Indian Ocean Rim Association for Regional Cooperation (IOR-ARC): Impact on Australia’s Trade

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Abstract

Estimates of the gravity equation explaining trade flows between Australia and other member countries of IOR-ARC indicate that the signal of market-driven economic cooperation within IOR-ARC is strong due to the presence of APEC members. The intra-industry trade analysis between Australia and other IOR-ARC countries further confirms that the market-driven economic cooperation between them is feasible.

- Key Words: APEC, IOR-ARC, Varying Coefficients Graviting Equation, Intra-Industry Trade.

I. Introduction

Economic integration among a group of countries occurs in several forms such as the preferential trade arrangements, establishing free trade areas, and naturally without any particular trading arrangements. It has been well established in the literature that the Asia Pacific Economic Cooperation (APEC) is a good example of an integration that is natural and market-driven without any particular trading arrangements and strengthened by trade and investment liberalisation pursued by several countries in the region. Unlike the European Economic Community (EEC), APEC is more a functional integration rather than a geographical integration. APEC was established at a meeting of Foreign and Economic

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Ministers in 1989 for the countries and territories washed by the Pacific Ocean, and with the aim of sustaining the growth and development of the region for the common good of its people; to contribute to the growth and development of the world economy; to enhance the positive gains both for the region and the world economy; to enhance the positive gains both for the region and the world economy resulting from increasing economic independence; to develop and strengthen the open mutual trading system; and to reduce the barriers to trade in goods, services and investment among participating economies.

The ministers have created ten working groups to advance practical cooperation among the members in the following areas: trade and investment data, trade promotion, investment and technology transfer, human resources development, regional energy cooperation, marine resource conservation, telecommunications, transportation, tourism and fisheries. In addition, there is an ad hoc group on economic trends and issues, and an informal group on regional trade liberalisation.

The establishment of the Secretariat in 1993 has transformed APEC from an informal dialogue group to a formal institution comprising all the major economies of the Asia-Pacific region. The Secretariat provides APEC with the institutional base for more effective cooperation on a wide range of practical projects and for cooperation with other regional institutions.

APEC has emerged as a central force for regional cooperation and trade liberalisation in the Asia-Pacific region. It provides a forum for discussion on a broad range of economic issues of importance to the region. It has also established a strong basis for policy development. Ministerial meetings have been held on an annual basis since the first meeting in 1989. There are also regular meetings of senior officials three or four times per annum.

Recently, the recognition of the successful functioning of APEC has encouraged a major economic cooperation initiative within the Indian Ocean Rim. It is also worth noting that some of the APEC countries are also Indian Ocean Rim countries. Given this characteristic of APEC economic integration, the important question addressed in this paper is whether such market-driven natural economic cooperation is feasible within the 14 member countries of the recently formed Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC Recently, Bangladesh, Iran, Seychelles, Thailand and United Arab Emirates have been admitted into IOR-ARC). These fourteen countries are: Australia, India, Indonesia, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Republic of South Africa, Singapore, Sri Lanka, Tanzania and Yemen (see, Shand.