

India's Emerging Economic Footprint in Central Asian Republics

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Abstract:

Central Asia has gained immense significance in India's foreign policy priorities. Both India and Central Asian nations share common historical and cultural ties. Today, Central Asia is seen as extended neighbourhood which is of great strategic importance. An engaged India angers a more benign geo-strategic partnership for economic development in Central Asia than China, Pakistan, Iran or Russia. The presence of China in the region is a cause of worry. But, India's strength in capacity development and information technology and deep strategic partnership would prove a boon to the Central Asian Republics which stand to benefit from diversifying their exports. The article deals in detail the economic relations between India and Central Asian nations which could be more beneficial to play a more positive role in international politics.

Key words: extended neighbourhood, information technology, strategic partnership agreements, food processing, Oil and Natural Gas Corporation Limited, percapita income, hydropower project, entrepreneurship development centers, lines of credit, private investment.

INTRODUCTION:

The Central Asian Region is the landmass that connects Asia to Europe. It is abundant in natural resources and it serves as the shortest transit route from Asia to Europe. It has a strong consumer market of more than 55-million. Therefore, the region has gained immense significance in India's foreign policy priorities. The emergence of independent states in the Central Asian Region has thrown up new foreign policy challenges for India. Notwithstanding the historical and cultural ties which India had with Central Asian since times immemorial, this development has left an altogether new environment where India is repositioning itself to changing circumstances in its "extended neighbourhood" of strategic importance".

Central Asian countries also have strategic reasons for pursuing deeper relations with India. Greater engagement with India could allay fears of Chinese or Russian influence in the region rendering any of the five Central Asian nations too dependent on Beijing or Moscow. An engaged India augurs "a more begins geostrategic partnership for economic and political development in Central Asian than China, Pakistan, Iran or Russia." Moreover, with its strengths in capacity development and information technology, deeper development partnerships with India could prove a boon to the Central Asian Republics, which stands to benefits from diversifying their exports. For example, petroleum products accounted for 68 percent of Kazakhstan's export earning in 2010,¹ lending urgency to country's need to diversify its exports. Similarly, aluminum exports were the source of over half of Tajikistan's exports earnings in 2010.²

Recognizing the mutual benefits of deeper relationships, India has now signed Strategic Partnership Agreement with three Central Asian regions, Uzbekistan, Tajikistan and Kazakhstan.³ Apart from seeking to bolster defense ties, these strategic agreements, envisage deeper cooperation in

telecommunications, information technology, food processing and pharmaceuticals sectors.

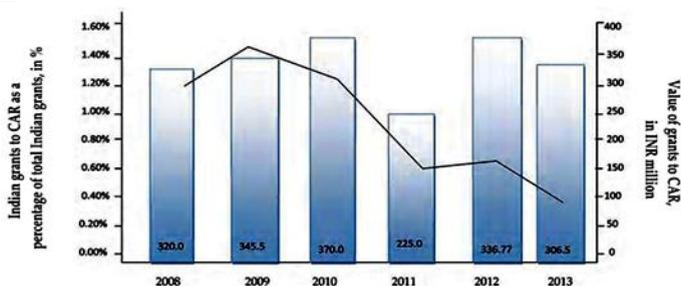
Tough India's engagement with Central Asia's energy sector remains limited, efforts from New Delhi to redress the tepid ties will likely be welcomed. Already, a 2011 agreement with Uzbekistan envisages the Indian public sector company Oil and Natural Gas Corporation Limited (ONGC) Videsh prospecting for oil and gas in the Karakal region in cooperation with the Uzbek state owned company Uzbekneftegaz.⁴ Kazakhstan has also expressed a willingness to increase supplies for India's civilian nuclear program, with the Kazakh state-owned company Kazatomprom set to extend the current contract to supply Indian reactors with Uranium beyond 2014, the expiration date of the present contract.⁵ These prospective engagements highlight a mutual desire between India and Central Asian governments to involve a broader range of stakeholders in the development of Central Asia's energy resources.

DEVELOPMENT AND COOPERATION:

Aside from addressing India's energy concerns, building deeper development partnerships with the Central Asian region could have a positive impact on India's broader strategic and development cooperation aspirations. India began to provide development assistance to the Central Asian countries soon after the dissolution of the Soviet Union in 1991, when the independent nations of Tajikistan, Turkmenistan, Kyrgyzstan, Kazakhstan and Uzbekistan emerged. Development cooperation efforts in the Central Asian region has operated in two phases. The first phase, from the early 1990s until 2004, focused on Lines of Credit that financed development and manufacturing projects. During this phase, grants were utilized primarily to finance drought relief programs and provide humanitarian assistance such as supplying anti-tuberculosis

medicines to Tajikistan and Uzbekistan in 2001.⁶ The second phase, which began in 2004, has been a shift in Indian assistance to the Central Asian region, with grants constituting the bulk of development cooperation and marked reduction in the commitment of LOCs to the region.⁷ The training programs under the Indian Technical and Economic Cooperation (ITEC) Programs, which started in the early 1990s, continue to flourish in the region. The volume and percentage of grants from India to the Central Asian nations, 2008-13 could be gauged from the given chart I.

Chart – I



Source: Data collated and calculated by Indian Development Corporation Research, based on Grants and Loans to Foreign Governments, India Budget 2007/08-2012/3

The development assistance commitment to the Central Asian Region is a small percentage of India's overall development cooperation. Between 2008 and 2013, grants to the region averaged less than one percentage of overall grants from India to other countries, while Lines of Credit to the region have also averaged less than one percent of India's overall LOC commitments between 2004 and 2013. Given that South Asia and Central Asia are two of the least integrated regions on the world and trade between India and CAR countries averaged at 0.1 percent of India's overall trade between 2000 to 2012,⁸. It is not surprising that development cooperation efforts between the two regions have remained rather limited.

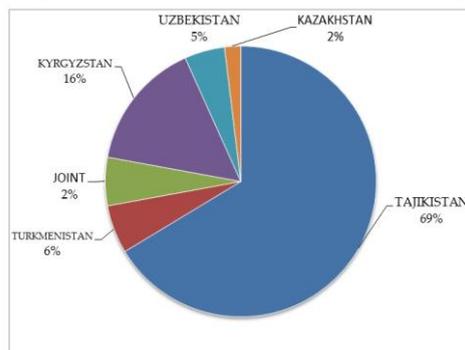
Central Asian countries also have significantly better economic and social indicators, including per capita income, literacy rates, poverty rates, and health indicators, than India and indeed other South Asian countries. The Oxford Multidimensional Poverty Index demonstrates that while 54 percent of India's population is considered poor by this index, an average of only six percent of the population of Tajikistan, Kyrgyzstan, Uzbekistan and Kazakhstan are considered poor.⁹ Nevertheless, given the geo-strategic location of the Central Asian Republics, India will continue its development cooperation with the region as illustrated by the Connect Central Asia Policy, unveiled at the first India-Central Asia Dialogue held in June 2012.¹⁰

GRANTS:

Since, 2004, Indian development assistance to Central Asian Republics has been through limited grant funding and humanitarian assistance measures. While Indian grants to the Central Asian Republic have remained approximately at the same level, lending to the region as a percentage of India's overall development cooperation has diminished from 1.2 percent in 2008 to 0.4 percent in 2013.¹¹ Within the limited funding that India allocates to the Central Asian Republics, grants are not equitably allocated to all five countries. Between 2008 and 2013, 69 percent of the total grants to the region were committed to Tajikistan. These grants to Tajikistan have included funding to rehabilitate and modernize the Varzob – 1 Hydro Power Plant through the Indian Public Sector Units Bharat Heavy Electricals Limited (BHEL) and the National Hydroelectric Power Corporation (NHPC). To be opened in 2011, the hydro power station was finally inaugurated in 2012 with a capacity increase from 2×3.67 MW to 2×4.75 MW.¹² This hydropower project has received about 47 percent of the total committed grants to Central Asian Republic. In addition

Tajikistan received a grant to setup basic training and to enhance local skill development through a tool room training centre that was inaugurated in 2012. As a result of the combined focus on hydro-energy and skill development between 2008 and 2013, Tajikistan received a total of over US\$27 million in grants from India, positioning Tajikistan far ahead of the remaining countries in the region.¹³ This is shown by chart II.

Chart – II : Geographical Divisions of Grants to CAR, 2008 – 2013



Source: Data collated and calculated by Indian Development Cooperation Research, based on data from Grants and Loans to Foreign Government, India Budget 2007/08-2010/13

The remaining Central Asian countries receive grants for relatively smaller projects. Kyrgyzstan has received 16 percent of the grants to the region, valued at US\$ 6 million, to create potato processing factories and information technology centers in the country.¹⁴ Turkmenistan is the third highest recipient of Indian aid at over US\$ 2million (or 6 percent of the total grants of Central Asian Republic) with focused on information training centers in the country.¹⁵ Though Uzbekistan receives only five percent of total grants, they are diverse. A total of US\$ 1 million committed to the country between 2008 and 2013 has been utilized towards funding Entrepreneurship Development Centers and tool rooms that provide both business acumen and basic skill development for the country. Uzbekistan has also

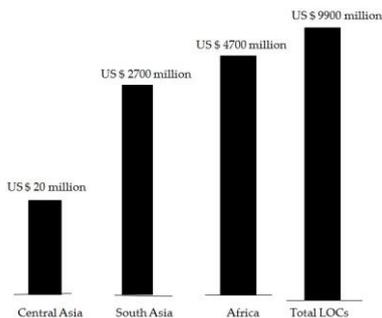
received over half a million dollars towards medical equipment. Kazakhstan receives only two percent of the grants to the region and these are utilized for tertiary sectors of entrepreneurship and information technology development.¹⁶

There are plans to set up a medical and educational E-Network for the five countries in the Central Asian region based on the model of the Pan African e-Network, which provides remotes medical and educational support to hospital's and universities in African countries. A similar model in the Central Asian region could provide access to more specialized treatments for the people of Central Asian Republic. The Indian Ministry of External Affairs (MEA) is in the process of preparing a detailed project report for setting up the e-network project in the five republics.¹⁷

LINES OF CREDIT:

India has not committed significant amounts of Lines of Credit (LOCs) to the Central Asian region. While Government-extended LOCs valued collectively at US\$ 50 million were extended between 1993 and 2003 to the region, only US \$ 20 million have been extended since 2004, after LOCs began to be routed through the EXIM bank, or about 0.2 percent of overall Indian LOCs extended.¹⁸ This is clearly stated by the chart III given below:

Chart – III : EXIM BANK LINES OF CREDIT, 2004-2013 (Logarithmic Scale)



Source: Data collated and calculated by Indian Development Cooperation Research based on Operative Lines of Credit (2004-October 2013) from EXIM Bank

Uzbekistan has received most Lines of Credit to the region with two separate LOCs since 1993 each valued at US \$ 10 million. The first extended in 1993 provided capital for imports from India, purchasing of television equipment and setting up joint ventures between the two countries. The second LOC extended after 2004, is yet to be effective owing to Uzbekistan's reluctance to take on credit liability.¹⁹

India has extended two LOCs to Turkmenistan. The first LOC, valued at US \$ 10 million, was utilized in 1996-97 to create food processing and wool processing units. The second LOC was valued at US \$ 5 million and was utilized in 1998 to create 3 pharmaceutical plant as a joint venture between Turkmenderman and an Indian medical manufacturer, Ajanta Pharma Ltd. The plant commenced operations in Ashgabat in December 1998 and manufactured seventy types of medicines.²⁰

Kyrgyzstan has received one LOC in 1995, valued at US \$ 5 million towards financing four manufacturing projects. The factories produced toothbrushes, toothpaste, pharmaceutical products and polythene bags. US \$ 2.78 million dollars were disbursed for this project and the remainder was converted into a grant.²¹

India had provided Tajikistan a LOC of US \$ 5 million in 1995 towards constructing a joint venture with the Indian company Ajanta Pharma, to produce pharmaceutical products. In 2003, the government of India converted the principle along with the accrued interest of US \$ 3.37 million into a grant.²²

Ajanta Pharma had setup its factories in Tajikistan, Kyrgyzstan, Kazakhstan and Uzbekistan by 2003, however, its operations in these four Central Asian Republic's became unviable and the company pulled out of its joint ventures in these countries in 2004. Ajanta Pharama did however retain its manufacturing unit in Turkmenistan. In 2004, the Government

of India began to utilize the Export Import Bank of India (EXIM Banl) to channel its LOCs. Since this change, India has disbursed a single line of credit to Kazakhstan worth US \$ 10 million in 2004. Initially, the LOC was to enable export credits from Kazakhstan but was later changed to included all the Commonwealth of Independent States in Central Asia.²³

INDIAN TECHNICAL AND ECONOMIC COOPERATION:

The Indian Technical and Economic Cooperation (ITEC) programs was started in 1964 as a form of bilateral assistance and capacity building through training programmes, study tours, technology transfers and in some cases aid for disaster relief.²⁴ Number of training programme is shown in the given chart IV:-

Chart – IV Number of training slots available offered to Central Asia, 1996-2012

Country	1996	2000	2004	2012
Kazakhstan	14	80	60	55
Kyrgyzstan	9	50	65	60
Tajikistan	10	1	100	150
Turkmenistan	14	20	32	35
Uzbekistan	18	80	109	150

Source : Data collated and calculated by Indian Development Cooperation Research based on publically available date on ITEC Slots.

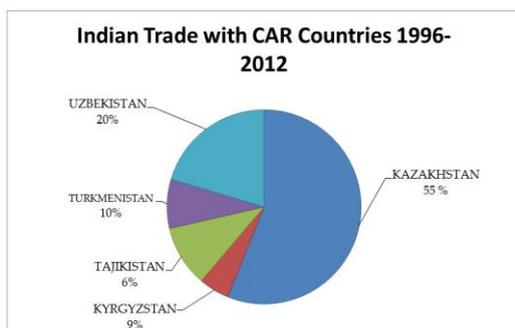
The Central Asian Republic have received training through the ITEC programme since the 1990s. The success of the ITEC programme can be inferred from the fact that over 3000 people in the region have availed of the programme since its inception. The positive response to the programme has resulted in the Indian government increasing the number of slots allotted to the individual countries. Popular programs include information technology, management, journalism, diplomacy, entrepreneurial programs, banking and the service sector programs. The increased engagement with the region through

an inflow of students and professional from the Central Asian Republic into India could foster stronger ties between the two regions.²⁵

INDIA'S COMMERCIAL RELATIONS WITH CENTRAL ASIA:

Despite the goodwill that ITEC programs and scholarships have generate, this has failed to translate into substantive trade and commercial relations between India and Central Asia. At less that US \$ 800 million in 2012-13, trade between Central Asia and India remains below potential. India's lack of a direct overland access to the region due to Pakistan's reluctance in allowing Indian goods to pass through its territory has inhibited India's rising trade interests in the Central Asian region and consequently, trade with the Central Asian Republic has only risen slowly from US \$ 115 million to US \$ 738 million between 1996 to 2012. Nevertheless, India maintains a positive trade balance with Central Asian Republic and more than half of India's trade to the Central Asian region is with Kazakhstan (55 percent). This is followed by Uzbekistan (20 percent), Turkmenistan (10 percent), Kyrgyz Republic (9 percent), and Tajikistan (6 percent).²⁶ Indian trade with Central Asian nations are shown in the given chart V.

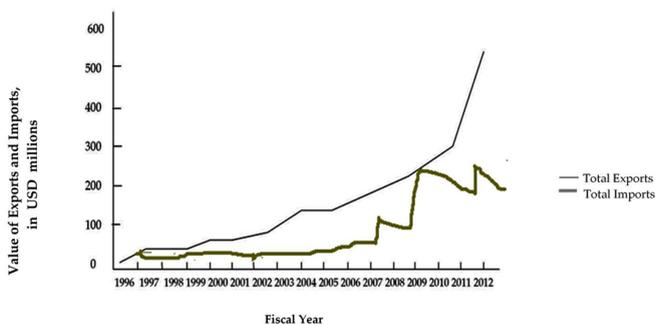
Chart -V



Source : Data collated and calculated by Indian Development Cooperation Research, based on data from EXIM Bank 1996-2012, Ministry of Trade and Commerce, Government of India

However, although the volume of overall Indian trade with the region remains low, an emergent trend between 2008 to 2013 has been the increase in the export of Indian pharmaceuticals to the region. Growing at 16 percent annually in the Central Asian Republic, pharmaceutical products now constitute India's primary export to the region. Sold mostly as over-the-counter drugs, India supplies Central Asia with more than 30 percent of its pharmaceutical needs. Imports from Central Asia largely include minerals such as zinc, sulphur and limestone. In addition, India began to import uranium for its civil-nuclear reactors from Kazakhstan through an agreement on Cooperation in Peaceful uses of Nuclear Energy that was signed in 2011. As of 2012, India was planning to import uranium from Uzbekistan²⁷. Altogether, while there has been a drop in Indian imports from the region, exports to Central Asian Republic have been growing.

Growth in Indian Imports and Exports, 1996-2012, in USD Millions



Source: Data collated and calculated by Indian Development Cooperation Research based on trade data from EXIM BANK, Ministry of Trade and Commerce, Govt. of India.

INDIAN PRIVATE INVESTMENT IN CENTRAL ASIA:

In addition to the low trade volume, between 2008 to 2013, Indian private sector investments in the Central Asian Republics remained limited at a cumulative US \$ 29 million. So far, Indian investments in the region have included recreation, automotive manufacturing, pharmaceuticals and power projects. For example, the Indian company Minda Industries LLC has a joint venture with an Uzbek company to manufacture automotive products.²⁸ An amusement theme park “Fun and Food Village” in Tashkent was established by the Polo Group, an Indian enterprise in 2011. JPM, an iron and steel manufacturing firm will setup a ferrosilicon manufacturing plant at Kyrgyzstan. IOT Infrastructure and Services is in talks to acquire a majority stake in a Kazakh based company, Kazakhstan Caspi Shelf.

Global private investments into Central Asia have grown from US \$ 3 billion in 2005 to US \$ 19 billion in 2009. Post 2011, however, global private investments to the Central Asian Republic declined. This has been the case with Indian private investments to the region as well.

Due to the limited private investments, India's trade volume with the Central Asian region remains low, particularly when compared with the other major regional power, China. China's geographic proximity to the Central Asian Republic and its aggressive economic clout have helped it emerged as the largest trading partner in four out of the five countries in Central Asian Republic. China registered an annual trade of US \$ 29 billion with Central Asian countries in 2012, ahead of USA's trade of \$ 26 billion and Russia's trade of \$27 billion with the region.²⁹ In addition to geography, Indian trade with the Central Asian region is also hampered by Pakistan's reluctance to allow India's goods to transit through its territory, forcing India to reroute its goods through Iran and Afghanistan. With India's registered annual trade with the Central Asian Republic

falling short of even a billion USD, India punches well below its weight in the region.

This situation forced the South Block to a major rethinking of India's approach towards the region. In their visits to India, the Central Asian presidents expressed appreciation for India's secular political model that eschewed Islamic fundamentalism, and expressed the desire for strong ties with India. The Central Asian Republics (CARs) had voiced their support for greater Indian participation in the region. Recently, the leaders of Kazakhstan and Kyrgyzstan proposed India's membership to the key Central Asian grouping the Shanghai Cooperation Organisation (SCO) and now India is one of the member of SCO.

CONCLUSION:

However, despite the present level of trade between India and the Central Asian Republics, the potential for deeper and more meaningful economic cooperation does exist. Both India and Central Asia have economic complementarity in terms of resources, manpower and markets, which if exploited, can be translated into broader cooperation to realize the potential of both regions fully. Opportunities for joint ventures in banking, insurance, agriculture, information technology and pharmaceuticals are many, while Indian commodities like tea, drugs and fine chemicals have already established a foothold in the regional markets. However, India will have to strive hard to increase its basket of exports in order to maximize mutual benefits through bilateral cooperation. Given the policy preferences of Central Asian countries, India would do well to lay emphasis on manufacturing and industrial activities. Prospects in infrastructure building and construction activities as well as commercial farming are also promising and India can exploit its expertise in the construction of small and medium-sized hydro-substantial hydropower potential. Also,

with the Central Asian energy reserves being pegged at 2.7 percent of total world oil reserves and 7 percent of total natural gas reserves, the region is a potentially important future energy source for India.

However, there are several bottlenecks that need to be addressed before any meaningful commercial relations with the Central Asian Republics can be established. The ground reality is that Indian manufacturing and investment companies are apprehensive about entering the unfamiliar markets of the region, due to the rather daunting conditions that prevail. One of the main impediments is the non-availability of hard currency and lack of conversion facilities. Communication links are also inadequate; currently, the region is connected by air only, though India has been trying to improve the situation. Land and sea route options through Iran, Turkmenistan and Russia are also being explored as the establishment of new routes through the region could boost India's trade, not only with Central Asia but also with Central Europe. However, though several agreements have been signed, they only exist on paper. For instance, the trilateral agreement on the international transit of goods between Turkmenistan, India and Iran signed in 1997 has yet to be operational, while the much-talked about North-South corridor, an agreement for which was signed between Russia, Iran and India in 2000, also suffers from the same fate, with several bottlenecks needing clearance before they can become viable.

It is important to note that despite the Indian government's efforts to encourage increased economic interaction with the region, the private sector's presence in terms of investments and projects is imperative before the economic landscape registers a change. In the given context, it is time for Indian businessmen to change their approach and look at Central Asia as a region of opportunities rather than region of huge profits.

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