



INDIA AND CENTRAL ASIA: THE ECONOMIC DIMENSION

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Abstract

Relations between India and Central Asia today is not only limited to historic and civilizational but also economic and geopolitical. The five Central Asian Republics have immense economic as well as strategic significance for India. However, even after a decade and a half years of they becoming independent, India lags far behind China and other countries in terms of its involvement in the region. India has given increased importance to its proximate region and Central Asia today is being treated as India's "extended neighbourhood" resulting from Prime Minister Modi's "Neighbourhood First" policy. India with its expanding economy needs more energy and Central Asia is richly endowed with energy resources. At the same time, CARs need market for their resources for which India could be a good prospective destination. Also, the Central Asian economies need to enhance their services sector, like information technology, in which India enjoys comparative lead. Thus, close and robust relations between CARs and India would be mutually beneficial. This paper would discuss the relations between Central Asian Republics and India with emphasis on the economic dimension. It will further examine the prospects and then the challenges in building good economic relations.

Introduction

The Republics of Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan comprise the region called “Central Asia”. These five Republics formed after the disintegration of the USSR and end of cold war in 1991 and appeared independently on the world map since, but relations between India and Central Asia have been historical and civilizational.

Evidence of their good cultural relation can be found in classical Indian literature, poetry and Sufism. Since antiquity, these two regions have shared deep cultural links, trade and commerce and ancient kingdoms like the Kushana Empire established territory in parts of both regions. These historical and civilizational linkages have spilled over into various other domains like religion and culture. The medieval ages saw a further strengthening of these links with the rising and expansion of the Islamic faith and later with the establishment of Muslim rule in India, many of whose rulers had their origins in Central Asia. Babur, the founder of Mughal Empire in India came from Ferghana region, Uzbekistan (Jha 2016).

India’s traditional connection with Central Asia was by the Silk Route, and not only for transportation of goods and merchandises like silk, textiles, spices etc. but also provided a channel for the exchange of thoughts and ideas in the areas of religion, philosophy and science. Even Buddhism travelled from India through this route and spread over to Central Asia.

Prior to the Soviet break- up India shared culture, music, dance, movies and literature with the Central Asian region and maintained very good and India shared very good and friendly relations with USSR. The disintegration of the Soviet Union made the world a unipolar world, which demanded the reassessment of the international actor’s participation in the New World Order. After the disintegration, Central Asia Republics suffered neglect from India and these republics did not figure high on India foreign policy agenda. Strategically important region situated in India’s backyard and is now considered the part of India’s “extended neighbourhood.” This region was not accorded priority and there was no clear foreign policy directed at these Republics. So, the need of the hour is to build a foreign policy focusing on the region right from the scratch as in present-day the importance of Central Asia and India relations has risen multi-fold.

Until 1991, USSR’s central planning network or mainland Russia was managing and controlling the economic affairs of Central Asian Republics. When these Republics emerged as independent states with the breakup of the Soviet Union, their economies were in abysmal state. The main reasons behind this economic downfall were multiple such as – financial, as the former soviet states were no longer subsidized - supply chains towards manufacturing were no longer effective with a disintegrating infrastructure – a private sector still had to develop and was lacking well established institutions for a market economy including well-functioning capital and labour markets. Because of this economical downsize in terms of geography, economy and the collapse of the Soviet internal markets, Central Asian countries were forced to create foreign trade ties with other countries and as their economies became more market-oriented and many industries were privatised, these nations stepped into the globalised world (Sangita and Agrawal).

During that period, India too was going through its biggest economic transformation because of the economic reforms introduced in the year 1991. Liberalisation, privatisation and globalisation were introduced in India in early 1990s. As after the Cold War India struggled

reforming the economy, establish commercial and political relations with other world powers, and reconstitute ties with directly neighbouring countries meant relations with Central Asia was never high on Delhi's foreign policy agenda. (C Raja Mohan)

Discussing the issue, Dr. Meena Singh Roy from IDSA (Institute for Defence Studies and Analysis), states that although India has been diligently working towards building strong political relations with all five central Asian countries, establishing economic and trade links has been the most unsatisfactory part of its overall fruitful political relations. While Central Asia continues to be of great strategic significance to India, its engagement with the region has been moderate as compared to Russia, China, and the US. The current political situation in South and Central Asia and the lack of a direct land route to the region is limiting India's ability to play a major role.

Amiya Chandra in his book argues that despite the centrality of energy issue, India-Central Asia economic relations now need to be seen through wider prism that would involve important sectors of each of the CARs' economic development planning, uranium, electricity, hydroelectricity, infrastructure, construction, transport, banking, agribusiness, and above all emerging sectors such as the Information and Communications Technology (ICT) sector. It explores various transportation networks, which are likely to propel India into Central Asian picture in the near future. In doing so, it seeks to arrive at a rationale to understand new perspectives and orientations of Indian policy towards Central Asian Republics as announced and initiated through the 2012 "Connect Central Asia" policy (Chandra 2015).

Economic Relations

For India, Central Asia has huge economic and strategic significance. As Central Asia is shrouded with rich and dynamic energy resources and is the perfect answer to the growing and ever-expanding energy needs of Indian economy. At the same time, the Central Asian economies need to boost up their service sector, like information technology, in which India enjoys relative advantage. Both the economies have great benefits in each other. Harnessing of these potentials is contingent on the economic relations enjoyed by both the regions. Let's see the country wise economic relation.

Kazakhstan

In Central Asia, India's largest trading partner is Kazakhstan. Bilateral trade between India and Kazakhstan was US\$ 412.39 million in April-Dec 2015. The exports from India to Kazakhstan were US\$ 113.16 million whereas exports from Kazakhstan to India were US\$ 299.23 million. Key items exported to Kazakhstan alike other central Asian regions are tea, medical and pharmaceuticals products, machinery & equipment and additionally raw tobacco and main items imported by India are uranium, asbestos, titanium and oil.

Trade statistics in last five years (in million US\$)

Year	2011-12	2012-13	2013-14	2014-15	2015-16
Export	244.39	286.23	261.51	250.59	151.91
Import	191.86	139.99	656.33	701.67	352.93
Total trade	436.25	426.22	917.84	952.26	504.84

Source: Ministry of Commerce, New Delhi

Until 2015, the total foreign investment in Kazakhstan from India is US\$ 291.0 million according to Kazakhstan's record. There are several sectors where Indian investments are significantly noticeable such as banking, tea packaging, steel, mining, oil & gas, engineering, medical & pharmaceutical trading, general trading and services, travel agencies etc. The Key Indian companies operating in Kazakhstan are - Arcelor Mittal, Kazstroyservice, SUN Group, KEC Ltd., Punjab National Bank, ONGC Videsh Limited and Gateway Ventures are among the major Indian owned companies/PSUs. The companies of Kazakhstan also invested in India and the total is US\$ 35.1 million until 2015. Kazakhstan's investments in India are primality in oil and gas sector and Engineering Procurement and Construction (EPC) companies. On July 7-8, 2015, when Indian Prime Minister visited Kazakhstan, both the countries signed a memorandum for establishment of joint business council between FICCI and Chamber of International Commerce. Both the nations showed great collaboration in framework of INSTC and in advancement of surface connectivity through bilateral initiatives. ONGC Videsh Limited and KazMunaiGaz signed an agreement on the purchase of 25% stake in the Satpayev Oil Block in the Caspian Sea evident a new beginning in cooperation in the hydrocarbon sector. In July 2015 when Indian prime minister visited Kazakhstan, both the countries signed a fresh agreement for supply of natural uranium because Kazakhstan has vast mineral resources especially highly enriched uranium. Uranium supply is significantly important in recent NSG wavier for the Indo-US civilian nuclear cooperation and that would allow India to procure required uranium for its civilian nuclear program, which could potentially support diversifying the country's energy base in the long run (MEA, Kazakhstan).

Uzbekistan

In May 1993, the agreement signed between India and Uzbekistan on Trade & Economic Cooperation governed the trade relations between these two countries. This agreement consists of several elements such as active participation of small and medium sized enterprises in various industries in bilateral economic cooperation, promotion of economic and industrial cooperation along with the training of personnel, mutual MFN treatment and countertrade, etc. In same year 1993, India & Uzbekistan signed an agreement on science and technology cooperation and based on this an Indo-Uzbek Scientific and Technological Corporation established in 1995 in Tashkent. These both nations signed a couple of more agreements on Avoidance of Double Taxation in 1993 and on Bilateral Investment Promotion and Protection in 1999. Including the last summit of May 2011 in Tashkent, the Inter-Governmental Commission (IGC) met for 9 times.

India Uzbekistan Bilateral trade:

Year	Imports from India (in U.S.\$ million)	Exports to India (in U.S.\$ million)	Total Trade Turnover (in U.S.\$ Million)	Percentage Change over Previous Year
2008	79.9	11.1	91	23.80%
2009	101.6	23.1	124.7	37%
2010	123.8	27.2	151	21.10%
2011	137.6	22.2	159.8	5.83%
2012	163.4	37.82	201.2	16%
2014	24-09	67	316	21.73%
Up to Oct 2015	232.2	27.6	259.8	-1,34%

Source: Uzbekistan Committee Records

Kyrgyzstan

The Indo-Kyrgyz trade was of US\$ 24.98 million in 2016-17. Export to Kyrgyzstan from India was US\$ 22.66 million where exports to India from Kyrgyzstan was US\$2.32 million. Some of the key items India exports to Kyrgyzstan such as tea, leather goods, textiles & garments, fine chemicals and drugs & pharmaceuticals. Export to India from Kirgizstan primarily consists of natural resources like metalliferous ores & metal scraps, rawhides etc. The fifth Joint Business Council meeting held on 19 March 2014 in Bishkek and the sixth session took place on 02- 03 December 2014 in New Delhi between Federation of Indian Chamber of Commerce and Industry and Kyrgyz Chamber of Commerce and Industry. To boost up the export of pharmaceutical, a delegation of 50 Indian companies visited Bishkek in 2015.

India had extended a credit of US\$ 5 million to Kyrgyzstan in 1995; first major part of this amount US\$ 2.78 million, disbursed for four projects – a manufacturing plant for tooth brushes, a plant for toothpaste production, a manufacturing plant for polythene bag and a pharmaceutical plant. Kyrgyzstan paid back US\$ 1.66 million and the rest was converted to grant. In August 2002, India offered Kyrgyzstan Kyrgyz president Akaev during his visit to India, to set up a potato processing plant and an IT development centre in Kyrgyzstan. In 2007, Indo Kyrgyz Centre for Information Technology was inaugurated and currently it provides short duration IT courses and by now, it has trained over 1000 Kyrgyz professionals. To set up a potato processing plant at Talas, Kyrgyzstan, a Memorandum was signed in May 2009. The project was started under India's Aid to Central Asia and was established in 2012. Government of India assisted setting up a mountain bio-medical research centre in Kyrgyzstan at Too Ashu Pass. Eighth session of Indo-Kyrgyz Intergovernmental Commission on Trade, Economic, Scientific and Technological Cooperation occurred on 28 November 2016 in Bishkek. Ms. Rita Teaotia, Secretary, Ministry of Commerce and

Industry of India (Department of Commerce) had represented India. In order to improve considerably the investment and trade relations between India and Kyrgyzstan, Ms. Rita Teaotia held an additional meeting with Kyrgyz Minister of Economy to discuss the upcoming opportunities and challenges. Followed by a visit of ten membered Business delegation from Confederation of Indian Industry (CII) to Bishkek on 6-9 December 2016 to participate in Bishkek Investment Forum. A couple of months ago on October 7, 2016, commission had organized a Road Show to promote tourism explicitly and exclusively. Five members of Congress of Women entrepreneurs came to India to participate in Surajkund Handicrafts Annual Mela in Faridabad, Haryana from Jan 31 to Feb 14, 2017. Afterwards three delegation from India visited Kyrgyzstan in agriculture sector, namely, National Horticulture Board; first delegation led by Dr. A.K. Singh, CMD, National Horticulture Board (from 25-29 July 2016); second delegation led by Dr. S.Patanayak, Secretary (AC&FW) (from 11-14 November, 2016); and third delegation led by Sh. R.K. Rai, director, Ministry of Small and Medium Enterprises. All three delegations visited Bishkek for installation of demonstration unit for mining of essential oil/aroma water. The Indian Technical and Economic Cooperation (ITEC) Program, especially in respect of human resources development became the keystone of India's economic involvement in Kyrgyzstan and Kyrgyzstan has used 58 slots for 2016-17. Since 1992, over 1040 professionals from Kyrgyzstan have got training in India. Seeing the utilization of slots in 2017, 80 ITEC slots have sanctioned for 2017-18 (MEA, Kyrgyzstan).

Tajikistan

Despite their joint effort, bilateral trade with Republic of Tajikistan is not very successful, in fact, much below the potential because of the circuitous transportation routes. (India to Bandar Abbas by sea route, from Bandar Abbas via Turkmenistan and Uzbekistan by land). Tajikistan is a mountainous landlocked country. The major exports from India are tea, coffee, pharmaceuticals, chemicals, textiles & clothing and machinery whereas the major imports from Tajikistan are dry fruits, vegetables, cotton, aluminium, organic chemicals and essential oils.

Below table shows the figures of Bilateral Trade:

Total Trade Value in US\$ Million

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
15.50	22.21	34.18	32.56	41.33	30.14	48.02	55.13	58.09

Turkmenistan

In year 2014-15, total trade was of US\$ 105.03 million of which India was exporting of US\$ 91.98 million and was importing of US\$ 13.05 million, scoring a trade surplus of US\$ 78.93 million in its favour. Main Items of import from India contains of electrical items (LG products made in India), Machinery and knitted apparels and Pharmaceuticals, tyres and frozen meat. Items exported to India consist of raw hide and inorganic chemicals (e.g. Iodine).

Bilateral trade in (in million US \$)

Year	Indian exports	Indian imports	Total	Turnover	
	26.16	9.73		35.89	2010-11
	43.95	16.89		60.84	2011-12
	69.92	8.33		78.25	2012-13
	73.63	14.10		87.73	2013-14
	69.92	8.33	78.25		2012-13
	73.63	14.10	87.73		2013-14
	13.05	105.03			2014-15
					91.98

As per records of Turkmen, the bilateral trade for 2014 was US\$ 185 million.

There is a joint venture in Pharmaceutical company such as Turkmenderman-Ajanta Phama. Moreover, many Indian companies are providing medical products to Turkmenistan. Trade fair named 'My White City Ashgabat' was conducted in Ashgabat from 24-25 May 2015 where ten Indian companies took part for the first time

Central Asia is vital due to constant fulfilment of energy for India, which is broadly visualised as national security. Efforts are made by India to reduce the dependence on west Asian resources by implementing alternative resources of energy. Indian Government tries to bargain with Afghanistan, Pakistan and Turkmenistan for TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline, the estimated cost is \$ 7.6 billion for construction with an expectation to transfer 30 billion cubic meter of natural gas from gas field of Turkmenistan. On the other side, Uzbekistan is blessed with modest hydrocarbon reserve and has third largest uranium deposits in the world. Ample quantity of uranium ore found in Tajikistan, which has potential for its enrichment. Hence, huge reserve of uranium of Central Asia can be utilized by India to withstand its civilian nuclear program. However, Tajikistan and Kyrgyzstan are lacking hydrocarbon reserves but possessing a huge potential for the production of HYDRO-Electricity especially Tajikistan, which has an immense potential for Hydel, power generation. What remarkable in this is during summer season, Central Asia has a surplus production whereas most of South Asia reels under severe power cuts. Thus, India need to think sincerely as an investment for hydel power potential of these states (Maurya Dilip Kumar)

Central Asia has huge untapped & unexplored market. India can utilize to explore consumer goods especially in the region where it has little to opt form between exceptionally high priced foreign western products and cheap but poor quality Chinese manufactured goods that have poured the central Asian market. Especially, India hold a strong grip in the Central Asian market with Tea and pharmaceutical Industries. In addition, there is an immense potential and demand for Indian IT, banking services, construction Indian expertise on medium and small-scale enterprises and food processing industries in Central Asia.

Another potential area for India possibly be mining sector, since the region is lush with mineral resources like copper, uranium, gold and silver for which there is a huge demand in Indian domestic market and so it is a net importer. Moreover, another profitable area of investment for Indian companies would be electrical and Construction Company due to region unexplored hydroelectric potential. India has huge margin of deficit in demand and supply of electricity, which

is aggravated day by day. Cotton and textile sector are also possible opportunities for Indian investment particularly in Uzbekistan, which is considered as one of the chief cotton producer in the world (Ibid).

Afraid of trailing the region to China made India to frame a policy to recombine with the region. It is in this context that Minister of State for External Affairs of India E. Ahmed introduced the "Connect Central Asia Policy at the primary meeting of the Indian-Central Asia dialogue, which took place in June 2012 in Kyrgyzstan. Target of the new policy was to develop India's relations with Central Asia outside of the traditional spheres of economics and energy. India has been searching to combine economics with geopolitics by concentrating on strengthening strategic and security cooperation amid India and Central Asia with a solid focus on military training (Dwivedi 2017).

Overall, exports from India to Central Asian countries are rather low in magnitude. Central Asian countries economies are relatively small and they depend on foreign trade (imports) for meeting many of their needs. India exports a rich variety of goods to all five Central Asian Republics such as vehicles, pharmaceuticals, ceramics, mineral oils, fabrics, clothing and processed meats. With India an emerging market country, process of industrialisation, and Central Asia rich in minerals and raw materials, a sizeable potential exists for trade between India and Central Asia and provides an opportunity for India to develop its trade relations and increase its exports to the region. From the product flows between India and Central Asia, it appears that pharmaceutical products is one of the major ones. With a demand for Indian medicines and vaccines established a potential market to be deepened and extended further. Processed and frozen meats appear also to be a popular export from India into this region, there is demand from the consumer market. Manufacturing of vehicles and their parts is emerging as a significant sector in India and there is a big potential to expand India's exports in the automobile sector to the five Republics in Central Asia, as currently Uzbekistan is the only country that imports vehicles or their parts.

Imports from Central Asia into India are metals, minerals, and other raw materials. Examples of metal imports are gold, silver, lead, zinc, mercury, and aluminium, with these imports essential elements to sustain the Indian manufacturing industry. Central Asia has been a major producer of cotton since the Soviet era. Processing the raw cotton and other fibres into fabric and clothes is a relatively labour intensive industry and fits the demographic structure of India. India imports raw fabrics of various kinds from Central Asia, such as cotton fibre, different kinds of wool and raw silk. India also imports machinery for textile processing such as machines for spinning and knitting. In turn, India exports finished goods such as clothing and household linen etc. Hence, there is a huge potential in strengthening this industry for mutual benefit from both perspectives. This textiles industry using the raw fabric imports could be a tremendous opportunity for India and Central Asian countries. To a lesser extent are imports of machineries and agricultural goods with a scope to expand this trade. (Agrawal and Sangita 2013).

Challenges Ahead

There are various economical, geographical and political reasons why India has not been able to take benefits of its civilizational and historical ties with the region not given enough attention to the relations in past. India has a financial limit when in competition with other

economic powers in Central Asia and as a result Indian investment is low and policy lacks vitality to grow an economic interdependence with the region. Therefore even private Indian companies with a large financial footprint have not shown the necessary interest in the region but rather tend to take shelter under Indian government patronized schemes abroad. Another significant reason for the low level of bilateral ties is Geography, India does not share physical borders with any of the five Central Asian states. No direct route from India to these countries is available, as Pakistan does not permit goods, cargo or people to transit through its territory to Afghanistan and further the Central Asian Republics. As a result, trade needs to be conducted with Central Asia through China, both a time consuming, moreover an expensive trade route. This hinders the promotion and expansion of Indian economic and commercial links with the region. One more geographical hindrance is the fact that the 5 Republics are landlocked without access to sea trade lanes and it is generally accepted that this makes it difficult to develop fruitful economic relations with the outside world QA2 (Sajjanhar).

In economic terms, the quantity of trade that India shares with Central Asia is miniscule when compared to that of China. Geographically, unlike India, China shares long borders with Kazakhstan, Kyrgyzstan, and Tajikistan and due to its growing military, economic, and defence cooperation with Central Asia, has become a threat to India's ambitions to grow economical links in the region. There has been an increase in trade over the past decade however India's share in the region imports is less than 1.5 percent and India's imports from Central Asia averaged only about 1 percent of the region's total exports. China over the last decade has been expanding its influence in the region and has now overtaken Russia as Central Asia's largest trading partner. (Dwivedi 2017).

Conclusion

Today the significance of Central Asia for India is not only historical and civilizational but it goes much beyond this. Economically it offers a whole range of opportunities. However, it's said that India has missed the bus already but not really true, still it has a lot of catching up to do. Many aspirations of India have yet to be translated into reality in Central Asia by paying adequate attention to the relations. If India succeeds in building strong economic ties with the region, it would benefit both the sides tremendously. India's dependence for oil and Gas only on West Asia would decrease and its sources would be diversified. Thus, we observe that although the current situation of economic cooperation between India and Central Asia is abysmally low despite the rich potentials that exist due to ignorant attitude towards trade relations.

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