



## REVIEW ARTICLE

### INDIA AND CENTRAL ASIAN REPUBLICS ECONOMICS SIGNIFICANCE AND ENERGY SECURITY

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#### ABSTRACT

Central Asian Republic has immense economic significance for India. The growth of the Indian economy creates an ever-growing demand for energy and natural resources to fuel and maintain the momentum of our growth. The discovery of large reserves of hydrocarbons and other resources required for sustaining economic growth makes the Central Asian region immensely attractive for forging a mutually beneficial cooperative relationship. Although India acknowledges Central Asian Region as an area of economic and strategic importance a quantum jump is required in developing trade, commerce and energy ties. The paper attempts to analyse both economic interests and prospects in energy sector.

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#### INTRODUCTION

The 1990's heralded dramatic changes in world polity. While the emergence of the Central Asian Republics (CARs), i.e., Kazakhstan, Kyrgyzstan Tajikistan, Uzbekistan and Turkmenistan altered the geo-political and geo economic equations and alignments of the world, it also saw Indian slowly realizing its dreams of Liberalisation. The country was eagerly waiting to partake its rightful share in the world economy. In a bipolar world which was becoming multi-polar, the global powers were regarding the Central Asian regions as a playground where the "Game of Power" could be played. India too along with the rest of the world was witnessing this dramatic change. The only difference was India, instead of being a major player in this arena, chose to be a silent spectator. The Central Asia Republics house large sources of energy, i.e. oil and gas and are an obvious market for India's energy requirements. Despite having close relations with the erstwhile Soviet Union and being regarded as a friendly country by the newly independent CARs, India could not make an early serious investment in the region. India was a late starter in the new "Great Game" and has been making efforts to join the other global powers in the region. Today, the

economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country is one of the G-20 major economies, a member of BRICS and a developing economy among the top 20 global traders according to the WTO. India's per capita GDP (PPP) was \$6265 (IMF 121st) in 2015. (The Economy of India, Wikipedia, 2015) In comparison the official two way trade between India and the CARs has not been very encouraging in the last few years. India, which was among the few countries Moscow allowed to interact with Central Asian leaders before the collapse of Soviet Union, found itself quite welcome in the region, but its ability to achieve its objectives was constrained by lack of physical access and economic resources. (Raja Mohan, 2003)

#### Economic Interests and Prospects in Energy Sector

History illustrate the value of Central Asia as a transit route for the continent. Throughout history Central Asians lived in mutual economic symbiosis with neighbouring India, China, Iran and Europe. (A Perspective for Central Asia India Relations, 2000) Today these old ties need to once again be strengthened, since trade and economic relations between India and CARs remain the most unsatisfactory aspect of an otherwise potentially beneficial relationship. The ground situation portrays a very low level trade, limited number of

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joint ventures and no worthwhile investment in Central Asia by Indian business and industry, though there are small government credit lines. Indian manufacturing and investment companies are very apprehensive about entering the new, unfamiliar markets of Central Asia. This is due to the rather daunting conditions prevalent in this region. One of the main impediments is the non-availability of hard currency and lack of conversion facility service. The communication links are also problematic and at present the region is connected only through air links. (Alok Sen, 2000) While three of the five Central Asian countries are well connected with India today, with Tajikistan being the only country without an air link with India, there is a lack of satisfactory surface routes, banking channels, etc. which hamper expanding trade with Central Asian countries.

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 portion in the future initiative 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 product 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 Indian and Central Asia. (RIS Discussion Papers, 2005)

**Product Groups are as follows:** (a) RMG of various textile material; (b) drugs & pharmaceuticals; (c) machinery and instruments; (d) leather and its products; (e) cotton yarn, fabric and other textile items; (f) agriculture products; (g) plastic and linoleum products; (h) cosmetics/toiletries; (i) ayurvedic / herbal products; (j) packaged edible; and (k) plantation crops.

**Huge Consumer Market:** Central Asia is a huge consumer market, hungry for a range of goods and services, which India can provide. Both India and Central Asia have economic complementarity in terms of resources, manpower and markets. These diverse resources can be pooled for a broader regional cooperation in Asia and to realize the potential of both the regions fully. For India economic cooperation is possible through joint ventures in banking, insurance, agriculture, information technology, and the pharmaceutical industry. Certain Indian commodities, for example tea and drugs, pharmaceuticals and fine chemicals have established a foothold in the Central Asian market. India has to strive hard to increase its exports to Central Asia in order to maximize mutual benefits through bilateral trade cooperation. This region with a 55 million consumer market has huge potential waiting to be tapped.

The Government of India is making an effort to create the right kind of atmosphere for companies to enter this market. It has been striving to improve the connectivity. Land route options through Iran and Turkmenistan are also being explored. There are already existing rail and road lines in Turkmenistan and Iran, except for a few short stretches, between Mashad and

Sarakhs in the Iranian side and Tredzen and Sarakhs on the Turkmen side. Three party agreement on international transit of goods between Turkmenistan, India and Iran signed in February 22, 1997 at Tehran is still critical. (Abuseitova, 2000) This would enable the movement of goods from Indian ports to Bandar Abbas in Iran and then on the Central Asian region by road and rail. India and Russia are developing a new transit route through Iran. New Delhi, Moscow and Teheran signed an agreement in St. Petersburg on September 12 2000 for sending Indian cargo to Russia through a “north south corridor”.

According to the arrangement Indian goods will be sent from Mumbai or Okha to the Iranian hub of Bandar Abbas via the strait of Hormuz in the Persian Gulf. From here, containers will be reloaded in trucks or railway wagons and dispatched to the Iranian port of Anzali on the Caspian sea. After trans shipment at Anzali, goods will be loaded on ships and taken to the Russian port of Astrakhan. Astrakhan in the past has been the springboard for expanding Tsarist Russian’s influence towards mainland is straightforward as containers from here can be sent either to Moscow or to St. Petersburg. Cargo can further head for European destinations such as Helsinki and Hamburg because of the availability of a well-developed road and rail network. There are several bottlenecks yet to be cleared before the corridor could become viable. This new corridor could boost Indian trade with CARs as well as Central Europe. (The Hindu, 2000) Another transit route which has been widely discussed is an agreement with China for the use of its road to Kyrgyzstan through the Xinjiang province. India could use this road by constructing a link road on Ladakh joining the Tibet-Xinjiang road. Ladakh is already linked by road with Himachal Pradesh.

The financial success of other countries in Central Asia is a consequence of their investment, an area which India has not yet considered seriously. In the year 2000 it was decided to set up a few pilot projects in Central Asian countries every year. Right now, a tool-room centre in Turkmenistan by HMT, has been set up and also technical cooperation programmes have begun. The idea behind this is that India will be setting up a centre of excellence there. They have a polytechnic where theoretical education is imparted. But the tool-room immediately adds a practical edge to the whole thing. Not only the students and budding entrepreneurs but people who want to set up their own business can also benefit from the Indian tool-room centre. Likewise, every year, one project in one Central Asian country will be set up. This is going to be an on-going series.

**Technical Cooperation:** A technical cooperation programme has also begun. Technically advanced Central Asian countries are beneficiaries of these programmes. They are also very serious about utilizing the technical training slots that are offered, under this programme. When we talk of expanding economic cooperation with Central Asia, trade is not the only thing. The Central Asian countries have decided that they would follow a policy of value addition in their own countries. They are afraid that resources from their countries are being taken out in the form of primary commodities export and that does not really help Central Asia very much. So, their emphasis is that people should come in with investment and

add value to what they have in those countries. If one takes into account these policy preference of the Central Asian countries, then India's main emphasis should be on manufacturing and industrial activities. Commercial farming is another important area where India and CARs can cooperate.

**Infrastructure:** The prospects in infrastructure building and construction activities have long term possibilities. Such involvement would be mutually beneficial. In Central Asia there is an infrastructure building spree in many of the countries. One prime example is that of Asthana in Kazakhstan where a whole lot of construction activities are going on. They are inventing a new city. It is once again a good opportunity for companies who are specialised in infrastructure and construction. This sector is the key to the Central Asian market. In terms of economic cooperation, Kazakhstan is also very important for India. Six Indian firms/companies are accredited with Kazakhstan and nine joint ventures are registered. Once the transport corridor is established, there is great scope for oil exploration and energy market. In August 1999 a memorandum of mutual understanding was signed for the project, for the construction of project plan with modern technology for use of coal waste. At the same time, joint ventures for feasibility study of the project was carried out and a business venture agreement with the firm Larsen & Toubro was signed in November, 1999. In Delhi, a memorandum of mutual understanding and cooperation in the development of small enterprises and creation of new work place was signed. Currently small business industries in the Republic of Kazakhstan, and creation of an entrepreneurial development centre in Asthana are under way. (Abuseitova, 2000) Attempts are being made to resolve transport problems between Bombay and Asthana; 350 containers are imported and exported annually through Indian ports.

At the same time it also needs to be emphasised that without investment, without getting involved, one cannot get anywhere in Central Asia. Therefore, Indian business and industry would have to change their orientation to this market. There is also a distinct division of responsibility of creating the right kind of atmosphere in which Indian businessmen can do business. It has to be the business companies, which would have to take their money, take the risks, calculate the benefits and get involved in Central Asia. A few new initiatives are being considered, one being the creation of a Central Asia Common fund. This fund will be at the disposal of the people wanting to do business with Central Asia.

Tajik participants point out some proposals of cooperation between India and Tajikistan in a recently held seminar in Delhi, According to them the experience of India in decontaminating and purifying water would be very valuable for Tajikistan, because it is a specially acute problem for Tajikistan. Another thing which could be used is the rational use of hydroelectric power and construction of a mini hydropower plant. Tajikistan can also use Indian experience and technology in processing building material such as marble, granite and other stones. Besides, semi-conductor industry could be established by using raw materials emanating from Tajikistan. Thus, it can be said that India and Central Asia both have a mutually profitable trade potential.

**Oil and Gas:** The most important area for Indian in CARs is the oil and gas sector. This is because energy security is a basic requirement today. This region is thought to contain key global reserves. A good current estimate is that the Caspian region holds 6,000-12,000 Mtoe, (4-7 percent of global reserves). It may also hold 5,000-9,000 Mtoe gas (5-8 percent of global reserves). Compared to the Middle East, where around 65 percent of global reserves are to be found, Caspian reserves are therefore marginal. (Jane's Intelligence Review, 2000) According to an estimate given by Central Asian sources the confirmed deposits in the world. Natural gas confirmed deposits in Central Asia, are around 270 to 360 trillion cubic feet, which constitute around 7 percent of world deposits. There is also a view that the actual reserves of oil in the Central Asian region are in the range of 60 to 140 billion barrels. (Alim Jone, 2000) Despite these variations in estimates of oil and gas reserves one thing which is very clear is that the region has some percentage of oil and gas deposits. Therefore we should not speculate about how much gas and oil, Central Asia might have or might not have, if it has any, it is in any case of interest to India. 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. The average for the CIS countries is just 150 to 200 kw hour per sq. km. Therefore, the cheap hydel energy available in this region. (Alim Jone, 2000) India's GDP growth rate, which averaged about 5.6 percent between 1992 and 1997, is expected to average around 7 to 8 percent for the next few decades. To sustain this economic growth, India will need a vast amount of energy. Thus energy security needs to be considered in the overall national security calculus. (A Ray Dadwal, 2000) In this respect suggestion of creating an Asian energy community was put forth by Ambassador Sikri in a seminar held in New Delhi on India-Central Asia. According to him, this would bring together the main producers and consumers of oil in Asia.

In this context, Central Asia can be a future source of energy for India. Accessing the oil and gas from Central Asia remains the major difficulty it's prohibitive cost is the major issue of consideration. Offers of oil swap deals such as that offered by Turkmenistan is now being thought over. This offer is for oil swap involving Iran and Turkmenistan. Iran does not have enough oil in the northern parts of the country. So, Turkmenistan is offering to give Iran oil from Caspian in the north, excepting it to give India oil in the south. The joint working group on energy with Turkmenistan has already been set up. In July, 2000 Iran and India invited Russian's state-owned gas company. Gazprom, to build an offshore pipeline to transfer natural gas from Iran to India. Gazprom holds a 30 percent share in the development of one of Iran's largest gas fields. According to Gazprom deputy chairman Valery Remizov. Russia will set up development of the field and create a joint venture with Iran to transfer and market gas to India. (<http://www.stratfor.com>)

**India's Central Asia Policy:** In spite of India's limited trade and investment with Central Asia, this region has gained significance in India's foreign policy over the past decade. The

rising importance of this region has been due to the region's strategic importance for India on several fronts: India's pressing and universities to Central Asia to undertake tele-medicine and tele-education projects. The policy also envisions setting up a Central university in the region. The policy also recognizes that an associated but key aspect to its success would be the development of Afghanistan as a hub to transport Indian goods via sea and from ports in Iran through Afghanistan into the Central Asian republics. Iran's Chabahar port, located in the Gulf of Oman, and the port at Bandar Abbas near the Strait of Hormuz will serve as potential entry points for transporting goods into Afghanistan and through Afghanistan to Central Asia. (Joint Press Statement on 17<sup>th</sup> India Iran Joint Commission Meeting press Release, 2013) In May, 2013, India allocated US \$ 100 million to develop the Chabahar port. Additionally a trilateral draft pact between India, Iran and Afghanistan to develop the Chabahar to Zaranj in Afghanistan is also under discussion with Iran as India seeks to have a more viable access route to Central Asia. India is also involved in ongoing talks with Iran to complete unfinished portions of the International North South Transport Corridor (INSTC) linking Iran with the Afghan border resulting in shorter transit time for goods bound for Central Asia. (Joint Press Statement on 17<sup>th</sup> India Iran Joint Commission Meeting press Release, 2012) The Russia-India-Iran initiated INSTC will thereafter connect to the Zaranj-Delaram Road (constructed by India in 2009) in Afghanistan and link with the Afghan ring road highway that connects to important cities in Afghanistan, some of which are close to the Central Asian Republics. Apart from establishing a secure route for Indian goods to reach markets in Central Asia, these initiatives could bode well for India's energy imports from Central Asia.

### **Conclusion**

On the basis of the above it can be summed up- firstly, Central Asia is a new geopolitical creation which has an important strategic role to play in coming years. It is in the middle of three super civilizations – the Islamic, the Christian and the Buddhist and is seen by many experts as one of the most vulnerable areas of instability between them. It can become a natural, historically formed buffer zone as well as form the hub of Islamic extremism. Being in the middle of the Eurasian Continent, it is also one of the most convenient ways of transit. It is rich in minerals especially hydrocarbons. As a consumer market it still remains to be exploited. All these factors lead to increasing interest in CARs for various countries. Experts point out that in the 21<sup>st</sup> century, Central Asia will become an important region.

Secondly, India as an extended neighbour of CARs has major geo-strategic and economic interests in this region. The future prospects for cooperation between Central Asia and India in the field of energy security seem to be very important. India looks to Central Asia as a long term partner in energy, and natural resources. Central Asia possesses large cultivable tracts of land and it sees potential for India to cooperate in production of profitable crops with value addition.

The medical field is another area that offers huge potential for cooperation. India is ready to extend cooperation by setting up civil hospitals/clinics in Central Asia. India's higher education system delivers at a fraction of the fees charged by Western universities. Keeping this in mind, India would like to assist in the setting up of a Central Asian University in Bishkek that could come up as a centre of excellence to impart world class education in areas like information technology, management, philosophy and language.

Indian companies can showcase their capability in the construction sector and build world class structure at competitive rates. Central Asian countries, especially Kazakhstan, have almost limitless reserves of iron ore and coal, as well as abundant cheap electricity. India can help set up several medium size steel rolling mills, producing its requirement of specific products. As for land connectivity, India has reactivated the International North-South Transport Corridor (INSTC). India and Central Asian nations need to join our efforts to discuss ways to bridge the missing links in the Corridor at the earliest and also work on other connecting spurs along the route.

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