inorganic chemicals, cereals, iron and steel and articles of iron or steel to Iran. Inorganic chemicals, precious metal compound and isotopes accounted for 18.6 percent of total exports of India to Iran in 2010, followed by articles of iron and steel (17.4 percent), cereals (14.7 percent), and iron and steel (7.7 percent) **(Table 5.12)**.

Iran was the third largest source of imports for India among IOR-ARC member countries, with a share of 12.5 percent of India's total imports from IOR-ARC region. India's imports from Iran increased by a CAGR of 40.6 percent over the last decade to reach US$ 10.9 billion in 2010 from US$ 508 mn in 2001. As regards India's import composition from Iran, mineral fuels and oils dominate the import basket, accounting for as much as 86 percent of India's total imports from Iran. In 2010, Iran was also the third largest source of imports of mineral fuels and oils for India, accounting for 8.6 percent of India's total global imports of mineral fuels. Iran is also a major source for India's imports of ores slag and ash, organic chemicals, fertilizers as well as plastics and articles, with a significant share in India's global imports **(Table 5.13)**.

Table 5.13: India's Major Imports from Iran (Percent Share)

Commodities	2001	2005	2010
Mineral fuels and oils	12.8	1.1	86.0
Ores, slag and ash	1.6	1.5	3.6
Organic chemicals	13.8	21.9	3.5
Fertilizers	-	0.4	1.6
Inorganic chemicals	11.4	7.3	1.5
Plastics and articles	-	0.7	1.3
Salt, sulphur, earth, stone and cement	5.9	6.3	0.6
Edible fruits and nuts	17.9	8.3	0.4
Iron and steel	1.0	23.6	0.3
Zinc and articles	2.9	6.6	0.3
Aluminium and articles	13.7	10.4	0.01
Edible vegetables, certain roots and tubers	13.7	3.6	0.01

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

India and Iran hold regular bilateral talks on economic and trade issues at the Indo-Iran Joint Commission Meeting (JCM). The 16th JCM was held in New Delhi during July 8-9, 2010. During the JCM, 6 MoUs/ agreements were signed: (i) Air Services Agreement; (ii) Agreement on Transfer of Sentenced Persons; (iii) MoU on Cooperation in New & Renewable Energy; (iv) MoU on Cooperation in Small Scale Industry between National Small Industries Corporation (NSIC) and Iranian Small Industries and Industrial Parks Organisation (ISIPO); (v) Programme of Cooperation on Science & Technology and (vi) MoU on Cooperation between Central Pulp and Paper Research Institute of India (CPPRI) and Gorgan University of Agricultural Science and Natural Resources (GUASNR).

AUSTRALIA

Australia is the fifth largest trading partner of India among IOR-ARC member countries, with a share of 8.4 percent in 2010. India-Australia trade witnessed a sharp increase in the recent years, growing at a CAGR of 24.9 percent to reach US$ 13.2 billion in 2010 from US$ 1.8 billion in 2001. Consequent to India's large scale imports from Australia compared to its exports, India has its largest trade deficit with Australia among the IOR-

ARC member countries. India's trade deficit with Australia increased over the decade from US$ 958 mn in 2001 to US$ 9.9 billion in 2010.

Australia is the eleventh largest export destination of India among IOR-ARC member countries, accounting for 2.4 percent of India's total exports to the region. India's exports to Australia increased by a CAGR of 16.8 percent during the last decade to stood at US$ 1.7 billion in 2010, up from US$ 409 mn in 2001. Major commodities in India's export basket to Australia in 2010 include pearls, precious stones, metals and coins, accounting for 13.5 percent of total exports to Australia, followed by vehicles other than railway and tramway (11.8 percent), electrical and electronic equipment (8.7 percent) and machinery and instruments (6.3 percent) **(Table 5.14).**

Australia was the second largest source of imports for India among IOR-ARC member countries, with a share of 13.2 percent of India's total imports from IOR-ARC region. India's imports from Australia increased by a CAGR of 26.7 percent over the last decade to reach US$ 11.5 billion in 2010 from US$ 1.4 billion in 2001. As

Table 5.14: India's Major Exports to Australia (Percent Share)

Commodities	2001	2005	2010
Pearls, precious stones, metals and coins	7.1	10.8	13.5
Vehicles other than railway and tramway	1.6	2.1	11.8
Electrical and electronic equipment	3.5	3.4	8.7
Machinery and instruments	3.1	5.5	6.3
Pharmaceutical products	2.1	2.9	4.8
Other made textile articles and sets	6.8	5.5	4.0
Articles of iron or steel	4.5	5.6	3.4
Coffee, tea, mate and spices	1.7	3.5	2.8
Plastics and articles	1.4	1.8	2.7
Optical, photo, technical and medical apparatus	0.5	0.6	2.7
Organic chemicals	4.0	3.0	2.6
Articles of apparel, accessories, not knit or crochet	6.5	4.6	2.5
Articles of leather, harness and travel goods	3.5	3.9	2.5
Iron and steel	1.3	5.2	1.6
Marine products	5.5	2.6	0.1

Source: Trade Map, ITC Geneva

Table 5.15: India's Major Imports from Australia (Percent Share)

Commodities	2001	2005	2010
Mineral fuels and oils	47.1	38.9	42.9
Pearls and precious stones	8.3	43.8	34.0
Ores, slag and ash	10.4	4.5	10.5
Wool, animal hair yarn and fabric	5.7	2.1	1.2
Edible vegetables and certain roots	4.6	0.4	1.1
Nickel and articles	1.2	0.1	1.1
Inorganic chemicals	0.3	1.1	1.0
Fertilizers	0.0	0.2	0.9
Copper and articles	0.8	0.4	0.9
Cereals	0.1	0.04	0.7
Cotton	4.3	0.04	0.03

Source: Trade Map, ITC Geneva

regards India's import composition from Australia, mineral fuels and oils dominate the import basket, accounting for 42.9 percent of India's total imports from Australia. Other major items in India's import basket from Australia in 2010 include pearls and precious stones (34 percent of total imports), and ores slag and ash (10.5 percent) **(Table 5.15)**. Australia is India's largest global source of coal, coke & briquettes, and 4th largest source of gold.

Indian and Australian trade ministers formally launched negotiations to conclude a Comprehensive Economic Cooperation Agreement (CECA) between both countries on May 12, 2011. A CECA will include investment and trade in goods and services, and would provide greater market access to Indian exporters of goods and services. The signing of agreement will broaden the base of merchandise trade, remove non-tariff barriers to services trade, facilitate and encourage investment and address behind-the-border restrictions on trade.

SRI LANKA

India has strong economic and commercial ties with Sri Lanka. During the last decade, India's bilateral trade with Sri Lanka increased over six-fold from US$ 626 mn in 2001 to US$ 3.8

Table 5.16: India's Major Exports to Sri Lanka (Percent Share)

Commodities	2001	2005	2010
Vehicles other than railway and tramway	6.9	15.0	23.7
Mineral fuels, oils and distillation products	0.7	31.8	18.1
Cotton	10.3	4.7	5.8
Iron and steel	5.5	5.7	3.9
Ships, boats and other floating structures	0.01	0.04	3.6
Pharmaceutical products	4.6	3.2	3.5
Machinery	5.7	3.4	2.8
Electrical and electronic equipment	2.9	1.9	2.7
Coffee, tea, mate and spices	2.5	1.2	2.4
Articles of iron or steel	2.9	1.7	2.4
Edible vegetables and certain roots	5.5	3.1	2.3
Sugars and sugar confectionery	7.4	0.2	1.7
Salt, sulphur, earth, stone and cement	5.0	1.3	1.0

Source: Trade Map, ITC Geneva

billion in 2010. As regards exports, Sri Lanka is India's sixth largest export destination in the IOR-ARC region, with total exports amounting to US$ 3.3 billion in 2010 increasing from US$ 547 mn in 2001. Vehicles other than railway and tramway alone accounted for 23.7 percent of total exports in 2010, showing a sharp pick up over that of previous years. Other major exported items in 2010 include mineral fuels and distillation products (18.1 percent of total exports), cotton (5.8 percent) and iron and steel (3.9 percent). Trends in India's exports to Sri Lanka are presented in **Table 5.16.**

With regard to India's imports from Sri Lanka, which is the eleventh largest import source of India in the region, total imports amounted to US$ 481 mn in 2010, increasing from US$ 79 mn in 2001. The import basket of India from Sri Lanka is dominated by ships, boats and other floating structures, accounting for 16.3 percent of India's total imports from the country during 2010. Other major commodities imported include coffee, tea, mate and spices (13 percent), rubber and articles (11.1 percent), residues and animal fodder (10.1 percent) and electrical and electronic equipment (6.9 percent) **(Table 5.17)**.

Table 5.17: India's Major Imports from Sri Lanka (Percent Share)

Commodities	2001	2005	2010
Ships, boats and other floating structures	0.5	0.1	16.3
Coffee, tea, mate and spices	27.6	7.9	13.0
Rubber and articles	1.5	1.5	11.1
Residues and animal fodder	1.1	0.3	10.1
Electrical and electronic equipment	0.3	4.3	6.9
Machinery	3.8	4.9	6.0
Copper and articles	4.5	27.0	3.5
Pulp of wood and fibrous cellulosic material	4.8	1.6	3.3
Cocoa and cocoa preparations	0.1	0.01	3.3
Wood and articles of wood, wood charcoal	0.4	2.0	1.9
Animal, vegetable fats and oils	2.5	23.1	0.1
Mineral fuels and oils	19.3	-	0.2
Organic chemicals	4.2	3.4	0.03

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

BANGLADESH

Bangladesh is strategically located between the emerging markets of South Asia and the ASEAN countries. Hence, it has a huge potential to become a trading and investment hub. Bangladesh has the potential to be an entry port to the region covering, Nepal, Bhutan, the north-east Indian states (Assam, Meghalaya, Manipur, Arunachal Pradesh, Nagaland, Mizoram, Tripura and Sikkim), and resource-rich Myanmar.

Indo-Bangladesh trade increased by nearly three-fold over the past decade to reach its all-time high of US$ 3.4 billion in 2010 from US$ 1.2 billion in 2001. Over the decade, India's exports to Bangladesh more than doubled from US$ 1.1 billion in 2001 to US$ 3 billion in 2010, while India's imports from Bangladesh increased by over five-fold from US$ 67 mn in 2001 to US$ 355 mn in 2010. On a year-on-year basis, India's imports from Bangladesh inched higher by 51.1 percent to US$ 355 mn in 2010, as compared to US$ 235 mn in 2009. Bangladesh's share in India's imports has been minuscule and stagnant at 0.4 percent.

India's trade surplus with Bangladesh has surged from US$ 1 billion in 2001, to US$ 2.7 billion in 2010. This rise can be mainly attributed to the trade

Table 5.18: India's Major Exports to Bangladesh (Percent Share)

Commodities	2001	2005	2010
Cotton	17.1	14.4	31.0
Vehicles other than railway and tramway	5.5	4.2	8.3
Residues and animal fodder	4.6	2.3	7.9
Edible vegetables and certain roots	3.0	7.7	6.6
Cereals	14.0	21.5	5.2
Mineral fuels, oils and distillation products	3.5	8.0	3.7
Machinery	7.6	4.2	3.0
Organic chemicals	1.7	2.8	3.0
Manmade filaments	0.3	1.4	2.7
Plastics and articles	1.3	1.7	2.5
Iron and steel	3.3	4.9	2.2
Sugars and sugar confectionery	3.7	0.3	0.01

Source: Trade Map, ITC Geneva

Table 5.19: India's Major Imports from Bangladesh (Percent Share)

Commodities	2001	2005	2010
Vegetable textile fibres, paper yarn and woven fabric	28.9	13.6	21.4
Other made textile articles and sets	29.1	10.7	14.4
Marine products	9.6	9.0	10.8
Salt, sulphur, earth, stone and cement	-	0.9	8.4
Mineral fuels and oils	-	-	7.1
Edible fruit and nuts	0.2	1.7	5.6
Iron and steel	-	0.5	4.0
Raw hides and skins and leather	2.7	2.0	3.6
Copper and articles	0.6	1.1	3.5
Articles of apparel, accessories, not knit or crochet	2.7	1.0	3.2
Inorganic chemicals, precious metal compound and isotopes	19.3	41.4	0.6

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

formalisation efforts between the two countries and Bangladesh's increased dependence on India, especially for its main export raw material, cotton.

Some of the major commodities exported to Bangladesh in 2010 were cotton, which accounted for 31 percent of the total exports, followed by vehicles other than railway and tramway, residues and animal fodder, edible vegetables, cereals, mineral fuels, and machinery and equipments **(Table 5.18).**

India's major imports from Bangladesh in 2010 included vegetable textile fibres, paper yarn and woven fabric, which accounted for 21.4 percent of the total imports, followed by made textiles (14.4 percent), marine products (10.8 percent), cement (8.4 percent) and petroleum crude (7.1 percent) **(Table 5.19).**

KENYA

Bilateral trade between India and Kenya has registered a substantial increase over the last decade with the trade volume growing at a CAGR of 31.4 percent and exceeding US$ 2.1 billion in 2010. India has a trade surplus with Kenya, which increased from US$ 115 mn in 2001 to US$ 1.9 billion in 2010.

Over the decade, India's exports to Kenya grew by a CAGR of 33.6 percent to reach US$ 2 billion in 2010 from US$ 148 mn in 2001. Kenya currently is the tenth largest export destination of India, accounting for 2.9 percent of India's exports to IOR-ARC region. India's exports to Kenya are dominated by mineral fuels and distillation products, contributing 49.2 percent of India's total exports to the country. Other principal commodities in India's export basket to Kenya include pharmaceutical products (7.8 percent of total exports), machinery and instruments (6.1 percent) and electrical and electronic equipment (5.9 percent) **(Table 5.20).**

India's imports from Kenya remained marginal throughout the last decade. Imports from Kenya increased marginally from US$ 33 mn in 2001 to US$ 108 mn in 2010. On a year-on-year basis, India's imports from Kenya increased by 42.1 percent in 2010 from US$ 76 mn in 2009 due to increased imports of edible vegetables and certain roots from the country. Kenya accounted for a minuscule 0.1 percent of India's total imports to IOR-ARC region during 2010. Edible vegetables and certain roots dominated India's imports from Kenya in 2010, accounting for 30.9 percent of total imports from the country **(Table 5.21)**. Other major import items include the traditional import commodities like inorganic chemicals, precious metal compound and isotopes (17.8 percent of total imports) and coffee, tea, mate and spices (12.6 percent of total imports).

Table 5.20: India's Major Exports to Kenya (Percent Share)

Commodities	2001	2005	2010
Mineral fuels, oils and distillation products	0.2	27.5	49.2
Pharmaceutical products	12.0	6.6	7.8
Machinery and instruments	10.9	12.1	6.1
Electrical and electronic equipment	4.2	4.1	5.9
Iron and steel	8.4	3.4	4.3
Vehicles other than railway and tramway	6.6	4.8	3.4
Plastics and articles	5.7	4.0	2.4
Rubber and articles	5.0	3.6	2.1
Articles of iron or steel	4.3	2.9	1.8
Manmade staple fibres	3.1	2.1	1.4

Source: Trade Map, ITC Geneva

Table 5.21: India's Major Imports from Kenya (Percent Share)

Commodities	2001	2005	2010
Edible vegetables and certain roots	5.1	1.5	30.9
Inorganic chemicals, precious metal compound, isotopes	31.5	27.6	17.8
Coffee, tea, mate and spices	10.1	14.9	12.6
Raw hides and skins and leather	10.4	13.6	10.4
Salt, sulphur, earth, stone and cement	3.0	7.3	6.6
Iron and steel	1.4	6.7	6.3
Wool, animal hair yarn and fabric	1.3	3.7	1.8
Lead and articles	-	-	1.7
Copper and articles	1.3	0.4	1.6
Pulp of wood, fibrous cellulosic material and waste	-	-	1.4
Pearls, precious stones, metals, coins, etc	13.1	4.7	0.8
Edible fruit and nuts	11.5	12.5	0.5
Tanning, dyeing extracts, tannins and pigments	5.2	0.2	0.3

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva

TRENDS IN INDIA - IOR-ARC FDI INVESTMENT

IOR-ARC member countries has recognized the importance of FDI in sustaining the growth levels and technology transfer. Countries in the IOR-ARC region remained significant investment partners for India over the past many years, with both inward and outward FDI flows showing remarkable increases in the recent years. Integration of the Indian economy with IOR-ARC is evident from the increased two-ways investment flows in the recent years. Although bilateral investment between India and other IOR-ARC member countries have improved a lot, there is still vast potential for development, as the member countries have huge untapped markets and are amongst the fastest growing economies in the world.

As on July 2012, India entered into Bilateral Investment Promotion and Protection Agreements (BIPA) with ten IOR-ARC member countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by the companies based in either country. India also signed a BIPA with Seychelles in 2010 which is yet to come into force. The details of India's BIPA with IOR-ARC member countries are provided in **Table 5.22.** There are also negotiations on BIPA underway with Kenya, South Africa, Tanzania and UAE. The purpose of BIPA is to create such conditions which are favourable

Table 5.22: India's BIPA with IOR-ARC Member Countires

Reporting Country	Partner Country	Date of Agreement	Date of Enforcement
India	Malaysia	August 3, 1995	April 12, 1997
India	Sri Lanka	January 22, 1997	February 13, 1998
India	Oman	April 2, 1997	October 13, 2000
India	Mauritius	September 4, 1998	June 20,2000
India	Indonesia	February 10, 1999	January 22, 2004
India	Australia	February 26, 1999	May 4, 2000
India	Thailand	July 10, 2000	July 13,2001
India	Yemen	October 30, 2002	February 10, 2004
India	Mozambique	February 19, 2009	September 23, 2009
India	Bangladesh	February 9, 2009	July 7, 2011
India	Seychelles	June 2, 2010	-

Note: '-' denotes yet to enter into force

Source: Ministry of Finance (MoF), Government of India (GoI) for fostering greater investments by the investors of one country in the territory of the other country. Such agreements are beneficial for both the countries because they stimulate their business initiatives and thus enhance their prosperity.

India has also signed a comprehensive Double Taxation Avoidance Agreement (DTAA) for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, with Australia, Bangladesh, Indonesia, Kenya, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, Thailand and UAE.

FDI Inflows to India from IOR-ARC

As regards cumulative inflow of foreign direct investments (FDI) into India, IOR-ARC region continued to

Table 5.23: FDI Inflows into India from IOR-ARC Member Countries (US$ mn)

Country	2010-11	2011-12	April 2000 to June 2012
Mauritius	6,987.1	9,941.9	65,607.9
Singapore	1,705.1	5,257.3	17,555.3
UAE	340.6	352.8	2,300.7
Indonesia	1.0	0.5	605.8
Australia	24.3	51.2	510.6
Oman	267.8	9.3	343.4
Malaysia	40.4	18.2	312.1
South Africa	0.2	1.8	112.0
Thailand	6.9	14.1	100.5
Sri Lanka	3.5	6.0	22.9
Kenya	3.0	1.3	20.0
Seychelles	1.1	0.8	17.9
Yemen	-	-	1.9
Tanzania	0.4	-	1.4
Iran	0.1	-	0.1
Bangladesh	-	-	-
Madagascar	-	-	-
Mozambique	-	-	-
Total IOR-ARC	**9,381.5**	**15,655.2**	**87,513.3**
India's Global FDI Inflows	**19,425.9**	**36,504.0**	**1,74,713.6**
Share of IOR-ARC	**48.3**	**42.9**	**50.1**

Note: '-' denotes nil or marginal

Source: Department of Industrial Policy & Promotion (DIPP), Government of India play a significant role. The two largest global sources of FDI inflows to India, namely, Mauritius and Singapore together accounts 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 investment flow into India from the IOR-ARC region during the period. Singapore is the second largest FDI source of India among IOR-ARC at US$ 17.6 billion, contributing 20.1 percent of FDI inflows from the region. The other main sources of investment flow from IOR-ARC into India were UAE, Indonesia, Australia, Oman, Malaysia and South Africa. Investments from UAE amounted to US$ 2.3 billion, while investment from Indonesia amounted to US$ 605.8 mn during the period **(Table 5.23)**.

FDI Outflows from India

In the recent years, India's FDI outflow to IOR-ARC has also risen significantly. India's FDI outflows to IOR-ARC surged from US$ 3.6 billion during April 1996 to March 2006 to US$ 78.8 billion during April 2006 to March 2012 **(Table 5.24)**. 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. In 2011-12, investments in IOR-ARC region dropped by 56.3 percent to US$ 17.7 billion from US$ 27.7 billion during 2010-11, reflecting a fall in investments into Mauritius. Out of India's total investments into IOR-ARC region in 2011-12, 81.8 percent were in the form of WOS.

Cumulatively, during the period April 1996 to March 2012, Singapore was India's largest investment recipient among the IOR-ARC member countries, attracting approximately 47 percent of India's total investments in IOR-ARC region, followed by Mauritius, UAE and Australia. The favourable business environment and availability of supportive infra-structure has made Singapore a favourable Indian investor destination in the IOR-ARC region.

During 2010-11, Mauritius, with FDI outflows of US$ 13.1 billion, replaced Singapore as the most favourable investment destination, supported by its business friendly investment climate. In 2011-12, Mauritius continued to remain 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

Table 5.24: FDI Outflows from India to IOR-ARC Member Countries (US$ mn)

Country	April 1996 to March 2006	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	Total
Singapore	655.4	1,085.6	8,360.5	4,137.2	6,787.4	11,856.3	5,945.8	38,828.1
Mauritius	1,409.3	1,162.8	1,506.3	2,651.2	2,351.8	13,106.9	7,421.1	29,609.3
UAE	337.8	284.5	649.6	908.9	1,366.4	1,922.9	1,134.9	6,605.0
Australia	428.9	174.9	47.9	147.2	36.8	234.3	2,415.3	3,485.1
Sri Lanka	140.1	8.3	6.9	209.3	23.8	203.9	172.8	765.1
Indonesia	128.3	31.3	6.8	62.5	266.0	29.5	113.3	637.8
Malaysia	50.7	14.6	67.5	8.8	7.1	75.0	400.6	624.4
Oman	214.0	27.4	23.7	9.4	15.0	150.7	7.1	447.4
Thailand	47.0	93.4	21.6	121.5	59.6	9.6	33.3	386.2
Bangladesh	23.1	16.0	4.5	20.7	167.1	37.9	72.9	342.1
South Africa	35.7	23.4	46.2	22.1	70.2	41.8	12.2	251.5
Iran	103.8	0.6	0.2	20.1	0.1	54.8	-	179.5
Kenya	15.6	0.2	133.2	0.6	0.8	0.7	1.8	152.9
Tanzania	4.5	-	10.5	0.1	21.3	6.6	7.4	50.3
Mozambique	10.1	-	3.2	4.9	0.04	3.0	1.0	22.2
Seychelles	-	-	-	-	0.0001	2.5	0.7	3.2
Yemen	-	-	-	-	2.6	-	-	2.6
Madagascar	0.03	-	-	0.03	0.03	0.01	0.6	0.7
Total IOR-ARC	**3,604.3**	**2,922.9**	**10,888.6**	**8,324.51**	**1,176.02**	**7,736.4**	**17,740.8**	**82,393.4**
India's Global FDI Outflows	**16,129.3**	**15,144.2**	**23,071.6**	**17,147.4**	**17,987.2**	**43,929.0**	**30,862.9**	**164,271.7**
Share of IOR-ARC	**22.3**	**19.3**	**47.2**	**48.5**	**62.1**	**63.1**	**57.5**	**50.2**

Note: '-' denotes nil or marginal

Source: RBI; MoF, GoI and Exim Bank Research

US$ 5.9 billion investment from India, accounting for 33.5 percent and 19.3 percent of India's total investments to IOR-ARC region and world, respectively.

India's top investments in select IOR-ARC member countries for the fiscal 2011-12[16] are:

[16] Reserve Bank of India (RBI)

Mauritius

- Reliance Industries Ltd. in manufacturing sector for US$ 1,744 mn;
- Tata Power Co Ltd. in manufacturing sector for US$ 904 mn;

- ETHL Communications Holdings Pvt Ltd. in financial, insurance, real estate and business services for US$ 776.9 mn;
- United Phosphorous Ltd. in manufacturing sector for US$ 570.3 mn;
- RHC Holding Private Ltd. in financial, insurance, real estate and business services for US$ 529.1 mn;
- GMR Infrastructure Ltd. in construction sector for US$ 473.6 mn; and
- Aegis Ltd. in community, social and personal services for US$ 214 mn.

Singapore

- GVK Power & Infrastructure Ltd. in transport, storage and communication services for US$ 1,413.5 mn;
- Tata Steel Ltd. in financial, insurance, real estate and business services for US$ 1,018.2 mn;
- Bharti Airtel Ltd. in transport, storage and communication services for US$ 492 mn;
- Greatship [India] Ltd. in financial, insurance, real estate and business services for US$ 395.2 mn; and
- GMR Infrastructure Ltd. in electricity, gas and water for US$ 255 mn;
- Tata Motors Ltd. in manufacturing sector for US$ 202 mn.

Australia

- Bharat Petroresources Ltd. in construction sector for US$ 2,252.2 mn;
- Dr. Reddy's Laboratories Ltd. in agriculture, hunting, forestry and fishing sector for US$ 55.4 mn;
- Kirloskar Integrated Technologies Ltd. in financial, insurance, real estate and business services for US$ 41 mn;
- Mahindra Aerospace Pvt Ltd. in construction sector for US$ 17.7 mn; and
- Pearls Infrastructure Project Ltd. in financial, insurance, real estate and business services for US$ 10.3 mn.

UAE

- Ultratech Cement Ltd. in manufacturing sector for US$ 156 mn;
- Reliance Industries Ltd. in financial, insurance, real estate and business services sector for US$ 112 mn;

- Jindal Saw Ltd. in manufacturing sector for US$ 82 mn;
- M Suresh Company Pvt Ltd. in manufacturing sector for US$ 62 mn;
- Moser Baer Clean Energy Ltd. in construction sector for US$ 62 mn;
- Karuturi Global Ltd. in agriculture & mining sector for US$ 59 mn; and
- Nagarjuna Construction Co Ltd. in construction sector for US$ 50.5 mn.

Malaysia

- Biocon Ltd. in manufacturing sector for US$ 364 mn;
- Manipal Universal Learning Pvt Ltd. in community, social and personal services sector for US$ 12 mn;
- Opto Circuits (India) Ltd. in manufacturing sector for US$ 10 mn; and
- TDM Infrastructures Pvt Ltd. in construction sector for US$ 7 mn.

Sri Lanka

- Bharti Airtel Ltd. in transport, storage and communication services sector for US$ 68.8 mn;
- AA Infraproperties Pvt Ltd. in construction sector for US$ 35.9 mn; and
- Indian Oil Corporation Ltd. in manufacturing sector for US$ 30 mn.

Indonesia

- Welspun Steel Ltd. in wholsale, retail trade, restaurants and hotels sector for US$ 57.8 mn;
- TVS Motor Company Ltd. in manufacturing sector for US$ 18.0 mn;
- Cox and Kings India Ltd. in transport, storage and communication services for US$ 16.5 mn; and
- VPR Mining Infrastructure Private Ltd. in agriculture, hunting, forestry and fishing sector for US$ 3.6 mn.

Bangladesh

- House of Pearl Fashions Pvt Ltd. in wholesale, retail trade, restaurants and hotels sector for US$ 59.6 mn; and
- Pacific Apparels Ltd. in agriculture, hunting, forestry and fishing sector for US$ 2 mn.

Thailand

- Tata Motors Ltd. in manufacturing sector for US$ 30 mn.

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 globally, including with countries in the IOR-ARC region. Since its commencement in 1982, Exim Bank plays a 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 and plays a key role in facilitating economic cooperation within the IOR-ARC region through its association with the regional banks and institutions. Exim Bank has also assisted several other Indian programmes in the region.

Exim Bank has extended Lines of Credit (LOCs) in the region at competitive rates. LOCs enable buyers in those countries to import goods and services from India on deferred credit terms. Exim Bank will make the payment of the eligible value to the Indian exporters. It has also signed Memorandum of Understanding (MOUs) and Memorandum of Cooperation (MOCs) through the Government of India with the Governments in the IOR-ARC region to promote trade and investment. It has also financed various Indian joint ventures in the region.

FINANCING PROGRAMMES

1. 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. The Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. LOC is a financing mechanism that provides a safe mode of non-recourse financing option to Indian exporters, especially to SMEs, and serves as an effective market entry tool. 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. The details of which are given below.

- **Government of Bangladesh** - an LOC for various general purposes;

- **Government of Kenya** - an LOC for setting up of power transmission lines;

- **Seven Iranian Commercial Banks** – an LOC for purchasing capital goods;

- **Government of Madagascar** - an LOC to a project for rice productivity and project for fertilizer production;

- **Government of Mauritius** - an LOC for purchasing offshore Patrol Vessel from M/s Garden Reach Shipbuilders & Engineers Ltd;

- **Government of Mozambique** - 8 LOCs for supply and transfer of water drilling machinery, equipments, accessories, components and spares, support vehicles, water and fuel tankers and electrical equipments; Gaza Electrification Project; transfer of water drilling technology and equipment; financing IT park project which will comprise construction of building, an incubator facility, research and learning center, technology park and administrative facility; rural electrification projects and for enhancing productivity of rice, wheat, maize cultivation and for a Solar Photo Voltaic Module manufacturing plant;

- **Government of Seychelles** - an LOC for export of rice, potatoes and buses;

- **Government of Sri Lanka** - 6 LOCs for purchasing petroleum products; equipment/supplies from India; rehabilitation of Colombo-Matara railway line; upgradation of Southern Railway corridor from Colombo to Matara in Sri Lanka; track laying by IRCON on 92 km Ommanthai-Pallai of Northern Railway, track laying by IRCON on 60 km Madhu Church-Tallaimannar sector; track laying on Medawachchiya Madhu Railway Line; track laying on the Pallai-Kankesanthurai railway line, setting up of signaling and telecommunications systems for the Northern railway line, and other projects as may be approved by Government of India; and

- **Government of Tanzania** - 2 LOCs for exporting tractors, pumps and equipments from India; and for financing the purchase of vehicles.

Additionally, Exim Bank has also extended 7 direct LOCs to a number of institutions in the region valued at US$ 105 mn including:

- **Seychelles Marketing Board, Seychelles** - an LOC for purchasing of vehicles, spare parts, automobile tyres, cables, medicines;

- **Eastern and Southern African Trade and Development Bank (PTA Bank)** – 5 LOCs for financing capacitor power panel, HVAC power panel, Aux. contracts, machineries & accessories for drugs manufacturing unit and air-conditioning equipments; cement plant equipment, crushing plant equipment, pharmaceutical products and cables for cement processing plant; sugarcane crushing and processing plant; and various general purposes.

- **AfreximBank** – an LOC for general purpose.

2. Support for Project Exports

Exim Bank plays an important role in financing and promoting Indian exporters in international markets. The 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 amounted to ₹ 36.96 billion, the details of which are given below:

Australia

- Supply of cooling towers for a 2,200 tpd ammonium plant being set up at Burrup Peninsula in Western Australia;

- Contract for supply of lattice towers for 132 KV Bouldercombe - Pandoin transmission line and 275 KV Larcum Creek-Yarwun transmission line; and

- Design, supply, fabrication, assembly, welding, testing and painting of No.1 Propane Refrigerant Storage Sphere secured from M/s Kellogg Joint Venture, at Gorgon.

Bangladesh

- Contract for supply and installation of 2X120 MW gas turbine power plant project;

- Contract for supply, erection and commissioning of 230 kv transmission line under grid substation and associated transmission lines development project;

- Contract for construction of Jatrabari – Gulistan flyover project in Dhaka City;

- Fibre Optic project from Rajbari to GP Coastal Barisal RBSC site in Bangladesh for Grameen Phone, Dhaka; and

- 230 kv Ishurdi-Baghabari transmission line project for Power Grid Company of Bangladesh Ltd.

Iran

- Charter-hire of rig Aban VI to Oriental Oil Kish for offshore drilling of oil wells;

- Contract to provide basic engineering and design services for M/s. Bandar Abbas Condensate Refinery in Tehran;

- To provide supervisory services contractor and project management contractor for Ethyl Benzene & Styrene monomer plant of 9th Olefin Complex for Pars Petrochemicals Co., Tehran;

- Consultancy contract for procurement advisory services for BAM earthquake emergency reconstruction project; and

- Signalling Project.

Kenya

- Consultancy contract for procurement advisory services.

Malaysia

- Consultancy Services for Electrified Double Track Project;

- Supply of meter gauge diesel locomotives on hire and maintenance basis to KTM Berhad (Malaysian Railways);

- Design, construction, testing, commissioning and maintenance of Electrified Double Track between Seremban and Gemas;

- Melaka Group 3 Lubricant Base Oil Plant Project including off-sites and utilities at Melaka for Petronas Penapisan (Melaka) Sdn. Bhd.; and

- Contract for Engineering, Procurement, Construction & Commissioning of a Gas Pipeline and a Compressor Station.

Mauritius

- External Cladding Works for Cyber Tower;

- Contract for supply, installation, testing and commissioning of electrical, air-conditioning, plumbing, drainage and fire fighting works for Apollo Bramwell Hospital at Moka; and

- Contract for supply, installation, testing and commissioning of electrical, air-conditioning, plumbing, drainage and fire fighting works for Balaclava Hotel Resort Project.

Mozambique

- Contract for supply of plant & machinery for plant at Dondo and manufacture of concrete sleeper for Joint venture of CETA-RICON; and

- Contract for engineering, procurement, and supply of equipment for the construction of 110 KV Overhead line between Macomia and Auassee tee off point.

Oman

- Gas turbine based power station project at Mukhaizna and Qarnalam for Petroleum Development Oman;

- Preparation of feasibility study report & EPC tender for the paving grade bitumen production storage & dispatch facility in Sohar Refinery;
- Contract for Complete Water Transmission System in Sohar;

- Contract for Design, Supply and Fabrication and Delivery of 1 No. Buffer Vessel for Shadeed Iron and Steel Project for Abdullah Hashim Industrial Gases Equipment Ltd.;

- Contract for Laying and Commissioning of Gas Pipelines for Oman Gas Company;

- Contract for supply and commissioning of water treatment plant of capacity 6500 m3/day to be used as boiler feed for steam generation in the refinery;

- 220/132 kV overhead lines from Sohar to Filage;

- Contract for design and construction of Salalah International Airport;

- Contract for development of Lekhwair Gas Field project; and

- Dualisation and realignment of Al Amerat - Quriyat Road Project for Muscat Municipality.

Singapore

- Contract for construction and sale of two F&G JU2000A design jack up mobile offshore drilling rigs;
- Changi Water Reclamation Plant Project;
- Contract for design, procurement, supply, installation, construction, completion and maintenance of mechanical and electrical system for district cooling plant at Sentosa;
- Contract for supply, construction, completion and maintenance of mechanical and electrical works for link chamber cooling water pipe work and heat exchangers at Marina Bay Sands integrated resort development project;
- Sub-contract for Mechanical, Electrical works for Common Services Tunnel (CST) Phase 3B (MC-02) at Downtown Marina Bay (NSC01);
- Sub-contract for Mechanical, Electrical works for Common Services Tunnel (CST) Phase 3B (MC-01) at Downtown Marina Bay;
- Sub-contract for supply, installation, testing & commissioning of air-conditioning and mechanical ventilation services to the proposed 14-storey general administrative office block for National University Hospital; and
- Contract for design, manufacturer, supply, delivery, installation, testing & commissioning to form a complete system for tunnel ventilation and environmental control systems for marina coastal expressway.

Sri Lanka

- Installation and operation of outdoor led video system for all the matches including cricket matches; and
- Supply, erection and commissioning of 30 MLD (mn litres a day) Water Treatment Plant and distribution to 9 reservoirs across Dambula region.

Thailand

- Contract for engineering, procurement, installation and commissioning of 294 km 42” onshore gas pipeline from Liquefied Natural Gas (LNG) terminal at Maptaphut industrial estate near Rayong to a tie-in station on the existing Wang Noi to Keeng Khoi pipeline (WNKK); and

- Contract for detailed engineering, procurement, construction and commissioning and other associated works of Platform Compression facilities project.

UAE

- Contract for engineering, procurement, construction, installation, pre-commissioning hook up and commissioning of 4 well head platforms, 1 manifold well head platform, 103 kms crude oil pipeline and 78 kms fibre optic cables for extraction of 22,000 BOPD (barrel oil per day) crude oil for Nasr Phase-1 and Umm Lulu Phase-1 oil field development projects at Abu Dhabi;

- Contract secured for engineering, procurement, construction, installation, pre-commissioning, commissioning and testing together with the provision of 2 years operating spare parts for Habshan- Ruwais- Shuweihat Gas pipeline project in Abu Dhabi;

- Contract for expansion and reinforcement of 33 KV Network (Lot 1, 2 and 3) at Abu Dhabi;

- 400 kV transmission line project from Shuweihat to Mirfa at Abu Dhabi;

- 220 kV overhead Linesin Abu Dhabi;

- 400 KV Overhead Transmission Line Project for Abu Dhabi Water & Electricity Authority;

- Supply, erection commissioning of 3/132 kv transmission line from taweelah to Yas Island (Lot3) and from Bahia to Yas Island (Lot 4) in Abu Dhabi;

- Contract secured by KEC International Limited (KEC) for modification and relocation works for overhead transmission lines in New Ruwais Bypass in Abu Dhabi secured from Ghantoot Transport and General Contracting Establishment, Abu Dhabi;

- Contract for expansion and reinforcement of 33 KV network in Abu Dhabi;

- Engineering Services for Unleaded Gasoline Blending Project of Takreer Abu Dhabi;

- Contract for design, engineering erection and commissioning of storage tabks and spheres for utilities, offsites and external connections for Borouge Project 2, Ruwais, Abu Dhabi;

- Contract for mechanical, electrical and public (MEP) works for the Ferrari experience (a theme park) on Yas Island in Abu Dhabi;

- Sub-contract for Mechanical, Electrical and Plumbing (MEP) works for Regent Emirates Pearl Hotel at Abu Dhabi;
- Project Management Consultancy (PMC) Services for Abu Dhabi Polymer Co.;

- Contract for project management and consultancy (PMC) services for ABBR modification project by GASCO in Abu Dhabi;

- Contract secured for supply, erection and commissioning of 400 KV overhead line connection from Dahid to new 400/132/133 KV Ajman grid station secured from Abu Dhabi Transmission and Dispatch Company (TRANSCO);

- Contract for Supply, erection and commissioning of 400 KV Transmission line from Fujairah SS to Sweihan SS in Abu Dhabi;

- 400/220 kV overhead lines from Shuweihat to Madinat at Abu Dhabi;

- Contract for supply, erection and commissioning of 25 KM 33 KV double circuit power transmission line for Abu Dhabi Water & Electricity Authority;

- 33 KV overhead Transmission Line & Package Unit substation for 5000 Farms at Seih Al Sedirah, Abu Dhabi;

- 400 kV & 132 kV overhead power transmission line at Green Al Aish Area for Abu Dhabi Water & Electricity Authority, Abu Dhabi;

- Sub-contract for supply, installation, testing & commissioning of security, safety, plumbing, fire Protection and electrical works in Accommodation Complex and Administration Building, Water Supply, Telecom System, Fire Alarm System, Electrical, Fiber Optic Cable Link, Internal and External Lighting Fixtures (except chandeliers), Sanitary Fixtures, Transformers (Dry Type) as Main external Services and Complete MEP Works for VIP Villa in Qusahwira Phase-I Development project at Abu Dhabi;

- Sub-contract for the proposed Water Park at Yas Island in Abu Dhabi;

- Refurbishment of mechanical, erection and plumbing works for Intercontinental Hotel refurbishment project (Pkg 4) in Abu Dhabi;

- Sub contract for supply and installation of mechanical, electrical and plumbing (MEP) works for Food and Beverage Outlets-Supper Club Restaurant and Bar, Lebanese Restaurant, SPA and Gym at Etihad Towers, at Abu Dhabi;

- Contract for design, supply, installation and testing maintenance of mechanical, electrical and plumbing (MEP) works for Central Market Redevelopment project in Abu Dhabi;

- Sub-contract for mechanical, electrical and plumbing (MEP) works for the development of Formula 1 circuit for motor racing at Yas island in Abu Dhabi;

- Supply, installation, testing, commissioning, maintenance and guaranteeing the mechanical, electrical and plumbing (MEP) works for construction of Yas Mall, Abu Dhabi;

- Contract for mechanical, electrical and plumbing (MEP) works for the Ferrari Experience (a theme park) on Yas Island in Abu Dhabi;

- Contract for engineering, procurement and construction of 162 wellheads and 652 kms of pipelines connecting 162 wellheads in the Asab, Sahil & Shah oilfields, Abu Dhabi;

- Supply installation testing and commissioning of complete MEP works for Etihad Towers, Abu Dhabi as subcontractor to Arabian Constn. Co. for H.H. Sheikh Suroor Bin Moh'd Al-Nahyan;
- Contract for construction of 295 Residential Villas for Victory Heights Golf Residential & Dev. Co. LLC., Dubai;

- Contract for engineering, procurement and construction of project falcon for bulk liquid terminal in Jafza and jet fuel pipeline to Dubai International Airport (DIA);

- Contract for supply, supervision, erection and commissioning of MEP (Mechanical - HVAC, Electrical and Plumbing) work for Burj Tower in Dubai;

- Contract for supply, Installation, testing and commissioning of District Cooling plant for Dubai International Financial Centre (DIFC);

- Contract for mechanical, electrical and plumbing work for Movenpick

Deira Four Star Hotel and Centre Residence Building at Dubai for M/s. Peremba Construction, Dubai;

- Contract for supply, installation, testing and commissioning of mechanical, electrical and plumbing (MEP) works for the hotel and service apartments at Movenpick Hotel and Spa and Oceana Residences Dubai;
- Construction of two buildings for Marinascape Development Project in Dubai for Trident International Holdings;
- 220 kV transmission line for Sharjah Electricity & Water Authority, Sharjah;
- Construction of Al Nahda Towers, Commercial cum Residential Complex in Sharjah;
- Contract for Design, supply and Fabrication of 8 Nos. Mounded Bullets for Petrofac E&C International Ltd. Sharjah;
- Erection & commissioning of Piping works for Eastern Bechtel Co. Ltd.;
- Design, erection & commissioning of 19 nos. tanks project for Eastern Bechtel Co. Ltd.;
- Contract for engineering, procurement and commissioning for Shah Gas Gathering Project;
- Execution of main mechanical works including steel erection, piping fabrication, erection, painting, insulation and equipment erection;
- Construction of chilled water plant with associated works for Conference Palace Hotel Project;
- Construction of HVAC, plumbing and other works for Conference Palace Hotel Project;
- Project Management Consultancy Services for Replacement of NGL Pipeline Network;
- Contract for supply, erection and commissioning of 400 KV and 132 KV overhead transmission lines to Fujairah industries;
- Transmission line project;
- 33/11/ KV Primary Substations;
- Sulphur recovery unit for Ruwais Refinery Project;
- Expansion of 220/33 kV network in Dhabiya area; and

- Contract for construction works at Khalifa Port and Industrial Zone (KPIZ) project, Sheikh Khalifa interchange.

Yemen

- Contract for design, supply, installation, testing and commissioning of 4X 400 MW Gas Turbine based Power Station phase- II and housing complex at Marib.

3. 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 and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter to set up such ventures overseas. These ventures serves 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, as on August 31, 2012, Exim Bank has supported several such ventures, which include:

- Gujarat NRE Coke Ltd. in Australia;
- Vijai Electricals Ltd., Bangladesh;
- Arvind Textile Mills Ltd., Bangladesh;
- Garware Wall Ropes Ltd., Indonesia;
- Bhandari Industries Ltd., Indonesia;
- PT Jindal Stainless Indonesia;
- P.T.Gokak Indonesia;
- PT Gupta Coal International, Indonesia;
- Gupta Coal Fields and Washeries Ltd., Indonesia;
- PT Batubara Energy Indonesia;
- PT Bangun Energy Indonesia;
- Transgel Industries Ltd., Iran;
- Transfreight Shipping Services, Iran;
- TSS Projects & Industries Pvt. Ltd., Iran;
- Punj Lloyd Ltd., in Iran and Indonesia;
- Elgi Tyres and Tread Ltd., Kenya;
- Krishna Industrial Corporation, Malaysia;
- Needle Industries (India) Pvt Ltd., Malaysia;
- Thirumalai Chemicals Ltd., Malaysia;

- Hospital Property Private Ltd., Malaysia;
- Ultramarine & Pigments Ltd., Malaysia;
- Overseas SPV of GTL Ltd., Malaysia;
- The Arvind Mills Ltd., Mauritius;
- Elgi Tyres and Tread Ltd., Mauritius;
- Global Telesystems Ltd., Mauritius;
- Jain Irrigation Systems Ltd., Mauritius;
- Television Eighteen India Ltd., Mauritius;
- Bio Win Corporation Ltd., Mauritius;
- HCC Mauritius, Mauritius;
- Fortis Clobal Healthcare Mauritius Ltd., Mauritius;
- Essar Services Mauritius Ltd., Mauritius;
- SPV of Elecon Engineering Company Ltd., Mauritius;
- Manipal Universal Learning International, Mauritius;
- Natural Oil Ventures Company Ltd. Mauritius;
- Xtech International Mauritius Ltd., Mauritius;
- SPV of Fortis Healthcare Ltd., Mauritius/Singapore;
- Zoom Alluminium LLC, Oman;
- Phoenix Overseas Ltd., Singapore;
- Prestige Foods Ltd. Singapore;
- Varun Shipping Company Ltd., Singapore;
- KH Shoes, Singapore;
- K C P Ltd. Singapore;
- Aban Singapore Pvt. Ltd., Singapore;
- Aban Pearl Pvt. Ltd., Singapore;
- Kiri Holdings Singapore Pvt. Ltd., Singapore;
- Jellice Pioneer Pvt. Ltd., Singapore;
- Rahi Shipping Pvt. Ltd., Singapore;
- Adani Global Pte Ltd., Singapore;
- Overseas SPV of Surya Pharmaceutical Ltd., Singapore;
- ABG Business Ventures Pvt. Ltd., Singapore;
- Lanco Resources International Pte Ltd and Lanco Resources Australia Pvt. Ltd., Singapore & Australia;
- Greatship Global Offshore Services Pvt. Ltd., Singapore;
- OSPV of Jindal ITF Ltd., Singapore;
- Overseas SPV of TRF Ltd, Singapore;

- Pertech Computers Ltd., South Africa and Singapore;
- The Arvind Mills Ltd., Sri Lanka;
- Bhuwalka Steel Industries Ltd., Sri Lanka;
- Cadila Pharmaceuticals Ltd., Sri Lanka;
- Gujarat Glass Ltd., Sri Lanka;
- Parental Drugs (I) Ltd., Sri Lanka;
- GPT Concrete Products South Africa (Proprietary) Ltd., South Africa;
- Kiran Global Silica Pvt. Ltd., South Africa;
- Uniworth International Ltd., Thailand;
- Avon Cycles Ltd., Tanzania;
- Princeware International Pvt. Ltd., Tanzania;
- CADD Centre, UAE;
- Lloyds Group, UAE;
- Repl Engineering Ltd., UAE;
- Core Healthcare Ltd., UAE;
- SRF Ltd., UAE;
- Binani Industries Ltd., UAE;
- Southern Petrochemical Industries Corpn., UAE;
- Jyoti Strucutures, UAE;
- Elan Incorporated FZE, UAE;
- Shantivijay Impex FZCO, UAE;
- RAK Aluminium FZE, UAE;
- Karuturi Global Ltd., UAE;
- Emmsons Gulf DMCC, UAE;
- PSL[FZE] Sharjah, UAE; and
- J K Cements Works Fujairah FZC.

MEMORANDUM OF COOPERATION/MEMORANDUM OF UNDERSTANDING (MOUs / MOCs)

With a view to build institutional linkages, Exim Bank has entered into MOUs and MOCs with several institutions 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, the details of which are as follows:

- Export Finance & Insurance Corporation (EFIC), Australia;
- Industrial Promotion and Development Co. of Bangladesh Ltd.;
- PT Bank Ekspor Indonesia (PERSERO);
- PTA Bank (Eastern & Southern African Trade Development Bank), Kenya;
- Asian ECAs (Multilateral L/C

Confirmation Facility Agreement), Malaysia;

- Board of Investment of Mauritius;
- Nanyang Technological University Entrepreneurship Development Centre (ENDEC), Singapore;
- ECICS Ltd., Singapore;
- Development Bank of Southern Africa under BRICS Framework;
- Industrial Development Corporation of South Africa Limited (IDC);
- Hatton National Bank Limited, Sri Lanka;
- Ceylon Chamber of Commerce, Sri Lanka;
- Board of Investment of Sri Lanka;
- SME Bank of Sri Lanka;
- Export-Import Bank of Thailand; and
- Sharjah Chamber of Commerce & Industry, UAE.

EXIM BANK RESEARCH STUDIES

Exim Bank conducts periodic research studies in order to promote the existing institutional linkages and external competitiveness of the Indian Companies. The studies range from areas of international trade (including sector specific studies) to international investments; it also focuses on areas of bilateral/ multilateral cooperation among countries and their potential for further development. These are published in the form of Occasional Papers, Working Papers, and Books.

Some of the Occasional Papers released by the Bank are:

- Southern African Development Community (SADC): A Study of India's Trade and Investment Potential;
- The Commonwealth: Promoting a Shared Vision on Trade and Investment;
- COMESA (Common Market for Eastern and Southern Africa): A Study of India's Trade and Investment Potential;
- IBSA: Enhancing Economic Cooperation across Continents;
- SAARC: An Emerging Trade Bloc;
- ASEAN Countries: A Study of India's Trade and Investment Potential;
- GCC Countries: A Study of India's Trade and Investment Potential;
- BIMST - EC Initiative: A Study of India's Trade and Investment

Potential with Select Asian Countries;

- Sri Lanka : A Study of India's Trade and Investment Potential;
- Australia and New Zealand: A Study of India's Trade and Investment Potential;
- The People's Republic of Bangladesh: A Study of India's Trade and Investment Potential; and
- South Africa: A Study of India's Trade and Investment Potential.

Some of the Working Papers released by the Bank are:

- Potential for Enhancing India's Trade with Iran: A Brief Analysis;
- FDI Flows and Investment Policies in India and Select Asian Countries: A Comparative Analysis;
- Southern African Customs Union (SACU): A Study of India's Trade and Investment Potential;
- Strategy for Quantum Jump in Exports: Focus on Africa, Latin America and China; and
- Snap Market Survey for Pharmaceutical Products in South Africa.

GLOBAL NETWORK OF EXIM BANKS AND DEVELOPMENT FINANCE INSTITUTIONS (G-NEXID)

Exim Bank has also entered into a Memorandum of Understanding (MOU) with four Exim Banks and Development Financial Institutions (DFIs) to form Global Network of Exim Banks and Development Financial Institutions (G-NEXID). The five signatories are Export-Import Bank of India, Export-Import Bank of Malaysia, African Export-Import Bank, Andean Development Corporation and Export-Import Bank of Slovakia. G-NEXID was formally launched at its inaugural meeting at UNCTAD, Geneva on March 13, 2006. Annual Meetings are held to deliberate upon measures to foster long-term relationship, share experience and strengthen financial cooperation to promote trade and investment relations between developing countries. G-NEXID has been granted 'observer' status by UNCTAD.

Among the IOR-ARC countries, 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, are members of G-NEXID.

In sum, Exim Bank, with its comprehensive range of financing, advisory and support services, seeks to create an enabling environment for enhancing two-way flow of trade, investment and technology between India and IOR-ARC region, while also promoting infrastructure development, facilitating private sector development in host countries, and contributing towards institutional building in the region.

6 POTENTIAL FOR ENHANCING BILATERAL TRADE RELATIONS

As highlighted in the previous chapter, both imports and exports of IOR-ARC member countries have shown overall increasing trends in recent times. Bilateral trade between India and IOR-ARC countries has witnessed a robust rising trend in recent years, with total trade between the two having risen from US$ 19 billion to US$ 156.3 billion during the decade 2001 to 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 and IOR-ARC region are characterized by large markets and large work force. Hence, there is large scope and potential for expanding bilateral trade and investment relations among India and IOR-ARC. This chapter focuses on the various target sectors for enhancing India's bilateral trade and investment relations with IOR-ARC member countries.

IDENTIFICATION OF POTENTIAL COMMODITIES

Identification of export potential of India to IOR-ARC countries has been done based on following criteria.

- Identification of major items in IOR-ARC countries' import baskets, and share of India in each product line (based on HS-code);
- Commodities where India has a comparative advantage in global exports based on India's share in global trade;
- India's exports of commodities, which have registered high growth rate in recent years;
- Commodities where India has been doing well in the global markets; and
- Selection of potential items, based on low share of India in IOR-ARC member countries' import basket of major commodities.

EXPORT POTENTIAL IN SELECT IOR-ARC MEMBER COUNTRIES[17]

UAE

UAE is India's top trading partner, largest export destination and largest import source in the IOR-ARC region. UAE accounted for 35.4 percent of India's total trade with IOR-ARC member countries, 42.7 percent of total exports to the region and 29.7 percent of total imports from IOR-ARC members in 2010. Bilateral trade between the countries witnessed a significant jump during the last decade from US$ 2.8 billion in 2001 to US$ 55.4 billion in 2010. **Table 6.1** presents UAE's major import items, in terms of 2-digit HS code, and India's share in UAE's global imports of these items, along with India's global exports. As can be seen from the table, despite India's global export capability, India's share in some of UAE's major imports is still low, which highlights the potential for enhancing these exports to UAE.

Based on the above criteria, potential items of India's exports to UAE would include:

- Machinery and instruments (HS-84)
- Electrical and electronic equipment (HS-85)
- Vehicles other than railway, tramway (HS-87)
- Optical and medical apparatus (HS-90)
- Rubber and articles (HS-40)
- Pharmaceutical products (HS-30)
- Miscellaneous chemical products (HS-38)
- Sugars and sugar confectionery (HS-17)
- Footwear, gaiters and parts (HS-64)
- Oil seeds (HS-12)

SINGAPORE

While Singapore is one of the leading markets of India in the IOR-ARC region, accounting for as much as 13.2 percent of India's total exports to the region, potential exist to further enhance India's exports, based on import demand in Singapore, and India's export capability. Singapore's major import items, in terms of 2-digit HS code, and India's share in Singapore's global imports of these items, along with India's global exports are presented in **Table 6.2**. Despite

[17]Data for trade given in this chapter are sourced from Trade Map, ITC Geneva, and therefore, may not be strictly comparable with the data given in the previous chapters, which are sourced from IMF.

Table 6.1: UAE's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	UAE's Imports from World (US$ mn)	UAE's Imports from India (US$ mn)	India's Share in UAE's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**151,816**	**27,412**	**18.1**	**220,408**
71	**Pearls, precious stones, metals**	**24,831**	**13,683**	**55.1**	**32,465**
84	Machinery and instruments	20,266	492	2.4	8,150
85	Electrical, electronic equipment	18,042	608	3.4	8,706
27	**Mineral fuels, oils, distillation products**	**10,569**	**5,333**	**50.5**	**37,984**
87	Vehicles other than railway, tramway	10,209	134	1.3	9,286
72	**Iron and steel**	**4,089**	**361**	**8.8**	**6,996**
73	**Articles of iron or steel**	**3,908**	**540**	**13.8**	**6,368**
39	**Plastics and articles**	**3,074**	**229**	**7.5**	**3,630**
61	**Articles of apparel, accessories, knit or crochet**	**2,582**	**471**	**18.2**	**4,566**
90	Optical, photo, technical, medical apparatus	2,353	51	2.2	1,441
62	**Articles of apparel, accessories, not knit or crochet**	**2,233**	**520**	**23.3**	**6,038**
40	Rubber and articles	1,968	88	4.5	1,675
89	**Ships, boats and other floating structures**	**1,547**	**329**	**21.3**	**4,223**
10	**Cereals**	**1,428**	**661**	**46.3**	**2,924**
30	Pharmaceutical products	1,386	41	3.0	6,096
74	**Copper and articles**	**1,335**	**600**	**45.0**	**5,425**
54	**Manmade filaments**	**1,305**	**320**	**24.5**	**2,184**
08	**Edible fruit, nuts**	**1,260**	**193**	**15.3**	**1,089**
29	**Organic chemicals**	**1,137**	**138**	**12.2**	**8,593**
76	**Aluminium and articles**	**1,111**	**57**	**5.1**	**1,328**
38	Miscellaneous chemical products	939	41	4.4	2,070
02	**Meat and edible meat offal**	**926**	**90**	**9.7**	**1,775**
17	Sugars and sugar confectionery	899	41	4.6	1,040
64	Footwear, gaiters and the like, parts	896	41	4.5	1,643
12	Oil seed, oleagic fruits, grain, seed, fruit	895	25	2.8	1,084

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.2: Singapore's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Singapore's Imports from World (US$ mn)	Singapore's Imports from India (US$ mn)	India's Share in Singapore's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**310,791**	**9,228**	**3.0**	**220,408**
85	Electrical, electronic equipment	86,400	348	0.4	8,706
27	**Mineral fuels, oils, distillation products**	**81,159**	**6,383**	**7.9**	**37,984**
84	Machinery and instruments	46,827	306	0.7	8,150
90	Optical, photo, technical, medical apparatus	8,425	104	1.2	1,441
71	**Pearls, precious stones, metals**	**8,062**	**671**	**8.3**	**32,465**
39	Plastics and articles	6,243	48	0.8	3,630
29	**Organic chemicals**	**5,540**	**231**	**4.2**	**8,593**
87	Vehicles other than railway, tramway	4,458	124	2.8	9,286
38	Miscellaneous chemical products	3,568	30	0.8	2,070
73	Articles of iron or steel	3,564	47	1.3	6,368
72	Iron and steel	3,054	45	1.5	6,996
30	Pharmaceutical products	1,896	38	2.0	6,096
40	Rubber and articles	1,478	26	1.7	1,675
74	Copper and articles	1,328	35	2.6	5,425
76	**Aluminium and articles**	**1,321**	**82**	**6.2**	**1,328**
28	Inorganic chemicals, precious metal compound, isotopes	1,287	23	1.8	2,314
89	Ships, boats and other floating structures	1,189	0.1	0.0	4,223
61	**Articles of apparel, accessories, knit or crochet**	**1,019**	**43**	**4.2**	**4,566**
32	**Tanning, dyeing extracts, tannins, pigments**	**920**	**38**	**4.2**	**1,612**
62	**Articles of apparel, accessories, not knit or crochet**	**818**	**61**	**7.4**	**6,038**

Source: Trade Map, ITC Geneva, and Exim Bank Research

India's global export capability, India's share in Singapore's major imports is still low, which highlights the potential for enhancing these exports to Singapore.

Based on the above criteria, potential items of India's exports to Singapore would include:

- Electrical and electronic equipment (HS-85)
- Machinery and instruments (HS-84)
- Optical and medical apparatus (HS-90)
- Plastics and articles (HS-39)
- Vehicles other than railway, tramway (HS-87)
- Miscellaneous chemical products (HS-38)
- Articles of iron or steel (HS-73)
- Iron and steel (HS-72)
- Pharmaceutical products (HS-30)
- Rubber and articles (HS-40)
- Copper and articles (HS-74)
- Inorganic chemicals, precious metal compound, isotopes (HS-28)
- Ships, boats and other floating structures (HS-89)

INDONESIA

Bilateral trade between India and Indonesia witnessed a robust rising trend in recent years, with total trade between the two having risen from US$ 1.6 billion in 2001 to US$ 13.8 billion in 2010. Potential exists to further enhance trade relations based on demand in the Indonesia's market and India's export capability **(Table 6.3)**.

Based on the above criteria, potential items of India's exports to Indonesia would include:

- Mineral fuels, oils and distillation products (HS-27)
- Machinery and instruments (HS-84)
- Electrical and electronic equipment (HS-85)
- Iron and steel (HS-72)
- Vehicles other than railway, tramway (HS-87)
- Plastics and articles (HS-39)
- Articles of iron or steel (HS-73)
- Cereals (HS-10)
- Ships, boats and other floating structures (HS-89)
- Optical and medical apparatus (HS-90)
- Rubber and articles (HS-40)

Table 6.3: Indonesia's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Indonesia's Imports from World (US$ mn)	Indonesia's Imports from India (US$ mn)	India's Share in Indonesia's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**135,663**	**3,295**	**2.4**	**220,408**
27	Mineral fuels, oils, distillation products	27,531	606	2.2	37,984
84	Machinery and instruments	20,019	173	0.9	8,150
85	Electrical, electronic equipment	15,633	465	3.0	8,706
72	Iron and steel	6,372	153	2.4	6,996
87	Vehicles other than railway, tramway	5,737	235	4.1	9,286
29	**Organic chemicals**	**5,326**	**436**	**8.2**	**8,593**
39	Plastics and articles	4,817	65	1.3	3,630
73	Articles of iron or steel	3,451	20	0.6	6,368
52	**Cotton**	**2,232**	**137**	**6.2**	**6,890**
10	Cereals	2,159	37	1.7	2,924
89	Ships, boats and other floating structures	1,960	-	-	4,223
23	**Residues, animal fodder**	**1,871**	**130**	**7.0**	**2,067**
90	Optical, photo, technical, medical apparatus	1,715	8	0.5	1,441
40	Rubber and articles	1,671	24	1.4	1,675
38	Miscellaneous chemical products	1,472	52	3.5	2,070
76	Aluminium and articles	1,360	43	3.2	1,328
28	Inorganic chemicals, precious metal compound, isotopes	1,349	48	3.6	2,314
17	Sugars and sugar confectionery	1,253	40	3.2	1,040
74	Copper and articles	1,137	21	1.8	5,425
12	**Oil seed, oleagic fruits, grain, seed, fruit**	**1,102**	**184**	**16.7**	**1,084**

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.4: South Africa's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	South Africa's Imports from World (US$ mn)	South Africa's Imports from India (US$ mn)	India's Share in South Africa's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**80,139**	**2,839**	**3.5**	**220,408**
27	**Mineral fuels, oils, and distillation products**	**15,723**	**843**	**5.4**	**37,984**
84	Machinery and instruments	11,848	119	1.0	8,150
85	Electrical, electronic equipment	8,569	247	2.9	8,706
87	**Vehicles other than railway, tramway**	**7,036**	**383**	**5.4**	**9,286**
90	Optical, photo, technical, medical apparatus	2,088	19	0.9	1,441
39	Plastics and articles	2,069	67	3.2	3,630
30	**Pharmaceutical products**	**2,064**	**222**	**10.8**	**6,096**
29	**Organic chemicals**	**1,447**	**82**	**5.7**	**8,593**
38	Miscellaneous chemical products	1,205	38	3.1	2,070
40	Rubber and articles	1,192	32	2.7	1,675
28	Inorganic chemicals, precious metal compound, isotopes	1,086	16	1.5	2,314
73	**Articles of iron or steel**	**1,042**	**71**	**6.8**	**6,368**
72	**Iron and steel**	**1,015**	**64**	**6.3**	**6,996**
71	**Pearls, precious stones, metals, coins**	**815**	**53**	**6.5**	**32,465**
10	Cereals	725	21	2.9	2,924
64	Footwear, gaiters and the like, parts	712	19	2.6	1,643
62	**Articles of apparel, accessories, not knit or crochet**	**653**	**33**	**5.1**	**6,038**
61	Articles of apparel, accessories, knit or crochet	595	27	4.5	4,566
69	Ceramic products	553	8	1.4	301
23	Residues, animal fodder	502	3	0.7	2,067
32	**Tanning, dyeing extracts, tannins, pigments**	**422**	**25**	**6.0**	**1,612**
74	Copper and articles	391	6	1.6	5,425
76	Aluminium and articles	383	14	3.6	1,328
02	Meat and edible meat offal	363	-	-	1,775
54	**Manmade filaments**	**224**	**12**	**5.5**	**2,184**
55	**Manmade staple fibres**	**214**	**19**	**9.0**	**1,622**

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

- Miscellaneous chemical products (HS-38)
- Aluminium and articles (HS-76)
- Inorganic chemicals, precious metal compound, isotopes (HS-28)
- Sugars and sugar confectionery (HS-17)
- Copper and articles (HS-74)

SOUTH AFRICA

While South Africa is one of India's leading markets in the IOR-ARC region, accounting for as much as 5 percent of India's total exports to the region, potential exist to further enhance trade between both countries **(Table 6.4)**

Based on the above criteria, potential items of India's exports to South Africa would include:

- Machinery and instruments (HS-84)
- Electrical and electronic equipment (HS-85)
- Optical and medical apparatus (HS-90)
- Plastics and articles (HS-39)
- Miscellaneous chemical products (HS-38)
- Rubber and articles (HS-40)
- Inorganic chemicals, precious metal compound, isotopes (HS-28)
- Cereals (HS-10)
- Footwear, gaiters and the like, parts (HS-64)
- Articles of apparel, accessories, knit or crochet (HS-61)
- Ceramic products (HS-69)
- Residues and animal fodder (HS-23)
- Copper and articles (HS-74)
- Aluminium and articles (HS-76)
- Meat and edible meat offal (HS-02)

MALAYSIA

Table 6.5 indicates Malaysia's major global exports and India's share in these imports in 2010. While India is a major supplier of cereals and edible vegetables and certain roots and tubers to Malaysia, with a significant share in Malaysia's global imports, scope exists to enhance exports of other items based on demand in the country and India's export capability.

Towards this end, potential items of India's exports to Malaysia would include:

Table 6.5: Malaysia's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Malaysia's Imports from World (US$ mn)	Malaysia's Imports from India (US$ mn)	India's Share in Malaysia's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**164,586**	**2,484**	**1.5**	**220,408**
85	Electrical, electronic equipment	51,234	212	0.4	8,706
84	Machinery and instruments	21,293	146	0.7	8,150
27	Mineral fuels, oils, distillation products	16,404	157	1.0	37,984
87	Vehicles other than railway, tramway	5,717	25	0.4	9,286
72	Iron and steel	5,420	69	1.3	6,996
39	Plastics and articles	5,175	21	0.4	3,630
90	Optical, photo, technical, medical apparatus	4,795	33	0.7	1,441
71	Pearls, precious stones, metals, coins	3,687	65	1.8	32,465
29	**Organic chemicals**	**3,394**	**155**	**4.6**	**8,593**
40	Rubber and articles	3,160	31	1.0	1,675
74	**Copper and articles**	**3,128**	**135**	**4.3**	**5,425**
73	Articles of iron or steel	2,821	27	0.9	6,368
76	**Aluminium and articles**	**2,162**	**105**	**4.9**	**1,328**
10	**Cereals**	**1,604**	**120**	**7.5**	**2,924**
38	Miscellaneous chemical products	1,377	28	2.1	2,070
28	Inorganic chemicals, precious metal compound, isotopes	1,243	21	1.7	2,314
89	Ships, boats and other floating structures	1,049	-	-	4,223
30	Pharmaceutical products	963	31	3.2	6,096
17	Sugars and sugar confectionery	904	5	0.6	1,040
23	Residues, animal fodder	852	32	3.7	2,067
26	Ores, slag and ash	804	-	-	6,909
70	Glass and glassware	803	1	0.1	382
33	Essential oils, perfumes, cosmetics, toileteries	756	13	1.7	901
32	Tanning, dyeing extracts, tannins, pigments	752	16	2.2	1,612
07	**Edible vegetables, certain roots and tubers**	**720**	**140**	**19.4**	**962**

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

- Electrical and electronic equipment (HS-85)
- Machinery and instruments (HS-84)
- Mineral fuels, oils, and distillation products (HS-27)
- Vehicles other than railway, tramway (HS-87)
- Iron and steel (HS-72)
- Plastics and articles (HS-39)
- Optical and medical apparatus (HS-90)
- Pearls, precious stones, metals, coins (HS-71)
- Rubber and articles (HS-40)
- Articles of iron or steel (HS-73)
- Miscellaneous chemical products (HS-38)
- Inorganic chemicals, precious metal compound, isotopes (HS-28)
- Ships, boats and other floating structures (HS-89)
- Pharmaceutical products (HS-30)
- Sugars and sugar confectionery (HS-17)
- Residues and animal fodder (HS-23)
- Ores, slag and ash (HS-26)
- Glass and glassware (HS-70)
- Essential oils, perfumes, cosmetics, toiletries (HS-33)
- Tanning, dyeing extracts, tannins, pigments (HS-32)

SRI LANKA

The synergy in Indo-Sri Lanka trade relations can be accessed from the fact that while Sri Lanka is the sixth largest market for India's exports in the IOR-ARC region, India is also one of Sri Lanka's major import sources accounting for more than 20 percent of Sri Lanka's total imports in 2010 **(Table 6.6)**. Potential exists to further enhance trade relations based on demand in the Sri Lankan market and India's export capability.

Towards this end, potential items of India's exports to Sri Lanka would include:

- Pearls, precious stones, metals and coins (HS-71)
- Cereals (HS-10)
- Dairy products, eggs, honey, edible animal product (HS-04)
- Special woven or tufted fabric, lace, tapestry (HS-58)
- Animal, vegetable fats and oils (HS-15)
- Furniture, lighting, signs, prefabricated buildings (HS-94)

Table 6.6: Sri Lanka's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Sri Lanka's Imports from World (US$ mn)	Sri Lanka's Imports from India (US$ mn)	India's Share in Sri Lanka's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**12,354**	**2,549**	**20.6**	**220,408**
27	**Mineral fuels, oils, distillation products**	**2,064**	**425**	**20.6**	**37,984**
87	**Vehicles other than railway, tramway**	**1,040**	**527**	**50.7**	**9,286**
84	**Machinery and instruments**	**842**	**105**	**12.4**	**8,150**
85	**Electrical, electronic equipment**	**648**	**93**	**14.4**	**8,706**
52	**Cotton**	**584**	**170**	**29.2**	**6,890**
60	**Knitted or crocheted fabric**	**480**	**67**	**13.9**	**144**
39	**Plastics and articles**	**475**	**65**	**13.8**	**3,630**
71	Pearls, precious stones, metals, coins	376	2	0.4	32,465
17	**Sugars and sugar confectionery**	**365**	**37**	**10.2**	**1,040**
48	**Paper & paperboard, articles of pulp, paper and board**	**348**	**76**	**21.8**	**784**
07	**Edible vegetables, certain roots and tubers**	**315**	**88**	**28.1**	**962**
10	Cereals	303	3	0.9	2,924
72	**Iron and steel**	**294**	**93**	**31.6**	**6,996**
55	**Manmade staple fibres**	**261**	**34**	**12.8**	**1,622**
04	Dairy products, eggs, honey, edible animal product	259	1	0.3	238
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**245**	**74**	**30.3**	**1,134**
73	**Articles of iron or steel**	**219**	**51**	**23.2**	**6,368**
40	**Rubber and articles**	**208**	**32**	**15.3**	**1,675**
30	**Pharmaceutical products**	**183**	**107**	**58.2**	**6,096**
58	Special woven or tufted fabric, lace, tapestry etc	169	8	4.6	240
38	**Miscellaneous chemical products**	**158**	**37**	**23.1**	**2,070**
54	**Manmade filaments**	**127**	**11**	**9.0**	**2,184**
29	**Organic chemicals**	**119**	**17**	**14.2**	**8,593**
15	Animal, vegetable fats and oils	105	1	1.1	716
32	**Tanning, dyeing extracts, tannins, pigments**	**103**	**13**	**12.7**	**1,612**
09	**Coffee, tea, mate and spices**	**102**	**69**	**67.6**	**2,003**
90	**Optical, photo, technical, medical apparatus**	**100**	**11**	**10.7**	**1,441**
74	**Copper and articles**	**95**	**52**	**55.1**	**5,425**
03	**Fish, crustaceans, aquatic invertebrates**	**92**	**11**	**12.2**	**2,164**
28	**Inorganic chemicals, precious metal compound, isotopes**	**87**	**37**	**42.8**	**2,314**
23	**Residues, animal fodder**	**83**	**36**	**44.1**	**2,067**
94	Furniture, lighting, signs, prefabricated buildings	67	2	2.6	707

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.7: Bangladesh's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Bangladesh's Imports from World US$ mn)	Bangladesh's Imports from India (US$ mn)	India's Share in Bangladesh's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**25,867**	**3,017**	**11.7**	**220,408**
52	**Cotton**	**3,382**	**936**	**27.7**	**6,890**
84	Machinery and instruments	2,850	91	3.2	8,150
85	Electrical, electronic equipment	2,035	58	2.8	8,706
27	Mineral fuels, oils, distillation products	1,856	110	5.9	37,984
72	Iron and steel	1,185	66	5.6	6,996
10	Cereals	1,099	157	14.3	2,924
15	Animal, vegetable fats and oils	1,085	1	0.1	716
87	Vehicles other than railway, tramway	952	250	26.2	9,286
39	**Plastics and articles**	**890**	**74**	**8.3**	**3,630**
55	Manmade staple fibres	884	49	5.5	1,622
07	**Edible vegetables, certain roots and tubers**	**609**	**200**	**32.9**	**962**
54	**Manmade filaments**	**536**	**81**	**15.2**	**2,184**
17	Sugars and sugar confectionery	474	-	0.1	1,040
48	Paper & paperboard, articles of pulp, paper and board	407	14	3.4	784
28	**Inorganic chemicals, precious metal compound, isotopes**	**392**	**27**	**6.8**	**2,314**
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**382**	**34**	**8.8**	**1,134**
29	**Organic chemicals**	**380**	**89**	**23.5**	**8,593**
23	**Residues, animal fodder**	**324**	**239**	**73.7**	**2,067**
32	**Tanning, dyeing extracts, tannins, pigments**	**302**	**32**	**10.6**	**1,612**
38	**Miscellaneous chemical products**	**276**	**38**	**13.8**	**2,070**
73	**Articles of iron or steel**	**226**	**36**	**15.8**	**6,368**
90	Optical, photo, technical, medical apparatus	225	12	5.3	1,441
30	**Pharmaceutical products**	**224**	**22**	**10.0**	**6,096**
08	**Edible fruit, nuts**	**209**	**42**	**20.2**	**1,089**
12	**Oil seed, oleagic fruits, grain, seed**	**167**	**22**	**13.3**	**1,084**
40	**Rubber and articles**	**151**	**30**	**20.1**	**1,675**
09	**Coffee, tea, mate and spices**	**142**	**52**	**36.8**	**2,003**

Note: '-' denotes nil or marginal
Source: Trade Map, ITC Geneva, and Exim Bank Research

BANGLADESH

Bangladesh is an important market for India's exports in the IOR-ARC region, and imports from India accounts for around 12 percent of Bangladesh's total imports **(Table 6.7)**. India's cordial relations and close proximity with Bangladesh indicates the potential of further improvement in trade relations between both countries.

In line with India's export capability and demand in the Bangladesh's market, potential items of India's exports to Bangladesh would include:

- Machinery and instruments (HS-84)
- Electrical and electronic equipment (HS-85)
- Mineral fuels, oils and distillation products (HS-27)
- Iron and steel (HS-72)
- Animal, vegetable fats and oils (HS-15)
- Manmade staple fibres (HS-55)
- Sugars and sugar confectionery (HS-17)
- Paper & paperboard, articles of pulp, paper and board (HS-48)
- Optical and medical apparatus (HS-90)

IRAN

The bilateral trade relations between India and Iran have witnessed a robust trend, with total trade between the two having stood at US$ 13.4 billion in 2010. At the same time, bilateral trade balance has been in Iran's favour, with India's trade deficit with Iran amounting to US$ 8.4 billion in 2010. To enhance bilateral trade relations, as also to address the high trade deficit, strategy to boost trade relations with Iran would entail identification of potential items of India's exports to Iran. **Table 6.8** presents Iran's major import items, in terms of 2-digit HS code, and India's share in Iran's global imports of these items.

Based on the above criteria, as also on India's global export capability, potential items of export to Iran would include:

- Machinery and instruments (HS-84)
- Iron and steel (HS-72)
- Electrical and electronic equipment (HS-85)
- Vehicles other than railway, tramway (HS-87)
- Plastics and articles (HS-39)
- Optical and medical apparatus (HS-90)

Table 6.8: Iran's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Iran's Imports from World (US$ mn)	Iran's Imports from India (US$ mn)	India's share in Iran's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**54,697**	**1,354**	**2.5**	**220,408**
84	Machinery and instruments	11,590	119	1.0	8,150
72	Iron and steel	7,707	159	2.1	6,996
85	Electrical, electronic equipment	3,019	70	2.3	8,706
87	Vehicles other than railway, tramway	2,480	12	0.5	9,286
10	**Cereals**	**2,285**	**198**	**8.7**	**2,924**
39	Plastics and articles	2,165	11	0.5	3,630
73	**Articles of iron or steel**	**1,838**	**192**	**10.5**	**6,368**
27	**Mineral fuels, oils, distillation products**	**1,473**	**113**	**7.7**	**37,984**
90	Optical, photo, technical, medical apparatus	1,393	10	0.7	1,441
30	Pharmaceutical products	1,255	49	3.9	6,096
48	Paper & paperboard, articles of pulp, paper and board	1,149	8	0.7	784
29	**Organic chemicals**	**1,146**	**93**	**8.1**	**8,593**
15	Animal, vegetable fats and oils	1,138	1	0.1	716
23	Residues, animal fodder	843	32	3.7	2,067
17	Sugars and sugar confectionery	790	1	0.1	1,040
40	Rubber and articles	776	9	1.2	1,675
38	Miscellaneous chemical products	739	27	3.7	2,070
76	Aluminium and articles	582	19	3.3	1,328
08	Edible fruit, nuts, peel of citrus fruit, melons	571	6	1.0	1,089
12	Oil seed, oleagic fruits, grain, seed, fruit	546	7	1.2	1,084
55	Manmade staple fibres	520	24	4.7	1,622

Source: Trade Map, ITC Geneva, and Exim Bank Research

- Paper and paper board (HS-48)
- Pharmaceutical products (HS-30)
- Residues and animal fodder (HS-23)
- Sugars and sugar confectionery (HS-17)
- Miscellaneous chemical products (HS-38)
- Aluminium and articles (HS-76)
- Edible fruit and nuts (HS-08)
- Oil seed (HS-12)

THAILAND

Thailand is an important market for India in the IOR-ARC region. While India accounts for a significant share in Thailand's global imports of cotton and residues and animal fodder, potential exists to enhance exports of other products to Thailand, in line with demand in the country **(Table 6.9)**.

In this regards, potential items of India's exports to Thailand would include:

- Electrical and electronic equipment (HS-85)
- Mineral fuels, oils and distillation products (HS-27)
- Machinery and instruments (HS-84)
- Iron and steel (HS-72)
- Pearls, precious stones, metals, coins (HS-71)
- Vehicles other than railway, tramway (HS-87)
- Plastics and articles (HS-39)
- Articles of iron or steel (HS-73)
- Organic chemicals (HS-29)
- Optical and medical apparatus (HS-90)
- Copper and articles (HS-74)
- Aluminium and articles (HS-76)
- Miscellaneous chemical products (HS-38)
- Rubber and articles (HS-40)
- Oil seed (HS-12)
- Ships, boats and other floating structures (HS-89)
- Manmade filaments (HS-54)

KENYA

The synergy in Indo-Kenyan trade relations can be assessed from the fact that while Kenya is one of the largest market for India's exports in the IOR-ARC region and Africa, India is also one of Kenya's major import sources accounting for more than 10 percent of Kenya's total imports in 2010 **(Table 6.10)**.

Potential exists to further enhance trade relations based on demand in

Table 6.9: Thailand's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Thailand's Imports from World (US$ mn)	Thailand's Imports from India (US$ mn)	Share of India in Thailand's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**182,393**	**2,253**	**1.2**	**220,408**
85	Electrical, electronic equipment	32,932	191	0.6	8,706
27	Mineral fuels, oils, distillation products	31,665	64	0.2	37,984
84	Machinery and instruments	24,380	235	1.0	8,150
72	Iron and steel	10,999	168	1.5	6,996
71	Pearls, precious stones, metals, coins	10,425	327	3.1	32,465
87	Vehicles other than railway, tramway	7,817	139	1.8	9,286
39	Plastics and articles	6,926	48	0.7	3,630
73	Articles of iron or steel	5,325	35	0.7	6,368
29	Organic chemicals	4,738	143	3.0	8,593
90	Optical, photo, technical, medical apparatus	4,202	14	0.3	1,441
74	Copper and articles	3,583	113	3.1	5,425
76	Aluminium and articles	2,694	6	0.2	1,328
38	Miscellaneous chemical products	2,389	56	2.3	2,070
03	**Fish, crustaceans, aquatic invertebrates**	**2,027**	**94**	**4.6**	**2,164**
40	Rubber and articles	1,839	12	0.7	1,675
23	**Residues, animal fodder**	**1,624**	**123**	**7.6**	**2,067**
30	**Pharmaceutical products**	**1,539**	**69**	**4.5**	**6,096**
32	**Tanning, dyeing extracts, tannins, pigments**	**1,329**	**55**	**4.2**	**1,612**
28	Inorganic chemicals, precious metal compound, isotopes	1,298	22	1.7	2,314
52	**Cotton**	**1,122**	**76**	**6.7**	**6,890**
12	Oil seed, oleagic fruits, grain, seed, fruit	955	5	0.5	1,084
89	Ships, boats and other floating structures	787	-	-	4,223
54	Manmade filaments	639	13	2.0	2,184

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.10: Kenya's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Kenya's Imports from World (US$ mn)	Kenya's Imports from India (US$ mn)	Share of India in Kenya's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**12,093**	**1,302**	**10.8**	**220,408**
27	**Mineral fuels, oils, distillation products**	**2,700**	**401**	**14.9**	**37,984**
84	**Machinery and instruments**	**1,216**	**132**	**10.9**	**8,150**
85	**Electrical, electronic equipment**	**1,192**	**171**	**14.4**	**8,706**
87	**Vehicles other than railway, tramway**	**899**	**57**	**6.3**	**9,286**
39	**Plastics and articles**	**492**	**39**	**8.0**	**3,630**
72	**Iron and steel**	**489**	**32**	**6.5**	**6,996**
15	Animal, vegetable fats and oils	485	0.4	0.1	716
10	Cereals	397	1	0.4	2,924
30	**Pharmaceutical products**	**332**	**149**	**44.8**	**6,096**
48	**Paper & paperboard, articles of pulp, paper and board**	**318**	**36**	**11.3**	**784**
38	**Miscellaneous chemical products**	**234**	**15**	**6.6**	**2,070**
17	Sugars and sugar confectionery	183	5	2.7	1,040
73	**Articles of iron or steel**	**151**	**15**	**10.1**	**6,368**
40	**Rubber and articles**	**143**	**16**	**11**	**1,675**
63	Other made textile articles, sets, worn clothing etc	142	8	5.8	2,903
29	**Organic chemicals**	**132**	**24**	**18.4**	**8,593**
90	Optical, photo, technical, medical, etc apparatus	122	7	5.4	1,441
94	Furniture, lighting, signs, prefabricated buildings	94	4	4.1	707
55	**Manmade staple fibres**	**90**	**20**	**21.9**	**1,622**
33	**Essential oils, perfumes, cosmetics, toileteries**	**88**	**6**	**7.1**	**901**
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**85**	**17**	**20.1**	**1,134**
28	**Inorganic chemicals, precious metal compound, isotopes**	**80**	**13**	**16.2**	**2,314**
76	**Aluminium and articles**	**78**	**15**	**19.9**	**1,328**
52	Cotton	67	3	4.4	6,890
24	Tobacco and manufactured tobacco substitutes	65	2	2.6	879
32	**Tanning, dyeing extracts, tannins, pigments**	**65**	**11**	**16.5**	**1,612**
69	**Ceramic products**	**52**	**11**	**21.9**	**301**

Source: Trade Map, ITC Geneva, and Exim Bank Research

the Kenyan market and India's export capability. Towards this end, potential items of India's exports to Kenya would include:

- Animal, vegetable fats and oils (HS-15)
- Cereals (HS-10)
- Sugars and sugar confectionery (HS-17)
- Other made textile articles, sets, worn clothing (HS-63)
- Optical and medical apparatus (HS-90)
- Furniture, lighting, signs, prefabricated buildings (HS-94)
- Cotton (HS-52)
- Tobacco and manufactured tobacco substitutes (HS-24)

AUSTRALIA

Table 6.11 presents Australia's major import items, in terms of 2-digit HS code, and India's share in Australia's global imports of these items, along with India's global exports. As can be seen from the table, despite India's global export capability, India's share in Australia's major imports is still low, which highlights the potential for enhancing these exports to Australia.

Based on the above criteria, potential items of India's exports to Australia would include:

- Machinery and instruments (HS-84)
- Mineral fuels and distillation products (HS-27)
- Vehicles other than railway, tramway (HS-87)
- Electrical and electronic equipment (HS-85)
- Pharmaceutical products (HS-30)
- Optical and medical apparatus (HS-90)
- Plastics and articles (HS-39)
- Articles of iron or steel (HS-73)
- Organic chemicals (HS-29)
- Furniture, lighting, signs, prefabricated buildings (HS-94)
- Rubber and articles (HS-40)
- Paper & paperboard, articles of pulp, paper and board (HS-48)
- Toys, games, sports requisites (HS-95)
- Articles of apparel, accessories, knit or crochet (HS-61)
- Iron and steel (HS-72)
- Miscellaneous chemical products (HS-38)
- Miscellaneous edible preparations (HS-21)

Table 6.11: Australia's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Australia's Imports from World (US$ mn)	Australia's Imports from India (US$ mn)	India's share in Australia's Imports, (%)	India's Exports to World (US$ mn)
Total	**All products**	**188,741**	**1,767**	**0.9**	**220,408**
84	Machinery and instruments	28,104	120	0.4	8,150
27	Mineral fuels and distillation products	25,926	12	0.1	37,984
87	Vehicles other than railway, tramway	24,028	113	0.5	9,286
85	Electrical, electronic equipment	20,265	133	0.7	8,707
30	Pharmaceutical products	8,280	92	1.1	6,096
71	**Pearls, precious stones, metals, coins**	**8,043**	**251**	**3.1**	**32,465**
90	Optical, photo, technical, medical, apparatus	6,558	51	0.8	1,441
39	Plastics and articles	4,411	40	0.9	3,630
73	Articles of iron or steel	3,795	56	1.5	6,368
29	Organic chemicals	3,308	72	2.2	8,593
94	Furniture, lighting, signs, prefabricated buildings	3,039	27	0.9	707
40	Rubber and articles	2,876	45	1.6	1,675
48	Paper & paperboard, articles of pulp, paper and board	2,588	8	0.3	784
62	**Articles of apparel, accessories, not knit or crochet**	**2,299**	**54**	**2.3**	**6,038**
95	Toys, games, sports requisites	2,239	20	0.9	158
61	Articles of apparel, accessories, knit or crochet	2,140	34	1.6	4,566
72	Iron and steel	2,094	35	1.7	6,996
38	Miscellaneous chemical products	1,492	25	1.7	2,070
21	Miscellaneous edible preparations	1,426	9	0.6	316

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.12: Tanzania's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Tanzania's Imports from World (US$ mn)	Tanzania's Imports from India (US$ mn)	Share of India in Tanzania's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**8,013**	**895**	**11.2**	**220,408**
27	**Mineral fuels, oils, distillation products**	**2,213**	**424**	**19.2**	**37,984**
87	**Vehicles other than railway, tramway**	**904**	**55**	**6.0**	**9,286**
84	**Machinery and instruments**	**888**	**65**	**7.3**	**8,150**
85	**Electrical, electronic equipment**	**473**	**32**	**6.8**	**8,706**
39	Plastics and articles	413	22	5.4	3,630
72	**Iron and steel**	**317**	**52**	**16.4**	**6,996**
10	Cereals	309	0.1	-	2,924
15	Animal, vegetable fats and oils	211	0.03	-	716
73	**Articles of iron or steel**	**179**	**14**	**7.7**	**6,368**
40	Rubber and articles	161	9	5.4	1,675
30	**Pharmaceutical products**	**153**	**60**	**39.4**	**6,096**
48	**Paper & paperboard, articles of pulp, paper and board**	**105**	**13**	**12.1**	**784**
38	**Miscellaneous chemical products**	**103**	**11**	**10.6**	**2,070**
17	Sugars and sugar confectionery	92	1	1.4	1,040
28	**Inorganic chemicals, precious metal compound, isotopes**	**76**	**12**	**15.4**	**2,314**
29	**Organic chemicals**	**76**	**12**	**15.3**	**8,593**
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**72**	**7**	**10.3**	**1,134**
63	**Other made textile articles, sets, worn clothing etc**	**68**	**5**	**8.0**	**2,903**
94	**Furniture, lighting, signs, prefabricated buildings**	**67**	**4**	**6.3**	**707**
90	Optical, photo, technical, medical, etc apparatus	63	3	4.6	1,441
69	Ceramic products	58	3	4.8	301
22	Beverages, spirits and vinegar	52	2	4.4	167
33	Essential oils, perfumes, cosmetics, toileteries	51	3	5.2	901

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

TANZANIA

Tanzania is an important market for India in IOR-ARC region. While India accounts for a significant share in Tanzania's global imports of petroleum products, pharmaceuticals, and products of iron and steel, potential exists to enhance exports of other products to Tanzania, in line with demand in the country **(Table 6.12)**.

In this regards, potential items of India's exports to Tanzania would include:

- Plastics and articles (HS-39)
- Cereals (HS-10)
- Animal, vegetable fats and oils (HS-15)
- Rubber and articles (HS-40)
- Sugars and sugar confectionery (HS-17)
- Optical and medical apparatus (HS-90)
- Ceramic products (HS-69)
- Beverages, spirits and vinegar (HS-22)
- Essential oils, perfumes, cosmetics, toiletries (HS-33)

OMAN

Bilateral trade relations between India and Oman have witnessed a robust rising trend in the last decade, with total trade increasing more than 12-fold over the period. Still, India accounts for only 3.9 percent of total imports of Oman, indicating further potential in enhancing exports to the country **(Table 6.13)**.

Based on the above criteria, potential items of export to Oman would broadly include the following categories of exports:

- Vehicles other than railway, tramway (HS-87)
- Machinery and instruments (HS-84)
- Dairy products, eggs, honey, edible animal product (HS-04)
- Organic chemicals (HS-29)
- Cereal, flour, starch, milk preparations and products (HS-19)
- Inorganic chemicals, precious metal compound, isotopes (HS-28)
- Optical and medical apparatus (HS-90)
- Rubber and articles (HS-40)
- Furniture, lighting, signs, prefabricated buildings (HS-94)
- Salt, sulphur, earth, stone, plaster, lime and cement (HS-25)
- Paper & paperboard (HS-48)
- Aluminium and articles (HS-76)

Table 6.13: Oman's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Oman's Imports from World (US$ mn)	Oman's Imports from India (US$ mn)	India's Share in Oman's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**19,973**	**774**	**3.9**	**220,408**
87	Vehicles other than railway, tramway	4,581	-	-	9,286
84	Machinery and instruments	2,525	88	3.5	8,150
27	**Mineral fuels, oils, distillation products**	**1,292**	**134**	**10.3**	**37,984**
85	**Electrical, electronic equipment**	**1,186**	**86**	**7.3**	**8,706**
73	**Articles of iron or steel**	**922**	**71**	**7.7**	**6,368**
72	**Iron and steel**	**540**	**39**	**7.2**	**6,996**
39	**Plastics and articles**	**469**	**21**	**4.5**	**3,630**
74	**Copper and articles**	**364**	**38**	**10.6**	**5,425**
04	Dairy products, eggs, honey, edible animal product	358	12	3.4	238
29	Organic chemicals	354	7	2.0	8,593
19	Cereal, flour, starch, milk preparations and products	288	3	0.9	248
28	Inorganic chemicals, precious metal compound, isotopes	244	3	1.2	2,314
10	**Cereals**	**222**	**17**	**7.6**	**2,924**
71	**Pearls, precious stones, metals, coins**	**216**	**14**	**6.5**	**32,465**
90	Optical, photo, technical, medical apparatus	207	5	2.6	1,441
38	**Miscellaneous chemical products**	**201**	**20**	**9.8**	**2,070**
40	Rubber and articles	200	8	4.0	1,675
30	Pharmaceutical products	197	11	5.5	6,096
94	Furniture, lighting, signs, prefabricated buildings	193	2	1.2	707
02	**Meat and edible meat offal**	**191**	**35**	**18.4**	**1,775**
25	Salt, sulphur, earth, stone, plaster, lime and cement	186	7	3.7	1,134
48	Paper & paperboard, articles of pulp, paper and board	170	3	1.8	784
76	Aluminium and articles	156	4	2.9	1,328
15	Animal, vegetable fats and oils	145	1	0.8	716
33	**Essential oils, perfumes, cosmetics, toileteries**	**141**	**6**	**4.6**	**901**
20	Vegetable, fruit, nut, etc food preparations	126	3	2.0	275
24	Tobacco and manufactured tobacco substitutes	116	1	0.6	879
34	Soaps, lubricants, waxes, candles, modelling pastes	111	3	2.5	322
07	**Edible vegetables, certain roots and tubers**	**100**	**12**	**11.5**	**962**
08	Edible fruit, nuts	100	4	3.9	1,089

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

- Animal, vegetable fats and oils (HS-15)
- Vegetable, fruit, nut, etc food preparations (HS-20)
- Tobacco and manufactured tobacco substitutes (HS-24)
- Soaps, lubricants, waxes, candles, modelling pastes (HS-34)
- Edible fruit and nuts (HS-08)

MAURITIUS

Mauritius is an important trade and investment partner of India. India accounts for more than 22 percent of country's total imports and is a major source for the country's imports of mineral fuels, cotton, pharmaceutical products, articles of apparel, accessories, not knit or crochet **(Table 6.14).**

Other items with export potential to Mauritius, based on import demand, would include:

- Machinery and instruments (HS-84)
- Fish, crustaceans, aquatic invertebrates (HS-03)
- Vehicles other than railway, tramway (HS-87)
- Pearls and precious stones (HS-71)
- Plastics and articles (HS-39)
- Paper & paperboard, articles of pulp, paper and board (HS-48)
- Furniture, lighting, signs, prefabricated buildings (HS-94)
- Tobacco and manufactured tobacco substitutes (HS-24)
- Animal, vegetable fats and oils (HS-15)
- Miscellaneous chemical products (HS-38)
- Aluminium and articles (HS-76)

MOZAMBIQUE

India accounts for around 6 percent of Mozambique's global imports **(Table 6.15)**. While India is a major supplier of pharmaceuticals to Mozambique, with a significant share in Mozambique's global imports, scope exists to enhance exports of other items based on demand in the country and India's export capability.

Towards this end, potential items of India's exports to Mozambique would include:

- Vehicles other than railway, tramway (HS-87)
- Machinery and instruments (HS-84)
- Cereals (HS-10)

Table 6.14: Mauritius' Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Mauritius' Imports from World (US$ mn)	Mauritius' Imports from India (US$ mn)	India's Share in Mauritius' Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**4,402**	**984**	**22.3**	**220,408**
27	**Mineral fuels, oils, distillation products**	**846**	**696**	**82.2**	**37,984**
84	Machinery and instruments	369	7	2.0	8,150
85	**Electrical, electronic equipment**	**281**	**31**	**11.0**	**8,706**
03	Fish, crustaceans, aquatic invertebrates	239	8	3.3	2,164
87	Vehicles other than railway, tramway	224	6	2.5	9,286
52	**Cotton**	**165**	**56**	**34.1**	**6,890**
71	Pearls, precious stones, metals, coins	141	3	2.0	32,465
39	Plastics and articles	129	5	4.3	3,630
10	**Cereals**	**128**	**24**	**18.9**	**2,924**
30	**Pharmaceutical products**	**127**	**37**	**29.3**	**6,096**
72	**Iron and steel**	**95**	**7**	**6.9**	**6,996**
73	**Articles of iron or steel**	**75**	**4**	**5.7**	**6,368**
48	Paper & paperboard, articles of pulp, paper and board	69	3	4.2	784
90	**Optical, photo, technical, medical apparatus**	**58**	**4**	**6.4**	**1,441**
94	Furniture, lighting, signs, prefabricated buildings	56	2	3.0	707
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**53**	**3**	**5.4**	**1,134**
33	**Essential oils, perfumes, cosmetics, toileteries**	**53**	**3**	**5.7**	**901**
24	Tobacco and manufactured tobacco substitutes	48	0	0.6	879
02	**Meat and edible meat offal**	**48**	**10**	**21.1**	**1,775**
15	Animal, vegetable fats and oils	41	0	0.2	716
62	**Articles of apparel, accessories, not knit or crochet**	**41**	**15**	**37.7**	**6,038**
38	Miscellaneous chemical products	39	2	4.0	2,070
40	**Rubber and articles**	**36**	**3**	**7.2**	**1,675**
76	Aluminium and articles	34	1	4.2	1,328
07	**Edible vegetables, certain roots and tubers**	**31**	**9**	**27.6**	**962**

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.15: Mozambique's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Mozambique's Imports from World (US$ mn)	Mozambique's Imports from India (US$ mn)	India's Share in Mozambique's Imports (%)	India's exports to world (US$ mn)
Total	**All products**	**3,564**	**202**	**5.7**	**220,408**
27	**Mineral fuels, oils, distillation products**	**711**	**98**	**13.8**	**37,984**
87	Vehicles other than railway, tramway	369	10	2.7	9,286
84	Machinery and instruments	361	11	3.1	8,150
85	**Electrical, electronic equipment**	**153**	**8**	**5.1**	**8,706**
10	Cereals	149	0.4	0.3	2,924
73	**Articles of iron or steel**	**103**	**14**	**13.2**	**6,368**
72	**Iron and steel**	**85**	**8**	**8.8**	**6,996**
15	Animal, vegetable fats and oils	78	0.4	0.5	716
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**67**	**4**	**6.3**	**1,134**
39	**Plastics and articles**	**63**	**4**	**5.9**	**3,630**
30	**Pharmaceutical products**	**45**	**21**	**46.1**	**6,096**
40	**Rubber and articles**	**43**	**2**	**4.4**	**1,675**
48	Paper & paperboard, articles of pulp, paper and board	42	1	3.2	784
90	Optical, photo, technical, medical apparatus	40	1	2.7	1,441
94	Furniture, lighting, signs, prefabricated buildings	35	0.2	0.4	707
03	Fish, crustaceans, aquatic invertebrates	34	0.1	0.2	2,164
63	**Other made textile articles, sets, worn clothing etc**	**28**	**3**	**11.0**	**2,903**
33	Essential oils, perfumes, cosmetics, toileteries	23	1	3.0	901
38	Miscellaneous chemical products	22	0.3	1.4	2,070
82	Tools, implements, cutlery, etc of base metal	22	0.5	2.1	584
32	Tanning, dyeing extracts, tannins, pigments	19	0.1	0.7	1,612
70	Glass and glassware	18	0.1	0.5	382

Source: Trade Map, ITC Geneva, and Exim Bank Research

- Animal, vegetable fats and oils (HS-15)
- Paper & paperboard, articles of pulp, paper and board (HS-48)
- Optical and medical apparatus (HS-90)
- Furniture, lighting, signs, prefabricated buildings (HS-94)
- Fish, crustaceans, aquatic invertebrates (HS-03)
- Essential oils, perfumes, cosmetics, toileteries (HS-33)
- Miscellaneous chemical products (HS-38)
- Tools, implements, cutlery, etc of base metal (HS-82)
- Tanning, dyeing extracts, tannins, pigments etc (HS-32)
- Glass and glassware (HS-70)

YEMEN

India's major exports to Yemen are cereals, mineral fuels, pharmaceutical products; manmade filaments, plastics and articles, paper and paper board, articles of apparel, accessories, not knit or crochet, coffee, tea, mate and spices, miscellaneous chemical products, tobacco and manufactured tobacco substitutes, and residues and animal fodder and these products account for a significant share in the country's global imports **(Table 6.16)**. Based on imports demand, other potential items of export to Yemen would include: machinery and instruments (HS-84); vehicles other than railway (HS-87); electrical and electronic equipment (HS-85); sugars and sugar confectionery (HS-17); iron and steel (HS-72); articles of iron and steel (HS-73); meat and edible meat offal (HS-02); rubber and articles (HS-40); articles of apparel, accessories, knit or crochet (HS-61); optical and medical apparatus (HS-90) and animal, vegetable fats and oils (HS-15).

MADAGASCAR

In the case of Madagascar, India is a major supplier of pharmaceuticals, salt, sulphur, earth, stone, plaster, lime and cement and iron and steel accounting for a significant share of the country's imports of these items **(Table 6.17)**. Based on import demand in Madagascar, other items with export potential to the country would include: machinery and instruments (HS-84); mineral fuels and oils (HS-27); electrical and electronic equipment (HS-85); articles of iron and steel (HS-73); vehicles other than railway (HS-87); plastics and articles (HS-39); cereals (HS-10); animal and vegetable fats and oils (HS-15); sugars and sugar confectionery (HS-17); made textile articles (HS-63); paper and paper board (HS-48); miscellaneous chemical products (HS-38); optical and medical apparatus (HS-90); rubber and articles (HS-40) and fish and crustaceans (HS-03).

Table 6.16: Yemen's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Yemen's Imports from World (US$ mn)	Yemen's Imports from India (US$ mn)	India's Share in Yemen's Imports (%)	India's exports to world (US$ mn)
Total	**All products**	**6,909**	**495**	**7.2**	**220,408**
10	**Cereals**	**865**	**60**	**6.9**	**2,924**
84	Machinery and instruments	646	19	2.9	8,150
87	Vehicles other than railway, tramway	638	2	0.3	9,286
27	**Mineral fuels, oils, distillation products**	**499**	**127**	**25.5**	**37,984**
85	Electrical, electronic equipment	364	15	4.2	8,706
17	Sugars and sugar confectionery	358	10	2.8	1,040
72	Iron and steel	285	12	4.2	6,996
30	**Pharmaceutical products**	**202**	**23**	**11.2**	**6,096**
73	Articles of iron or steel	171	9	5.4	6,368
02	Meat and edible meat offal	160	6	3.5	1,775
40	Rubber and articles	133	4	3.3	1,675
39	**Plastics and articles**	**131**	**10**	**7.8**	**3,630**
54	**Manmade filaments**	**128**	**28**	**21.7**	**2,184**
61	Articles of apparel, accessories, knit or crochet	122	5	3.9	4,566
48	**Paper & paperboard, articles of pulp, paper and board**	**106**	**7**	**6.7**	**784**
90	Optical, photo, technical, medical, etc apparatus	88	3	3.9	1,441
15	Animal, vegetable fats and oils	86	0.03	0.03	716
62	**Articles of apparel, accessories, not knit or crochet**	**73**	**15**	**20.9**	**6,038**
09	**Coffee, tea, mate and spices**	**71**	**7**	**10.3**	**2,003**
38	**Miscellaneous chemical products**	**70**	**8**	**11.2**	**2,070**
24	**Tobacco and manufactured tobacco substitutes**	**67**	**17**	**25.6**	**879**
23	**Residues, animal fodder**	**66**	**4**	**6.7**	**2,067**

Source: Trade Map, ITC Geneva, and Exim Bank Research

Table 6.17: Madagascar's Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Madagascar's Imports from World (US$ mn)	Madagascar's Imports from India (US$ mn)	India's Share in Madagascar's Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**2,546**	**60**	**2.4**	**220,408**
84	Machinery and instruments	397	3	0.7	8,150
27	Mineral fuels, oils, distillation products	386	0.1	0.03	37,984
85	Electrical, electronic equipment	199	1	0.6	8,706
73	Articles of iron or steel	152	1	0.8	6,368
87	Vehicles other than railway, tramway	124	4	3.3	9,286
39	Plastics and articles	74	2	2.7	3,630
30	**Pharmaceutical products**	**66**	**14**	**20.4**	**6,096**
10	Cereals	56	1	1.4	2,924
52	**Cotton**	**56**	**3**	**5.8**	**6,890**
15	Animal, vegetable fats and oils	55	0.001	0.002	716
17	Sugars and sugar confectionery	55	1	0.9	1,040
72	**Iron and steel**	**53**	**10**	**19.6**	**6,996**
63	Other made textile articles, sets	49	0.1	0.2	2,903
48	Paper & paperboard, articles of pulp, paper and board	46	2	4.3	784
38	Miscellaneous chemical products	40	0.4	1.1	2,070
90	Optical, photo, technical, medical, etc apparatus	35	0.2	0.6	1,441
25	**Salt, sulphur, earth, stone, plaster, lime and cement**	**34**	**8**	**24.2**	**1,134**
40	Rubber and articles	27	0.3	1.0	1,675
03	Fish, crustaceans, aquatic invertebrates	25	-	-	2,164

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

SEYCHELLES

Based on import demand in Seychelles, potential items of export to the country would include: fish and crustaceans (HS-03); machinery and instruments (HS-84); electrical and electronic equipment (HS-85); ships boats and other floating structures (HS-89); articles of iron and steel (HS-73); furniture and lightings (HS-94); miscellaneous articles of base metals (HS-83); wood and wood articles (HS-44); animal and vegetable fats and oils (HS-15) and mineral fuel (HS-27) **(Table 6.18).**

Table 6.18: Seychelles' Major Import Items, Imports from India and India's Share, 2010

HS Code	Commodities	Seychelles' Imports from World (US$ mn)	Seychelles' Imports from India (US$ mn)	India's Share in Seychelles' Imports (%)	India's Exports to World (US$ mn)
Total	**All products**	**552**	**29**	**5.3**	**220,408**
03	Fish, crustaceans, aquatic invertebrates	68	0.2	0.2	2,164
84	Machinery and instruments	65	1.1	1.7	8,150
85	Electrical, electronic equipment	42	0.7	1.6	8,706
87	**Vehicles other than railway, tramway**	**34**	**10.9**	**31.8**	**9,286**
89	Ships, boats and other floating structures	26	-	-	4,223
73	Articles of iron or steel	22	0.5	2.1	6,368
72	**Iron and steel**	**20**	**2.7**	**13.3**	**6,996**
94	Furniture, lighting, signs, prefabricated buildings	19	0.1	0.5	707
83	Miscellaneous articles of base metal	14	0.1	0.5	369
39	**Plastics and articles**	**14**	**0.8**	**6.2**	**3,630**
44	Wood and articles of wood, wood charcoal	13	0.1	0.4	164
15	Animal, vegetable fats and oils	12	0.01	0.1	716
27	Mineral fuels, oils, distillation products	11	0.05	0.4	37,984

Note: '-' denotes nil or marginal

Source: Trade Map, ITC Geneva, and Exim Bank Research

7 STRATEGIES AND RECOMMENDATIONS FOR ENHANCING BILATERAL COMMERCIAL RELATIONS WITH IOR-ARC MEMBER COUNTRIES

The study, in the previous chapters, provided a broad overview of economic environment in IOR-ARC region, trade patterns and investment climate, besides analyzing India's bilateral trade and investment relations and identifying potential areas for mutual cooperation. Exim Bank's key initiatives and endeavours to foster closer economic cooperation between India and IOR-ARC countries were also highlighted in the previous chapter.

The concluding chapter endeavours to provide broad strategies and recommendations which could serve to facilitate and enhance two-way trade and investment between India and IOR-ARC member states, based upon the analysis and findings of the study.

1. Maritime Cooperation and Effective Maritime Governance

Indian Ocean is a significant avenue in international trade of goods, especially oil. In 2010, the world seaborne trade rebounded from the contraction of 2009 and grew by an estimated 7 percent, taking the total of goods loaded to 8.4 billion tons, surpassing the pre-crisis levels[18]. In 2010, about 1.8 billion tons of crude oil, equivalent to 45 percent of world crude oil production, were loaded on tankers and carried through fixed maritime routes. Further, 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. The economic benefits of international trade also necessitate safe and secure sea lines of communication. Hence, there is a great need for maritime cooperation 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[19], India could

[18]Review of Maritime Transport 2011, UNCTAD

[19]Ministry of Shipping, Government of India

assume a leading role in maritime cooperation to enhance the trade through sea.

2. Cooperation in Agriculture Sector Development

Agriculture and related activities constitutes the bedrock of many of the IOR-ARC countries, and exports from the sector are important foreign exchange earners for these countries. Many countries in IOR-ARC are home to the world's richest agricultural resources. Indian companies can 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. India's investment in specific countries 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. Indian investors could also focus on providing quality infrastructure to enhance farm productivity in these countries.

Towards this end, the LOCs extended by Exim Bank, at the behest of Government of India, to IOR-ARC countries, which are earmarked for agriculture, irrigation and related projects, would also serve to contribute towards development of the agricultural and related sectors in the region. Some of these LOCs would include,

- LOC to the Government of Madagascar for financing a project for enhancing rice productivity;
- LOC to the Government of Mozambique for enhancing productivity of rice, wheat, maize cultivation;
- LOC to the Government of Seychelles for export of rice, potatoes; and
- LOC to the Government of Tanzania for export of tractors, pumps and equipments from India to Tanzania.

With these LOCs in place, increased exports of agro-related machinery and equipment to the region by Indian entrepreneurs / exporters would serve to enhance bilateral cooperation in the agricultural sector, as also to the overall development of the region.

3. Natural Resource Development

With many of the countries in IOR-ARC 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. Mineral production and development constitute a significant part of many IOR-ARC countries, and remain a key factor in their future economic growth. For instance, according to World Gold Council, India, alongwith China, demanded more than half of the world's jewelry and bar and coin purchases of gold, while South Africa and Australia are famous for gold production; Malaysia and Indonasia are the largest producers of Palm Oil in the world; and UAE and Iran are among the top global producers of petroleum crude. In light of these, increased cooperation between India and the resource-rich countries in IOR-ARC in developing/exploring natural and mineral resources, with bilateral arrangements such as buy-back arrangements, could be an important strategy to enhance Indo-IOR-ARC commercial relations.

4. Cooperation in Hotel and Tourism Industry

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. Indian companies can focus more on developing world-class hotels and resorts. Indian hotel groups could also try to acquire and renovate some hotels in the region. Tata group has opened hotels in Australia, Malaysia, Singapore, Sri Lanka South Africa, and UAE where as Oberoi Hotels are present in Indonesia, Mauritius and UAE. Many of these Indian hotels received wide acclaim and awards for their hospitality services. Given the rich cultural and geographical diversities and vast biodiversity in flora and fauna of these nations, Indian entrepreneurs could also specifically focus on different kinds of tourism products, such as adventure tourism, coastal and safari tourism, medical tourism, wildlife tourism, eco-tourism and cultural tourism.

5. Focus on Information Technology (IT) Development

The use of various electronic marketing technologies is necessary to improve and develop different sectors, but it largely depends on Internet access and penetration rates in 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. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions in the region. For instance, Indian companies, such as NIIT, Aptech, karROX which already have presence in many of the IOR-ARC countries, could expand their network of training centers in other countries. Designing specialized e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities. Such initiatives would help industry and commerce, promote education in remote areas, create employment opportunities and provide healthcare to remote areas in the region, thereby contributing to overall development of nations in the region.

6. Investment in Human Resource Development

An associated area of bilateral cooperation could also 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. Towards this end, IOR-ARC member countries could also tie up with Indian institutions such as the Central Food Technological Research Institute (CFTRI), Mysore, Entrepreneurship Development Institute of India (EDI), Ahmadabad and National Small Industries Corporation Ltd. (NSIC), New Delhi. Further, Indian institutions could also share their expertise in the fields of export capability creation in the region, institutional strengthening and export development in the form of technical assistance and sharing of expertise through site visits. Indian investors could also help IOR-ARC governments in setting up various higher education institutes, universities and provide scholarships to students for various exchange programmes like Study India Programme. This type of academic 'twinning arrangements' between Indian and IOR-ARC universities will boost academic mobility between both regions.

7. Cooperation in Infrastructure Development

An important area of bilateral cooperation could be infrastructure development in many IOR-ARC countries. Investment in infrastructure development, due to an increasing need for better infrastructural facilities, coupled with the endeavour of IOR-ARC countries for rapid economic growth, could prove to be a mutually rewarding area of bilateral co-operation. Lack of forward and backward linkages between different modes of transportation, declining air connectivity, poorly equipped ports, ageing rail networks, and inadequate access to all-season roads are key problems facing many of the low income IOR-ARC economies. Areas that hold immense investment opportunities include development of highways and roadways, development of railway networks and power systems, which would also help in regional integration, to a great extent. 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.

8. Cooperation in the Banking/ Financial Sector

With a view to enhance commercial relations with countries in the IOR-ARC region, some Indian banks have set up operations in select countries in the region. As on 2011, in IOR-ARC regions, SBI has offices in Australia, Bangladesh, Oman, Singapore, Sri Lanka, South Africa and UAE; Bank of India in Kenya and Singapore; Bank of Baroda in Mauritius, Oman, Seychelles, Singapore, South Africa and UAE; Punjab National Bank in UAE; Indian Bank in Singapore and Sri Lanka; Indian Overseas Bank in Singapore, Sri Lanka and Thailand; UCO Bank in Singapore; ICICI Bank in Singapore, Sri Lanka and UAE; IDBI Bank in UAE; and Axis Bank in Singapore and UAE[20]. 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, 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.

9. Developing Linkages with Investment Promotion Agencies/ Chambers Of Commerce

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.

[20] RBI, Statistical Tables Relating to Banks of India, 2010-11

A list of such investment promotion agencies and chambers of commerce is provided in the **Annexure I.**

Such relationship would serve to enhance knowledge about potential areas for investment, upcoming projects in different sectors, prospective investment partners, as also procedures, rules and regulations required for venturing into specific sectors in these countries and incentives offered to investors. Further, investment promotional events with select investment promotion agencies would foster increased interaction between potential investors and concerned agencies in potential sectors in target countries in the region.

A national-level industry association/ trade chamber could be identified which could undertake various trade promoting activities such as organising Business-to-Government (B2G) and Business-to-Business (B2B) delegation visits relating to identified potential sectors; organising fairs in IOR-ARC member countries to showcase the competencies of Indian SMEs and to capture market opportunities in IOR-ARC member countries.

10. Cooperation in SME Sector

Small and Medium Enterprises (SME) sector development in many IOR-ARC countries are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training and lack of finance. Towards developing entrepreneurship and human capability, India could share its expertise and experience with countries in IOR-ARC, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction could be for delegations from these countries to visit India to study success factor of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. SME financing is another area where India could support this sector. Exim Bank has also extended several LOCs to various countries for the development of their SME sectors.

11. Focus on Multilateral Funded Projects

Besides participating in investment activities that are promoted by the respective governments of countries in IOR-ARC, Indian companies could also endeavor to participate in multilateral funded projects. Multilateral institutions such as the World Bank, ADB and the African Development Bank (AfDB) support and fund a number of projects in IOR-ARC. They broadly cover areas such as agriculture and related activities;

infrastructure development such as roads, telecommunication, postal services, electricity, water supply and sanitation; mining and quarrying; rural and urban development; environment and natural resource development; health care and education; financial market development; and tourism development. Focus on these funded projects and increased participation by Indian project and service exporters in such projects would serve to enhance India's commercial presence in these countries. At the same time, efforts to participate in technical assistance in terms of project preparation and advisory services in such funded projects would support increased presence in the region.

ANNEXURE I: INVESTMENT PROMOTION AGENCIES IN THE IOR-ARC REGION

Australia

Australian Trade Commission (Austrade) - www.austrade.gov.au

Bangladesh

Board of Investment (BOI) - www.boi.gov.bd

Indonesia

Investment Coordinating Board - www.bkpm.go.id

Iran

Organization for Investment, Economic and Technical Assistance of Iran (OIETAI) - www.investiniran.ir

Kenya

Kenya Investment Authority- www.investmentkenya.com

Madagascar

Economic Development Board of Madagascar (EDBM) - www.edbm.gov.mg

Malaysia

Malaysian Industrial Development Authority (MIDA) - www.mida.gov.my

Selangor State Investment Centre (SSIC) - www.ssic.com.my

Kulim Technology Park Corp. Berhad - www. khtp.com.my

Corridor Development Corporation BHD - www.cdc-msia.com.my

Mauritius

Board of Investment of Mauritius - www.boimauritius.com

Mozambique

Investment Promotion Centre Mozambique – www.cpi.co.mz

Oman

The Public Authority for Investment Promotion and Export Development (PAIPED) - www.ociped.com

Seychelles

Seychelles International Business Authority (SIBA) - www.siba.net

Singapore

Singapore Economic Development Board - www.sedb.com

South Africa

Durban Investment Promotion Agency – www.dipa.co.za

Trade and Investment South Africa (TISA) – www.thedti.gov.za

Gauteng Economic Development Agency (GEDA) – www.geda.co.za

Trade and Investment Limpopo (TIL) – www.til.co.za

City of Johannesburg - www.joburg.org.za

Mpumalanga Economic Growth Agency (MEGA) - www.mega.gov.za

Trade and Investment Kwazuli-Natal (TIKZN) - www.tikzn.co.za

Free State Development Corporation (FDC) - www.fdc.co.za

Sri Lanka

Board of Investment of Sri Lanka (BOI) - www.boi.lk

Tanzania

Tanzania Investment Centre (TIC) – www.tic.co.tz

Thailand

The Board of Investment of Thailand (BOI) - www.boi.go.th

Yemen

General Investment Authority (GIA)- www.investinyemen.gov.org

UAE

Department of Economic Development, Foreign Investment Office, Dubai - www.dubaided.gov.ae

Western Region Development Council -www.wrdc.ae

Department of Economic Development - Abu Dhabi - www.adeconomy.ae

Ras Al Khaimah Free Trade Zone Authority - www.rakftz.com

ANNEXURE II: COUNTRY RISK RATINGS OF IOR-ARC MEMBER COUNTRIES

Country	Euromoney (Jun '11)	Institutional Investor (Mar '12)	ECGC (Jun '12)	OECD (Jun '12)	D&B (Sep '12)
Australia	12	10	A1	0	DB1d
Bangladesh	120	110	B1	6	DB5c
India	53	45	A1	3	DB4a
Indonesia	57	55	B1	3	DB4b
Iran	125	116	B1	7	DB6c
Kenya	105	112	B1	6	DB5b
Madagascar	136	155	C1	7	-
Malaysia	36	33	A2	2	DB3b
Mauritius	67	63	A2	3	DB3b
Mozambique	113	119	C1	6	DB4d
Oman	38	37	A2	2	DB3c
Seychelles	95	152	C1	-	-
Singapore	6	6	A1	0	DB2b
South Africa	49	50	A2	3	DB4c
Sri Lanka	64	102	A2	6	DB5d
Tanzania	101	109	B1	6	DB4d
Thailand	42	47	B1	3	DB4d
United Arab Emirates	34	27	A2	3	DB3c
Yemen	147	146	B2	7	DB6d

Note: '-' denotes not available

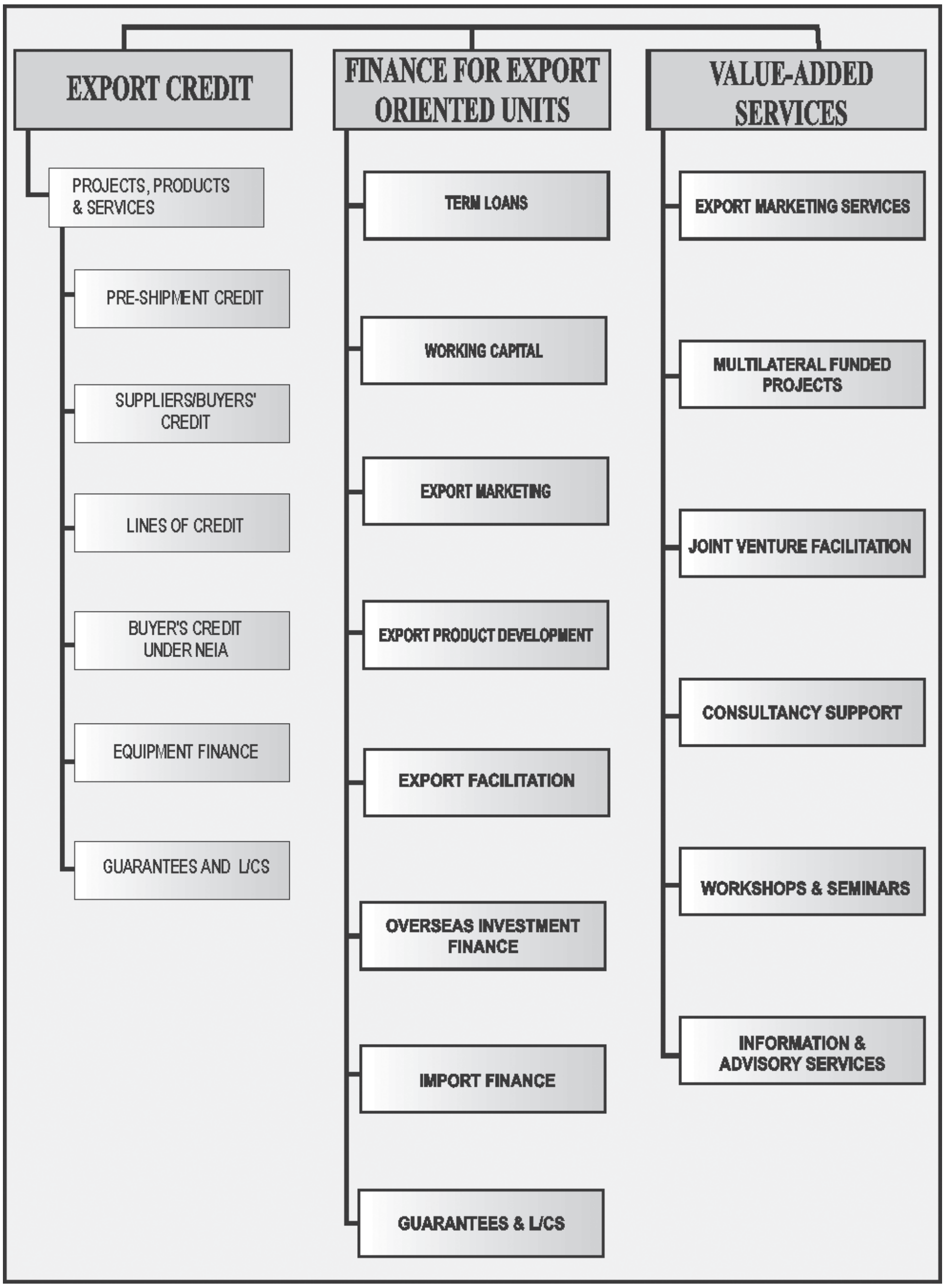
- Euromoney, in its June 2011 risk ratings rank 186 countries in increasing order of risk.
- Institutional Investor, in its March 2012 ratings rank 179 countries in increasing order of risk.
- Export Credit Guarantee Corporation of India Ltd. (ECGC) ranks countries in seven groups, A1, A2, B1, B2, C1, C2 and D, according to increasing order of risk.
- The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest), covering 211 countries.
- Dun and Bradstreet's (DB) Country Risk Indicator provides a comparative cross-border assessment based on four parameters: political risk, commercial risk, external risk and macroeconomic risk. The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band.

RECENT OCCASIONAL PAPERS	
OP. No.	**Title**
93.	Potential for Export of IT Enabled Services from North Eastern Region of India
94.	Potential for Export of Horticulture Products from Bihar and Jharkhand
95.	Increasing Wage Inequality in Developed Countries: Role of Changing Trade, Technology and Factor Endowments
96.	Essays on Trade in Goods and Factor Movements Under Increasing Returns to Scales
97.	Export of Organic Products from India: Prospects and Challenges
98.	Export Potential of Indian Medicinal Plants and Products
99.	Select Southern African Countries: A Study of India's Trade and Investment Potential
100.	BIMST-EC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries
101.	Some Aspects of Productivity Growth and Trade in Indian Industry
102.	Intra-Industry Trade In India's Manufacturing Sector
103.	Export Potential of Indian Plantation Sector: Prospects and Challenges
104.	Fresh Fruits, Vegetables and Dairy Products: India's Potential For Exports to Other Asian Countries
105.	Biotechnology: Emerging Opportunities for India
106.	ASEAN Countries: A Study of India's Trade and Investment Potential
107.	Essays on Globalisation and Wages in Developing Countries
108.	Select West African Countries: A Study of India's Trade and Investment Potential
109.	Indian Leather Industry: Perspective and Export Potential
110.	GCC Countries: A Study of India's Trade and Export Potential
111.	Indian Petroleum Products Industry : Opportunities and Challenges
112.	Floriculture : A Sector Study
113.	Japanese & U.S. Foreign Direct Investments in Indian Manufacturing : An Analysis
114.	Maghreb Region: A Study of India's Trade and Investment Potential
115.	Strengthening R & D Capabilities in India
116.	CIS Region: A Study of India's Trade and Investment Potential
117.	Indian Chemical Industry: A Sector Study
118.	Trade and Environment: A Theoretical and Empirical Analysis
119.	Indian Pharmaceutical Industry : Surging Globally
120.	Regional Trade Agreements: Gateway to Global Trade
121.	Knowledge Process Outsourcing: Emerging Opportunities for India
122.	Indian Mineral Sector and its Export Potential
123.	SAARC: An Emerging Trade Bloc
124.	Indian Capital Goods Industry - A Sector Study

125. Financial Liberalization and Its Distributional Consequences
126. ECOWAS: A Study of India's Trade and Investment Potential
127. Indian Textile and Clothing Industry in Global Context: Salient Features and Issues
128. Fair Trade : Fair Way of Enhancing Export Value
129. Indian Automotive Industry: At The Crossroads
130. CARICOM : A Gateway to the America
131. IBSA : Enhancing Economic Cooperation Across Continents
132. MSMEs and Globalisation: Analysis of Institutional Support System in India and In Select Countries
133. International Trade, Finance and Money: Essays in Uneven Development
134. Sikkim: Export Potential and Prospects
135. Mizoram: Export Potential and Prospects
136. Floriculture: A Sector Study
137. Biotechnology Industry in India: Opportunities for Growth
138. Indian Gems and Jewellery: A Sector Study
139. SADC: A Study of India's Trade and Investment Potential
140. Innovation, Imitation and North South Trade: Economic Theory and Policy
141. COMESA (Common Market for Eastern and Southern Africa): A Study of India's Trade and Investment Potential
142. Indian Shipping Industry: A Catalyst for Growth
143. New Renewable Energy in India: Harnessing the Potential
144. Caribbean Community (CARICOM): A Study of India's Trade and Investment Potential
145. West African Region: A Study of India's Trade and Investment Potential
146. India's Trade and Investment Relations with LDCs (Least Developed Countries): Harnessing Synergies
147. Indian Electronic Industry : Perspectives and Strategies
148. Export Potential of Indian Plantation Sector: Prospects and Challenges
149 MERCOSUR : A Study of India's Trade and Investment Potential
150. Openness and Growth of the Indian Economy: An Empirical Analysis
151. The Commonwealth: Promoting a Shared Vision on Trade and Investment
152. Southern African Development Community (SADC): A Study of India's Trade and Investment Potential
153. Strategic Development of MSMEs: Comparison of Policy Framework and Institutional Support Systems in India and Select Countries
154. Indian Chemical Industry : Exploring Global Demand
155. Technological Interventions In Indian Agriculture for Enhancement of Crop Productivity
156. Exports of Services and Offshore Outsourcing: An Empirical Investigation in the Indian Context

EXIM BANK'S MAJOR PROGRAMMES

Bank's Major Programmes



EXPORT-IMPORT BANK OF INDIA

HEAD OFFICE

Centre One Building, Floor 21, World Trade Centre Complex, Cuffe Parade, Mumbai 400 005.
Phone : (91 22) 22172600 Fax : (91 22) 22182572 E-mail : cag@eximbankindia.in
Website : www.eximbankindia.in

LONDON BRANCH

88/90, Temple Chambers, 3-7, Temple Avenue, London EC4Y OHP, United Kingdom.
Phone : (44) 20 73538830 Fax : (44) 20 73538831 E-mail : eximlondon@eximbankindia.in

Indian Offices

AHMEDABAD
Sakar II, Floor 1 ,
Next to Ellisbridge Shopping Centre,
Ellisbridge P. O., Ahmedabad 380 006.
Phone : (91 79) 26576852/26576843 Fax : (91 79) 26577696
E-mail : eximahro@eximbankindia.in

BANGALORE
Ramanashree Arcade, Floor 4,
18, M. G. Road, Bangalore 560 001.
Phone: (91 80) 25585755/25589101-04 Fax: (91 80) 25589107
E-mail : eximbro@eximbankindia.in

CHANDIGARH
PHD House, Floor 1, Sector 31-A,
Dakshin Marg, Chandigarh 160 031
Phone : (91 172) 2641910/12/39/49 Fax : (91 172) 2641915
E-mail : eximcro@eximbankindia.in

CHENNAI
UTI House, Floor 1,
29, Rajaji Salai, Chennai 600 001.
Phone : (91 44) 25224714/25224749 Fax : (91 44) 25224082
E-mail : eximchro@eximbankindia.in

GUWAHATI
Sanmati Plaza, Floor 4, Near Sentinel Building,
G. S. Road, Guwahati 781 005.
Phone : (91 361) 2462951/6013053 Fax : (91 361) 2462925
E-mail : eximgro@eximbankindia.in

HYDERABAD
Golden Edifice, Floor 2, 6-3-639/640, Raj Bhavan Road,
Khairatabad Circle, Hyderabad 500 004.
Phone : (91 40) 23307816-21 Fax : (91 40) 23317843
E-mail : eximhro@eximbankindia.in

KOLKATA
Vanijya Bhawan, Floor 4, (International Trade Facilitation Centre),
1/1 Wood Street, Kolkata - 700 016.
Phone : (91 33) 22833419/22833420 Fax : (91 33) 22891727
E-mail : eximkro@eximbankindia.in

MUMBAI
Maker Chambers IV, Floor 8,
222, Nariman Point, Mumbai 400 021.
Phone : (91 22) 22823320 / 92 / 94 Fax : (91 22) 22022132
E-mail : eximwrro@eximbankindia.in

NEW DELHI
Ground Floor, Statesman House,
148, Barakhamba Road, New Delhi 110 001.
Phone : (91 11) 23474800
Fax : (91 11) 23322758/23321719
E-mail : eximndro@eximbankindia.in

PUNE
44, Shankarseth Road, Pune 411 037.
Phone : (91 20) 26403000 Fax : (91 20) 26458846
E-mail : eximpro@eximbankindia.in

Overseas Offices

ADDIS ABABA
Bole Kifle Ketema
Kebele - 19, (03/05), House No. 015-B
Addis Ababa, Ethiopia,
Phone : (251 116) 630079
Fax : (251 116) 610170
E-mail : aaro@eximbankindia.in

DAKAR
Floor 1, 7, rue Félix Faure,
B.P. 50666, Dakar, Senegal
Phone : (221 33) 8232849
Fax : (221 33) 8232853
E-mail : eximdakar@eximbankindia.in

DUBAI
Level 5, Tenancy 1B,
Gate Precinct Building No. 3,
Dubai International Financial Centre,
PO Box No. 506541, Dubai, UAE.
Phone : (971 4) 3637462
Fax : (971 4) 3637461
E-mail : eximdubai@eximbankindia.in

JOHANNESBURG
Floor 2, Sandton City Twin Towers East,
Sandhurst Ext. 3, Sandton 2196,
Johannesburg, South Africa.
Phone : (27 11) 3265103 / 13 Fax: (27 11) 7844511
E-mail : eximjro@eximbankindia.in

SINGAPORE
20, Collyer Quay,
10-02, Tung Centre,
Singapore 049319.
Phone : (65) 65326464
Fax : (65) 65352131
E-mail : eximsingapore@eximbankindia.in

WASHINGTON D.C.
1750 Pennsylvania Avenue NW,
Suite 1202, Washington D.C. 20006,
United States of America.
Phone : (1 202) 223 3238
Fax : (1 202) 785 8487
E-mail : eximwashington@eximbankindia.in