

THE ROLE OF THE INDIAN OCEAN IN FACILITATING GLOBAL MARITIME TRADE¹

by

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Abstract

This paper explores the role of the Indian Ocean in promoting global maritime trade by providing an assessment of the importance of this waterway to world commerce. The paper examines several factors contributing to the ocean's prominence as a crucial trade waterway and discusses its importance as a facilitator of international commerce from the context of the development of ports and shipping sector in the region. It also analyzes the prospects of further growth in maritime trade in the Indian Ocean and its region.



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Indian Ocean : Vital Waters, Critical Area

The Indian Ocean (IO) is the world's third largest ocean, covering 20% of the earth's water surface.² It is a major sealane connecting Middle East, East Asia and Africa with Europe and the Americas. Boasting rich living and non-living resources, from marine life to oil and natural gas, IO is economically crucial to Africa, Asia and Australasia, the three continents bordering it, and the world at large.

The IO is a critical waterway for global trade and commerce. This strategic expanse hosts heavy international maritime traffic that includes half of the world's containerized cargo, one third of its bulk cargo and two third of its oil shipment.³ Its waters carry heavy traffic of petroleum and petroleum products from the oilfields of the Persian Gulf and Indonesia,⁴ and contain an estimated 40% of the world's offshore oil production.⁵ In addition to providing precious minerals and energy source, the ocean's fish are of great importance to the bordering countries for domestic consumption and export.

The IO rim defines a distinctive area of much diversity in climate, culture, race, religion, linguistic, political orientation, economic development, and strategic interest. There are approximately 40 countries either littoral to or are island states in the ocean, including those with coast lines on bodies of water such as the Red Sea, the Persian Gulf and the Straits of Malacca. Additionally, there are about a dozen land locked countries which have their main ocean access through the IO.⁶ A number of sub-regions are evident in the IO, for example Southern and Eastern Africa, the Horn of Africa and the Red Sea, South Asia, Southeast Asia, and Australasia. It also includes a number of regional organizations such as ASEAN, GCC, SAARC and SADEC.

Of late, developments in the IO region - encompassing economy, politics and policies – point towards more integration in the area. In an increasingly globalized world, the IO region sets to benefit from the free flow of resources, goods and investments that can boost trade in the vicinity. The World Bank estimated that the global maritime trade was expected to increase from 21,480 ton-miles in 1999 to 35,000 billion ton-miles in 2010, a significant percentage of which would pass through the IO.⁷ Such projection points towards growth in consumer-based industries worldwide, which in turn would spur more demand for energy resources from the IO region. This is poised to enhance the ocean's importance as a facilitator of global maritime trade.

² From http://en.wikipedia.org/wiki/Indian_Ocean (accessed on 31/5/2005).

³ Sakhuja (2003). 'Indian Ocean and the Safety of Sea Lines of Communications'. Institute for Defense Studies and Analyses, India. 18 July 2003.

⁴ Ibid.

⁵ From <http://www.cia.gov/cia/publications/factbook/geos/xo.html> (accessed on 29/5/2005).

⁶ From <http://www.curtin.edu.au/curtin/centre/ioc/ioripage.htm> (accessed on 30/5/2005).

⁷ Sakhuja (2003).

An Overview of the IO Region Economies

The IO region covers a large swathe extending three continents, featuring a dazzling array of countries and economies. The ocean's territory contains some of the world's most impoverished nations and some of its richest. As such, labeling all the nations in the area as mere 'IO nations' is only practical in a general discourse but would not do any justice to the region's stunning diversity and disparity, and to the complexity of the issues therein. However, for the purpose of providing an economic overview of the IO region, this sector will broadly highlight the extensive economic diaspora of the IO vicinity.

In a nutshell, the IO region is made of countries ranging from under-developing to developed. Underlining the vastness of the area and the economic contrasts amongst its nations, there are tiny island nations in the Western IO with weak economic base,⁸ and there are some of the world's most prosperous countries across the region's expanse. Australia and India alone accounted for nearly 40% of total GDP in the IO region, while the two countries along with Indonesia, Iran, Malaysia, Pakistan, Saudi Arabia, Singapore, South Africa and Thailand made up around 90% of GDP in the entire region.⁹ Nevertheless, while several countries in the IO rim remain economically impoverished, many are becoming globally competitive and are developing new capacities, jointly harnessed through regional co-operation efforts.

The Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) was formed in 1997 with the objective of promoting economic co-operation among countries of the Indian Ocean Rim.¹⁰ It is the only organization of countries along the IO rim that promotes economic cooperation amongst them. The grouping advocates principles of open regionalism and inclusivity of membership, with the objective of encouraging trade liberalization and co-operation. It also promotes activities focusing on trade facilitation, promotion and liberalization; investment; and economic co-operation in the IO region.

The Indian Ocean as a Facilitator of Global Maritime Trade

The IO region has entered into a new millennium full of inspiration, promises and opportunities, along with challenges, risks and uncertainties. With these looming in the horizon, in a world increasingly dependent on foreign trade and the maritime sector to facilitate global economic growth, the IO as one of the world's most important waterways will continue to be thrust into the spotlight. The waters of this expansive ocean stand to be intensely used in maritime transport and to facilitate international commerce.

⁸ UNEP (1999). 'Western Indian Ocean Economic Outlook'. The report stated that Small Island Developing States (SIDS) in Western Indian Ocean such as Seychelles, Mauritius, Madagascar and Comoros as having common features which make them economically vulnerable to external shocks and function at a disadvantage compared to larger states.

⁹ 'Current Economic Characteristics and Economic Linkages in the Indian Ocean'. Working paper presented by Australia's Department of Foreign Affairs and Trade at the International Forum on the Indian Ocean Region. 11-13 June 1995. Perth, Australia.

¹⁰ From <http://www.eppo.go.th/inter/IOR-ARC/ior-arc.html> (accessed on 2 June 2005).

Over the decades, the IO has become a chessboard of strategic rivalry and maneuverings of great powers, but has also played a central role in facilitating world trade and economic growth. What are the major factors that make IO such a decisive facilitator of global maritime trade? Some essential elements identified and described in the literature on this great body of water include historical influences, population, location, trade and economic patterns, and political development, among others. To critically evaluate the importance of the IO's role as a catalyst in global maritime trade, an analysis of the major factors, and the trade and economic links between the IO rim and other regions, is warranted.

The IO region is linked together by trade routes harking back from time immemorial and provides crucial access to the major sea-lanes. The area is the home of the world's first urban civilization and the center of the first sophisticated commercial and maritime activities.¹¹ The routes through Aden and Hormuz have been used since antiquity for purposes of trade and communication.

Today, the IO region is one of the busiest waterways in the world for the commercial exchange of commodities, capital, manufactures and services.¹² Being at the center between the powerful economies of the Indian subcontinent and the Far East, and within the oil-rich Gulf area, the IO occupies a strategic position to facilitate a tremendous amount of trade within this expanse. This, along with the rim's vast consumer market and trade prospects, makes the IO region an economically vibrant area and the ocean a vital trade facilitator. Population in the IO rim is close to two billion, providing an enormous market for trade and consumerism. Movement of trade and population in the IO region has combined with geo-economics to create a common geographical space of tremendous economic prospect and global importance.¹³

The IO features four critically important access waterways facilitating international maritime trade - the Suez Canal in Egypt, Bab-el-Mandeb (bordering Djibouti and Yemen), Straits of Hormuz (bordering Iran and Oman), and Straits of Malacca (bordering Indonesia and Malaysia). These "chokepoints" or narrow channels are critical to world oil trade as huge amounts of oil pass through them.¹⁴ The strategic Persian Gulf is a passageway of significant interest to all those nations whose economic and strategic interests require safe trading routes in and out of West Asia. These paths, without exaggerating the fact, not only act as the strategic and economic lifeblood of many nations along them but play the role as the main arteries for global trade and energy supply, the majority of which are transported by sea. Hence, the importance of the IO to facilitate the world's trade and its contribution to global economic prosperity cannot be overemphasized.

¹¹ Kamat (1998). 'The Relevance of Indian Ocean'. The Daily. 5 April 1998.

¹² 'Maritime Security in the Indian Ocean' by Peter Cozens, Fellow at Asia Pacific Research Institute. Overview prepared for a research project planned in cooperation with the South Asia Institute of the University of Heidelberg, Germany.

¹³ Sheth (2002).

¹⁴ 'World Oil Transit Chokepoints'. Report by Energy Information Administration. Washington DC. March 2004.

The trade routes passing through the IO are gaining prominence with increasing dependence by the world's economic powers on energy supply from the Gulf. It has been estimated that European, Japanese and US economies respectively import 70%, 76% and 25% of their crude oil requirements from the IO rim. China, fast emerging as one of the worlds' most powerful economies, also has vital trading and energy interests in the IO waters and rim. Adding to this is the substantial economic progress in developing nations along the IO such as India and South Africa. Upward trends in shipping and international trade have seen foreign trade emerging as a matter of national priority to many nations, further accentuating the ocean's importance as a global trade facilitator.¹⁵

The economic development of many countries in the IO rim is closely related to seaborne trade. They depend on the free passage of goods across the seas, and the majority of Asian Pacific countries in the IO region, with their export-oriented economic structure, more than ever depend on maritime transportation.¹⁶ There has been an unmistakable trend of previously inward-looking countries in the IO region opening their economies at many levels – bilateral, regional and multilateral. This development has given rise to new opportunities for international trade, much of which is transported via the maritime mode. With this background, the IO will continue to play a prominent role in facilitating global maritime trade.

Development of Ports and Shipping Sector in the IO Rim

In mapping the increasing importance of the IO as a global maritime trade enabler, the fact that the bulk of the world's shipping passes through the region has to be emphasized. Increasingly, with trade liberalization, maritime trade passing through the ocean has dramatically increased as a result of the export-import orientation of many trading countries and their energy imports. The IO provides maritime advantages to several of its littoral states in terms of their strategic location along the ocean. These points decisively highlight the significance of IO in facilitating global maritime trade and its importance from a strategic viewpoint.

Amidst increasing transnational commerce, the shipping lanes of IO have assumed a pivotal significance to facilitate this development. Global trade growth has heightened the importance of this vital ocean, with its strategic waterways and links with major maritime trade routes, in linking the trades of countries and economic regions. Testimony to this importance is the tremendous growth of ports and the shipping sector in the IO region. In sync with the regional and global trade explosion, many maritime infrastructures such as ports and shipping facilities have been built and upgraded along the IO rim to facilitate the trading boom. A glance at the IO map reveals many important harbors and seaports dotting along the region's shores., stretching from Mumbai in India

¹⁵ 'Indian Ocean : A Strategic Appraisal' by Flt. Lt. NK Pant, sighted at <http://www.geocities.com/siafdu/20.html> (accessed on 5 /6/2005).

¹⁶ Ji Guoxing (2000). 'SLOC Security in the Asia Pacific'. Center Occasional Paper. Asia-Pacific Center for Security Studies. Honolulu, Hawaii.

to Melbourne in Australia. These ports are critical trade facilitators to the economies of the respective countries and to the IO region.

As more IO countries are engaged in international trade with far away neighbors, more of the world goods will be transported via the ocean. In concurrence with this trend, trade volumes have been increasing steadily in the IO region. Over USD100 billion of China's trade alone passes through the IO annually, and this figure is projected to grow rapidly.¹⁷ Bilateral trade between China and India, two of the world's emerging economic powerhouses, stood at USD13 billion in 2004, representing 1% of China's global trade and 9% of India's.¹⁸ There has also been significant rise in trade volumes moving between post-apartheid South Africa and other IO nations such as India, Malaysia, Singapore and Australia, and there is substantial potential for future growth.¹⁹ Following the far-reaching changes in South Africa's economic, social and political policies, the country is poised to become a powerful engine for growth among countries in sub-Saharan Africa and the island nations along the traditional Cape Route. India's emergence as an economic power, with a population close to a billion, provides another tremendous opportunity for further economic and trade growth in the IO region. It is posited that these developments will have tremendous spillover effects to the growth of the maritime sector across the IO region to support trade expansion. Regional initiatives such as the formation of Association of Shipping and Port Authorities in the Indian Ocean by the Indian Ocean Marine Affairs Cooperation (IOMAC) will further boost efforts to promote port and shipping development in the IO region.²⁰

The demand for new ships, as a result of booming global trade and mandatory phasing out of ageing tankers by the International Maritime Organization, has resulted in a boom in newbuilding orders. The collapse of European shipyards and the cost-competitiveness of Asian shipyards have resulted in a dramatic shift of the shipbuilding industry from the west to east. This has had a positive effect in the development of shipping in the IO region, to a certain extent. Although the shipbuilding industry is dominated by yards from the Big Three shipbuilding giants of Asia, namely China, Japan and South Korea, several IO nations have also got into the act. The combined share of the world's order of yards in India, Pakistan and Bangladesh stood at nearly 4% in 2004.²¹ India has taken a cue from China to embark on a major shipbuilding program by promoting new shipyards and upgrading existing ones.²²

¹⁷ From <http://www.ipcs.org/printSeminar.jsp?action=showView&kValue=1602> (Accessed on 2 June 2005).

¹⁸ Mitra & Thompson (2005). 'China and India : Rivals or Partners?'. FEER. April 2005.

¹⁹ 'RIM Relationships and Economic Development'. Speech by Dr Ben Ngubane, Premier of Kwa Zulu-Natal State, Republic of South Africa. Indian Ocean Rim Conference. Durban, South Africa. 10 March 1997.

²⁰ From <http://www.unu.edu/unupress/unupbooks/uu15oe/uu15oe0n.htm> (accessed on 3/6/2005).

²¹ From <http://www.exim-india.com/link/htmls/shipping.htm> (accessed on 3/6/2005).

²² Ibid.

It has been argued that increased investment in port facilities and upgrading shipping infrastructure in the IO region would significantly boost regional trade.²³ The projected uptrend in cargo traffic worldwide would require massive investments for developing and improving port and shipping facilities in the region to cope with the growth. Trading nations in the IO rim need to upgrade their national lines to meet increasing demands for shipping service and to capitalize on container traffic growth. A more modern maritime sector would provide a catalyst to higher trade volume and brighter economic prospects for many IO countries which are economically dependent on the ocean.

Prospects for Further Growth in Maritime Trade in the IO Region

The IO has played many important roles in the history of the IO region and will indeed continue to chart the destiny of its rim nations. However, the sense of *esprit de corp* amongst the IO littoral and island states is still weak when compared, for example, to the economic and other ties that bind the countries of the Asia Pacific together.²⁴ This is perhaps due to the economic and socio-political chasm that separates the nations across the expanse of the IO region. But comfort can be drawn from the fact that the past decade has seen a noteworthy expansion in intra-regional trade and investment amongst the IO rim countries.

While many IO countries have remained inward looking, some have moved significantly towards adopting open and outward-looking economic and trade policies, though differing widely in the scope, pace and in the policy instruments. Despite the disparity, there are some common features characterizing these changes, namely ensuring macroeconomic and fiscal stability through investment-friendly policies, elimination of non-tariff barriers, removal of exchange controls and privatization.²⁵ Economic, trade and political trends will continue to change and influence the development of maritime trade around the IO rim and internationally. The dynamics of the world in flux, led by the pervasive effects of liberalization and globalization, will continue to affect developments in the IO region and encourage growth in intra-regional maritime trade and investment in the area.

Although it has been mentioned that the IO region has enjoyed remarkable intra-regional trade growth, it is sobering to note that trade volumes in the IO rim is coming off a very low base. As such, the levels of intra-regional trade are not significant relative to trade outside the region. Perhaps initiatives to develop more inter IO trade relationships and economic cooperation, and efforts to boost foreign direct investment into needy IO rim economies, will help correct the imbalance. These would achieve the effect of

²³ Puri (2003). 'An Ocean of Opportunities'. In 'Regional Cooperation in Indian Ocean : Trends and Perspectives'. Edited by PV Rao. South Asian Publishers. New Delhi. pg. 306.

²⁴ Fatemi (1996). 'The Indian Ocean Region : An Attempt at Economic Integration'. Draft of a collaborative research project prepared for the International Conference on Economic Integration in Transition. Athens, Greece. 21-24 August 1996.

²⁵ Fatemi (1996).

stimulating economic and trade growth in the region, and indirectly boost the development of its maritime sector as one of the pillars of facilitating trade in the region.

It is observed that the maritime sector is undergoing a process of consolidation and concentration evidenced through merging and alliances amongst ports and shipping liners, and the construction of increasingly large container ships. All these will demand greater capacity and investments in ports and shipping, and will place a premium on reaching economies on scale. As this trend is foreseen to dictate developments in the maritime sector in the years to come, it will pose keen challenges to the IO region as a crucial facilitator of global maritime trade. IO nations will have to adopt international trade and maritime agreements and conventions, attract investments, and adopt new technologies and systems to improve operational capacity, among others, to remain competitive. For IO nations to develop competitive maritime sectors, they must strive to decentralize and privatize port services to enhance their commercial competitiveness, enhance infrastructural, supply chain and logistics capacity and capabilities to support growing port throughput, and generally improve in many other areas of operations. With the right kind of policies and foreign investments, it is anticipated that nations in the IO rim will see progressive growth in their ports and shipping sector.

World Trade Organization (WTO), whose efforts on trade facilitation resonate loudly in the IO region, has identified a number of key barriers which need to be overcome to promote international trade and commerce.²⁶ Once these hurdles are surmounted, one can just imagine the burst of growth in investment and in trade facilitated by the maritime sector via the IO sealanes. Ever-changing world's trade structures and flows resulting from WTO initiatives have given rise to concomitant effects on global port development and shipping patterns, leaving their mark in the IO and along its rim. While developed countries in Europe and North America are still fuelling the world's merchandise trades, the balance of power has significantly shifted to the Asian region, namely to China and India. These two nations, along with so many others, depend largely on the IO to facilitate their trade and energy supply to fuel their economic growth.

It is hoped that stronger emphasis on trading by IO nations could lead to the opening up of new trade opportunities and the growth of greater economic prosperity in the IO region. Given the evidence in the analysis of the factors behind IO's influential role in spurring global maritime trade, these objectives are well within reach. Foreseeable future trends and patterns in maritime, economy, investment, capacity building and trade give ample ground to be optimistic of IO's continued importance in facilitating world seaborne trade and as a strategic waterway to many nations. They also point to greater market-driven growth in trade, investment and economic development in the IO rim, befitting the ocean's strategic location, importance and influence in promoting global maritime trade.

²⁶ Amongst the barriers identified by WTO are customs processing, customs valuation procedures and technical barriers in standards and conformance. A positive first step in this aspect of trade facilitation in the IOA-ARC was a commitment by several member nations to develop a comprehensive set of legal, regulatory and procedural requirements in several key areas such as customs, quarantine, investment and trade documentation.

Conclusion

As the importance of maritime trade and strategic interests increase, the IO will continue to be at the forefront of attention of trading nations and the world's great powers. This will exert plenty of challenges to this ocean in areas such as navigational safety, environmental integrity, sovereignty and security, and enhance focus on the impacts they will have on social, trade economic development in the region. Barring drastic developments, the near future will undoubtedly see an increase in maritime activities in the IO waters, fuelled by factors such as increasing international trade amongst nations, demographic changes, integration of economies, modernization in ports and shipping, increasing dependence of economic powers on energy supply, and growing strategic interests. Subsequently, the scenario in the IO will become more complex and the challenges greater than ever.

It is expected that the sealanes of the IO will become even busier in the future as global trade grow in size and importance. Maritime transport, as the most economical and effective means of transport to support international trade, will correspondingly see an increase in activities, and the IO, as a crucial trade waterway, will in tandem grow in prominence and significance. Increasing regional cooperation such as those initiated on the platform of IOR-ARC will enable IO countries to participate more actively and effectively in the global economy and leverage their memberships in the grouping. These developments and other trends analyzed in this paper indicate greater demands and bigger roles being placed on the IO to facilitate global maritime trade in the future.

The new world order, under the dictates of globalization and trade liberalization, will necessitate IO countries to unite on a single platform to promote their economic and trade interests. The strategic importance of the ocean and its region is set to heighten as global economic integration gains momentum.²⁷ Its pivotal role will ensure that it will remain in the sharp focus of the radars of intra and extra-regional powers.²⁸

An expanse as great as the IO that divides continents could also prove to be a unifying force of people, given their commonalities - united under an oceanic community of nations. Perhaps the people in the IO rim could seek inspiration in the old quote, "*the land divides, but the sea unites*".

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²⁷ 'Indian Ocean Region : Malaysia's Perspective'. Paper presented by Capt (Rtd) Mat Taib Yassin, Senior Fellow, Maritime Institute of Malaysia at the Indian Ocean Conference, Hawaii. 19-21 August 2003.

²⁸ 'Maritime Power in Peace and War – An Indian View'. Paper presented by Vadm. Kailash Kumab Kohli, Chief of Personnel, Indian Navy, published in African Security Review Vol. 5 No. 2, 1996.