

Lecture

by

Shri Sudhir T. Devare

Director General
Indian Council of World Affairs

on

**“India’s Trade Initiatives in South Asia and Central Asia:
Challenges and Prospects”**

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I feel greatly honoured to have this opportunity to be at the University of Kashmir, a great seat of learning and scholarship in the legendary beautiful setting of Kashmir. The Centre of Central Asian Studies at this University has been playing a very important role in enhancing our understanding about our neighbouring region of Central Asia. I am deeply grateful to Hon'ble Vice Chancellor as well as Prof. Mushtaq Kaw for their kind invitation to me to visit the University and speak to the distinguished audience here. For me this is a learning experience to get a perspective of our relations with Central Asia with which India, and especially Kashmir had civilizational contacts. The Indian Council of World Affairs which I have the privilege to represent has had a long tradition of fostering Asian solidarity and looks upon our growing relations with Central Asia with much interest and attention. Indeed, at ICWA we are engaged in studying linkages between South Asia and Central Asia.

The topic suggested to me for today's talk is 'India's Trade Initiatives in South Asia and Central Asia :Challenges and Prospects'. The choice of these two regions for discussion on India's overall relationship and trade and economic cooperation in particular is significant. After all they form India's immediate and extended neighbourhood. Indeed if we consider security parameters of India in terms of concentric circles, the first circle will be South Asia and Central Asia will be among the next concentric circle which would also include other regions such as Southeast Asia, the Gulf countries and eastern seaboard of Africa. Clearly, peace, stability and economic prosperity of India is directly related to what happens in these regions. There is a distinct indivisibility of the above aspects between India and the rest of South Asia and even Central Asia. Our past, present and future are inextricably linked to each other and therefore it is important, nay imperative to consider how we can build upon the commonalities that exist between us even as an extraordinary transformation of Asia continues to take shape.

India, as the largest country in South Asia has, both high stakes in the security and stability of the regions as also a responsibility to work with them on a progressive and forward-looking path. South Asia accounts for a nearly 1/3 of humanity where majority population is youth. Central Asia, though not much populous, has the advantage of vital geo-strategic location and concentration of energy resources and minerals. While on the one hand these regions have performed reasonably well in economic terms, they, on other hand are still beset with major problems like fundamentalism, religious extremism, terrorism and violence. Acute poverty and socio-economic disparity are still stark and endemic. There are sharp bilateral differences among the neighbours. It is, therefore, essential that the vast potential that trade and economic cooperation, cultural links or people-to-people contacts presents to build bridges of understanding and amity between the peoples of South Asia be fully harnessed. With Central Asia, again the same areas mentioned above would apply. There is the additional factor of connectivity which requires to be

addressed and realized so as to create a mutually beneficial relationship. India has an important role to play in this regard.

Speaking about the topic, India's Trade Initiatives in South Asia and Central Asia, it may be mentioned that the word 'Trade' which had been a key element in India's contacts with the rest of the world from ancient times seemed to have disappeared from the lexicon in the colonial times. Earlier India was a principal supplier of textiles, commodities, spices, jewelry to the outside world. The silk routes which went through Kashmir or India's Northwest played an important part in India's trade outside. In 1820, India accounted for nearly 20% of global GDP and corresponding figure of trade. At the time of our independence, it was however about 2%. In fact for a long time since the independence, India's overall trade was less than 10% of its total GDP – this was far below the figures for several major countries. It is only in recent years, last 10-15, years that India's trade (imports and exports together) forms nearly 25% of its overall economy. The growth of India's export for the last quarter this year has been impressive with the figure touching 82%.

On this background let us examine how trade can be an important instrument in the development of our bilateral relations – with our immediate neighbours in South Asia as well as Central Asia. Three major factors may be identified while discussing our trade relationship with our neighbours.

The first can be considered as the onset of globalization and the process of liberalization and economic reforms that was set in motion as a result of that. In 1991 India went through a painful experience of an acute balance of payments situation; we had to mortgage our gold reserves abroad. The economic reforms which were undertaken following that episode marks a critical turning-point in our economic history. The reforms included the end of the Licence Raj, opening of the economy to the outside world, and liberalization of investment (FDI) regime. With this Indian industry and businesses gradually becoming part of the global value chain is also leading to Indian economy getting increasingly linked to or integrated into the global economy with concomitant advantages and disadvantages as well. Indian economy being the largest in South Asia – nearly 80% of the South Asian economy, the latter inevitably gets impacted by what happens in India.

The second important development is in the area of regional trading arrangement. With the conclusion of the Uruguay Round it was expected that international trade will be primarily governed by a non-discriminatory multilateral trading regime under WTO. However, with the Doha Round in a deadlocked position for several years it appears that the world trade is likely to be governed mainly through preferential bilateral free trade area (FTA) agreements or regional FTAs. This trend started in South Asia with SAPTA (South Asia Preferential Trade Agreement) in the 90s and a full-fledged SAFTA (South Asia Free Trade Area) in 2006. India also

entered into bilateral free trade area with Sri Lanka in 1998. Thus it can be said that regionalism, sub-regionalism or bilateralism in trade and economic cooperation is expected to grow in the coming years in South Asia.

The third element witnessed in South Asia is an increasing mindset change in India and its neighbours in South Asia or the extended neighbourhood. Trade and economic cooperation are being seen as useful instruments for building mutual confidence and inter-linkages. A holistic view is being adopted with regard to economic diplomacy which should include not only trade but also investments on both sides, energy water resources, connectivity climate change and environment. India's rise or emergence as a leading economic entity can have useful implications for South Asia and Central Asia. They can ride India's growth to mutual benefit. For India, too, their economic success is a pre-requisite for its own rise. Without South Asia's stability and sustained growth, India can not hope to economically progress over a long period of time. Surely, the asymmetry of size, population, economy or resources between India and other South Asia neighbours is not of India's making. However, to overcome their apprehension on this account it is necessary for India to adopt policies which will take into account the fact that South Asia is a complementary economic space and the prospects of expansion in trade and economic cooperation that can be available as a result of mutual cooperation can be enormous.

India has thus an opportunity to harness, in cooperation with our South Asian neighbours resources, human as well as natural to the benefit of all. For this, India will need to take the lead and continue to come up with initiatives in the area of trade, investment and economic cooperation.

Looking at Trade, let us see how trade among the countries of South Asia operates. There are three ways in which trade takes place. The first is bilateral. The second is the regional mechanism under SAARC. The third which is actually a part of bilateralism is border trade. Then there are other avenues under which Least Developed Countries (LDCs) from South Asia are granted trade concessions. While Most Favoured National (MFN) treatment, primary principle of international trade under WTO (World Trade Organisation) governs India's trade with some of South Asian neighbours, India has different arrangements with individual countries for historical or political reasons. For example, Bangladesh, Afghanistan, Sri Lanka, Maldives and India extend MFN to each other. With Pakistan, while India has granted MFN status to Pakistan the latter has not done it so far. With Nepal and Bhutan, India has traditionally offered tariff free imports – thus it has been 'free trade' right from the beginning.

In South Asia, Afghanistan, Bangladesh, Bhutan, Maldives and Nepal are regarded by the UN as Least Developed Countries (LDCs). Under the Duty Free Tariff Preference (DFTP) Scheme for the LDCs which India has implemented since 2005, on

85% of India's tariff lines, customs duty would be removed over a period of five years. There are only 6% of tariff lines on which no tariff preference is available.

Speaking about the trade initiatives taken by India with South Asian countries, we could now discuss country-wise position.

Bangladesh – Bilateral trade stood at \$ 2.7 billion in 2009-2010. With a country of 160 million people, it is pitifully small. (There has however been a steady improvement in the number of items which Bangladesh can export to India). There is still a long list of nearly 1000 items which are on the negative list.

India's exports far out-weigh its imports. As a result, Bangladesh has always had a trade deficit with India. It stood at \$2.1 billion in 2009-10. Bangladesh imports a wide range of goods from India which is constantly growing. Trade deficit has therefore become a major issue in our bilateral relations. How to redress this grievance of Bangladesh has been before Government of India for some time. One of the practical and mutually acceptable ways is through economic assistance from India for a range of projects including railway infrastructure, supply of locomotives and coaches, buses or construction of shelters in flood-affected areas or supply of rice at prices lower than international prices. It is in this context, India extended in 2010 a line of credit of US \$ 1 billion to Bangladesh for projects.

In fact, India is keen that exports from Bangladesh grow substantially and also get diversified. Currently, Bangladesh exports are focused on garments and clothing accessories, raw jute and leather. Bangladesh has called on India to reduce, if not eliminate the negative list which will enable Bangladesh to promote its exports. India is currently examining the Bangladeshi proposal. Another way to off-set the trade deficit would be by promoting Indian investment both private and public sector in Bangladesh. Initiative in this direction is being taken. Indian entrepreneurs are interested in investment in tele-communications, power, pharmaceuticals and food processing sectors in Bangladesh. Union Commerce and Industry Minister said on 23 April, 2011 that Indian firms were ready to invest \$ 3.5 billion in Bangladesh's private sector. "We have \$ 3.5 billion in the pipeline for investment in Bangladesh in the private sector". Shri Sharma said at a joint news conference with his Bangladesh counterpart in Dhaka.

Bangladesh's inclination to provide transit facilities to Indian business, even in a limited way, could greatly improve the economic scene between India and Bangladesh.

Another important area of bilateral trade with Bangladesh is border trade. In fact with all our neighbours with common land border there are excellent opportunities to develop border trade. This helps to harness local level trade on both

sides which has been traditionally carried out. It also leads to CBMs (Confidence Building Measures) with our neighbours and also encourages people-to-people contacts. Between Bangladesh and India more and more border trade points have been identified along Meghalaya, Assam, West Bengal and Assam borders. Customs and connectivity arrangements are being established. Through enlargement of border trade, the large illegal trade with Bangladesh which is feared to be as much as ¾ of regular trade (World Bank report) can be fast reduced and regularized. India and Bangladesh are also negotiating a FTA.

Pakistan

Another neighbor in South Asia with which we hope to establish a large and rapidly growing trade and economic relationship – which will be commensurate with our population, markets, economies is Pakistan. Unfortunately, our bilateral trade is still very small. In 2009-10, it stood at \$ 1.85 billion – with trade in our favour to the extent of \$ 1.3 billion.

The range of goods traded on both sides is small. The two countries do not have a formal trade agreement. As stated earlier, India has granted MFN status to Pakistan whereas Pakistan maintains a list of importable items from India called 'Positive List' which now consists of 1938 items. Speaking to the Press on July 27, 2011, Foreign Minister Krishna said that Pakistan had recognized that grant of MFN status would help in expanding bilateral trade relations and had also committed to operationalise a non-discriminatory trade regime by replacing the present 'positive list' with a 'negative list' by 2011.

The issue of trade has been discussed within the framework of Composite Dialogue for past several years. The latest round was held in April this year. It is well understood that in the absence of direct trading channels, a vast amount of trade is going through third countries or takes place informally (illegally). At the same time, it is also recognised that the two sides can benefit a great deal by meeting their mutual needs at costs which will be highly competitive given our geographical proximity. To deal with these matters a Joint Study Group at the level of Commerce Secretaries has been established since 2005 and has regularly held meetings. Among the initiatives that have been taken lately include (a) Development of the infrastructure at Attari as a priority project in the integrated Check Post Project initiated by India, (b) Back to back movement of trucks for loading and unloading for trade at Attari –Wagha Post, (c) Expeditions completion of statutory certification related formalities for import of cement from Pakistan, (d) Both sides decided to open two bank branches in either country.

The Joint Study Group are addressing the issues of customs cooperation, sanitary and photo-sanitary measures, technical barriers to trade, standards, etc.

Several studies have shown that the two-way trade could reach \$ 10 billion. However, the potential has not been realized as non-trade issues have dominated the discussions. There are hopeful signs that the two-way trade may scale a new high.

As with other neighbours, with Pakistan too, the question of border trade has been acquiring importance. Trade facilitation at Attari-Wagah and on Sind-Rajasthan border is being improved. During the meeting of foreign Ministers of India and Pakistan on 27 July, 2011, the issue of cross-Line of Control (LoC) trade and trade facilitation for Jammu & Kashmir was discussed. On cross-LoC trade, a list of 21 products of permissible items will be respected by both sides. The Working Group will review the trading list. Both sides will provide adequate facilities at the trade facilitation centres on each side. The number of trading days are increased from 2 to 4 per week. Designated authorities will resolve operational issues concerning cross-LoC travel would be expanded on both sides of LoC to include visits for tourism and religious pilgrimage. Cross-LoC bus between Srinagar-Muzaffarabad and Poonch-Rawalakot routes will run on Mondays.

Sri Lanka

India's bilateral trade with Sri Lanka is almost at the same level as with Bangladesh, a much larger market. In 2009-10, it was \$ 2.5 billion- in favour of India to the extent of \$ 1.8 billion. India's exports have traditionally remained much larger than its imports. However, Sri Lanka has dealt with this issued by (a) having a FTA with India which was signed in 1998 and became operational in 2000, (b) by attracting a sizeable Indian investment as well as development credit.

India-Sri Lanka Free Trade Agreement was one of the first free trade agreements that India signed with any country. It was a major trade initiative. Domestically, it was met with considerable opposition especially by our spices and rubber growers in the South. However, over the years both India and Sri Lanka have found the FTA highly advantageous. Bilateral trade has grown almost four times in last ten years from \$ 658 million in 2000 to US \$ 2580 million in 2010. Now this FTA is being expanded to include services and investment so as to make it a Comprehensive Economic Partnership Agreement (CEPA). Though it has been negotiated it has not been signed so far.

In the meantime, the emphasis has been on investment from India. Approvals for nearly \$ 500 million Indian FDI have been given. In 2010, India was the largest investor in Sri Lanka.

India-Nepal Trade Relations

India-Nepal trade has been governed by a trade Treaty. Rightly from the beginning it was free trade between the two countries. The current treaty in force

since 2009 provides for a non-reciprocal, duty free access to Nepalese goods without quantitative restriction – except there is requirement of 30% value addition in Nepal. Routes for trading have been identified at 27 points on the Into-Nepal border. India also provides transit facilities to the landlocked Nepal under the Treaty of Transit.

As in the case of other neighbours, India places emphasis on investment in Nepal (India is the largest investor-nearly 44% of total investment in the country) and economic assistance to Nepal in the areas of infrastructure, health, education, rural development etc.

India-Bhutan

Bhutan is the only country in South Asia with which India seems to have a balanced trade. India is Bhutan's main development and trade partner. The three hydroelectric projects in Bhutan completed with India's assistance – Tala 1020 MW; Chukha 336 MW and Kurichu 60 MW supply electricity to the power short states of India. Total economic engagement with Bhutan is expected to be of the order of Rs.100 billion over next five years.

India-Maldives

Indian exports far outweigh imports from Maldives. In 2009-10 trade imbalance in India's favour was to the tune of \$76 million. But India's investments and economic projects in Maldives are on sharp increase. They include : Taj Group of Hotels, GMR infrastructure—airport; Suzlon, Bommidala—Solar power etc.

A Standby Credit Facility of \$ 100 million has been offered which will be disbursed through State Bank of India. Also assistance from Exim Bank of India is being extended.

Afghanistan

India had a long traditional trading relationship with Afghanistan. After the ouster of Taliban, India has since 2002 played a significant role in the reconstruction and redevelopment of Afghanistan. India believes that democracy and development are key instruments in ensuring that Afghanistan becomes a source of regional stability and does not slide back into extremism. India and Afghanistan entered into a strategic partnership. India announced in May, 2011 an outlay of \$500 for projects decided in consultation with Afghan partners making India's total commitment to Afghanistan US \$ 2 billion.

Today, the lack of direct access inhibits trade. While Pakistan permits Afghan goods, mainly dry fruit to come to India, Indian goods can not be sent to Afghanistan through Pakistan. Trade with Afghanistan is required to be mainly carried out through a long and circuitous route through Iran. To develop connectivity to Afghanistan through the Iranian port chabahar, India constructed a 218 Km. road

from Zaranj to Delaram in Afghanistan. It provides the land-locked Afghanistan and the three Central Asian states bordering on Afghanistan viz Turkmenistan, Uzbekistan and Tajikistan, an alternative to the sea. While this route remains the only viable one in near and medium term, efforts to seek opening through Pakistan need to continue.

India's total trade with Afghanistan amounted to \$ 588.74 million in 2009-10. The balance of \$ 338.36 is in India's favour. Under a Preferential Trade Agreement signed between India and Afghanistan in 2003, India provides duty-free access to the import of dry fruit, asafetida, lapis lazuli, ruby and emeralds. A 50% duty exemption covers all items of high export interest to Afghanistan. With Afghanistan joining SAFTA, its trade will come under SAFTA terms.

The above discussion about India's bilateral trade with South Asian countries would indicate that India may need to offer more non-reciprocal openings for imports from these countries. Intra-South Asia trade of India is still only 5% of India's global trade and therefore the scope for India to expand it is substantial. New and innovative ways would need to be explored for the purpose. But since the capacity of the latter to export goods and services to India is limited, India would have to 'balance' it through greater investment and economic and technical assistance. In fact, India's FDI in South Asian countries could promote their exports to other countries including to India. Already this is happening with respect to the garment sector in Sri Lanka and Bangladesh. Indian investment in steel or petrochemicals sectors in our neighbouring countries could also receive the advantage of large and growing demand for these items in India.

Border Trade

Earlier in the discussion, I referred to border trade on the Indo-Bangladesh and India-Pakistan border. India is also encouraging border trade along the Sino-Indian border at certain identified locations. At Nathu La in Sikkim, border trade has been conducted since 2006. This route cuts the transport time for goods between India and China considerably and makes it easier for traders to ship their goods directly. The Nathula Pass trade is open from May 1 to November 30 every year. The reopening of the border trade is helping in promoting friendly relationship between the two emerging economic powers of Asia. The list of tradeable items is, however, very small (only 29 items). Trade infrastructure is gradually improving and it is hoped that border trade will see substantial jump.

On India-Myanmar border, too, there are arrangements for border trade. Moreh in Manipur, Champa-Rheia in Mizoram serve as trade points. From Moreh, India built a 165 Km road into Myanmar which services the local area well in its development activities.

Border trade with Bangladesh and Myanmar would create useful opportunities for economic integration of our Northeast with these countries which in turn would strengthen India's 'Look East' policy.

Regionalism in Trade in South Asia

As you may be aware, there is currently a surfeit of regional or sub-regional trading arrangements around the world. More than 200 are notified to the WTO. Asia is not an exception to this trend though it may be pointed out that Regional Trade Agreements (RTAs) came into existence much later than elsewhere. India, a founder member of GATT and WTO while in favour of multilateral trading regime started actively participating in RTAs.

SAARC

SAARC was established in 1985. A trade bloc among SAARC members was formed with the signing of SAARC Preferential Trading Arrangement (SAPTA). In moving towards the goal of South Asia Free Trade Agreement (SAFTA), the member states, decided to take action to remove tariff and non-tariff barriers (NTB) and structural impediments to free trade. After prolonged negotiations, SAFTA was signed in 2004 and was implemented w.e.f. Jan 1, 2006. SAFTA, with its objective of bringing down the tariffs to zero, has raised the hopes of millions of people for converting South Asia into a high trade region.

Given the issues of geographical and economic asymmetry, trade imbalance, uneven economic growth etc. which we discussed earlier, can SAFTA, a bold exercise in regionalism in South Asia yield the desired results? For SAFTA to succeed, India, as the largest economy in the region will have to play an important role.

The following actions, if taken by India would give the much needed boost to intra-regional trade under SAFTA.

- 1) Cutting down its sensitive list. Top global export items of LDCs, could be deleted from the sensitive list.
- 2) The issues relating to non-tariff measures should be addressed in a time-bound manner.
- 3) India should help SAARC members to establish agencies/ institutions dealing with trade matters.
- 4) Promote investment in SAARC countries to generate greater economic activity and employment opportunities.
- 5) Provide better infrastructure and support at border check posts of customs.

On their part, SAARC member states should also take necessary measures especially with regard to the size of negative or sensitive list, time frame for tariff liberalization, non-tariff barriers and also expanding the scope of SAFTA. The latter,

as of now, only deals with goods. It should progressively include services, investments, bilateral safeguards etc.

South Asia has been making steady progress in trade liberalization and economic integration. It has shown resilience in the face of global financial crisis and registered fairly high GDP growth rates. For India this is a valuable and timely opportunity to help build interdependence and collaborative relationship through the avenues of trade, economic and technical cooperation and knowledge-based economy. South Asia holds a promising picture if the above avenues are fully explored and travelled by all member states of South Asia.

Central Asia, another key region of Asia which is geographically separated from India by Pakistan and Afghanistan is in India's extended neighbourhood. Its historical, cultural and socio-economic ties with India go back centuries. Even in the Soviet period, Central Asian states of the Soviet Union held great goodwill and fellow-feeling for India.

The importance of Central Asia for India is geopolitical and geo-economic. This region is located in the midst of major powers such as Russia, China and Iran. Its land frontiers border on Afghanistan. It is a source of rich hydrocarbons and minerals. In fact, Central Asia leverages its hydrocarbons and strategic location effectively.

In terms of area, Central Asia states are large. They are, however, sparse populations with the entire Central Asia (of five states) having about 50 million people. They were traditional societies which during the Soviet times underwent considerable social, cultural and economic transformation. Although subjected to the New Great Game that is being played out in Central Asia today they are engaged in developing their newly independent countries in a peaceful and cooperative manner.

India has interest in the development and stability of this neighbouring region. (Tajikistan is about 45 minutes flying time from Srinagar). We are keen that Central Asia does not get embroiled in military confrontation. Also, that fundamentalism and religious extremism do not find roots in the region. India also feels concerned that the region is not used by narco traffickers for transit.

Central Asian states (except Turkmenistan) are members of the Shanghai Cooperation Organisation (SCO) which has over the past decade come up as an important organization in the interest of stability and peace as well as economic progress of the region. India is an Observer state of SCO and has expressed its keenness to play a more constructive role in the SCO.

India's economic partnership with Central Asian countries began no sooner than they became independent states in 1991. India opened resident Embassies in Uzbekistan and Kazakhstan within months of their independence. Since then India has supported Central Asia states politically, economically and technically. It has contributed substantially in capacity building and human resources development—through scholarships, cultural exchanges, technology centers, entrepreneurial development programmes, hydel projects etc. India's economic assistance has been found useful and appropriate by the recipient states.

In the area of trade, there is, however, not enough interaction which can be commensurate with the potential on the two sides.

With Kazakhstan two-way trade in 2010-11	\$213.22 m.
Uzbekistan two-way trade in 2010-11	\$57.66 m.
Turkmenistan two-way trade in 2010-11	\$27.10 m.
Tajikistan two-way trade in 2010-11	\$30.54 m.
Kyrgyzstan two-way trade in 2010-11	\$8.15 m.

The constraints on expansion of trade are :

Absence of direct transportation linkages

Limited size of the markets and also the economies of Central Asia are in transition.

The initiative, therefore, has to be with regard to improvement of surface transportation connectivity.

In 1997, India-Iran-Turkmenistan signed a Tripartite transport corridor agreement to which other Central Asian countries also adhered. Under this agreement, containers move from the Iranian port of Bandar Abbas across Iran to Tedzhen in Turkmenistan and further to Bukhara, Tashkent and other Central Asian states.

North-South corridor – signed in 2000 by India, Iran and Russia. Other countries also joined it. It covers a vast area from North to South of Asia. It is expected to provide access to international water ways.

India's investment in Zaranj-Delaram road in Afghanistan. This link of 218 Kms completed in 2008 connects it to the main Afghan road network called the 'garland highway'. It provides Afghanistan and three Central Asian states an outlet to the sea.

Projected railway link from Kazakhstan to Iran via Turkmenistan. It can be a useful route for India to tap the rich oil and gas potential of Central Asian states.

As in the case of South Asia, in Central Asia too India will have to follow the route of investment especially in the oil and natural gas sectors of these countries. China has already been doing it on a big scale. India has tried this in some projects. Recent purchase of 25% share in Satpaev oil field in the Caspian sea. Kazakhstan is an example of success of the India Company, OVL.

India also signed an agreement – TAPI Gas Pipeline in December, 2010. This is an ambitious project and offers great promise. The best scenario will be that gas from Uzbekistan, Kazakhstan and Azerbaijan will feed into TAPI.

Government is looking keenly to explore all prospects of expanding business with Central Asia. MEA and Ministry of Commerce, in recent months have called for practical measures aimed at boosting trade and investment ties.

With the US and European markets in a depressed state, India will have to aggressively diversify its imports and exports. Central Asia offers an opportunity in this regard. The enormous political and cultural goodwill that India enjoys with Central Asian countries should be translated into a dynamic economic partnership with these countries.

Thank you.