

Implications of a New “Normal” Indian Ocean Economy for Sri Lanka

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Executive Summary

This paper looks at the macroeconomic implications of the Indian Ocean economy for Sri Lanka since the 2008-09 global financial crisis. It maps the region’s trade and growth outlook, examines Sri Lanka’s role in the regional economy, explores challenges to realizing the regional outlook and outlines Sri Lanka’s diplomatic initiative to ensure the peaceful rise of the Indian Ocean economy.

Maritime trade has transformed the Indian Ocean economy as a global growth pole in recent decades. But regional maritime trade expansion has slowed post-crisis with smaller ports like Colombo growing faster than larger ports like Dubai and Singapore. Regional trade has also become less of an engine of regional growth suggesting that the Indian Ocean economy is being shrouded by the dark clouds of a slower new “normal” world economy. Meanwhile, Sri Lanka’s trade was more of an engine of growth in Sri Lanka than regionally.

Mounting global risks could dampen a strengthening near-term regional economic outlook. A tepid Sri Lanka’s near-term growth reflects global risks and domestic political uncertainty. Nonetheless, even a business as usual scenario to 2025 suggests the region’s global rise could continue with improved prosperity. But multiple challenges – barriers to trade and ports, development gaps and middle-income challenges, nascent regional institutions and security threats – require coordinated regional and national actions.

Sri Lanka will not automatically benefit from the economic opportunity simply by being located in the Indian Ocean. The road ahead for Sri Lanka’s diplomatic initiative will not be easy and perseverance at quiet diplomacy is needed. Success will bring lasting economic and security gains for Sri Lanka, other Indian Ocean economies and users of the Indian Ocean.

Introduction

A by-product of the rise of Asia is the transformation of the Indian Ocean into one of the world’s busiest east-west sea lanes, carrying two-thirds of global oil shipments and a third of its bulk cargo. The global financial crisis of 2008-2009 dampened global maritime trade and heralded a new “normal” world economy characterized by slower growth, industrial restructuring and increasing competition between major economies. Little is known, however, about how these shifts have affected the region’s macroeconomic performance or its implications for Sri Lanka - which aspires to become a trading hub of the Indian Ocean. Much of the literature on the Indian Ocean, mostly from an international relations or defense studies perspective, has focused on geopolitical rivalries between major powers (e.g. Cook, 2018; Stavridis, 2018) or the blue economy (for a survey see Doyle, 2018). This paper analyses the

macroeconomic implications of the Indian Ocean economy for Sri Lanka. It begins by defining the Indian Ocean economy. Then it discusses the regional macroeconomic outlook and Sri Lanka's role, challenges to realizing the outlook, and Sri Lanka's diplomatic initiative.

Measuring the Indian Ocean Economy

Despite its importance in international relations and international law, the macroeconomic significance of the Indian Ocean remains below the radar. This is partly the result of the units of analysis that are generally employed by macroeconomic studies and the novelty of research on Asia-Africa economic integration. While the International Monetary Fund (IMF), the World Bank, the United Nations, and others provide regular country and regional macroeconomic analysis, this has been confined to more traditional geographic groupings typically based on shared land borders.¹ As such, there is an absence of literature on the historic performance and short-term outlook of Indian Ocean littoral economies as a grouping or accounting for the importance of economic links between its diverse economies.

When considered as a single unit, the 28 economies of the Indian Ocean listed in Table A1 have a substantial weight in the global economy. In 2017, these economies accounted for 35 per cent of the world's total population, for 17.5 per cent of the world's land area and 18.5 per cent of global GDP (at PPP exchange rates). For analytical convenience, the region is grouped into three geographical sub-regions: Africa and the Middle-East, South Asia, and East Asia and the Pacific.

Regional Macroeconomic Performance

The maritime goods trade has fundamentally shaped the Indian Ocean economy and increasingly the world economy throughout history, but this has been especially true in the first two decades of the 21st century.² Container traffic through Indian Ocean ports amounted to as much as 22 per cent of global container traffic by 2017 which is higher than that for the US (6.8 per cent) and Japan (2.9 per cent). As Table 1 shows, container traffic through Indian Ocean ports rose fourfold from 46.4 million TEUs to 166.3 million TEUs between 2000 and 2017. Assuming that past growth continues, this could rise to 190.6 million TEUs in 2020. Several factors have propelled the region's rise including China's rise as a global manufacturing and trading hub, the strategic location the region holds along east-west shipping lanes, the relatively low costs of container shipping as a means of transporting goods internationally, and the efficiency of world-class ports like Singapore and Dubai.

However, the global financial crisis disrupted the region's maritime trade in two ways. First, the annual average growth of container traffic through Indian Ocean ports has slowed since the crisis to 4.7 per cent in 2011-2017 compared with the rapid pre-crisis growth of 11.9 per cent in 2001-2008 (see Table 1). Second, smaller ports have become an increasingly important driver of regional maritime traffic since the crisis. Thus, container traffic through Sri Lanka's Colombo Port grew at 6.1 per cent in 2011-2017, Tanzania's Dar es Salaam Port at 6.3 per cent, Kenya's

¹ For example, the IMF produces a bi-annual World Economic Outlook report as well as several Regional Economic Outlook reports, including for the Asia-Pacific, Sub-Saharan Africa, the Middle East and Central Asia. See IMF (2018a and b).

² See Pandya, Herbert-Burns and Kobayashi (2011).

Mombasa Port at 8.4 per cent, and Bangladesh's Chittagong Port at 9.9 per cent.³ Meanwhile, larger regional ports including Singapore, Dubai, and India – grew more slowly.

Colombo is one of the oldest and most important ports in the Indian Ocean. The establishment of a modern sea port in Colombo occurred under British rule and its emergence in transshipment trade started in the 1980s. Container traffic through Colombo tripled to 6 million TEUs between 2000 and 2017 and could reach about 8 million TEUs by 2020 if planned investments materialize (see Table 1). Colombo's rapid growth is attributed to several factors.⁴ Sri Lanka's strategic location along global shipping routes which meant that it benefitted from significant transshipment traffic - around 75 per cent of container traffic through this port is for transshipment purposes. Major investments in the Colombo Port to handle containerized cargo since the early 1980s have seen the addition of four new container terminals and a deepening of the main channel to 15-18 meters to accommodate larger container ships. Furthermore, the introduction of private sector operators in the late 1990s enabled the consolidation of Colombo as a regional transshipment hub. Comparing the pricing and efficiency of Colombo with other ports is difficult due to data limitations, but the available information suggests that Colombo's terminal charges are more expensive than Mumbai but its vessel turn-around times and average waiting times are competitive by regional standards (see Table 2).

With a chequered history, Hambantota Port has become a case study of unprofitable infrastructure investment and China's debt trap diplomacy.⁵ The silver lining is that Hambantota Port is now being managed by one of China's best run state-owned enterprises - China Merchant Port Holdings Company Limited. Once Hambantota Port becomes fully operational over the next few years, container traffic through Sri Lanka may double to some 16 million TEUs.

Slowing regional maritime trade has translated into slowing regional trade volume growth since the crisis. As Table 3 shows, the annual average growth of regional trade volume slipped to 4.8 per cent in 2011-2017 down from 9.4 per cent in 2000-2008. Trade volume growth in Singapore, UAE, India, Kenya, and Tanzania also slipped in these two sub-periods. However, Sri Lanka (up to 5.8 per cent from 4.6 per cent) and Bangladesh (up to 9.3 per cent from 7 per cent) bucked the regional trend.

The trade slowdown in the Indian Ocean economy since the crisis is also visible in relation to GDP growth – referred to as the income elasticity of trade. The ratio of regional trade growth to regional GDP growth nearly halved from 1.7 in 2000-2008 to 0.9 in 2011-2017 (see Table 3). Interestingly, the decline in the regional ratio is similar to that of the ratio for the world economy underlining the link between the global and regional economies. This also implies that trade became less of an engine of growth in the Indian Ocean economy since the crisis. Within the region, this ratio fell in Singapore, UAE, India, Kenya, and Tanzania over the sub-periods.

³ Growth rate of container traffic based on data from the International Association of Ports & Harbors. Available online: <https://www.iaphworldports.org/statistics>.

⁴ For a comprehensive study of South Asian ports, see Dappe, and Suarez-Aleman, 2016 while Kannangara (2019) examines the implications of India's Sagamala initiative on its ports and Colombo Port.

⁵ Thorne and Spevack (2017) explore the link between China's investment in the Hambantota Port and geopolitical strategy. They argue that the terms of 99-year lease on Hambantota Port favour China; that the investment generated political influence and that Chinese debt constricts Sri Lankan policy.

But a small improvement in the ratio in Sri Lanka from 0.9 to 1.1 and in Bangladesh from 1.2 to 1.4 suggests that trade was more of an engine of growth in these economies.

Growth in the Indian Ocean economy outpaced the world economy since the crisis. Regional growth moderated since the crisis to 5.1 per cent per year during 2011-2017, bolstered by the performance of South Asian and African economies (see Table 3). This compares with 3.6 per cent growth for the world economy in 2011-2017. Sri Lanka's growth was steady at 5.5 per cent but less robust than India or Bangladesh.

With regional growth being projected at 5.9 per cent per year from 2018-2020 on the back of an improved ratio of trade to GDP growth and strong Indian growth, the regional economic outlook is likely to strengthen. But downside global risks have increased including the escalating trade conflict between the US and China, rising interest rates linked to tightening of monetary policy in advanced economies, volatile oil prices, and waning investor confidence in emerging markets. Reflecting heightened global risks and domestic political uncertainty, Sri Lanka's growth could weaken to about 4.3 per cent per year from 2018-2020.

Regional Economic Outlook

Setting these near-term risks aside and assuming the continuation of the reasonable economic trends seen during 2011-2017, the Indian Ocean economy is likely to play a notable role in the world economy by 2025 with improved prosperity. This 'business as usual' scenario is based on projections of several key indicators for the Indian Ocean economy (see Figure 1).

The main projections for the Indian Ocean economy are:⁶

- The regional share of global GDP (at PPP exchange rates) is expected to rise from 18.5 per cent to 22.1 per cent between 2017 and 2025. This will place it in the league of China and the US.
- The region's per capita GDP (current US\$) is likely to almost double from US\$3,200 to US\$6,150 between 2017 and 2025.
- The share of the region's population living in extreme poverty (defined as an income level of less than US\$1.90 per day) could fall from 11.8 per cent in 2017, to 7 per cent by 2025.
- Variations between regional economies seem likely. For instance, per capita GDP in South Asian economies could double between 2017 and 2025 including Sri Lanka's GDP per capita from US\$4,176 to US\$8,640⁷, India's from US\$1,927 to US\$4,532 and Bangladesh's from US\$1,592 to US\$3,961. Meanwhile, Singapore continues as the region's richest economy with its per capita GDP rising from US\$56,737 to US\$68,557 while UAE's increases from US\$40,152 to US\$54,510.

⁶ See Wignaraja, Collins, and Kannangara (2018), for details of the forecasting methodology.

⁷ Sri Lanka's projection could be lower due to political uncertainties linked to the dismissal of Prime Minister Wickremasinghe on 26 October 2018 and elections expected in 2019-2020.

Challenges to the Outlook

However, the continued economic dynamism of the Indian Ocean economy is not guaranteed. Five challenges could affect regional trade-led growth and prosperity. Failing to address these challenges could mean the region underperforming relative to its potential.

1. Barriers to Goods and Services Trade

As Table 4 shows, the weighted average tariff rate in the Indian Ocean fell significantly from 7.6 per cent to 2.8 per cent between 2000 and 2016 in line with global trends, but murky non-tariffs measures (NTMs) impede the expansion of the goods trade. The numbers of NTM's initiated and notified to the World Trade Organization (WTO) by Indian Ocean economies rose from 128 to 686 between 2000 and 2017. The most NTMs in 2017 were technical barriers to trade (59.9 per cent) and sanitary and phytosanitary measures (32.2 per cent). Furthermore, the World Bank's Services Trade Restrictiveness Index⁸, which includes restrictions on foreign companies in certain sectors and entry of professionals, suggests that services trade in the Indian Ocean economy (36.7) is more restricted than the OECD (19.5). Another problem is behind the border regulatory barriers – it can take as many as 22 days to complete the procedures required to start a business in the Indian Ocean economy compared with nine in the OECD.

Sri Lanka often mentioned claim to be South Asia's most open and business-friendly economy, having begun liberalizing in 1977, is supported by the data. Sri Lanka had low average tariffs of 5 per cent in 2016, imposed one NTM in 2017 and business start-up took nine days. By comparison, India had tariffs of 7.6 per cent, imposed 87 NTMs and business start-up took 30 days. Nonetheless, Sri Lanka's services trade remains quite restricted and there is some room for tariff reform.

Gradually reducing trade barriers will support regional trade and Sri Lanka trade expansion. However, to benefit from liberalisation, factors of production needs to be reallocated between and within sectors. This structural change is a key source of the gains from trade, but brings with it costs of adjustment.⁹ Some workers face temporary unemployment and income losses through jobs lost to international competition. Accordingly, the speed, stages, and sequencing of trade reforms need to be tailored to individual national circumstances. This should be accompanied by trade adjustment programmes to retrain workers in sectors displaced by foreign competition along with better financial access for small firms.

2. Ports and Customs Quality

Gaps in port infrastructure and onerous customs procedures impede trade as they increase the cost of moving products across borders.¹⁰ While intercountry comparisons of infrastructure quality and customs procedures are difficult, some indicators provide insights. The Quality of Port Infrastructure component of the World Economic Forum's Global Competitiveness index,

⁸ World Bank, Services Trade Restrictions Database, Available at: <http://iresearch.worldbank.org/servicetrade/>, Accessed on June 2018.

⁹ See Francois, Jansen and Peters, (2011).

¹⁰ See De (2009).

suggests that the average quality of ports in the Indian Ocean economy (4.2) typically lags behind that of the Organisation for Economic Co-operation and Development (OECD) (5.0).¹¹ The quality of Colombo Port (4.6) and the Indian ports (4.5) are just about the regional average while the more developed economies of Singapore (6.7) and UAE (6.2) are well ahead. Bangladesh and Tanzania lag behind.

The World Bank's Trading Across Borders indicator shows that it takes an average of 103 hours in the Indian Ocean for border compliance for imports (see Table 1).¹² Sri Lanka (72 hours) is reasonable by regional standards. Singapore (33 hours) is the fastest while Tanzania (402 hours) is the slowest.

Amidst fiscal constraints, Sri Lanka and others need to invest public funds in modernizing ports and customs. Several mega-regional infrastructure initiatives—such as China's Belt and Road Initiative (BRI), Japan's Partnership for Quality Infrastructure, and the Africa-Asia Growth Corridor —and international financial institutions (IFI) are also available for ports and customs investments. However, competing donor programmes can present challenges to recipients including the large financial requirements that may increase debt to unsustainable levels; potential social and environmental issues associated with infrastructure projects and strains to national project capacity and exacerbate corruption.¹³ Multiple and overlapping infrastructure initiatives in Asia also risk creating a “noodle bowl” phenomena more usually associated with free trade agreements, which bring high transactions costs for economies and business.¹⁴ Accordingly, regional economies need to balance the need for large port and customs investments with the increased challenges they create.

3. Development Gaps and Middle-Income Country (MIC) Challenges

Significant economic progress over recent decades notwithstanding, development disparities remain between Indian Ocean economies. In 2018, the United Nations classified 10 regional economies (mostly in Africa) as less developed countries (LDC).¹⁵ While LDCs could potentially gain from trade-led growth in the Indian Ocean, development gaps could hamper their participation. LDCs are more vulnerable to economic and environmental shocks than others due to lower per capita incomes and weak institutions. Financial constraints restrict national investments in port and logistics infrastructure that would improve their quality and reduce trade costs. Skills deficits and difficult business environments deter export-oriented foreign investments that would allow LDCs to engage in trade.

Foreign aid to Indian Ocean economies doubled to US\$25.1 billion between 2000 and 2016 but is concentrated in a few countries. Aid remains low in others which have large trade-related needs and high poverty levels. Accordingly, Sri Lanka has called for the establishment of an Indian Ocean Development Fund to provide loans, grants and technical assistance to enhance economic development in regional economies.¹⁶

¹¹ WEF (2018). Data is not available for Comoros, Iran (Islamic Republic of), Somalia and the Maldives.

¹² World Bank, Doing Business Database, Available at <http://www.doingbusiness.org/data/exploretopics/trading-across-borders>, Accessed August 2018.

¹³ See Yoshimatsu (2017); Hurley, Morris and Portelance (2018).

¹⁴ See Wignaraja (2015).

¹⁵ <https://www.un.org/development/desa/dpad/least-developed-country-category/lpcs-at-a-glance.html>

¹⁶ See Wickremesinghe (2016).

An additional risk is that some, like Sri Lanka, could become stuck in the ‘missing middle’ of development finance, when total resources available fall as the country moves towards middle-income country (MIC) status.¹⁷ Some MICs also lack the requisite technical knowledge to build world-class ports and customs bodies. A case, thus, exists for aid and knowledge transfer to support the middle-income transition in the Indian Ocean. Fostering public-private sector partnerships (PPPs) for port development and better targeting countries with rising inequality are essential to more effectively utilise scarce aid.

4. Nascent Regional Institutions

A classic hub and spoke network of some 11 regional institutions and several FTAs include multiple Indian Ocean countries (see Figure 2). The hub is the Indian Ocean Rim Association (IORA), which covers 21 Indian Ocean economies. Multiple spokes include several mostly smaller sub-regional institutions with Indian Ocean economies among their members including Association of South-East Asian Nations (ASEAN), the Gulf Cooperation Council (GCC), and the Southern African Development Community (SADC).

While ASEAN seems more established and better structured than others, this network of regional institutions is generally at a nascent stage of institutional development compared to those in the Americas or Europe. Many have limited delegated powers from members, lack formal rules or legal structures, have inadequate financial resources and lack permanent secretariats. For example, IORA’s secretariat has less than 20 staff members working on six priority areas, of which promoting trade and investment is just one.¹⁸ While the stated objectives of these institutions all make some reference to pursuing economic prosperity, in practice, they have overlapping agendas with differing emphasis on promoting regional economic integration. Of the 11 regional institutions, only six have a free trade agreement (FTA) in force and the scope and ambition of these FTAs vary significantly.

Given the diversity of Indian Ocean economies, it is perhaps inevitable that the quest for Indian Ocean economic regionalism is likely to remain ‘institution light’ for the foreseeable future. However, the Indian Ocean’s existing hub and spoke network of regional institutions and FTAs could be strengthened. One step would be to appoint an Eminent Persons Group (EPG) from member states tasked with developing a plan to strengthen IORA’s role in regional economic governance. The EPG’s review should provide a vision for IORA’s role in regional economic governance, as well as delegated powers from members, formal rules and legal structures, financial resources and a permanent secretariat.

5. Growing Maritime Security Threats

The Indian Ocean has become an ungoverned space with its economies confronting growing traditional and non-traditional maritime security threats. Fueled by a naval arms race, the Indian Ocean is at risk of strategic competition between the big powers -like the US, China, and India - similar to what is occurring in the South China Sea.¹⁹ A skirmish at sea between the

¹⁷ See Wignaraja, Tyson, Prizzon and te Velde (2018).

¹⁸ See Waidyatilake (2017).

¹⁹ See Cooper (2018).

increasing numbers of naval vessels could spiral into a major battle and disrupt regional trade including that of Sri Lanka.²⁰

Among non-traditional security threats, maritime crime – human trafficking, drug smuggling, and piracy – seems on the rise. For example, 46.6 per cent of total global piracy incidents in 2017 took place in the Indian Ocean region, and from May 2015 to May 2016, nearly 4500 kg of heroin was seized in the region.²¹ Furthermore, fish stocks - which are taken for granted in Sri Lanka - are being depleted at unsustainable rates. There are worries about large fishing trawlers from neighboring countries illegally overfishing in Sri Lankan waters which could affect marine ecosystems and fisherman's livelihoods. Meanwhile, global frameworks like the UN Convention on the Law of the Sea (UNCLOS) exist but international lawyers²² argue that some aspects are ineffective for present-day issues of piracy and human trafficking. However, reforming UNCLOS is challenging. Improved diplomacy and multilateral cooperation are essential ways forward to mitigate traditional and non-traditional security threats to the Indian Ocean economy.

Sri Lanka's Diplomatic Initiative

A major tenet of Sri Lanka's foreign policy is supporting a rules-based international order that treats small and large economies alike. Sri Lanka has been a member of the WTO since 1995 and a member of GATT since 1948 which deal with the rules of international trade between countries. Sri Lanka has also played an important role in formulating the UNCLOS, which provides customs and rules to maintain order and peaceful relations in the sea.

A landmark conference entitled "The Indian Ocean: Defining Our Future" was held in Colombo from 11-12 October 2018. It was co-organized by the Sri Lankan Ministry of Foreign Affairs, the Lakshman Kadirgamar Institute of International Relations and Strategic Studies and the United Nations Office on Drugs and Crime. The Track 1.5 dialogue brought together over 300 senior government officials and academics from over 40 Indian Ocean littoral states and maritime users. Participants included: senior officials from India, South Africa, Sri Lanka, the US, China, Germany and Japan; the UN Special Envoy on Oceans; and think-tank representatives from the region and beyond.

As a country located in the middle of the Indian Ocean, Sri Lanka cannot afford to ignore the above challenges to regional maritime security, sustainability and trade, and economic development. As a smaller state which lacks a huge military power, Sri Lanka cannot address these challenges alone. Sri Lanka convened this conference to understand the impact of these challenges and to address them jointly with other countries in a transparent and orderly way. This approach is the tried and tested method of all successful small countries - like Singapore in ASEAN, New Zealand in the Pacific, Chile in Latin America and the Netherlands in Europe - that have faced similar challenges.²³

In his keynote address at the conference, Sri Lankan Prime Minister Ranil Wickremesinghe highlighted the need to maintain Freedom of Navigation and Freedom of Digital Connectivity

²⁰ See Stavridis (2018).

²¹ See International Maritime Bureau (2018).

²² See, for example, Klein (2011).

²³ See Wignaraja and Panditaratne (2019).

for the region to prosper. He also expressed a desire that deliberations of the conference could lead to a Ministerial Conference convened by Sri Lanka aimed at reaching a shared understanding on the future of the Indian Ocean. However, this diplomatic initiative suffered a temporary setback due to an unexpected domestic political upheaval. On 26 October 2018, President Maithripala Sirisena dismissed Prime Minister Wickremesinghe over policy differences and appointed former President Mahinda Rajapakse as the Prime Minister. The President then dissolved parliament. The political crisis ended on 16 December 2018 with Wickremasinghe being re-appointed as Prime Minister after the Supreme Court overturned the dissolution of parliament.

At the time of writing, discussions were underway on resuming the policy agenda of the Wickremasinghe government, including this diplomatic initiative and the economic reform programme. A staff-level agreement was reached with the International Monetary Fund (IMF) at the end of February 2019 to resume reforms including the adoption of an inflation targeting framework to guide monetary policy and improved debt management and tax administration. Domestic political uncertainties cloud the horizon with presidential and parliamentary elections expected between 2019-2020 and global risks. Nonetheless, the far-reaching implications of the above challenges confronting the Indian Ocean will likely see efforts by Sri Lanka to hold a Ministerial Conference by mid-2019.

Conclusion

This paper examined the macroeconomic implications of the Indian Ocean economy for Sri Lanka since the crisis. Maritime trade has shaped the Indian Ocean economy in recent decades and by 2017 container traffic through regional ports, as a share of global container traffic, was higher than the figures for major advanced economies. That said, the crisis significantly slowed the regional maritime trade expansion and resulted in greater dynamism of smaller ports like Colombo. In line with the global trend, regional trade is playing less of a role in driving regional growth. These trends hint at the Indian Ocean economy being adversely affected by a new normal world economy. Meanwhile, trade was somewhat more of an engine of growth in Sri Lanka than in the regional economy.

A somewhat strengthening near-term regional outlook is beset by multiple global risks. Reflecting heightened global risks and domestic political uncertainty, Sri Lanka's near-term growth is likely to be tepid. Projections to 2025 suggest that the region could play a notable role in the world economy with improved prosperity. But several challenges need to be mitigated through coordinated regional and national actions including:

- ✓ Gradually reducing trade barriers is beneficial along with trade adjustment.
- ✓ Improving the quality of ports and customs through investments but balance is needed between infrastructure needs and risks posed by financing.
- ✓ Development gaps and MIC challenges can be addressed through an Indian Ocean Development Fund, PPPs and better aid targeting.
- ✓ Nascent regional institutions need strengthening. An EPG is a first step.
- ✓ Rising maritime security threats require regional dialogue

Sri Lanka will not automatically benefit from the economic opportunity simply by being an Indian Ocean country. The road ahead for Sri Lanka's diplomatic initiative will not be easy and

may take some time. Patience and perseverance at quiet diplomacy are needed. Success will bring lasting economic and security gains for Sri Lanka, other Indian Ocean economies and users of the Indian Ocean.

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Table 1: Growth of Indian Ocean Container Traffic

| | Container Traffic | | | | | Quality of Port Infrastructure | Border Compliance |
|------------------|-------------------|-------|-------------------|-------------|---------|--------------------------------|------------------------|
| | Million TEUS | | | Growth Rate | | Score (1-7) | Time to Import (Hours) |
| | 2000 | 2017 | 2020 ^F | 2001-08 | 2011-17 | 2017 | 2017 |
| Indian Ocean | 46.4 | 166.3 | 190.60 | 11.9 | 4.7 | 4.2 | 103 |
| <i>Of Which:</i> | | | | | | | |
| Singapore | 17.1 | 33.6 | 35.9 | 7.9 | 2.1 | 6.7 | 33 |
| UAE | 5.1 | 21.3 | 24.7 | 14.5 | 5.1 | 6.2 | 54 |
| India | 2.5 | 13.3 | 15.1 | 14.5 | 4.5 | 4.6 | 265 |
| Bangladesh | 0.5 | 2.6 | 3.4 | 11.6 | 9.9 | 3.6 | 183 |
| Sri Lanka | 1.7 | 6.0 | 8.0 | 10.2 | 6.1 | 4.5 | 72 |
| Kenya | n/a | 1.2 | 1.5 | 5.2 | 8.4 | 4.5 | 180 |
| Tanzania | n/a | 0.7 | 0.7 | 3.5 | 6.3 | 3.4 | 402 |

Source: LKI calculations based on UNCTAD, Maritime Transport Database, Available at:

<http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>, Accessed November 2018

^F2018-2020 estimate for Sri Lanka is based on planned investments in ports while those for the rest are based on the continuation of the post-crisis average growth rate.

World Bank, Doing Business Report 2017. Accessed November 2018.

Table 2: A Comparison of Colombo and Other Regional Ports

| Date of Establishment | Colombo Port, Sri Lanka | Mundra Port, India | Jebel Ali Port, UAE | Singapore Port |
|---------------------------------|-------------------------|--------------------|---------------------|----------------|
| No. of Terminals (a) | 1918 | 1998 | 1979 | 1964 |
| No. of Berths (a) | 4 | 10 | 4 | 11 |
| Maximum Depth of Berth | 16 | 26 | 54 | 67 |
| <i>Metres (a)</i> | 18 | 14 | 17 | 18 |
| No. of Container Terminals (a) | | | | |
| Maximum Container Port Capacity | 4 | 4 | 3 | 10 |
| <i>TEU Millions (a)</i> | 7.1 | 5.5 | 19.3 | 50.0 |
| Terminal Charges | | | | |
| <i>USD/TEUs (b)</i> | 151 | 116 | N/A | N/A |
| Vessel Turn Around Time | | | | |
| <i>Days (b)</i> | | | | |
| Average Waiting Time | 0.9 | 0.9 | N/A | 0.5 |
| <i>Hours (b)</i> | | | | |
| | 5.8 | N/A | 3 | |

Sources

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Notes

(a) As of 2017

(b) Most Recent Estimates

Table 3: Trade and Growth in the Indian Ocean

| | Trade Volume Growth | | | Real GDP Growth Rate | | | Ratio of Trade to GDP Growth* | | |
|--------------|---------------------|---------|----------------------|----------------------|---------|----------------------|-------------------------------|---------|----------------------|
| | 2000-08 | 2011-17 | 2018-20 ^F | 2000-08 | 2011-17 | 2018-20 ^F | 2000-08 | 2011-17 | 2018-20 ^F |
| World | 6.9 | 3.9 | 4.7 | 4.3 | 3.6 | 3.9 | 1.6 | 1.1 | 1.2 |
| Indian Ocean | 9.5 | 4.8 | 6.5 | 5.6 | 5.1 | 5.9 | 1.7 | 0.9 | 1.1 |
| Singapore | 10.1 | 3.9 | 3.6 | 5.9 | 4.0 | 2.7 | 1.7 | 1.0 | 1.3 |
| UAE | 14.5 | 7.5 | 1.7 | 6.2 | 4.3 | 3.4 | 2.3 | 1.7 | 0.5 |
| India | 13.5 | 4.5 | 8.3 | 6.8 | 6.8 | 7.5 | 2.0 | 0.7 | 1.1 |
| Bangladesh | 7 | 9.3 | 5.4 | 5.8 | 6.7 | 7.2 | 1.2 | 1.4 | 0.8 |
| Sri Lanka | 4.6 | 5.8 | 5.3 | 5.4 | 5.5 | 4.3 | 0.9 | 1.1 | 1.2 |
| Kenya | 7.8 | 3.5 | 8 | 3.4 | 5.5 | 6.1 | 2.3 | 0.6 | 1.3 |
| Tanzania | 9.5 | 4.5 | 10 | 6.3 | 6.7 | 6.3 | 1.5 | 0.7 | 1.6 |

Source: LKI calculations based on IMF, World Economic Outlook Database, Available at:

<http://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx>, Accessed November 2018.

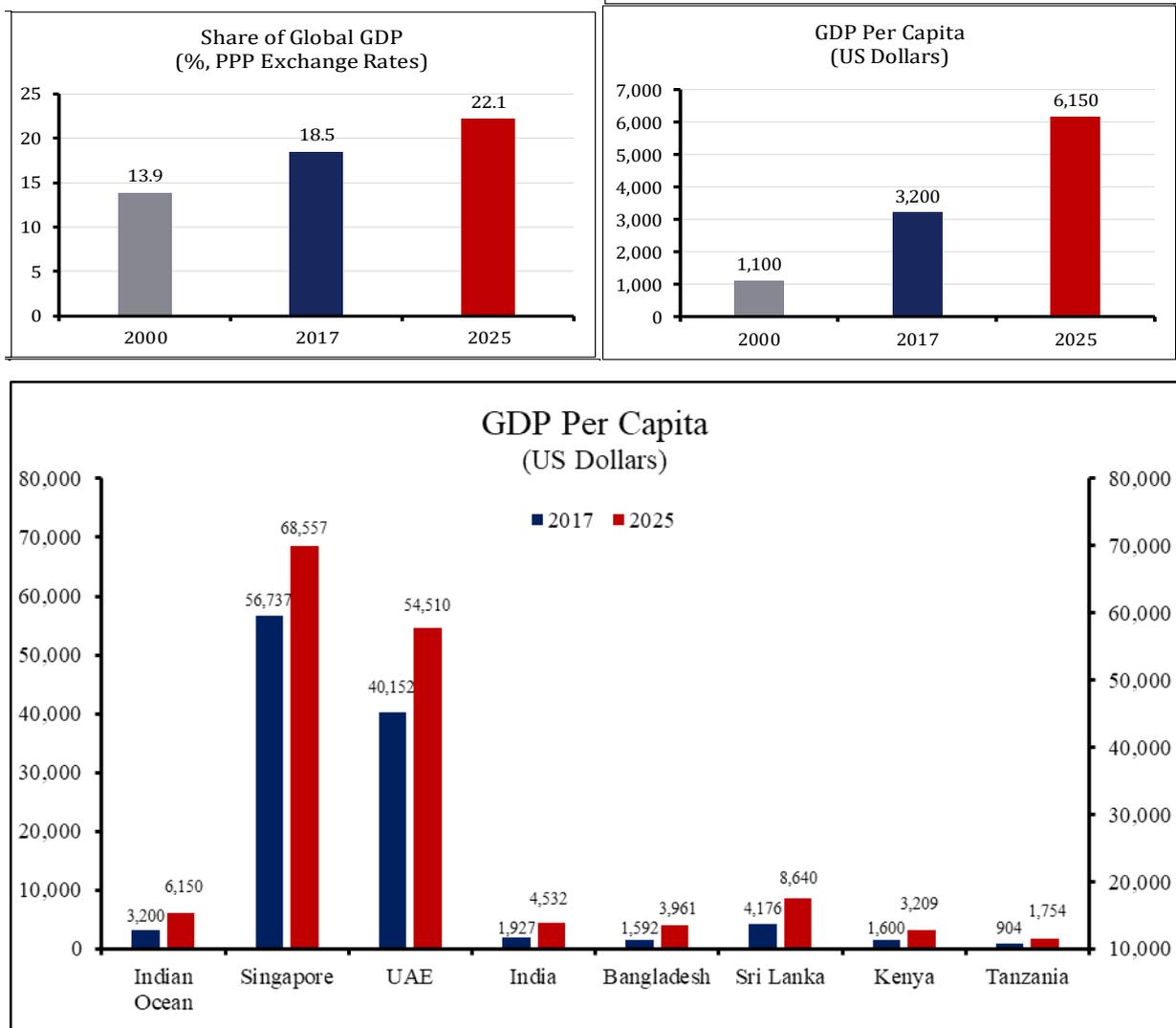
* = Trade Growth Elasticity F = forecasts

Table 4: Barriers to Trade and Investment

| | Weighted Avg. MFN Tariffs | | Number of Non-Tariff Measures Imposed | | Services Trade Restrictiveness Index | Days to Start a Business |
|--------------|---------------------------|------|---------------------------------------|------|--------------------------------------|--------------------------|
| | 2000 | 2016 | 2000 | 2017 | MRE | 2017 |
| Indian Ocean | 7.6 | 2.8 | 128 | 686 | 36.7 | 22 |
| Singapore | 0.04 | 0.2 | 7 | 12 | n/a | 3 |
| UAE | 4.4 | 3.1 | 0 | 115 | n/a | 8 |
| India | 23.4 | 7.6 | 21 | 87 | 65.7 | 30 |
| Bangladesh | 18.1 | 12.3 | n/a | n/a | 44.2 | 20 |
| Sri Lanka | 7.0 | 5.0 | 13 | 1 | 38.2 | 9 |
| Kenya | 16.5 | 10.6 | 0 | 75 | 29.5 | 25 |
| Tanzania | 13.1 | 10.2 | 0 | 82 | 30.7 | 28 |

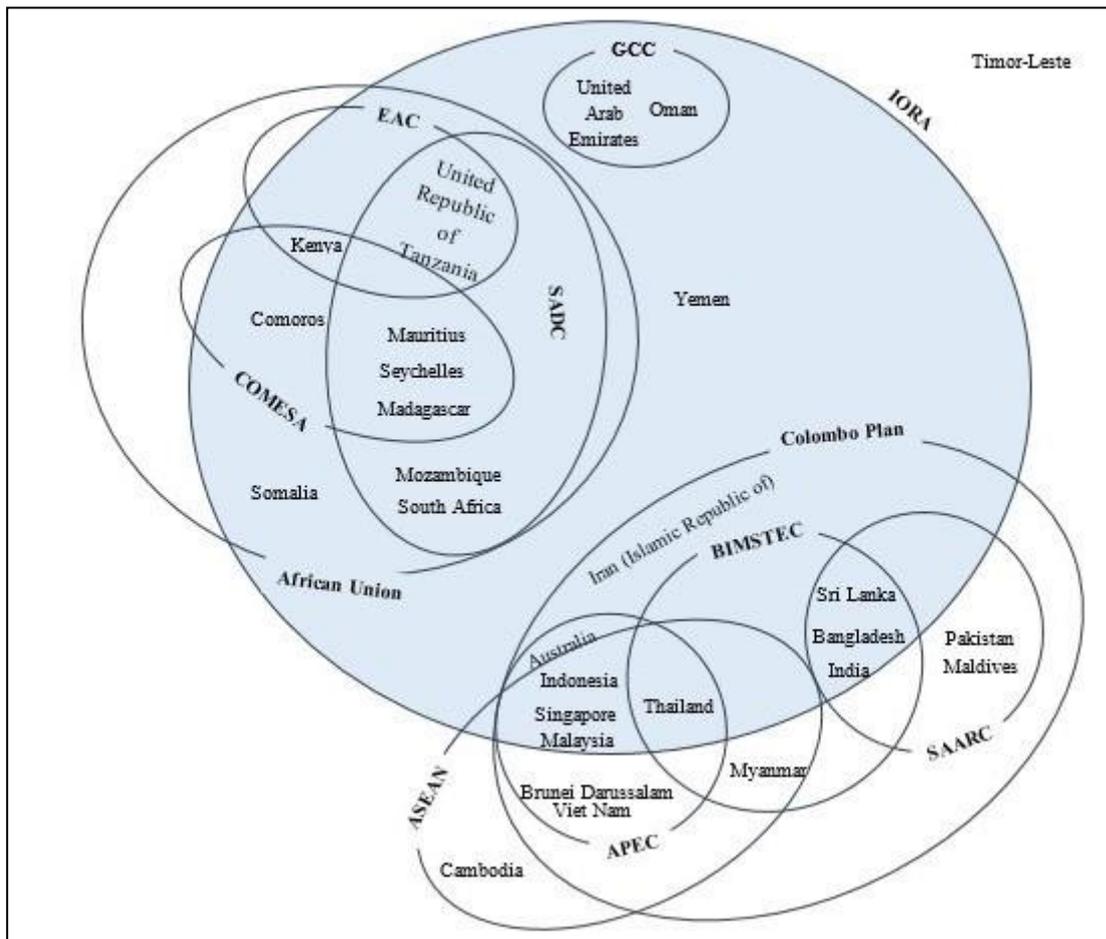
Source: Trade Solution (WITS), Available at: <https://wits.worldbank.org/>, Accessed November 2018; World Bank, Services Trade Restrictions Database, Available at: <http://iresearch.worldbank.org/servicetrade/>, Accessed November 2018; WTO, Trade and Tariff Database, Available at: https://www.wto.org/english/res_e/statis_e/statis_e.htm , Accessed November 2018; World Bank, Doing Business Report, Available at <http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>, Accessed November 2018

Figure 1: The Indian Ocean Economy in 2025



Sources: See Wignaraja, G., Collins, A., and Kannangara P. (2018), "Is the Indian Ocean Economy a New Global Growth Pole?" *LKI Working Paper No 2* for details of the forecasting methodology. Available at www.lki.lk

Figure 2: Network of Regional Institutions governing the Indian Ocean



Source: Compiled using information available on official websites of these respective institutions

Table A1: Key Indicators for Indian Ocean Region Economies

| Country | Population (Millions, 2017) | Land Area (Thousand Sq. Km) | GDP (In PPP, 2017) |
|-----------------------------------|--------------------------------|--------------------------------|-----------------------|
| <u>Africa and the Middle East</u> | 359.4 | 7,217.8 | 3,774.2 |
| (Share of World) | (4.8%) | (5.5%) | (3.0%) |
| Comoros* | 0.8 | 1.9 | 1.3 |
| Iran* | 81.2 | 1,628.8 | 1,644.7 |
| Kenya* | 49.7 | 569.1 | 163.1 |
| Madagascar* | 25.6 | 581.8 | 39.7 |
| Mauritius* | 1.3 | 2.0 | 27.5 |
| Mozambique* | 29.7 | 786.4 | 36.7 |
| Oman* | 4.6 | 309.5 | 186.6 |
| Seychelles* | 0.1 | 0.5 | 2.7 |
| Somalia* | 14.7 | 627.3 | 18.7 |
| South Africa* | 56.7 | 1,213.1 | 765.6 |
| Tanzania* | 57.3 | 885.8 | 162.6 |
| UAE* | 9.4 | 83.6 | 686.8 |
| Yemen* | 28.3 | 528.0 | 38.6 |
| <u>South Asia</u> | 1,578.6 | 3,819.5 | 11,485 |
| (Share of World) | (20.9%) | (3.0%) | (9.0%) |
| Bangladesh* | 164.7 | 130.2 | 687.1 |
| India* | 1,339.2 | 2,973.2 | 9,459.0 |
| Maldives | 0.4 | 0.3 | 6.9 |
| Pakistan | 53.4 | 653.1 | 1,057.0 |
| Sri Lanka* | 20.9 | 62.7 | 247.7 |
| <u>East Asia and the Pacific</u> | 705.2 | 11,706.0 | 8,261 |
| (Share of World) | (9.3%) | (9.0%) | (6.5%) |
| Australia* | 24.5 | 7,741.2 | 1,246.5 |
| Brunei | 0.4 | 5.8 | 33.5 |
| Cambodia | 16.1 | 181.0 | 64.3 |
| Indonesia* | 264.0 | 1,910.9 | 3,242.8 |
| Malaysia* | 31.6 | 330.8 | 930.8 |
| Myanmar | 197.0 | 676.6 | 328.7 |
| Singapore* | 5.7 | 0.7 | 527.0 |
| Thailand* | 69.0 | 513.1 | 1,233.7 |
| Timor-Leste | 1.3 | 14.9 | 6.8 |
| Vietnam | 95.6 | 331.0 | 647.4 |
| Indian Ocean Total | 2,643.2 | 22,648.8 | 23,520 |
| <i>Share of World</i> | <i>35.0%</i> | <i>17.5%</i> | <i>18.5%</i> |

Notes: *Members of the Indian Ocean Rim Association (IORA).

Sources: Compiled by LKI based on data from UN DESA, Available at: <https://esa.un.org/unpd/wpp/>, Accessed on July 2018; World Bank, Food and Agriculture Database, Available at: <https://data.worldbank.org/indicator/AG.LND.TOTL.K2>, Accessed on July 2018; IMF, World Economic Outlook Database, Available at: <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/index.aspxd>, Accessed on July 2018.