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POLICY BRIEF

India-Central Asia: Finding New Synergies for Greater Engagement

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Executive Summary

India and Central Asian countries have cordial relations. The two sides have immense potential and complementarities to increase their economic ties.

Despite cordial political relations, economic and trade engagements have been much below potential. Lack of direct connectivity hampers trade. However, it is expected to change soon. Lack of awareness of each other's potential and inadequate presence of Indian banks in the region also affect trade.

Kazakhstan-Turkmenistan-Iran railway line has been inaugurated and India is making investments in the Iranian port of Chabahar. This alternative route is expected to boost India's trade not only with Central Asia, but with Afghanistan as well.

Faster economic growth in the region driven by the exploitation of hydrocarbons and other mineral resources has opened different areas, especially the services sector, and made regional economies an attractive destination.

Besides the services sector, there is a huge scope for agricultural cooperation, especially organic farming, IT & ITES, textiles, hydro power, health and tourism.

Introduction

India and the region of Central Asia have very long historical, cultural and economic connections. The famous Silk Route not only connected the people and businesses, but also let the thoughts, culture and beliefs flow freely from one region to the other. In the past, Buddhism, having its origin and growth in India, was welcomed by the people in Central Asia, and similarly, many Sufi *silsilahs* popular in India have their connections with that region.

The Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan became independent in the 1990s. Since their independence, the republics have been engaging with the countries in the region and beyond, and India is among the first countries to establish diplomatic relations with them. New Delhi now has strategic partnership with three of the five republics and trade is also picking up, though slowly. In 2012, India announced the 'Connect Central Asia' policy, and also announced to hold an India-Central Asia Dialogue at Track II annually in one of the republics. These measures are contributing to the closer ties. Though India and Central Asian countries enjoy cordial relationship, the economic engagement between the two sides has been much below its potential.

The countries of Central Asia are endowed with significant hydrocarbon and mineral resources and are close to India geographically. Kazakhstan is the largest producer of uranium and has huge gas and oil reserves as well. Similarly, Uzbekistan is also rich in gas, and is an important regional producer of gold along with Kyrgyzstan. Tajikistan has vast hydropower potential besides oil deposits, and Turkmenistan has the fourth largest gas reserves of the world. Geographically, the strategic location of these countries makes them a bridge between different regions of Asia and between Europe and Asia. Although the significance of the region in India's economic and energy security is clear, lack of direct surface connectivity has been affecting the economic engagement.

However, the recent inauguration of Kazakhstan-Turkmenistan-Iran railway line has given the region a short access to the Indian Ocean. India, on the other hand, has been making investment in Iran's Chabahar port. This alternative route has eased the business connectivity of the outside world with the region.

Region's Economic Incentives

The economic development in the countries of Central Asia, especially in Kazakhstan and Turkmenistan, has been driven primarily by the exploitation of hydrocarbon and other mineral resources. This has led to growth in construction, telecom, software and ancillary industries, leading to an increase in the purchasing power and disposable income for the people to spend more both on purchase of goods and undertaking foreign travels. Further, after achieving a certain level of economic growth, the regional countries want to diversify their oil economies and also integrate them with the global economy. Kyrgyzstan and Tajikistan have joined the WTO and Kazakhstan is poised to become a member. India, with its impressive growth rate, is seen by the Central Asian countries as a potential partner for stronger economic development.

Recently, the Eurasian Economic Union (EEU) has been launched and two Central Asian republics of Kazakhstan and Kyrgyzstan are its members. The Union provides a big market with defined rules for greater business and economic exchanges. The Central Asian republics have also responded to other big regional economic initiative; One Belt One Road programme of China. India, on the other hand, wants membership of the regional Shanghai Cooperation Organization (SCO), indicating that New Delhi is ready to engage the region bilaterally as well as multilaterally. Therefore, it is clear that the region is set to witness increased economic activities and Indian business leaders are expected to play a greater role in the progress.

Now that the connectivity problem has been significantly addressed and the regional countries also want India to play greater and significant economic roles in Central Asia, New Delhi seems set to increase its footprint in the vital region in its extended neighbourhood. As the Prime Minister is undertaking a maiden visit to all republics in July 2015, the new government has already indicated its agenda to engage the region on priority. Prime Minister Modi's foreign visits are goal-oriented and it is expected to boost the ties between the region and India.

Many Indian businessmen doing businesses in Central Asian countries often say that non-presence of Indian banks in the republics has been affecting the bilateral trade. Though in Kazakhstan an Indian bank, Punjab National Bank's subsidiary is present, there

is a need to open branches of Indian banks at least in the capital city of each republic. Alternatively, the business leaders from India can establish a bank on the PPP model with the governments and private capitals from the region and India. It will greatly boost the trade and ease business transactions.

Potential Areas of Economic Engagement and Recommendations

India, now a US \$ 2 trillion economy, has developed expertise in information technology and IT enabled services sector, pharmaceuticals, research and development, services sector and agriculture. The country can play a significant role in the economic development of Central Asian countries, which are looking for markets for their energy resources and are also eager to diversify their economies. Similarly, the region can play an important role in meeting India's energy security. India's OVL is active in the Satpayev block of Kazakhstan. Besides, the long proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) is another significant energy project.

Nevertheless, the increased oil income in Central Asia has provided impetus for growth in construction, engineering consultancy, market research, management services, software development, mining processes, outbound tourism and increased expenditure on health. India has developed expertise in these niche areas. Besides, these are primarily virtual products and can be transported easily, allowing the country's business to overcome connectivity issues.

There is a great demand for Indian pharmaceutical products in the region. This sector is quite advanced and Indian pharmaceutical companies are known across the globe with their medicines being exported across the continents. Indian pharmaceutical companies can establish JVs with Kazakh and Kyrgyz partners and cater to the markets of Central Asia as well as the EEU.

The region of Central Asia is now generating outbound tourism, including for medical purposes. India has advanced medical facilities, but people from these republics visiting the hospitals face language and communication problems. Provisions of licensed interpreters can help reduce their problem and encourage others to come for treatment in Indian hospitals. India also has many architectural and historical sites, particularly of the medieval period, which are of great interest to the people from Central Asia. Thus,

measures in the field of tourism specifically targeting the people from Central Asia would make India a favourite destination for them.

Agriculture and food processing is another promising area of cooperation between India and Central Asia. The countries of the region have huge tracts of arable lands available and the farmers, particularly in Kyrgyzstan, generally, do not use fertilizers. Thus, there is scope for organic farming and organic products, which is in demand in the nearby health-conscious European markets. Besides, agricultural cooperation can also be of help in India's food security. The similarity in the topography of Kyrgyzstan and Kashmir state of India opens the possibility to explore joint saffron cultivation and floriculture as practised in Jammu and Kashmir.

Tajikistan and Kyrgyzstan have huge hydropower potential and both want to explore the resources. The hydropower resources of Tajikistan consist of 317 billion kWh per year and only 3-4 per cent of it has been utilized so far.ⁱ The Kyrgyz rivers' energy potential is about 160 billion kWh per year, and currently only 10 per cent of the potential is used.ⁱⁱ Indian hydropower companies, including from the private sector, can invest in small and micro hydropower plants in the region.

The entertainment industry is another area of potential engagement. The scenic beauty in the region; from steppe and deserts to snow-clad mountains to world famous Lake Issyk-Kul, provide the Indian film and entertainment industry, which is already very popular in Central Asia, very affordable and close-by locales to shoot Indian films and TV serials. This will help significantly in lowering the cost of film production in India and expanding Indian cinema market in the region.

There is a general lack of awareness in India and in Central Asia about each other's potential. There is a need to increase media awareness in the two sides and inform the business community and the public opinion about the opportunities in the neighbouring regions. An electronic interface in English and Russian languages having details of business and economic potentials can be of great help in boosting commercial engagement.

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End Notes

ⁱ The Ministry of Foreign Affairs of the Republic of Tajikistan, ‘The energy sector of the Republic of Tajikistan’
<http://mfa.tj/en/energy-sector/the-energy-sector-of-rt.html>

ⁱⁱ Embassy of the Kyrgyz Republic in Japan, ‘Economy of Kyrgyzstan’,
<http://kyrgyzembassy.jp/index.php/ja/kyrgyzstan/about-kyrgyzstan/economy>