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Session on 'Enhancing Trade and Investment in the IOR-ARC region' – July 4, 2013

Mr. Anand Sharma, Hon'ble Minister for Commerce and Industry, Government of India
Mr. C. Sayed Hossen, Hon'ble Minister of Industry, Commerce and Consumer Protection, Government of Mauritius
Mr. Ghulam Muhammed Quader, Hon'ble Minister for Commerce, Government of Bangladesh
Mr. Rishad Bathiyutheen, Hon'ble Minister of Industry and Commerce, Government of Sri Lanka
Mr. Taira Masaaki, Hon'ble Parliamentary Vice Minister, Government of Japan
Mr. How Yue NG, Second Permanent Secretary, Ministry of Trade and Industry, Government of Singapore
Ladies and gentlemen,

It is indeed a pleasure and honour for me to share the dais with such distinguished panelists of this session. It is a rare opportunity when you see the coming together of so many senior most policy makers and officials responsible for guiding the direction of industrial policy, trade engagement and investments in their respective countries. We have one today and the rich discussions it leads to was on display in the first session that focused on the services sector.

This second session should be no different and I am sure you all are waiting to hear the views of the respective ministers who are here on the dais. The subject we shall focus on this session is 'Enhancing Trade and Investment in the IOR-ARC region.'

Friends, the prospects of greater commercial exchange of goods and services and investment in the region needs to be looked at from the prism of uniqueness of the grouping. The IOR-ARC is the only pan-Indian Ocean organization of its kind and has a significant degree of heterogeneity characterized by diversity in size, population, culture and economic development amongst its member states. Yet, there is a lot that can be accomplished together.

With a share in global GDP of close to 10 per cent, share in global trade of close to 11 per cent, share in global FDI flows of nearly 13 per cent and representing 30 per cent of the global population, our association has the critical mass to lead and influence economic engagement both at the global and regional levels.

We can create several opportunities for trade and investment amongst ourselves given our abundant natural resources such as marine resources, energy resources and precious minerals. Each one of us has an acknowledged strength in a certain set of industries and we must explore how these can be leveraged to the benefit of each other. We need to evaluate how our own internal markets and development imperatives can be opportunities for businesses from within the region. This session will see us address some of these and other related questions.

Having said that let me add that at present trade and investment flows within the member states of IOR-ARC are somewhat limited. Efforts have been made to understand why this is so and research shows some clearly identifiable issues that hold us back from capitalising on the potential at hand. Without going into the details, let me flag some of these for you.

First point relates to tariffs. We see that while average tariffs have come down over time, businesses still have to deal with peak tariffs and diverse trade policy regimes within member states. Despite substantial progress in promoting trade reforms, regional economies maintain certain specific trade regulations and standards in the form of import restrictions on sensitive products, for products of specific national interests, and for those products with conflicting rules of origin, and sanitary and phyto-sanitary conditions. We have to examine all these points if we have to promote greater trade flows within the region.

The second issue that merits attention is trade concentration. Trade within the region is concentrated in few sectors such as machinery and mechanical appliances, mineral products, natural or cultured pearls, jewellery, base metals & articles of base metal, and products of chemicals. A huge export potential also exists in sectors like prepared foodstuff, beverages, plastics and articles thereof, vegetable products, processed food items, textiles & textile articles, and pharmaceuticals and we must look at all of these.

The third issue is of promoting close coordination between EXIM banks of the region to undertake bilateral confirmation of L/Cs for strengthening regional trade activities. Our governments will have to lead the effort here.

The fourth point I would like to flag relates to absence of a clearance mechanism for conducting trade in local currencies. Research shows that nearly half of total intra-regional trade can be conducted and settled in local currencies if a clearance mechanism is available. So monetary cooperation amongst member states needs to be examined.

Coming now to investments. We know that the IOR-ARC grouping has been attracting sizable investment flows with FDI inflows totalling US$ 200 billion in 2011. Of course, a few member states account for a large part of it including Australia, Singapore and India. The absorptive capacity of some of the member states for investment flows is limited by current level of economic development but at the same time this itself creates a situation where if the institutional framework is strengthened and a robust inventory of so called well prepared projects or viable projects are created then FDI flows not only from outside the region but also from within member states to each other will increase. The larger and more developed economies of the region should support others in evolving such a framework and sharing their own experiences.

Additionally, infrastructure can be a strong peg around which we can mobilise cross flow of funds in the economies of the region. We all have long term infrastructure development plans.

In India for example, under the leadership of our Hon'ble Minister, we are running one of the world's largest integrated infrastructure development project. This is the Delhi Mumbai Industrial Corridor. Along this corridor we will see setting up of power plants, industrial townships, ports and rail freight lanes. Similar economic corridors are being planned between Chennai and Bangalore and Mumbai and Bangalore. These offer tremendous opportunities for companies from member states to come forward and invest wherever they feel they have the competence. Other countries are also revamping their rail networks, port networks, extending roads and highways and setting up new power plants. Exclusive economic zones are also being set up. Information on all these projects should be made available and the website of IOR-ARC can be leveraged for such information dissemination.

Further, we need to connect our capital markets and our banking systems as these would aid the flows of funds amongst members. There is also a need to provide protection of investments and this can be achieved by having Bilateral Investment Promotion and Protection Agreements (BIPPAs) amongst the member countries of IOR-ARC. The BIPPAs have proven track record in drawing FDI inflows from within the region to countries which have an environment conducive for investment and maintain transparency of rules and regulations.

I know that it is not easy to tide over these issues but it is not an impossible proposition either. The solutions are right there for us to see and act on.

There are several sectors that offer the promise of enhanced regional cooperation. Agro-processing, fisheries, education, healthcare, logistics, transport, infrastructure, SMEs development, skill and training, information technology etc are areas that are on an irreversible trajectory of growth, thanks to the economic boom in our countries. The business delegations that have accompanied the Ministers from all countries have representatives from many of these areas and I am sure we will see good results emanating from the business to business meetings that would happen tomorrow and are being facilitated by FICCI.

Friends, the IOR region is a land of great possibilities which need to be harnessed for balanced, inclusive and sustainable growth in all the economies. What we have to do is seize the opportunity that a global shift of focus to emerging economies has thrust on us and innovate on how to increase intra-regional trade and investment.

I am confident that this session and the deliberations of the day will give us the opportunity to synergise our thoughts on this process.

With these words, I conclude and thank you all for your attention.