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IDSA Policy Brief

India's Economic Opportunities in Central Asia

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Summary

Several areas present excellent opportunities for Indian investment and cooperation in Central Asia such as hydro-power sector, mining and metallurgical industries, construction industry, development of entrepreneurship, infrastructure, agro-industrial sector, information technology, pharmaceuticals industry, silk, sewing and textile industries, leather industry, tourism industry, higher education, food processing sectors, etc.

Shavkat Mirziyoyev, the new President of Uzbekistan, will pay a visit to New Delhi towards the end of this month, seemingly to give yet another shot for cementing strong economic ties with India. For the last two and a half decades, India has been citing obstructions of physical connectivity, Pakistan's hostility and Afghan instability for its desultory attitude towards Central Asia. But such excuses can no longer hold true as countries like South Korea and Turkey are doing enough business with the region.

If Shavkat Mirziyoyev has a fresh perspective to offer, there is scope for a second chance for India. But, this time, India must articulate a clear vision. As the wise saying goes, "to cut up a circle, one has to draw a bigger circle". India needs to use its instrument of economic leverages more efficiently to build closer ties with Central Asia. It needs a new goal of engagement, moving beyond indulgence in the conference enterprise, which entails neither any meaningful academic exchange nor do they meet any policy goals.

Connectivity

First, New Delhi needs to remove the myth prevailing in Eurasia that India is opposed to any connectivity projects. India must tell countries in the region that its objection to joining China's BRI scheme relates to the violation of India's sovereignty. India is not opposed to projects passing through non-disputed areas such as the Turkmenistan, Afghanistan, Pakistan and India (TAPI) pipeline project. On the contrary, it is fully mindful of its historic Silk Route ties with Central Asia, and is hoping to make an entry into the largely untapped energy potential of the region. In fact, to break the connectivity bottlenecks, India has sufficiently invested in the International North South Transport Corridor (INSTC) and the Chabahar project which are close to becoming a reality.

Second, Shavkat Mirziyoyev is likely to push for joining the 2016 Trilateral Transit Agreement on Chabahar. With the first phase of the Chabahar port being completed, it becomes the nearest sea port for Uzbekistan. So far, Tashkent has relied on Turkey, Russia, and the Baltic States for port access. In fact, two days after the Shahid Beheshti terminal was inaugurated in December 2017, Uzbekistan signed a deal with Afghan railways for a Trans-Afghan corridor on December 5.

Iran is shortly going to hand over the strategic port for operations an Indian Company along with a banking channel opening from both sides. India has already equipped two berths at the Shahid Beheshti terminal with capital investment of USD 85.21 million and annual revenue expenditure of 22.95 million on a 10-year lease. The terminal's operational capacity will increase to about 10 million tonnes.

The 2016 Trilateral Transit Agreement with Iran provides the necessary legal framework for trans-shipment of goods to Afghanistan. A shipment of 1.1 million tons of wheat to Afghanistan has already been made through the Chabahar port.

For India to use Chabahar as a vital gateway to access Eurasian markets and optimally operationalise its use requires a Central Asian state joining the project as a direct stakeholder. And here, the prospect of Uzbekistan joining the Chabahar port project through Afghanistan would bring about the biggest breakthrough in regional transport connectivity with enormous implications for the entire region.

In 2011, the Uzbek state Railway Company *O'zbekiston Temir Yo'llari* built a short 75-kilometre single-rail track between Hairatan and the Afghan city of Mazar-i-Sharif at a cost of USD 1.5 billion, funded by the Asian Development Bank (ADB). Tashkent appears keen to extend the rail line (approximately 700-kilometer) from Mazar-i-Sharif to Herat through the towns of Sheberghan, Andkhoy and Maymana in the west of Afghanistan. Herat is a gateway to Iran for both Afghanistan and Uzbekistan.

For India, the proposed Chabahar-Iranshahr-Zahedan-Mashad corridor is the most ideal route to connect to Sarakhs on the Turkmen border. India is committed to build a 610-kilometre north-south railway (Chabahar to Zahedan). It has already completed the 218-kilometre road from Delaram, Afghanistan, to Zaranj on the Iran-Afghanistan border.

India, Iran and Afghanistan should welcome Uzbekistan as a partner and also support the Uzbek-Afghan initiative of connecting Mazar-i-Sharif with the Herat line. The Uzbek Railway Company has the capacity to build 100 kilometres of rail line every eight months. Iran is India's traditional partner and any fear of US sanctions impacting oil trade should be dismissed outright.

Keeping the connectivity objective in mind, India has joined the Ashgabat Agreement in February 2018. Earlier in 2017, India joined the TIR Convention. With this, India is now a part of the single transport transit corridor system that would enhance the prospect of enlarging both the operational and practical scope of Chabahar and fast-tracking implementation of the INSTC. India is looking for some trading intermediaries and logistics partners.

Economic Partnership

The next step is to finalize the much awaited Free Trade Agreement (FTA) between India and the Eurasian Economic Union (EAEU). China has already aligned its BRI projects with those of EAEU through a FTA. Many stakeholders are waiting for India and EAEU to sign a FTA, which should happen sooner than later. Hopefully, this would be done during President Putin's visit to India next month. This could spur the unhindered two-way flow of trade with Eurasia, potentially going up to USD 170 billion from its current paltry level of 10 billion.

India's current trade figure of about USD 100 billion with the SCO members is also grotesquely asymmetric – about 90 billion is with China, 8 billion with Russia and 1.5 billion with the Central Asia states of which 1 billion is with Kazakhstan.

India needs to take note that Central Asian countries, including Uzbekistan, may not be key export markets or investment destinations for Indian companies as yet, but they are fast getting linked to the global market for production, supplies of raw materials and services. They are also increasingly getting integrated into the East-West Trans-Eurasian transit economic corridors.

In the past decades, the economic performance of Central Asian countries had gone up due to high commodity prices. The combined economy of the region stood at over USD 339 billion, with varying levels of development and purchasing power in each country. Kazakhstan is the richest with a per capita income of USD 11,580 and Uzbekistan the poorest with USD 2,150 in 2017. The fall in the oil and commodity prices, compounded by Western sanctions on Russia, has, however, impacted the economies of the Central Asian countries, although they have abundant mineral resources such as petroleum, natural gas, antimony, aluminium, gold, silver, coal and uranium which are yet to be exploited. Uzbekistan, for instance, is the world's 17th largest producer of natural gas, ninth largest producer of gold and sixth largest producer of cotton. Besides, their agricultural economy is also an important economic driver, with grain, cotton, meat, tobacco, wool, fruits and vegetables production.

Uzbekistan is the most populous country (over 30 million) accounting for 45 per cent of Central Asia's total population. It thus has the potential to emerge as a strong and sizeable consumer market with an average annual GDP growth of more than eight per cent over the past decade. It plans to invest USD 55 billion to modernise its industry and develop new infrastructure in over 900 projects in the gas and petrochemical sectors, as well as in the construction of new roads and airports. The New Action Strategy 2017-2021 envisages realizing a total of 649 projects amounting to USD 40 billion. As a result, in the next five years, the production of industrial goods is project to increase by 1.5 times.[1]

The country's key mineral resources include petroleum, natural gas, coal and uranium. Its energy sector is playing a leading role in luring foreign investment. But the country is also looking at upgrading high-value-added food processing and textile industry sectors. This is likely to give Indian companies an opportunity to provide a variety of support services, including those relating to trading and marketing.

Uzbekistan has a liberalized trade regime. As per the law "On customs tariff", the country follows rules for customs, taxes, tariff preferences, liberalization etc.[2] As per the investment programme for 2016, foreign investment was implemented in 154 priority projects, with their value exceeding USD 4 billion. These were largely in strategically important projects involving high-tech production in the petroleum, chemical, textile, pharmaceutical sectors, and road construction. Foreign investments mainly come in the oil and gas industry (27.3 per cent) followed by communication and information technology (12.6 per cent). China, Russia, Germany, South Korea, Japan, the Netherlands, UK, and Malaysia are the major foreign investors.

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1 *The Strategy for Action: 2017-2021*, Booklet published by Institute for Strategic and International Studies under the President of Uzbekistan, Tashkent 2017.

2 Website of the Ministry of Foreign Trade of Uzbekistan, http://www.mfer.uz/en/export/export-potential/

Intra-regional trade in Central Asia accounts for only seven per cent of the region's total trade, which creates more opportunity for individual countries to seek trade partners outside the region.

Uzbekistan is the only observer state of the WTO. But doing business in the country is not always easy as indicated by its low rank in the ease of doing business index. Businesses complain about arbitrary seizures of goods and frequent changes in customs procedures without prior notification. Excessive documentation and a lack of proper protocols make the importing process very difficult, costly and time-consuming. But with a new dispensation in Tashkent now, all of these problems are being addressed and eased gradually.

Opportunities for India

India's current trade with Central Asia is minimal – just about $1.5 billion which is a mere 0.11 per cent of India's overall trade.

Table # 1: India's Trade with Central Asian Countries in 2017-2018

(Values in US $ Millions)

Country	Exports	Imports	Total
Kazakhstan	125.37	907.43	1032.81
Kyrgyzstan	28.59	30.94	59.53
Tajikistan	23.94	50.29	74.24
Turkmenistan	54.31	26.15	80.46
Uzbekistan	132.72	101.67	234.39
Total	364.93	1,116.49	1,481.21

Source: Department of Commerce: Export Import Data Bank

http://www.commerce.nic.in/eidb/ergnq.asp updated on 14/08/2018

Table # 2: India's Trade with Uzbekistan

Year	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Exports	89.39	124.90	114.07	170.44	94.64	108.97	132.72
% Growth		39.73	-8.67	49.43	-44.48	15.14	21.79
Imports	37.04	31.85	31.50	55.86	45.26	46.54	101.67
% Growth		-14.02	-1.11	77.37	-18.99	2.85	118.45
Total Trade	126.43	156.75	145.56	226.31	139.89	155.51	234.39
% Growth				55.45	-38.18	11.16	50.72

Source: Department of Commerce: Export Import Data Bank

http://www.commerce.nic.in/eidb/ergnq.asp updated on 14/08/2018

India's trade is largest with Kazakhstan, with a turnover of USD 1,032.81 million in 2017-2018. Uzbekistan is a distant second at USD 234.39 million in the same year. But the complementary aspects of Indian and Central Asian economies mean that the potential for trade is extremely high.

After experiencing a complete breakdown in the manufacturing sector, supply of raw materials and lack of markets, Central Asian states are fast getting linked to the global market for production, supplies of raw materials and services. However, the changing economic environment – prolonged recession in Europe, financial crisis in Russia, fall in oil prices, etc – is opening new vistas of opportunities for the Central Asia-India trade partnership to grow. Some studies, after identifying a trade potential index using a gravity model of trade framework, have indicated a huge untapped potential for increasing trade between India and Central Asian countries.[3]

India and Uzbekistan have signed several trade agreements. Uzbekistan also provides most favoured nation (MFN) status to 45 countries including India, but it is not clear whether this has entered into force.

India's imports mainly include precious and semi-precious stones, chemicals, iron and steel, machineries, mineral oils, copper goods, plastic goods, wool, and leather. Exports

3 Pradeep Agrawal & Seema Sangita, "India and Central Asia: Trade Routes and Trade Potential," *IEGIEG Working Paper* No. 334, 2013

items include coffee, tea and spices, apparel and clothing (both knitted and not knitted), pharmaceutical products electrical and mechanical equipments.

Several areas present excellent opportunities for Indian investment and cooperation in Central Asia such as hydro-power sector, mining and metallurgical industries, construction industry, development of entrepreneurship, infrastructure, agro-industrial sector, information technology, pharmaceuticals industry, silk, sewing and textile industries, leather industry, tourism industry, higher education, food processing sectors, etc.

Table # 3: India's Share in Uzbekistan's Foreign Trade (2015)

Partners	Exports $5.85 Billion		Imports $10 Billion		Total $15.85 Billion	
China	1.21 Billion	21 %	2.24 Billion	22 %	3.45 Billion	21.7 %
Russia	570 Million	9.7 %	2.22 Billion	22 %	2.79 Billion	15.8 %
Kazakhstan	690 Million	12 %	941 Million	9.4 %	1.6 Billion	10.0 %
India	53 Million	0.91 %	108 Million	1.1 %	161 Million	1.01 %

Source: The Observatory of Economic Complexity (OEC) Index

Conducted by the MIT Media Lab group Macro Connections
http://atlas.media.mit.edu/en/resources/about/

Central Asia has huge cultivable areas lying barren and without being put to any productive use. Uzbekistan alone offers an enormous opportunity for cultivation of pulses. Large quantities of pulses including kidney beans (rajma) from the region are bought over by Turkish firms and are re-exported to India. Indian agribusiness companies such as ITC or Bharti or Reliance should be setting up commercial agro-industrial complexes in Central Asia.

The region is experiencing a real boom in the construction industry. Kazakhstan has in particular created a competitive market for investments in this sector. The volume of construction works is also increasing in Uzbekistan's cities such as Tashkent, Bukhara, and Samarkand. Owing to higher economic growth, several areas are becoming attractive for construction business in residential, non-residential and civil engineering segments of the market. New business centres, shopping malls, cultural centres, sports complexes, roads, etc are being planned in the cities along the oil-rich Caspian region in the west.

India companies dealing with financial services, contractors, engineers, and management specialists should be quickly grabbing the opportunities. Large Indian companies also need to bid for road and railway construction, electric power transmission and distribution, telecommunications, power generation, etc.

Apart from tea, pharmaceuticals represent the largest component of the Indian export basket to Central Asia worth USD 151.41 million or 28.14 per cent of total exports. Most of the large Indian companies are represented in the market. Given India's strong position in this sector, Indian companies should push for aggressive marketing to expand their market share. There are almost ready opportunities for Indian companies to establish joint ventures and manufacturing units of pharmaceutical products in the region.

The entire region of Central Asia is a large producer of raw hides and semi-processed wet blue skins. Uzbekistan has domestic leather production facilities, notably in Khodjaabad, Urgench, and Kokand. France has set up a joint venture Kofra Uzbek-French joint leather footwear venture in Kokand.

About 90 per cent of raw skins are exported to China and Turkey. Indian leather companies should open tanneries here and convert the abundant hides and skins into finished leather as well as garments, bags and shoes of the highest quality for export to Europe. Similarly, Indian companies should source wholesale supply of raw hides and semi-processed wet blue skins, which will boost trade between India and Central Asian countries.

Central Asian traditional sericulture and cotton textile industry had declined over the last many decades. However, sericulture is once again developing as a major economic source for the rural population in Uzbekistan and Kyrgyzstan. After China and India, Uzbekistan is the third largest producer of silk to the world markets, (20,200 tonnes) of cocoon per year. Central Asian countries have been showing interest in learning from India's silk industry. The Indian experience has been viewed as attractive for creating jobs in rural areas, removing poverty, and as a means to preserve national traditions.

All Central Asian states produce cotton of high quality. Some major Indian textile companies should be considering setting up a few integrated textile plants in the region to manufacture good quality cotton & blended fabrics. Setting up textile units can be a highly profitable venture for Indian companies, since the lucrative European markets are only 10 to12 days away by road transit freight from Central Asia.

Many important spices especially essential Mediterranean spices that are consumed in India are found in Central Asia. They include barberry, black pepper, basil, bay leaf, caraway seeds, cardamom, chervil, chives, cilantro, cinnamon, cloves, coriander, cumin, fennel, fenugreek, saffron, sage, almond, asafoetida, black mustard seed, dill seed, garden cress, marjoram, tarragon and many other spices are found all over Central Asia. None of these spices are exported to the Chinese or European markets. Import of spices from Central Asia could increase the volume of trade between Kyrgyzstan, Tajikistan and Uzbekistan, on the one hand, and India, on the other.

Uzbekistan and Tajikistan produce large quantities of fresh and dry fruits. Trade facilitation centres are required to bolster the centuries-old dry-fruit trade from Central Asian countries to India.

India is the world's second largest tea producer with a total production of 1205.40 million kg in 2013-14. Out of this, over 200 million kilograms are exported worldwide. The Commonwealth of Independent States (CIS) alone imports 51.58 million kilograms of tea from India. Large quantities of Indian tea are consumed in Central Asia. The region mostly imports large quantities of the crush, tear, and curl (CTC) variety. During the year 2013-2014, tea constituted USD 52.63 million or 9.78 per cent of India's total exports to the region. Out of this, USD 50.28 million worth tea was exported to Kazakhstan alone.

Kazakhstan is ranked fifth in the world in terms of consuming Indian tea and imports 12.61 million kg annually. Kazakhs are amongst the highest tea drinkers in the world with a per capita consumption of 1.5 kg annually, that is, an average of 5 to 6 cups a day, a reason why many people are labelled as "tea drunkards". Given the enormous popularity of tea, the Kaznet website was created for "tea drunkards".

Unfortunately, India's tea exports to Central Asia during 2013 have been reduced to 208.26 million kilograms as against 211.86 million kilograms in 2012. India's market share is lost to tea from Kenya and Sri Lanka. However, the popularity of Indian tea remains high in most Central Asian countries. To rectify and regain its market, the Indian Tea Exporters' Association (ITEA) or Indian Tea Board should take the initiative of setting up a simple tea blending & packing factory in Central Asia to offer best quality Indian teas to the tea loving people of the region.

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