



**THE TIDES THAT BIND:
MARITIME TRADE IN THE INDIAN OCEAN
AND ITS GROWTH PROSPECTS ¹**

by

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Abstract

This paper discusses the vital role of the Indian Ocean as a strategic sealane to the growth of regional and global maritime trade. It analyzes several factors contributing to the ocean's prominence as a crucial trade waterway and evaluates its importance as a facilitator of international commerce from the context of the development of ports and shipping sector in the region. It also outlines the prospects of further growth in maritime trade volume and infrastructure in the Indian Ocean region.

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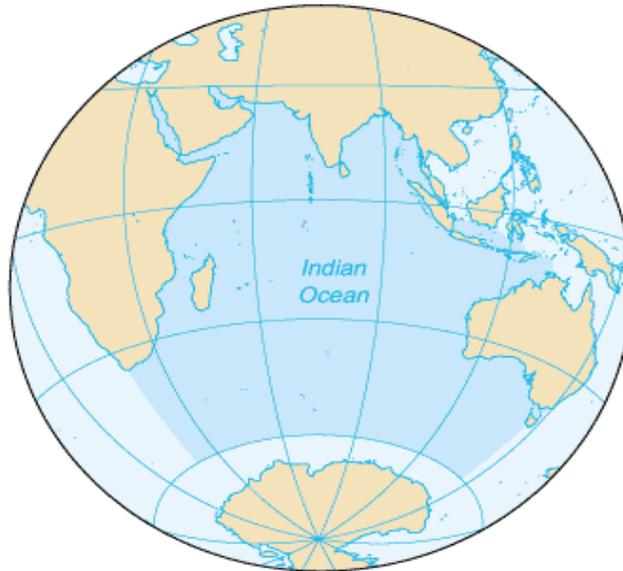
*The high ambition of the drop of rain
Is to be merged in the unfettered sea
My sorrow, when it passed all bounds of pain
Changing, became itself the remedy*

(Mirza Ghalib, 1796-1869)

From Arabia to Australasia : Eminent expanse, strategic sea

The great Indian-born Urdu poet Mirza Ghalib could well have had the Indian Ocean (IO) in mind when waxing lyrical about the ‘unfettered sea’. If the mighty ocean was indeed the reference point in his elegiac lamentation, how apt then that he should speak of *change* and *remedy* in the same prose. In today’s fast-moving, ever-changing world, the region in this great body of water of immense importance to world trade faces before it not only an ocean of opportunities but also a compendium of critical challenges and threats that need to be addressed wisely and remedied resolutely.

Figure 1
The Indian Ocean



Source : www.cia.gov

Such is the stunning expanse of this great body of water, the world’s third largest ocean covering an estimated one-fifth of the earth’s water surface, that it almost renders the

term ‘Planet Earth’ a misnomer!² Since time immemorial, the IO has played an important role as a trade conduit for the economic prosperity of its surrounding region and the world at large. The vast IO locality is inextricably linked together by social, economic, cultural and political ties harking back to the distant past. The region once hosted the world’s first urban dwelling and the center first sophisticated commercial and maritime activities.³ The renowned sea routes cutting through the straits of Aden and Hormuz have been used since antiquity for purposes of trade and communication.

The early civilizations in ancient Egypt, Sumer and Indus Valley arguably owed much of their prosperity to the riches of the region and the sea link that the IO waters. It also provided a crossroad in the 15th century for what is known as the Spice Routes which began from the Malay Archipelago to the southeastern coast of Africa, dramatically changing trade patterns at the time and thrusting itself in the annals of world history.⁴ It is not an exaggeration to state that this magnificent ocean, with over 4,000 years of heritage in facilitating the exchange of goods and the movement of people, provided an early template to international maritime and facilitated the foundations of globalization trade long before there was even a description for it.

The centrality of the ocean’s location between the powerful economies of the Indian subcontinent and the Far East, and linking the world with the oil-rich Gulf area, is accountable for this stature. Occupying a strategic position to facilitate a tremendous amount of trade within this expanse, and the IO holds immense strategic value to a world ever dependent on hydrocarbon energy. The economic boom in developing nations along its arc has turned the IO region an economically vibrant area and has thrust the ocean into playing a starring role as a global trade facilitator.

Beyond its pivotal role as an ocean of tremendous importance to global trade, the IO boasts rich living resources for domestic consumption and export. Hence, its economic significance to nations encompassing the three continents bordering it, namely Africa, Asia and Australasia, cannot be overemphasized. It would not be an exaggeration to state that this huge expanse provides an economic lifeline to many people residing in countries straddling along the ocean and beyond.

With growing interests of nations in the seas and increasing power projection in the oceans, the IO has found itself to be a chessboard of strategic rivalry between many powerbrokers, besides its more agreeable role in facilitating world trade and economic growth. To appreciate the importance of the IO on the world stage, it is helpful to highlight its role as a catalyst in facilitating maritime trade and energy transportation, and its strategic value.

² The ocean covers nearly 10,000 kilometers (6,200 miles) wide at the southern tips of Africa and Australia; and encompasses an area of 73,556,000 square kilometers (28,400,000 square miles), including the Red Sea and the Persian Gulf. From http://en.wikipedia.org/wiki/Indian_Ocean (accessed on 10 February 2007).

³ Kamat M.V. (1998). ‘The Relevance of Indian Ocean’. The Daily. 5 April 1998.

⁴ ‘The Spice Routes’. From <http://asiapacificuniverse.com/pkm/spiceroutes.htm> (accessed on 10 February 2007). The importance of the routes was underlined by Tome Piers, a European traveler who in 1520 visited Malacca, the center of world spice trade in the at the time. who proclaimed that “*Whoever is the Lord of Malacca has his hands on the throat of Venice*”.

An overview of the Indian Ocean as an economic region

The stunning diaspora of countries in the IO territory renders it almost futile to speak of 'IO nations' in a collective sense. Any attempt to group them into a single umbrella would not do justice to the stunning diversity and disparity of the countries and inhabitants in the region, not to mention of the complexity and challenges of the issues they face. However, several developments have taken place and factors have emerged that demand a fresh outlook at the IO vicinity as a united economic area of immense economic potential and influence. This paper will use the term 'IO region' to facilitate the discourse on maritime trade in the IO, while being mindful of with the kaleidoscope of varieties offered by the nations within the ocean's region and the economic disparity between them.

To fully grasp the IO's magnitude of socio-political and economic importance to its region and the world, the extent of reach of this ocean has to be appreciated. 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 over 40 countries either bordering it or small island states located within its expanse, including those with coast lines along important bodies of waters 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 oceanic access through the IO.⁵

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 Association of South East Asian Nations (ASEAN), Gulf Cooperation Council (GCC), South Asian Association for Regional Cooperation (SAARC) and South Asia Development and Economic Cooperation (SADEC).

The diversity of the IO constituency is such that there are tiny island nations with weak economic base⁶ and there are some of the world's most prosperous economies across the region's expanse. Australia and India alone accounted for nearly 40% of total GDP in the IO region, while their GDP combined with those of Indonesia, Iran, Malaysia, Pakistan, Saudi Arabia, Singapore, South Africa and Thailand made up almost 90% of the entire region's GDP.⁷ However, several countries in the IO rim are becoming globally competitive and are developing their economies and maritime infrastructures to facilitate greater international trade.

⁵ From <http://www.curtin.edu.au/curtin/centre/ioc/ioripage.htm> (accessed on 18 February 2007).

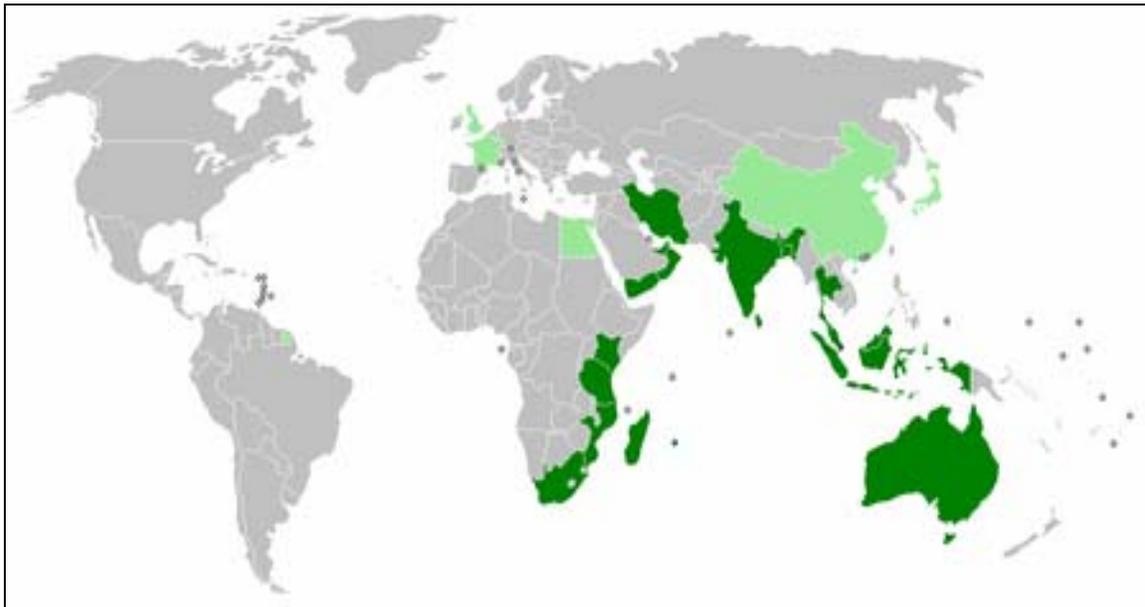
⁶ UNEP (1999). 'Western Indian Ocean Economic Outlook'. The report stated that Small Island Developing States (SIDS) in Western Indian Ocean such as Seychelles, Mauritius, Madagascar and Comoros as having common features which make them economically vulnerable to external shocks and function at a disadvantage compared to larger states.

⁷ '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.

The estimated population of the IO rim of two billion people provides an enormous consumer market and hence tremendous prospect for maritime trade, as the most popular and cost-efficient means of transporting much of the world's raw materials and manufactured goods. In addition to the region's huge population size, the natural economic synergy among the littoral nations along the IO arc, and the movement of trade and population across the IO arc, combine to create a vast geographical space of tremendous economic prospect and global importance.

Economic co-operation amongst the littoral nations is largely carried out on the platform provided by the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). The association was formed in 1995 with the objective of promoting economic co-operation among member countries of the IO rim (see **Figure 2**).⁸ In promoting economic cooperation amongst the littoral nations, the IOR-ARC advocates the principles of open regionalism and inclusivity of membership as a means to encourage trade liberalization, promotion and investment and economic integration in the IO region

Figure 2
Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) members



- IOR-ARC member states : Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, United Arab Emirates, Yemen
- IOR-ARC dialogue partners : China, Egypt, France, Japan, United Kingdom.

Source : www.iornet.com

⁸ From <http://www.eppo.go.th/inter/IO-ARC/ior-arc.html> (accessed on 20 February 2007).

It is heartening to note that despite facing formidable challenge to unite an area of such diversity and vastness, IOR-ARC has made significant headways in strengthening intra-regional trade linkages and investment network, and fostering economic integration among its members. Through several working groups, the association has facilitated the trade interests and business links of its members in the region via exchanges of information on issues such as trade liberalization, tariffs and World Trade Organizations (WTO) negotiations.

The Indian Ocean as a facilitator of global maritime trade

Given its strategic location along some of the world's most pivotal shipping lanes, the IO acts a critical waterway for international trade and commerce. It is a primary sealane linking East and West, or more specifically connecting Africa, the Middle East, East Asia and Australasia with Europe and the Americas. This crucial sea line of communication (SLOC) hosts heavy international maritime traffic that includes approximately half of the world's containerized cargo and one third of its bulk cargo.⁹ The IO region has emerged as one of the busiest waterways in the world, by virtue of the huge commercial exchange of commodities, capital, manufactures and services that it facilitates.¹⁰

By virtue of its location in the middle of the world's major maritime trade routes, the IO has emerged as a waterway of immense importance in facilitating global trade. It provides the shortest and most economical oceanic route between the Atlantic and Pacific Oceans. The IO enjoys a central position in the following international trade 'systems', much of which are facilitated by maritime transport :

- The trade among IO regional states that facilitates the distribution of cargo within the Bay of Bengal and Arabian Sea and other stretches of the ocean, from outside the IO arc into the IO region, and from the IO territory to the outside world.
- The bustling trade between East and West, or in oceanic terms, between the Pacific and Atlantic, which has grown tremendously over the years with the economic boom in China, India and other developing economies in Asia.
- The energy route connecting the world's major oilfields in Western Asia with major energy-importing countries in East Asia such as China, South Korea and Japan.

⁹ Sakhuja V. (2003). 'Indian Ocean and the Safety of Sea Lines of Communications'. Institute for Defense Studies and Analyses, India., 18 July 2003. From www.idsa-india.org (accessed on 12 February 2007).

¹⁰ Cozens, P. (date undetermined). 'Maritime Security in the Indian Ocean'. Overview prepared for a research project planned in cooperation with the South Asia Institute of the University of Heidelberg, Germany. From <http://www.apri.ac.nz/maritime.html> (Accessed on 22 February 2007).

Being at the crossroad of these trade lanes which are so vital to global trade, it is no wonder that the IO has become one of the busiest waterways for merchant shipping in the world. A glance at the shipping traffic traversing the ocean and the throughput growth of its littoral ports provides an indication of its immense importance. An estimated half of the world's merchant ships sail its waters annually, carrying cargo of all types, making the IO a major artery of global trade. This tremendous traffic volume accounts for the carriage of the highest tonnage of goods compared to other oceans.¹¹

Further underlining the IO's tremendous importance to world maritime trade is the fact that it hosts many of the world's top container ports, including the world's busiest, Singapore, and Port Klang, the twelfth largest.¹² Several ports within the ocean's rim have emerged as some of the world's fastest growing ports, including Dubai in the UAE and Port of Tanjung Pelepas in Malaysia.¹³

Several factors beyond its strategic location also contribute to making the IO a sealane of immense importance. The advent of globalization and trade liberalization have heightened the dependence of many nations within the ocean's territory and beyond on this body of water to facilitate their trade. With the projected increase in world maritime trade, the IO is poised to play an even greater role in facilitating East-west trade and within the region. Post-apartheid South Africa has opened up its economy and trade, and has boosted the trade volume in East Africa and with the region and the world. The dismantling of Cold War barriers – physical and ideological – has also provided a boon to greater trade and economic cooperation in the IO region. In addition, the freedom of navigation and the unhindered flow of trade facilitated by the ocean's calm waters have enabled trade in the region and beyond to prosper. This in itself creates employment for millions of inhabitants in countries along the ocean and contributes immensely to the economies of their countries and those dependent on the ocean to facilitate their trade. Its role in carrying crude oil and petroleum products has given it tremendous geo-strategic and geo-political value to many nations. All these combine to increase the profile of the IO as a facilitator of global trade and a catalyst of its economic prosperity.

Of late, developments in the IO region - encompassing economy, politics and policies – point towards greater 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 and beyond. The World Bank estimated that global maritime trade will increase to 35,000 billion ton-miles in 2010 compared to 29,045 billion ton miles recorded in 2005, and a significant percentage of this will pass through the IO.¹⁴ Such projection points towards growth in consumer-based industries worldwide, which in turn will spur greater global demand for energy resources originating from the IO region and greater volume of cargo transported via its waters.

¹¹ Sakhuja, V. (2003).

¹² UNCTAD (2005). Review of Maritime Transport. p.76

¹³ Dubai and Tanjung Pelepas were ranked 9th and 19th among the world's top 20 container ports in 2005 by way of throughput. See Containerisation International, March 2006, p.67.

¹⁴ UNCTAD (2005). p.x.

The increasing dependence of many nations along the IO perimeter on international trade has enhanced the ocean's role as a vital global trade facilitator. There has been a pronounced trend of previously inward-looking countries in the IO region progressively opening their economies at the bilateral, regional and multilateral levels. The economic development and prosperity of those countries, especially the export-oriented economic structure of several South East Asian nations, are closely related to seaborne trade. As such, they depend more than ever on maritime transportation to facilitate their trade and on the free passage of goods across the seas.¹⁵ This development has given rise to new opportunities not only for regional trade within the IO boundary, but with the rest of the world.

With all these developments, the ocean is poised to be on the global centerstage as a facilitator of world maritime trade and as a sealane of immense strategic value.

The Indian Ocean as an energy sealane

The IO facilitates the transportation of two-thirds of global oil shipment, especially from the rich oilfields of the Persian Gulf,¹⁶ and contains an estimated 40% of the world's offshore oil production.¹⁷ This makes it an energy sealane of tremendous global importance.

The IO features four critical waterways for international maritime trade - the Suez Canal in Egypt, Bab-el-Mandeb (bordering Djibouti and Yemen), Straits of Hormuz, and Straits of Malacca. These narrow channels, sometime described in more dramatic terms as 'chokepoints', are vital to energy shipment as much of the world's crude oil shipment passes through them.¹⁸ The strategic Persian Gulf is a passageway of tremendous importance to many nations, especially those dependent on imported hydrocarbon energy. Their economic and strategic interests require safe energy transport routes in and out of West Asia. Hence, these sealanes act as the main arteries for global energy supply and maritime trade, the majority of which are transported by sea.

The increased focus on maritime security post 9/11 has inadvertently put SLOC like the IO on the radars of many observers for fear of disruption to shipping and trade. For starters, the threat of piracy, especially along the waters near the Horn of Africa and in the northern part of the Straits of Malacca, continues to be a bane to merchant ships. The busy shipping traffic in the IO naturally attracts the attention of pirates keen to grab the cargo, and even the vessels and the valuables carried by their crew members. The changing threat perception in maritime security, resulting from the threat of terrorism, has also resulted in the introduction of many security-related initiatives affecting the use of

¹⁵ Ji, G. (2000). 'SLOC Security in the Asia Pacific'. Center Occasional Paper. Asia-Pacific Center for Security Studies. Honolulu, Hawaii.

¹⁶ Ibid.

¹⁷ From <http://www.cia.gov/cia/publications/factbook/geos/xo.html> (accessed on 10 February 2007).

¹⁸ 'World Oil Transit Chokepoints'. Report by Energy Information Administration. Washington DC. March 2004.

the ocean. Rising strategic interests by the world's naval powers, growing assertion to protect sovereign and economic interests at sea, and extension of maritime boundaries by nations also influence behaviors in the ocean and the security matrix in the waters, and affect the perspectives and use of the IO.

With increasing dependence by the world's economic powers on energy supply from the Gulf, the role of the IO in facilitating maritime energy transport has become more prominent. The likes of major European economies, the US, Japan, China and Korea import much of their crude oil requirements from West Asia transported through the vital sealanes along the IO rim. With the rising economic progress in developing nations along the IO such as India and South Africa, their need for imported energy will increase in tandem. This will further accentuate the ocean's importance as an energy sealane¹⁹

Development of maritime infrastructure in the Indian Ocean rim

Over the last few years, there has been a dramatic increase in the volume of maritime trade passing through the waters of the IO. This can be attributed to several regional and global factors that have catalyzed the economies and fuelled the trade of many developing countries in the region and beyond. Amidst increasing global transnational commerce within the territory and worldwide, the shipping lanes within the IO waters that link the trades of countries and economic regions have assumed a pivotal role in facilitating this development.

In tandem with the regional and global trade boom in the IO region, the demand for shipping services have boomed and ports have been built and upgraded in the IO vicinity. Many important harbors and seaports dot along the region's shores, acting as critical enablers to the trade growth of the respective countries and to the IO region and the world in general. Over the years, they have experienced dramatic rise in capacity and throughput.

It is expected that as more littoral countries in the IO region engage in international trade among them and with nations in other economic regions, greater volume of cargo and containers will be transported via the ocean. The following statistics of growing trade in the region support this projection :

- Over USD100 billion of China's trade alone passes through the IO annually, and this figure is projected to grow rapidly as China's economy expands.²⁰
- The emergence of India 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.

¹⁹ Pant, N.K. 'Indian Ocean : A strategic appraisal'. From <http://www.geocities.com/siafdu/20.html> (accessed on 15 February 2005).

²⁰ From <http://www.ipcs.org/printSeminar.jsp?action=showView&kValue=1602> (accessed on 21 February 2007).

- Bilateral trade between China and India reached USD20 billion in 2006 and was expected to hit US\$50 billion by 2010.²¹
- There has also been significant rise in trade volumes moving between South Africa and other IO nations such as India, Malaysia, Singapore and Australia, and there is substantial potential for future growth.²²
- 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) to promote port and shipping development in the IO region are expected to boost regional trade.²³

Container port handling activity in various sub-regions in the Indian Ocean region has recorded good growth levels. For example, the Middle East notched a growth rate of 10.3 % and South Asia saw a 16.4% growth from January 2006 to August 2006, exceeding even the growth rates in more developed economic regions such as North America and Western Europe (see **Table 5**). This provides another clear indication of the IO region's growing container trade, and the rising capacity and capability of handling larger volume of maritime trade.

Table 5
Monthly regional growth percentage in container port handling activity 2006

Area	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug*	To date*
Middle East	11.5	3.4	11.6	13.9	14.3	7.8	-4.7	0.0	10.3
N. America	6.1	-1.5	13.6	8.5	9.5	8.6	9.6	11.8	8.3
Far East	10.7	11.5	16.8	13.6	14.6	14.2	15.3	15.3	14.0
West Europe	6.9	7.2	5.2	7.3	11.0	8.5	2.6	5.7	7.0
S.E. Asia	4.7	5.8	4.6	4.0	6.0	2.9	7.1	11.3	5.6
Oceania	4.9	-3.5	7.4	21.8	8.0	13.1	10.0	4.9	9.4
S. America	19.6	15.2	7.5	16.4	31.0	25.0	27.4	0.0	18.7
E. Europe	16.7	15.5	24.9	23.8	24.4	24.3	7.3	8.6	23.7
South Asia	9.7	16.3	13.8	20.4	15.4	17.4	14.6	14.3	16.4

* Preliminary figures

Source : Drewry's Shipping Insight (October 2006)

²¹ 'China, India trade to hit US\$20 bil.'. China Daily. 22 November 2006.

²² '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.

²³ From <http://www.unu.edu/unupress/unupbooks/uu15oe/uu15oe0n.htm> (accessed on 23 February 2007).

The booming intra-Asian container trades have had a positive spillover effect on the growth of container shipping services in the IO region. Second only to the trans-Pacific trades in volume terms, intra-Asian trades have enjoyed a solid run of late, mainly fuelled by the ongoing shifts in manufacturing activities to low-cost areas, the increasing purchasing power in the region, and the economic boom in India and China.

Increasing intra-Asian trades have also seen the expansion of many specialist shipping services along the IO region, most notably in the route into the Middle East / South Asia trades (see **Table 7**). This is a reflection of the rising economic prosperity in both regions which are important trading partners, and this has spurred container trade and demand for container shipping services in the IO area. Underlining the growing cargo opportunities between the Middle East and South Asia, the westbound leg provides double-digit growth and exports from the Gulf to India is growing rapidly.²⁴

Table 7
Long-haul services providing intra-Asian legs in the Middle East / South Asia route

No. of operations with intra-Asian legs	Total number of calls in each country									
	MY	SIN	IND	THA	PRC	HKG	TAI	KOR	JPN	Total
18	26	34	0	2	44	26	8	10	0	150

MY : Malaysia, SIN : Singapore, IND : Indonesia, THA : Thailand, PRC : China, HKG : Hong Kong (China), TAI : Taiwan, KOR : South Korea, JPN : Japan

Source : LSE / Boxfile

The spillover effects of these developments to the maritime sector across the IO region to support trade expansion have been significant. The following are among some of the developments highlighting the growing maritime capacity in the IO region :

- 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. Several IO nations have got into the shipbuilding act. The combined share of the world's order of yards in India, Pakistan and Bangladesh stood at nearly 4% in 2004.²⁵ India has embarked on a

²⁴ 'Beyond the Gulf'. Containerisation International Regional Review : Mid-East. December 2005. pp. 6-7.

²⁵ From <http://www.exim-india.com/link/htmls/shipping.htm> (accessed on 23 February 2007).

major shipbuilding program by promoting new shipyards and upgrading existing ones, while Dubai has plans to build the largest yard in the Gulf region.

- The projected uptrend in regional cargo traffic and worldwide requires massive investments for developing and improving port and shipping facilities in the region to cope with the growth. Reflecting this, there has been an increase of investment, local and foreign, in port facilities and upgrading shipping infrastructure in the IO region. The construction of new ports and the expansion of existing ones across the IO arc stand testimony to the growing maritime capacity in the area.²⁶
- Of late, containerized trade has gone through an explosion of growth in the Middle East, fueled by rising consumer demand and increasing trade between the region and its trading partners. The maritime infrastructure required to support these demands has likewise gone through rapid development and continuous improvement. Epitomizing the region's maritime clout, four West Asian countries in the IO region, namely Saudi Arabia, Iran, Kuwait and UAE have emerged among the world's top 35 maritime nations in terms of merchant shipping capacity.²⁷
- Given the increasing reliance of many nations in the IO rim on trade, it is essential for them to upgrade their national lines to meet increasing demands for shipping service and to capitalize on container traffic growth. In doing so, a virtuous cycle will be created. More investments will pour into expanding maritime infrastructures, and a more modern maritime sector would provide a catalyst to higher trade volume and brighter economic prospects for many IO countries.

Maritime trade outlook in the IO Region

Throughout history, the IO has witnessed many golden eras of trades, but its current role in facilitating global trade and charting the destiny of its littoral nations holds the prospect of exceeding the ocean's previous glorious epochs. But before such heights can be attained, the IO region has to overcome many complex challenges.

Despite the useful platform provided by IOR-ARC to attain regional integration, the IO nations arguably do not quite enjoy the kind of economic synergy and social camaraderie that bind countries in regions such as the Asia-Pacific together.²⁸ This can be attributed to the dynamics of many internal and external factors, but one senses that the economic and socio-political chasm that separates the nations across the expanse of the IO region

²⁶ Puri, M. M. (2003).. 'An ocean of opportunities'. In Rao, P.V. (ed). 'Regional Cooperation in Indian Ocean : Trends and Perspectives'. New Delhi : South Asian Publishers. p.306.

²⁷ UNCTAD (2005). p.33.

²⁸ Fatemi, A.S. (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.

provides the biggest obstacle. However, the regional nations can draw some comfort from the notable expansion in intra-regional trade and investment amongst the IO rim countries in the last couple of decades. They must seize the opportunities carved by the new world order and emerging realities to build a solid platform on which stronger ties can be woven across the region.

Trade liberalization and globalization have prompted several IO countries to dismantle barriers and take significant efforts towards adopting a more open and outward-looking economic and trade policies. Although the nations differ widely in the scope and pace and in the policy instruments applied in opening up their economies, they share some common features which can act as building blocks in forging alliance across the region. These common denominators include strengthening macroeconomic and fiscal stability through investment-friendly policies, eliminating non-tariff barriers, removing exchange controls, and encouraging privatization.²⁹ The opening up of trade and economies augurs well for a brighter prospect for maritime trade growth in the region, and hence the development of ports and shipping services to cater to larger maritime trade volume. The dynamics of trade liberalization and globalization will provide a catalyst to boost the growth of intra-regional maritime trade and the development of maritime infrastructure in the IO vicinity.

Despite encouraging signs of intra-regional trade growth in the IO region, its volume is still coming off a very low base. This accounts for the relative insignificance of intra-regional trade among the IO countries relative to the region's trade with other economic areas. To correct this situation, much work needs to be done to foster greater intra-IO trade relationships and economic cooperation, and to lure foreign direct investment into needy IO rim economies. These would go a long way towards stimulating maritime trade growth in the IO region, and subsequently boost the development of its maritime sector as a crucial trade facilitator.

The maritime sector is undergoing rapid vertical and horizontal integration in many activities, as evidenced by the growing number of mergers and alliances amongst ports, shipping liners and logistics services providers. Attaining economies of scale has become an industry mantra, as seen in the construction of increasingly large ships to carry more cargo and in the growth of 'megahub' ports served by a network of feeder ports. All these developments will demand greater investments in the maritime sector in IO nations to boost their capacity, performance and productivity to handle larger ships and greater trade volume. To remain competitive with nations in other economic regions, developing IO nations will have to adopt international trade and maritime best practices and conventions, attract investments, and adopt new technologies and systems to improve operational capacity, among others. The model of decentralization and privatization of port services among the developing IO nations should be rigorously pursued as one of the key steps towards enhancing their maritime trade competitiveness. They should also strive to improve their supply chain and logistics capacity and capabilities to support growing port throughput.

²⁹ Fatemi, A.S. (1996).

Several barriers impairing the promotion of international trade and commerce have been identified by World Trade Organization (WTO), whose efforts on trade facilitation have played a telling role in promoting trade in the IO region.³⁰ Once these hurdles are dismantled, one can expect more investment in the maritime sector in the IO littoral nations that will boost capacity and productivity and facilitate greater volume in trade. Ever-changing global trade structures and flows resulting from WTO initiatives, and the combined forces of globalization and liberalization, will leave an indelible mark on port development and shipping patterns across the IO rim.

Given the growing dependence of many nations in the IO on trade to power their economic engines, further opening up of new trade opportunities and the emergence of greater economic prosperity in the IO region are imminent. These, and the improvement in the maritime capacity across the IO rim, provide compelling reasons to believe that the IO will continue to grow in importance and influence in facilitating world seaborne trade.

Strengthening the ties that bind : The future of Indian Ocean

The very importance of the IO as a strategic sealane has put it under the glare of constant global spotlight. A plethora of issues and challenges beyond trade and economics has emerged in its waters and on the land along its arc. The impacts that they bring to the political, social, military, strategic, trade and economic developments in the region are telling, and will continue to sculpt the regional and global landscape in the years ahead.

It is anybody's guess what the future holds but one thing is almost certain - the IO region stands to face immense challenges, risks and uncertainties, along with the opportunities emanating from the prospects of greater trade and economic prosperity. With these looming in the horizon, the ocean, as one of the world's most important waterways, will continue to be subjected to intense scrutiny by its many stakeholders. The IO region is poised to reap the benefits of growing regional and global trade, but it also looks set to reluctantly provide the theater in which the actors play out their multiple actions and interests, some of which are in sharp contrast with one another. Amidst the whirlpool triggered by the dynamics of common interests and clashing perspectives, the waters of this expansive ocean will continue to play its role as a facilitator of world commerce and a platform for strategic maneuverings.

As maritime trade increases and nations raise the ante of their strategic stakes, the IO, along with other strategic sealanes, will continue to be the intense focus of attention of the world's trading nations and great powers. Many old and new challenges will weigh down on this ocean and the region surrounding it. Barring dramatic changes in the status quo, the near future will undoubtedly see an increase in maritime developments and

³⁰ 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.

activities in and along the IO waters. 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, politics and growing strategic interests will shape the contours of the IO region and beyond. All these will conspire to make the challenges greater and the scenario in the IO more complex. Unless nations put aside their differences and their over-eagerness to protect national interests, the peace and stability in the ocean and on the land around it will continue to be under threat. Regional and even global harmony could succumb under the tsunami of destructive adversary amongst its stakeholders in protecting their interests in and along this mighty body of water.

With the prospect of growing global trade, fueled by the economic explosion by the rising economic powers of China and India, shipping traffic in the IO and port throughout along it are expected to increase manifold. With maritime transport being the most economical and effective means to support international trade, maritime infrastructure development in the IO region is expected to see a corresponding increase. As a crucial trade waterway, the IO will grow in prominence and significance with rising global trade. Greater regional cooperation, such as those initiated on the platform of IOR-ARC, is also expected. As IO regional countries engage in more actively in the global economy and capitalize on their memberships in the grouping, the prospect of regional integration across the IO rim will glow brighter. These developments will no doubt heighten the role the IO in facilitating global maritime trade in the future.

Change, they say, is the only constant. If this is indeed true, the new world order arising from the dictates of globalization and trade liberalization will demand that the stakeholders in the IO find common grounds in protecting their multiple interests in the ocean. Meaningful, non-trade intraregional ties that already exist amongst the IO nations,³¹ although confined largely at this stage to the region's key economies, are also worthy of further exploration.³² These will give further impetus for the IO to be viewed from a fresh perspective as a region of tremendous economic and trade potential, and significant global influence.

The IO will continue to bear witness to ever-changing aspects of life in a world constantly in flux. It is fervently hoped that the realities arising from the dynamics in and around this great body of water will trigger greater constructive than destructive forces. More than ever, in today's divided world, the ocean's stakeholders need to find points of convergence and seek commonalities amidst the clashing perspectives and relentless changes taking place in and around its waters.

³¹ These linkages exist in the form of direct investments, technical collaboration, joint ventures and strategic alliance.

³² Porter, I. (1997). The Indian Ocean rim. African Security review. Vol. 6, No. 6, 1997.

Perhaps, the wisdom behind Mirza Ghalib's eloquent phrase that 'changing becoming itself the remedy' could inspire changes in perspectives and mindsets among the IO stakeholders as a prelude to remedy tensions and wounds created by clashing interests in the ocean and on the lands along its vast stretch. For the sake of stability in the region and beyond, they need to sow the seeds of cooperation to nurture a sense collective responsibility and accountability in managing the challenges emanating from the use of this sprawling sea, and to reap the opportunities it presents. This will go a long way towards ensuring that harmony and prosperity will prevail in this monumental ocean, befitting the renowned tranquility of its waters that has sustained many of the world's great civilizations.

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