PHD Research Bureau
PHD Chamber of Commerce and Industry

India - Central Asia Trade

Roots of Strong Economic Relationship

August 2017

Table of Contents

India - Central Asia Trade: Roots of Strong Economic Relationship

1. Introduction

India maintained a crucial commercial and cultural linkage with Central Asian countries for a long time. Since the Nineteenth Century, during the colonial period, the linkage however weakened. After independence, the actual trade volume remained below potential because India's trade relation with the five Central Asian republics was controlled by Moscow in the Soviet era, through the 'Rupee Trade System'[1]. The stream of events since 1991 paved the way for deeper trade relationship, when the breakdown of the Union of Soviet Socialist Republics (USSR) coincided with the launch of India's export-oriented growth strategy[2]. However, while India followed an explicit 'Look East Policy' for export promotion since early nineties, no similar strategy with respect to Central Asia was then adopted.

Since the beginning of the new millennium, the growing energy security needs compelled India to look for newer sources of energy products and the export basket of the five Central Asian countries, namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan fitted perfectly with this goal. For instance, the operationalization of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is on the way for some time, and once implemented, the proposed 1800 kilometer long pipeline would be able to export 'up to 33 billion cubic meters of natural gas per year'[3]. The Central Asian countries also happen to be potential lucrative markets for key Indian exports. Moreover, India's strategic partnership with these countries, e.g., through the Shanghai Cooperation Organisation (SCO), is likely to deepen in coming days[4].

India's deepening engagement with Central Asia came to forefront when Mr. Nursultan Nazarbayev, President of Kazakhstan, became the Chief Guest during the 2009 Republic Day parade in New Delhi. The growing relationship was subsequently formalized through launch of the 'Connect Central Asia' Policy in 2012 at the First India-Central Asia Dialogue. At the conference, the then Minister of State for External Affairs, Mr. E. Ahamed underlined the

[1] (Sachdeva, 2010: 133)
[2] (Agrawal and Sangita, 2013: 3)
[3] (ADB, 2012: 1)
[4] (Chakraborty and Chakraborty, 2016: 47)

following channels through which engagements with Central Asia can be deepened[5]. First, a strategic and security cooperation including coordination in the arena of counter-terrorism was proposed. Second, enhancing bilateral trade flows through entering into a Comprehensive Economic Cooperation Agreement (CECA), covering trade in merchandise products and services as well as investment provisions, was recommended. Third, deepening cooperation in energy and natural resources products was proposed. Fourth, possibility of cooperation in key services sectors, namely, medical, higher education, construction etc., where India has improved its global foothold over the last decade, was noted. Finally, the need for creating road transportation connectivity by bridging the missing links in the International North-South Transport Corridor (INSTC) was highlighted. During July 6-13, 2015, the visit of Indian Prime Minister Mr. Narendra Modi to Central Asian countries, with the broad objective of 'enhancing economic and trade links with emphasis on energy and transport connectivity', is expected to cement the growing ties further[6].

2. Trade Dynamics between India and Central Asian Countries

The current analysis is arranged along the following lines. First, a brief account of the macroeconomic scenario in India and the five Central Asian countries is discussed, followed by the bilateral trade patterns. Next, by analysing India's export basket, a sector with growing export inclination is identified, followed by potential analysis through select prominent trade indices. India's trade opportunities with Central Asia for the selected sector are viewed next, on the basis of tariff barriers and trade costs. Finally based on the observations, the conclusions are drawn.

Table 1: India – Central Asia Average Trade at a Glance (USD Million)

Country	2001-06	2007-12	2013-15
Kazakhstan	46	33	-341
Kyrgyzstan	28	27	33
Tajikistan	2	4	42
Turkmenistan	7	32	56
Uzbekistan	-10	26	88
Central Asia	73	122	-121

Source: Constructed by authors from Trade Map, ITC (undated) data

[5] (Government of India, 2012)
[6] (Dave, 2016: 5)

India’s trade balance (export minus import) scenario with Central Asian countries has been compared with the help of Table 1. To understand the evolving scenario and avoid annual fluctuations, the annual average trade balance is calculated during 2001-06, 2007-12 and 2013-15. It is observed that over 2007-12 India witnessed rising trade balance with the three economies, vis-à-vis the 2001-06 figure. Trade balance, though positive, declined for Kazakhstan and Kyrgyzstan. However, import of mineral fuels from Kazakhstan and various primary and mineral products from other countries have increased significantly since 2013. As a result of sharply growing imports in these product groups, and moderately rising exports in comparison, an overall trade deficit with respect to the Central Asian countries emerged during 2013-15. However, at bilateral level, the trade deficit exists only against Kazakhstan, given the sharp rise in India’s import of petroleum products from the country.

Table 2: Share of Central Asian Countries in India’s Trade Basket

Country	Export Share			Import Share		
	2001-2005	2006-2010	2011-2015	2001-2005	2006-2010	2011-2015
Kazakhstan	0.1021	0.0700	0.0782	0.0168	0.0447	0.0878
Kyrgyzstan	0.0413	0.0168	0.0109	0.0007	0.0004	0.0003
Tajikistan	0.0080	0.0078	0.0125	0.0033	0.0054	0.0016
Turkmenistan	0.0200	0.0200	0.0235	0.0089	0.0041	0.0044
Uzbekistan	0.0210	0.0256	0.0393	0.0300	0.0130	0.0095

Source: Constructed by authors from Trade Map, ITC (undated) data

For analysing the influence of the ‘Connect Central Asia’ Policy launched in 2012 on India’s trade integration with the region, Table 2 summarizes the share of the five countries in India’s export and import baskets over 2001-05, 2006-10 and 2011-15. For the trade share analysis, the data is drawn from the Trade Map database maintained by the International Trade Centre (ITC, undated). Selecting India as reporter, the partners, trade flows and the duration need to be specified.

3. Top Products traded between India and Central Asian Countries

It is observed that the share of Kazakhstan and Kyrgyzstan has declined during 2011-15 vis-à-vis the corresponding figure in the preceding period in India’s export basket. Tajikistan, Turkmenistan and Uzbekistan on the other hand have witnessed a rise in their presence in India’s export basket after launching of the dialogue. On the import front however, barring the exception of Kazakhstan and Turkmenistan, the share of other countries in India’s import basket have declined during 2011-15. Moreover, the absolute values of the shares for all the

Central Asian countries in India's trade basket are quite modest, which can partly be explained by the absence of direct land route connectivity and their 'land-locked' status.

Table 3: Major Indian exports to Central Asian Countries (in %)

HS Code	Product Description	Year 2011	2012	2013	2014	2015
30	Pharmaceutical products	27.02	23.99	28.91	24.85	33.13
02	Meat and edible meat offal	3.48	2.57	5.68	11.38	13.06
61	Articles of apparel, accessories, knit or crochet	10.68	12.76	16.33	18.80	10.16
84	Machinery, nuclear reactors, boilers, etc	6.27	12.02	9.42	8.49	9.62
09	Coffee, tea, mate and spices	15.15	9.65	7.57	6.93	8.92
62	Articles of apparel, accessories, not knit or crochet	6.57	6.04	5.31	7.44	6.88
85	Electrical, electronic equipment	10.06	11.61	6.84	1.88	2.53
87	Vehicles other than railway, tramway	2.21	6.85	3.29	3.73	1.68
90	Optical, photo, technical, medical, etc apparatus	3.10	2.00	0.99	1.32	1.29
40	Rubber and articles thereof	1.07	0.86	1.67	1.09	1.24
	Total	85.61	88.35	86.01	85.92	88.51

Source: Constructed by authors from Trade Map, ITC (undated) data

To understand the modest trade integration between India and the five Central Asian republics, the composition of major export and import items between the two regions are analysed next on the basis of Trade Map data. For this purpose, data on India's trade by product categories (at HS 2-digit level) with the five countries is downloaded in excel format for 2011-15.

Table 3 summarizes the percentage shares of the top ten export items from India to Central Asia over 2011 to 2015. It is observed from the table that India's major export items include both the primary (meat products; coffee, tea etc.), light manufacturing (apparels; pharmaceuticals; rubber products) as well as heavy engineering (machinery and equipment; electrical equipment; vehicles and automobile products) products. These top ten product groups cumulatively explain around 90 percent of India's exports to the region. It is noted from the data that after 2012 the importance (i.e., share) of pharmaceutical and meat products in India's export basket to Central Asia has increased.

Table 4 summarizes the shares of India's top ten import items from Central Asia over 2011-15. It is observed from the table that India's major import items include both the primary (edible vegetables; lac, gum, resins etc.), minerals (petroleum products; salt, sulphur etc.; ores, slag etc.), light manufacturing (fertilizers; gems and jewellery; inorganic chemicals) as well as ferrous and non-ferrous metal products (iron and steel; zinc products). The top ten items explain around 98 percent of India's imports from the region. It is noted that after 2012, the importance (i.e., share) of energy products in India's import basket from Central Asia has significantly increased in value terms, in line with the country's economic compulsions.

Table 4: Major Indian imports from Central Asian Countries (in %)

HS Code	Product Name	Year				
		2011	2012	2013	2014	2015
27	Mineral fuels, mineral oils and products of their distillation	0.38	2.41	68.21	80.79	60.41
25	Salt; sulphur; earths and stone; plastering materials, lime and cement	19.53	33.32	10.75	4.87	13.71
31	Fertilisers	8.40	3.12	2.72	1.50	5.62
79	Zinc and articles thereof	18.20	13.39	3.34	2.17	4.11
71	Gems and Jewellery	17.94	17.38	2.18	0.26	3.55
07	Edible vegetables and certain roots and tubers	1.26	3.70	2.24	1.48	3.07
26	Ores, slag and ash	0.47	0.04	0.00	3.91	2.15
72	Iron and steel	3.01	5.37	2.57	1.39	1.84
28	Inorganic chemicals	9.41	6.28	4.17	1.77	1.79
13	Lac; gums, resins and other vegetable saps and extracts	2.06	1.25	1.15	0.50	1.29
	Total	80.66	86.25	97.34	98.64	97.53

Source: Constructed by authors from Trade Map, ITC (undated) data

4. Composition of Trade between India and Central Asian Countries

The above observations bring forward an important question: what are the types of products in which India and Central Asian countries are specializing while trading with each other? Such analysis can be performed by drawing data from World Integrated Trade Solution (WITS) database, which reports trade data by the UNCTAD pre-defined stage of processing classifications, namely: raw materials, intermediate goods, consumer goods and capital goods. For drawing the data from WITS one needs to consider India as the reporter and the Central Asian countries as partners, after which the time period and product groups need to be specified. In the trade flows, both exports and imports are considered. The analysis is conducted for three years, 2005, 2010 and 2015.

Table 5: Composition of India's Export to Central Asia by Stage of Processing (Value in USD 1000)

	2015				
	Raw Materials	**Intermediate Goods**	**Consumer Goods**	**Capital Goods**	**Total**
Kazakhstan	1311.205 (0.78%)	8911.176 (5.29%)	137061.438 (81.41%)	21077.167 (12.52%)	168361 (100%)
Kyrgyz Republic	166.681 (0.56%)	4247.16 (14.23%)	23977.282 (80.34%)	1455.494 (4.88%)	29846.62 (100%)
Uzbekistan	424.178 (0.39%)	15190.286 (14.14%)	65700.142 (61.18%)	26079.533 (24.28%)	107394.1 (100%)
Turkmenistan	45117.503 (56.08%)	5095.363 (6.33%)	19366.567 (24.07%)	10867.997 (13.51%)	80447.43 (100%)
Tajikistan	9165.578 (29.33%)	2798.132 (8.95%)	17142.427 (54.86%)	2142.731 (6.86%)	31248.87 (100%)
Average Share	17.43%	9.79%	60.37%	12.41%	

Source: Constructed by authors from WITS, World Bank (undated) data

Table 5 reveals that the percentage distribution of Indian exports to Central Asia over the last decade has primarily been concentrated in the area of consumer goods (e.g., pharmaceuticals). However, India's export of capital goods (e.g., machinery and equipment) to Uzbekistan and raw materials (e.g., meat products) to Tajikistan and Turkmenistan has also increased in importance over the period.

Table 6: Composition of India's Import to Central Asia by Stage of Processing (Value in USD 1000)

	2015				
	Raw Materials	**Intermediate Goods**	**Consumer Goods**	**Capital Goods**	**Total**
Kazakhstan	293793.124 (87.61%)	41370.907 (12.34%)	40.693 (0.01%)	134.261 (0.04%)	335338.985 (100%)
Kyrgyz Republic	162.27 (10.26%)	1418.725 (89.70%)	- (0.00%)	0.656 (0.04%)	1581.651 (100%)
Uzbekistan	6665.523 (11.81%)	49638.997 (87.97%)	121.692 (0.22%)	- (0.00%)	56426.212 (100%)
Turkmenistan	44849.856 (93.86%)	2936.152 (6.14%)	- (0.00%)	- (0.00%)	47786.008 (100%)
Tajikistan	9864.94 (99.91%)	- (0.00%)	- (0.00%)	9.112 (0.09%)	9874.052 (100%)
Average Share	60.69%	39.23%	0.05%	0.03%	

Source: Constructed by authors from WITS, World Bank (undated) data

On the other hand, Table 6 shows that the raw materials (e.g., mineral fuels, edible vegetables) dominate the export baskets of the Central Asian countries to India. For instance, import of mineral fuels from Kazakhstan has increased significantly. However, importance of intermediate products (e.g., fertilizers) being imported from countries like Uzbekistan is also noted.

5. Conclusions

The analysis shows that while India's export basket to these countries consists of value-added final products (e.g., pharmaceuticals, apparel and garments, machinery and equipment), the imports generally includes mineral and primary products, semi-finished items and raw materials. The observation suggests that Central Asia on one hand has an enormous potential to deepen its linkage with India as a supplier of quality raw materials. On the other hand, given their moderate growth path, they can emerge as an untapped market for India's value-added exports, especially at a time when growth scenario in the EU-US is not on the upswing since 2011. Moreover, the availability of the raw materials from Central Asia can contribute significantly in the recently launched 'Make in India' initiative of India.

The results involving pharmaceutical products, a sector where India has already deepened its presence in the Central Asian markets, however bring forward the concern areas at sectoral level. While the rising TCI suggests potential export growth to these countries, the TII results confirm that the countries failed to enhance the bilateral trade flows to 'intense' level. The divergence between the potential and actual trade can be explained by the presence of tariff and non-tariff barriers, particularly relating to trade costs. As one of the driving motives behind the 'Connect Central Asia' Policy launched in 2012 is to enter into a CECA with the Central Asian republics, there is sufficient room for policy interventions to reduce the trade costs, which would substantially enhance Indian exports.