

About the RIS

The Research and Information System for the Non-Aligned and Other Developing Countries (RIS) is an autonomous research institution established with the financial support of the Government of India. RIS is India's contribution to the fulfilment of the long-felt need of the developing world for creating a 'Think Tank' on global issues in the field of international economic relations and development cooperation. RIS has also been envisioned as a forum for fostering effective intellectual dialogue among developing countries.

RIS is also mandated to function as an advisory body to the Government of India on matters pertaining to multilateral economic and social issues, including regional and sub-regional cooperation arrangements, as may be referred to it from time to time. RIS functions in close association with various governmental bodies, research institutions, academicians, policy-makers, business and industry circles in India and abroad. RIS has a consultative status with UNCTAD and NAM and has conducted policy research and other activities in collaboration with other agencies, including UN-ESCAP, UNCTAD, UNU, Group of 77, SAARC Secretariat, Asian Development Bank (ADB), The World Bank, and the South Centre.

RIS publication programme covers books, research monographs, discussion papers and policy briefs. It also publishes journals entitled *South Asia Economic Journal*, *Asian Biotechnology and Development Review*, and *RIS Diary*. ■



RIS

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Non-Aligned and Other Developing Countries

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RIS Discussion Papers

**India-Central Asia
Economic Relations:**
A Report of RIS/CII Seminar

RIS-DP # 94/2005



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May 2005



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for Developing Countries

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RIS Discussion Papers intend to disseminate preliminary findings of the research carried out within the framework of institute's work programme. The feedback and comments may be directed to the author(s). RIS Discussion Papers are available at www.ris.org.in

India-Central Asia Economic Relations: A Report of RIS/CII Seminar

Introduction

Considering that India and Central Asian countries have held historical economic linkages and their future path of joint economic progress needs to be studied in greater detail (see Annexure I for the background) Research and Information System for the Developing Countries (RIS), New Delhi and Confederation of Indian Industry (CII), New Delhi launched a research programme on 'Economic Cooperation between Indian and Central Asia'. As the first step towards meeting the objectives of the research programme *RIS-CII Seminar on India and Central Asia Economic Relations* was organized on October 17, 2003 in New Delhi.

The Seminar was divided into two working sessions viz. (i) Geo-Strategic Perspectives and Framework for Trade and Investments which dealt with strategic and economic potential, business environment and trade linkages and (ii) Trade and Investment: Focus on the Energy Sector (Seminar Agenda is enclosed as Annexure II). The Seminar was well-attended by industry representatives, policy makers and academia. The list of participants is given in Annexure VI.

Inaugural Session

In his Welcome Address (Annexure III) Dr. Nagesh Kumar, Director General, RIS emphasized upon the strategic importance of the region and its potential to emerge as an important partner for India in different sectors. He highlighted that despite our historical links with the region and their high economic potential, the scale of our economic links with them has been

rather modest. 'The region accounts for only 2 per cent of our exports and only 1.5 per cent our imports'. He also mentioned about RIS' work programme giving special attention to this region as an important economic partner in areas such as technology, human resources, training, oil and natural gas etc. He finally emphasized upon the urgent need to pay attention to this region in our trade and economic dealings, identify constraints and formulate strategies and policies to deal with them.

In his Inaugural Address (Annexure IV), Mr. Digvijay Singh, the then Minister of State for External Affairs, Government of India highlighted how the Central Asian Region was achieving considerations at the highest level of India's International Policies. He called 'New Silk Route Initiative' of India's Foreign Policy while referring to the declaration made by India's Prime Minister at Almaty in June 2002. However, he mentioned that often a lack of direct geographical connectivity is standing in the way of a greater Indo-Central Asian Trade Relations. According to him, 'This may be partially true but it is neither a major obstacle nor the complete truth'. He emphasized on the positive role that has been played by the Indian pharmaceutical industry, IT ventures, tourism projects etc. in the realm of cooperation with the region. He underscored the need for intensifying India-Central Asia economic cooperation process.

The Vote of Thanks (Annexure V) was given by Mr. V.K. Mathur, Chairman, CII, Central Asia Committee. He underlined the need for increasing access to the Central Asian Region. He expressed satisfaction with the fact that an institution like RIS is studying the economic potential of the region in the framework of cooperation with India. He also emphasized that there is a need to identify a few large projects between the two partners.

Working Session I: Geo-Strategic Perspectives and Framework for Trade and Investment

This session was chaired by Dr. S.R. Hashim, Member, Union Public Service Commission. In his initial remarks he referred to the Hon'ble Minister's speech in which he had already mentioned how important it is for us to evolve economic and strategic relationships with Central Asia and intensify it in the near future.

Strategic and Economic Potential

Dr Raj Chhikara, Visiting Senior Fellow, RIS highlighted some of the long term strategic issues that we have to bear in mind as we go forward in terms of developing security related strategies as well as business strategies aimed at exploiting business opportunities in this very important region of the world. According to him, some elements of the regional geo-strategy should include pursuing bilateral and regional agreements to promote security and business interests; getting membership of Shanghai Co-operation Organisation (SCO); focusing on trade and investment opportunities (especially in the service sectors which have great opportunity, e.g. education and training, hotel, IT software, healthcare etc.); exploiting the energy resources; examining feasibility of a railway line between western India - Central Asia through western China etc.

Dr P Stobdan, Research Fellow, IDSA considered that India does not belong to any one of those concentric rings or circles that have been drawn in Central Asia. Today we are not talking about Central Asia in terms of history; we are talking in terms of different dynamics operating both internal potential and external interests in this region. The stakes for India are (as realistic figures show) 70-80 billion tons of oil. In Kazakhstan itself it is about 30-40 billion tons. In Uzbekistan, more than 2 billion tons of textiles have been produced.

He also highlighted how today Russians are involved in the positive areas of Central Asian life. They are back into economics. According to him, there is no clash of interest between the Russians and the Central Asians. Challenges for Indian goals in Central Asia are that whether the reconfiguration would have any meaning for us? What can India do in this direction? But we must evolve a broader perspective for the region. We must also learn to adopt the silk route culture. We must also open other channels. Channels through the Indian missions are not the best option. He highlighted that there are many areas for co-operation. It is not petroleum exploration, but petroleum management sector that India has to look at. Alternative medicine, construction, etc. need to be explored. He recommended, setting up of an India-Central Asian Foundation for intensifying cooperation.

Air Commodore Jasjit Singh, Director, Centre for Strategic and International Studies cautioned on the issue of terrorism. He also suggested being very careful in looking at energy. In the most ideal circumstances by which time do we expect that the Turkmen gas or the Caspian oil will be made available in the Indian market? There are problems of exportation, problem of capital and problem of transportation.

If India's trade is to the second point of decimal is it worthwhile for Indian industry or Indian trade to invest in this region, he asked. The businessmen will look at the input/output ratios and see what the possibility is. Geopolitically, it may be extremely important but in terms of trade and economics we need to know how important it is and what is the actual potential. We need to move beyond the question of resource there and a market there. According to him, an overland Pipeline through Pakistan is safer than a pipeline under the sea. It is safer than oil and gas being transported by tankers across the ocean. We have done enough studies and we can prove that. Connectivity is the central issue, he further highlighted. The greatest opportunity would be in small scale industry, in service sectors and some large scale sectors. We need deeper studies into identifying those specific areas which can then kick-start the overall process. If that overall process does not create more employment, if it does not generate more capital in those countries it will not be a great achievement. We will stay at the same two points of decimal in the coming years, he said. According to him, instead of getting oil and gas through pipelines all the way from China it may be simpler to set up power grid. We have to look at the potential and do more studies in various areas which are not traditional; which have not been thought about by academicians so far.

Business Environment and Trade Linkages

Mr. Anil Chug, Zonal Business Development Manager, L&T, referred to the on going linkages in the region through hotel projects in Tashkent and Bhukara; township including cultural centre and school; etc. He saw tremendous potential in various areas such as construction projects, oil and gas (in two big fields Kashag and Tangis), pipeline projects, water project, information technology parts and hotel industry, medicine and light engineering goods etc. As far as manufacturing is concerned we have to be

very careful with these countries. Consumption pattern seem to be low. Unless we combine production level to cater to 3-5 countries together we will not find it viable to put up manufacturing units. We can put up light engineering units like auto components. But if you want to set up bigger manufacturing units it is a big risk, to start with, he said.

According to Mr P K Mahapatra, Director, Ministry of Commerce and Industry, Government. of India the rules of the trade have to be modified based on the new realities. Though distance-wise the countries are not very far away, access is the problem. Air route is the best option but there is a new trade route which is operational and which is viable: to Russia via the Caspian Sea. He highlighted some of the commonly spoken hindrances or bottlenecks for trade in this region such as inadequate information; lack of regular and direct interaction between the business houses of both the countries; macro economic instability; modest progress on liberalisation and privatization; inadequate banking facility; inadequate transit facility and language barrier. He mentioned that our trade bodies and the Government of India at different trade fora are working together to see how these bottlenecks can be removed.

He informed that the Government of India with effect from 1st of April 2003 has launched Focus CIS programme which covers these countries. A lot of fiscal and other incentives are available to all businessmen to go to these countries to take part in seminars and exhibitions and invite buyers from that country to here. A lot of trade-promotion measures are also being taken and are available to our business community. He urged all to take advantage of this programme as details of this programme are available on Department of Commerce website.

Dr Ram Upendra Das, Fellow, RIS covered some dimensions of trade co-operation, potentials and constraints between India and Central Asian Republics. He elaborated upon the kind of export specialization India and these countries have along with analyzing trade complementarities; potential for intra-industry trade and overall trade cooperation through a gravity model. Towards the end, he suggested some policy measures that can bridge information gap between the countries and promote trade and investment cooperation.

In his concluding remarks, the Chairman of the session, Dr S R Hashim, remarked that the session was very thought provoking. He underscored the need for finding a certain framework through which we become more active in this region. One of the major constraints in realizing the rich potential that the region has to offer is the transportation barrier. As far as the business interests are concerned one factor which comes in the way is the size of the market i.e. size of the demand in Central Asia, he added. He further emphasized that the region could be a ground for joint ventures for producing goods and commodities which can be exported anywhere in the world. Whether it is in the sphere of food processing, agriculture products or small-scale industries or even products related to defence, there is a tremendous scope for joint ventures in Central Asia - not only for our immediate needs and their immediate needs but as an export venture. From this point of view agriculture of Central Asia is very important where one could take part.

Session II: Trade and investment: Focus on the Energy Sector

According to Mr Rajeev Sikri, Special Secretary (ER), Ministry of External Affairs, who chaired this session, the issues of trade and investment in the energy sector have special significance that need to be deliberated upon and from there policy recommendations have to be evolved as the Central Asian region has rich potential in this sector.

Ms Barnali Nag, Research Associate, RIS dealt with the issues of cooperation in the energy sector by first providing the background of this sector in India which is poised for tremendous growth. She explored the pros and cons of the import dependence in this sector and posited Central Asian countries in this context. Since the disintegration of Soviet Union there are multiple boundaries which need to be crossed for energy trading. There are lots of complicated issues such as rights of way, transit way, transit fees – all these make transportation costlier. The policies and regulatory framework in CIS countries are not developed to the expectations of the investors. There is the problem of territorial status of Caspian sea which needs to be resolved before India can enter into any kind of long term trading relations with these countries.

In terms of the operational issues, she raised the choice of routes and mode of transportation as important ones. Further, the commercial viability and the choice of technology were also highlighted as significant issues. Agreement must be reached upon pipeline operators, consumers, intermediaries, states and resource owners and the distribution of costs and benefits from the projects, she added. It was emphasized that agreements need to contain specific details regarding enabling consents, environment protection, inspection, security arrangements, pipeline assets, dispute resolution mechanism and processes. In terms of guarantees and credit enhancements government commitments to projects, sponsors and lenders to reduce the perception of risk are important.

Mr S N Jha, Advisor, India Petrocom emphasized on the issues more from the Indian perspective. He highlighted that Indian refineries are fully deregulated with high capacity utilization (above 90 per cent). However, he raised the issue of time lag of 2 months between crude purchase and product sale often resulting in 'the volatility of the prices'. Suppose crude is purchased at \$ 30 a barrel and by the time it is transported with a time gap if the price of the crude comes to \$25 a barrel then you incur loss rather than making profit. Against this backdrop he emphasized that there has to be a serious effort to turn our attention towards Central Asian region. India is self sufficient in designing, laying and constructing the pipeline all by itself including the connection in the ice zone, he added and thus needs to be accorded priority. Similarly, in these countries retail outlets could be another area of cooperation. He concluded by saying that there is a good scope in all the three areas - refineries, pipelines and marketing of petroleum products in these countries. There could be investment in retail outlets, infrastructure, setting up of Convenio, state of the art dispensing units which is computerized and gives correct measurement, large tank-trucks for transportation of petroleum products etc.

Mr Bikash C Bora, Ex-Chairman and Managing Director, ONGC and Oil India Ltd. dealt with the estimates of oil and gas that are available and highlighted that they differ depending on the sources of estimations in three countries – Kazakhstan, Turkmenistan and Uzbekistan. However, the projected 2010 production from these three countries which are the main

producers of oil and gas is about 2.4 million of barrels of oil per day. The projected production of gas from these three countries is expected to be about 8 trillion cubic ft. per year by 2010. If we talk about the other two countries Tajikistan and Kyrgyzstan they are marginal producers. Tajikistan produces 3500 barrels of oil per day and Kyrgyzstan 4400 barrels of oil per day. Gas is almost negligible. The overriding fact is that the new oil and gas reserves are expected to be found in these countries and the entire Caspian Sea region is expected to be about 20-25 per cent of the world reserves in about 10 years time. All of these points raise a few important issues to the Indian companies as well as the Indian government: supply options from the Central Asian countries; participation in exploration and production activities for security of supply; participation of Indian manufacturing and service companies in the projects; participation in the oil and gas processing and marketing activities, etc.

All these countries have an open door for investment by foreign companies. It is about time that we went with a strategy. I think that the sectoral approach that we adopted in the past is not going to work. We have to take a comprehensive approach, a broad range approach, he added. In the past ONGC Videsh Ltd has been making efforts to get some exploration and production possibilities in Kazakhstan. He emphasized that there is a need to work out a strategy and bring all the players like public sector, private sector, construction companies, suppliers of goods and services as well as the oil companies to go as a package and clinch deals.

According to Dr Nimmi Kurian, Associate Research Professor, Centre for Policy Research there have been inflated estimates in the energy sector that have been discussed so far. She highlighted some of the challenges that the region is associated with such as instability, geopolitical, geo-strategic hurdles, lack of proximity and access to this region etc. She suggested evolving a swap deal where Central Asia gas is swapped with Iran and then we do a swap with Iran. Second option could be Iran's role as a transit route to Central Asia whereby we bypass Pakistan. This year a transport agreement was signed between India, Iran and Afghanistan to develop a port in South-eastern Iran which will give us access not only to Afghanistan but also to Central Asian economies. Another option India should look at is to increase

its presence through equity stakes. ONGC and others have been following a very dynamic policy in this. That is one way we can circumvent the hurdles.

In his concluding remarks, Chairman of this session, Mr Rajeev Sikri, Special Secretary (ER), Ministry of External Affairs, mentioned that it has been an interesting discussion which was brief but pointed. According to him, regardless of the actual size of the reserves of Central Asia it is an important issue not merely for the energy element but also for the geopolitical one. As various discussions brought out unless there are various investments in this region and most of the investment is in the oil and gas sector how is this region going to stabilise? If it does not stabilise then potentially it may have negative ramifications for security, political etc. domains and could spread throughout the region. Thus, there is a general interest of all players that this should stabilise and the energy sector does play a role in this.

India can be a player in two ways. One is to try and get equity which we have not succeeded so far but it is not ruled out. The second is to see how you can control export routes. That is as important as having the oil. This is where the pipeline issue comes in. According to him, with respect to routes there are only two: one is Turkmenistan-Afghanistan-Pakistan and the other route is through China. The geography dictates no third route. The second thing on pipeline considerations come into play is the security of the pipeline. Perhaps one could argue that bigger country like China or India may be in a better position to ensure the safety of the pipeline than smaller and relatively unstable country. Unfortunately the experience of intra-country pipelines is quite limited. He also said that let us not look at only the Central Asian republics but also Russia. Central Asian space could be a transit space. Finally, India could well be not merely a consuming country, in the coming years it could also be a transit country because people are looking at Iran and so on. The opportunity that Indian cost line offers is such that if you have the pipeline from Central Asia you could not only use it for supply of Indian needs but also for the world market, he added.

Towards the end, a vote of thanks was proposed by Dr Nagesh Kumar, Director General, RIS to the Hon'ble Minister of State for External Affairs,

Government of India, all the Chairpersons, presenters, participants and CII for making the Seminar a success and hoped that the deliberations would contribute to strengthening the economic linkages between India and the Central Asian region through various cooperative measures.

Background Briefing Economic Cooperation between India & Central Asia

RIS – An Introduction

The Research and Information System for Developing Countries (RIS) is an autonomous research institution under the Ministry of External Affairs, Government of India. Established in 1984, RIS is India's contribution to the fulfilment of the long-felt need of the developing world for creating a 'Think Tank' on global issues in the field of international economic relations and development cooperation. RIS has also been envisioned as a forum for fostering effective intellectual dialogue among developing countries.

RIS is also mandated to function as an advisory body to the Government of India on matters pertaining to multilateral economic and social issues, including regional and sub-regional cooperation arrangements, as may be referred to it from time to time. RIS functions in close association with various governmental bodies, research institutions, academicians, policy-makers, and business and industry circles in India and abroad. RIS has conducted policy research and other activities in collaboration with other agencies, including United Nations-Economic and Social Commission for Asia and Pacific (UN-ESCAP), United Nations Conference on Trade and Development (UNCTAD), United Nations University (UNU), Group of 77, Non-Aligned Movement, SAARC Secretariat, Asian Development Bank (ADB), The World Bank, and the South Centre.

The work of RIS covers research studies, policy advice and consultations provided to policy makers in national and international organizations, conferences and seminars organized to foster analytical debates, capacity building through training of policy makers, nurturing effective networking and conducting collaborative research studies with various national policy think tanks and international organizations, and a publication programme designed to disseminate its work among the policy makers.

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry-managed organisation, playing a proactive role in India's development process. Founded over 107 years ago, it is India's premier business association, with a direct membership of over 4800 companies from the private as well as public sectors, including SMEs and MNCs and indirect membership of over 50,000 companies from 226 national and regional sectoral associations.

A facilitator, CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes.

With 37 offices in India, 13 overseas in Afghanistan, Australia, Austria, Belgium, China, France, Israel, Italy, Malaysia, Singapore, South Africa, UK, USA and institutional partnerships with 216 counterpart organisations in 94 countries, CII serves as a reference point for Indian Industry and the international business community.

India-Central Asia – A Background

The importance of Central Asia to India is not merely civilizational and historical, but also geopolitical and economic. Ever since these five republics of Central Asia gained independence in 1991, Central Asia has come to denote the five republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

In a contemporary context the significance of Central Asia – India relations has risen multi-fold. The recent years have seen a movement of

resurgence of the same, but with the potential being immense, this progress needs to seek higher accomplishments.

Commercial and economic ties between India and Central Asia are an area, where the future holds to bring greater outcomes. The level of trade and investment between the two has been much below potential. Except in a few cases, there have been no great stories of successful joint ventures or technology transfer. The entire Indian exports to central Asia is less than 2 percent of its total exports and stands at under USD 900 million per annum. The imports also follow a similar picture and account for only 1.5 percent of the Indian imports on an average basis.

The issue of stagnating trade and investment relations between India and Central Asia has been a cause of concern for policymakers, analysts, academicians, media and the businesspersons. However, the outlook on the region seems to suggest that there enormous scope and live potential to engage in meaningful and fruitful politico-economic relationship with Central Asia.

On the policy front, there is a renewed thrust on the developing trade and economic ties with the countries of Central Asia. In fact the five Central Asian Republics hold are a priority position in the future initiatives proposed for the Commonwealth of Independent States (CIS), by the Indian policymakers and analysts.

Several key areas and sectors have been identified, which will act as the drivers of future Indian strategy for Central Asia. Some of these include the following products and services, besides the traditional and non-traditional trade areas that have existed between India and Central Asia. These product groups and services represent the “new economy sectors”, while also focusing on the traditional items of trade between India and Central Asia.

Product Groups:

1. RMG of various textile material
2. Drugs & Pharmaceuticals
3. Machinery and Instruments

4. Leather and its products
5. Cotton Yarn, Fabrics, and other textile items
6. Agriculture products
7. Plastic & Linoleum products
8. Cosmetics/toiletries
9. Ayurvedic/ Herbal products
10. Packaged edibles
11. Plantation crops

Technology / Service Sectors:

1. Telecom and Information Technology
2. Food Processing
3. Oil and Gas Sector
4. Professional Services
5. Construction and Related Engineering Services
6. Educational Services
7. Environmental Services
8. Health Related and Social Services
9. Tourism and Travel Related Services
10. Recreational, Cultural and Sporting Services

Apart from these identified areas of economic cooperation, there are certain others, which may be discussed.

Energy: The future prospects for cooperation between Central Asia and India in the field of energy security seem to be very important. This is because energy security is a basic requirement today. This region is thought to contain key global reserves. According to an estimate given by Central Asian sources the confirmed oil deposits are between 13 to 15 billion barrels, which is 2.7 percent of all the confirmed deposits in the world. On the other hand, confirmed deposits of Natural Gas in Central Asia, are around 270 to 360 trillion cubic feet, which constitute around 7 percent of world deposits. The main oil and gas deposits in CARs are in Kazakhstan, Turkmenistan and Uzbekistan whereas Kyrgyzstan and Tajikistan have enormous hydel resources. In Tajikistan, each sq. km. of the territory has up to 2 million kw hours of hydel resources and this is a very high figure.

It has been suggested that with Indian energy consumption growth expected to be over 6 percent per annum, the country's reliance on imports, which is currently 60 percent or 75 percent million tons will double to 150 million tons per annum by 2010. Estimates suggest that India has already overtaken UK as the sixth largest consumer of energy and by the first half of the century. India is also projected to be among the top five world consumers of energy. To sustain this economic growth, India will need a vast amount of energy. In this respect suggestion of creating an Asian Energy Community has been increasingly felt to bring together the main producers and consumers of oil, gas and other energy sources.

Pharmaceuticals and Healthcare: Drugs, Pharmaceuticals and healthcare has emerged as a key area of cooperation between India and Central Asia, owing to the efficiency levels of the Indian industry and its cost advantage in the global market.

Tourism: In the course of several policy level consultations on developing India-Central Asia ties, tourism has emerged as one of the key sectors of the economy that may serve as the vital link between the two. The doctrine behind this view says that India has emerged as a potential source of outbound tourists and the Central Asian splendor of natural and historical beauty stands to gain from the same, provided the pre-requisites of bridging the gap in perception are met. Since, the outbound traffic from India is fast increasing and the upwardly mobile section of the Indian population is more inclined to traveling abroad rather than visiting various Indian destinations, owing to the high cost of domestic air travel and its price disadvantage vis-à-vis neighbouring destinations because of the high taxes on tourism. The outbound figure stood at 4.07 million in 2001. This is further aided by the advent of eco tourism, which is a recent trend in global tourism and Central Asia is a very appropriate place to practice this type of tourism. India has air links with three Central Asian states and countries like Kyrgyzstan and Uzbekistan have been at the forefront in a bid to attract the Indian tourist.

Infrastructure: Infrastructure has emerged as a key focus area in Central Asia and this is adequately supported by the emergence of high-momentum

construction and infrastructure activity in the region. In Kazakhstan alone, this sector is slated to touch a turnover of USD 25 billion in the next decade or so.

RIS-CII Research Programme on Economic Cooperation between India and Central Asia

The present status of economic cooperation between India and Central Asian countries (viz. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) is abysmally low despite the rich potentials that exist. The Central Asian countries are known to be rich in natural, mineral and human resources. More specifically, these countries are well endowed with oil and natural gas reserves, mineral deposits and possess a large pool of skilled manpower among other advantages that they have. Despite some slowdown, in the recent past the Central Asian countries have displayed growth dynamism if the figures since 1999 are taken into account. They have been undertaking economic reforms measures to improve the business environment in their respective countries. However, these countries are late-starters in terms of their transition to market-based economic paradigms. These facts together entail rich potentials for cooperation between India and these countries due to the complementarities that exist.

Since India has had a long experience both with planning and the market its experience could prove to be beneficial for the Central Asian countries. Similarly, India's experience in terms of dealing with multilateral institutions and specifically with the negotiations processes in the erstwhile GATT and the WTO could also add to the prospects of cooperation besides the rich experience India has had in terms of developing its agricultural, industrial and services sectors. India is known for its scientific and technological human resources as much as for its natural and mineral resources.

On the other hand, India is import dependent in the oil and natural gas sector whereas Central Asian countries have yet to make strides in the information technology sector. Similarly, in the banking sector the Central Asian countries could benefit from the Indian experience while the Indian business sector could benefit from the ongoing modernization efforts in these countries visible in various sectors including infrastructure. The short

point is that there are immense complementarities in the realms of trade, investment, technology and human resources that need to be tapped and new complementarities generated with the help of a concerted policy-emphasis and business-orientation. There are various issues that need to be probed from the scratch as the existing literature on the subject is almost non-existent. The proposed joint research programme between RIS and CII would focus on studying various issues of cooperation between India and Central Asian countries.

The proposed study could explore on the dimensions mentioned below.

- A review of the existing trade and investment relations between India and Central Asian countries.
- Studying the potential for focusing on economically strategic countries like Kazakhstan, Kyrgyzstan and Uzbekistan in select sectors.
- Possibilities of evolving a policy framework for trade cooperation such as a preferential trading arrangement (PTA) or free trade arrangement (FTA).
- Feasibility of cooperation for investment promotion and facilitation.



The proposed joint research programme would cover the following themes:

- (a) Policy Strategies for Promoting Trade and Investment between India and Central Asian countries
- (b) India-Central Asia Economic Relations for Industrial Revival in Central Asia
- (c) Cooperation in the Energy Sector between India and Central Asian countries
- (d) Prospects for sectoral cooperation in Central Asian countries including infrastructure, tourism, chemicals, pharmaceuticals and consumer goods.
- (e) Potentials for Cooperation in the Banking Sector between India and Central Asia.

The Seminar Agenda

In seeking to evolve the partnership between India and each nation of Central Asia and along with the regional orientation initiative, the following will need to be addressed in two part series seminars in **Delhi** and **Mumbai** respectively:

- Major issues impacting India-Central Asia relations and furthermore development of economic relations.
- Seek a roadmap to orient India's policy towards the region.
- Gain a sustainable approach to fulfil requirements of trade promotion and development of economic relations.
- Address the issue of engagement with the region vis-à-vis foreign policy considerations and necessities of economic partnership.
- How are India's interests affected by development in the region and will the impact of regional developments grow or diminish over time?
- How do India's interests in the region rank in comparison with those of other nations and regional blocs and how do these interest fit in relation to developments in the region?

RIS
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RIS-CII Seminar
on
India and Central Asia Economic Relations

Venue: Long Champs, Hotel Taj Man Singh, New Delhi
October 17, 2003

Programme

- 1000-1030 hrs **Registration**
Inaugural session
- 1030 hrs *Welcome Remarks: Dr. Nagesh Kumar*, Director-General, RIS
- 1040 hrs *Inaugural Address: Shri Digvijay Singh*, Hon'ble Minister of State for External Affairs
- 1100 hrs *Vote of Thanks: Mr. V.K. Mathur*, Chairman, CII Central Asia Committee
- 1110 hrs **Tea/coffee**
- Working Session I: Geo-Strategic Perspectives and Framework for Trade and Investments
Chair: Dr. S.R. Hashim, Member, Union Public Service Commission
- 1120-1250 hrs **Panelists**
Strategic and Economic Potential
Air Commodore Jasjit Singh, Director, Centre for Strategic and International Studies
Dr. Raj Chhikara, Visiting Senior Fellow, RIS
Mr. P. Stopdan, Research Fellow, IDSA
Business Environment and Trade Linkages
Mr. Anil Chugh, Larsen and Toubro
Mr. P.K. Mahapatra, Director, Ministry of Commerce
Dr. Ram Upendra Das, Fellow, RIS
Open Discussion

Working Session II Trade and Investment: Focus on the Energy Sector

Chair: Mr. Rajiv Sikri, Special Secretary (ER), Ministry of External Affairs

1250-1400 hrs *Panelists*

Ms. Barnali Nag, Research Associate, RIS

Mr. S.N. Jha, Advisor, India Petrocom

Mr. Bikash C. Bora, Ex-Chairman and Managing Director, ONGC and Oil India Ltd.

Dr. Nimmi Kurian, Associate Research Professor, Centre for Policy Research

Open Discussion

1400 hrs

Lunch

Welcome Remarks by Dr Nagesh Kumar Director General, RIS

The five Central Asian republics of Kazakhstan, Tajikistan, Kyrgyzstan, Turkmenistan and Uzbekistan represent a region of immense economic opportunities and strategic importance. Despite our historical links with the region and their economic potential, the scale of our economic links with them has been rather modest. The region accounts for only 2 per cent of our exports and only 1.5 per cent of our imports. This is really a cause of concern, especially in view of enormous potential and profound complementarities that exist between the region and India. India can assist the Central Asian Republics in their process of development in many sectors with the exchange and sharing of experiences, provision of technology, training of human resources. Our high dependence on imports of oil and natural gas matches very well with the substantial endowments of these resources in the region, i.e. Central Asia. There is an urgent need to pay attention to this region in our trade and economic dealings, identify constraints and formulate strategies and policies to deal with them.

In view of the strategic importance of the region and its potential to emerge as an important partner for India in different sectors, RIS began to pay a lot of attention to the region over the past couple of years. We have organized a number of discussion meetings and brainstorming sessions focusing on this region. We have already received a couple of visiting fellows from the region. We have a senior faculty from the University of Uzbekistan. A work programme of the studies on the specific issues dealing with economic relations with Central Asia was also launched. We are delighted to collaborate with the CII at our RIS in this important work programme.

We are privileged to have the presence of Hon'ble minister at this seminar. Sir, your presence here indicates the importance that Government of India attaches to the region and to strengthening our economic links with it.

Thank you.

Annexure IV

Inaugural Address by Mr Digvijay Singh, the then Hon'ble Minister of State for External Affairs, Government of India

Today's seminar is a link that was started nearly a year back. The inspiration was the declaration by the Prime Minister at Almaty in June 2002. He had said that India wishes to strengthen all her ties in that region imparting a multi-dimensional character to them. I would call it the new silk route initiative of India's foreign policy. It will seek to build a new silk route of friendship and co-operation between the people of India and Central Asia. Since then the Ministry of External Affairs has been encouraging universities, think-tanks, industries and independent experts to consider the new and innovative approaches of enhancing our relation with Central Asia. CII has already held a series of exhibitions to promote Indian industry in Central Asia. It is also holding seminars with admirable regularity. I am glad that CII has teamed up today with RIS to hold today's event. India's relationship with Central Asia is long standing. It is also one of constant innovation. Trade, culture, religion and ideas have constantly been exchanged through this ancient silk route. It is befitting that we should be addressing the issues of economic co-operation with Central Asia as a major theme today.

Since their independence in early 90s the five republics of Central Asia have much to be proud of. Just in one decade they have successfully put in place a sound administrative system, a constitutional basis for regular elections and economic model which encourages development. The last decade has also been the decade of discovery of a vast potential of energy and mineral wealth in Central Asia. It is often not realised that Central Asian states cover an area of 4 million sq.km. Their combined population of 56.2 million has a literacy rate of about 98 per cent. Today many of the states are posting an annual GDP growth rate of 10 per cent. The inflation rate has been brought down to a single digit figures in most cases. Their banking laws are

being tailored to be supportive of international business practices. Sometimes it is said that lack of direct geographical connectivity is standing in the way of a greater Indo-Central Asian trade relations. This may be partially true but it is neither a major obstacle nor the complete truth. Today for the first time in the history all five Central Asia states are connected with air, with Delhi. The sea route through Bandar Abbas has been increasingly used through the North-South corridor. I personally had gone there and supervised this aspect.

Our track record of co-operation is not bad either. The Indian pharmaceutical industry has done, particularly well. Today they account for nearly a quarter of total imports into the region. The Indian industrialists have also registered an impressive presence in the steel and construction sector. It is an opportune time to consider entering into hydrocarbon, hospitality, mining and the food processing sectors. During the last two years the government of India has been engaged in building institutional relations. At the political level the exchanges have become regular and across the spectrum. In November, Prime Minister would be visiting Tajikistan, External Affairs Minister would be visiting Uzbekistan and the Defence Minister of Kyrgyzstan and Kazakhstan are coming to India. Our aid projects are multiplying. For example, we would be setting up through aid a fruit processing and an IT institute in Tajikistan within the next year. An Indian industry group plans to put up a luxury hotel in Kyrgyzstan. Another Indian industry proposes to start a joint venture in zinc mining in Tajikistan. These examples can be multiplied in other Central Asian countries too. We stand poised now at a new phase in co-operation because the economic prosperity of Central Asia region would also mean a varied and diverse market for Indian goods so close to home. Reciprocally, we would like to encourage Central Asian exports to India. So the historical precedence of the silk route and the globalization demand that there must be greater economic co-operation between India and its crucial neighborhood in Central Asia. I am sure your efforts would contribute greatly towards this goal.

Thank you.

Annexure V

Vote of Thanks by Mr V K Mathur Chairman, CII Central Asia Committee

I must confess that from the point of view of Indian industry represented by all of us at CII this is something that is increasingly important and we need to evolve a long-term strategy for this particular part of the world. Central Asia is far too economically important for us to be taken casually. One of the first things that the Hon'ble Minister pointed out is whole issue of access. The fact that the government at the international as well as at the internal policy level, is rapidly looking at increasing access to Central Asia implies that opportunities for increased trade are not too far in the future because access ultimately is the answer to bulk movement of people and materials. As far as Central Asia is concerned all of us in the industry are particularly conscious of the fact that their oil reserves are something we will need to tap. It is an interesting fact that I happened to be in Tashkent 6 or 7 years ago. Whilst there I ran into the President of one of the large US energy majors and what fascinated me was, they were there obviously looking for Central Asia reserves but they were looking at India as the energy market of the future. The company was not looking at Central Asian hydrocarbon reserves with a view to taking into the US. They were looking at moving them into India. This epitomizes the fact, that we have today all of the elements we need, for example, we have IDSA, RIS and I believe we have some prominent academics as well. CII is here to try and put this together. I think we have all elements required to start building long term strategy. I am talking of 10 or 15 years or more. This strategy making can only be done if we have all of the elements present in this room together actively working in seminars such as this. That is why Sir, we are particularly grateful to you for recognizing this and being here with us.

On our side, some of the issues we intend to continue to do with increasing emphasis in CII. The first is awareness-creation among industry and trade within India. I think this is crucial. Central Asia is far too important not to be a major bloc on everybody's radar and we intend, Sir, to work

towards that objective. Likewise, we also need to take aggressive measures to heighten our profile in Central Asia. That is why through modalities of delegations, trade fairs, similar activities, similar invitation to corresponding chambers of industry in Central Asia to come here we intend to make that a major exercise in the future to raise India's profile in the consciousness and markets of Central Asia. This will also involve at the practical level facilitation of business-to-business contacts among potential business partners in major Central Asian countries and India and we intend to take this forward at the sectoral level. We have identified the following sectors for cooperation among CARs and India. These are manufacturing and especially pharmaceuticals and from my personal experience automotive as well. In the manufacturing sector, if you take FMCG, if you take automotive and infrastructure – in these areas India has global technology available at a cheaper price, particularly in automotive and automotive components today, we are one of the cheapest sources for global technology.

We need to take this forward. In my view we need to identify two or three large projects between countries under consideration that would ultimately become the vehicles for very successfully projecting both the regions. If we can find two or three large projects, (we have recently taken a large group offering a consortium approach for infrastructure projects like building airports, roads, etc) and if we could put together something on an internationally large scale then that is something that would move this forward in a very practical way. We thank you Sir for cooperating with us. We promise on our side we will do whatever we can do to move this forward, because it is in our mutual interest.

Thank you.

Annexure VI

List of Participants

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|---|--|
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