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Central Asian Republics, Afghanistan & Pakistan: A Study of India's Trade and Investment Potential



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The study analyses the economic structure and growth performance of the Central Asian Republics - CARs (viz. Kazakhstan, Tajikistan, Turkmenistan, Kyrgyz Republic, Uzbekistan), Pakistan and Afghanistan, trade and investment pattern of the region, recent trends in India's trade and investment relations with the countries, and highlights potential areas for enhancing trade and investment relations.

Recent Economic Performance

Reflecting, among others, investment-led growth in Kazakhstan, strong increase in industrial output and agricultural production in Tajikistan, and increased mining output in Kyrgyz Republic, the countries in Central Asia have witnessed robust economic performance in recent years. GDP growth has also been robust in Afghanistan and Pakistan, underpinned by rescheduling of external debt and modernization of the textile sector in Pakistan, and strong growth in agriculture, construction and services in Afghanistan.

In *Kazakhstan*, real GDP growth stood at an estimated 9.4% in 2004, while in *Tajikistan* real GDP growth was sustained at an estimated robust 10.5%. In *Turkmenistan*, real GDP growth at an estimated 11.2% in 2004 was the highest among the CARs. In *Kyrgyz Republic*, real GDP

growth stood at 6.0%, while in *Uzbekistan* real GDP growth improved to an estimated 3.0% in 2004. In *Pakistan*, real GDP growth registered a sharp rise of an estimated 6.5% in 2004, while in *Afghanistan* robust GDP growth was sustained at an estimated 15.0% in 2004.

International Trade

On the external sector, foreign trade of the Central Asian Republics have registered robust rise in recent years. Total exports of the five Central Asian Republics have increased almost three-fold from US\$ 11.1 billion in 1999 to US\$ 32.4 billion in 2004, while total imports have also risen from US\$ 10.9 billion to US\$ 22.7 billion during the same period.

Rising oil export volumes coupled with higher export prices (Kazakhstan), increased gas export revenues (Turkmenistan), high energy exports and increased prices of cotton fibre (Uzbekistan), rise in gold exports (Uzbekistan), and sharp rise in aluminium exports (Tajikistan) have contributed to the robust export performance. On the import front, surge in capital investment with large scale imports of machinery and equipment for large scale projects in the oil sector (Kazakhstan), large investment in priority development sectors, viz. hydrocarbons, textiles and electricity (Turkmenistan), among others, have resulted in substantial rise in the region's imports in recent years.

Pakistan's total exports registered significant rise in 2004 to an estimated US\$ 15.2 billion from that of US\$ 11.9 billion during the previous year, while imports also rose from US\$ 11.8 billion in 2003 to US\$ 14.9 billion in 2004. As regards Afghanistan, exports rose from US\$ 2.2 billion in 2002 to US\$ 2.8 billion in 2003, before declining to US\$ 2.4 billion in 2004. Imports also rose from US\$ 3.5 billion in 2002 to US\$ 4.4 billion in 2003, and further to US\$ 4.7 billion in 2004.

Trade Relations with India

India's exports to CARs have risen three-fold from US\$ 46.4 million in 1997-98 to US\$ 147.3 million during 2003-04, while imports from the CARs have also increased from US\$ 38.8 million to US\$ 50.9 million during the same period. As a result, total bilateral trade (exports plus imports) has risen from US\$ 85.2 million in 1997-98 to reach US\$ 198.3 million in 2003-04. India generally maintains positive trade balance with these countries, which amounted to US\$ 96.4 million in 2003-04.

Kazakhstan is the largest market for India's exports to the region, followed by Kyrgyz Republic, Turkmenistan, Uzbekistan and Tajikistan. As regards imports, Uzbekistan is the largest source for India's imports from the region, followed by Turkmenistan, Kazakhstan, Tajikistan and Kyrgyz Republic.

In the case of trade with Afghanistan, India's exports to the country have risen seven-fold over the last 7 years; from US\$ 21.3 million in 1997-98 to US\$ 145.4 million in 2003-04. Imports from Afghanistan have also risen sharply from US\$ 10.7 million in 1997-98 to US\$ 40.6 million in 2003-04.

India's trade with Pakistan has also increased in recent years, with exports having risen two-fold from US\$ 143.3 million in 1997-98 to US\$ 287.3 million in 2003-04. As regards imports from Pakistan, they amounted to US\$ 57.9 million in 2003-04, up from US\$ 44.5 million in 1997-98.

Trade Potential

Based on India's export capabilities and demand existing in the respective countries, potential export items to Kazakhstan would include: machinery and transport equipment (*harvesting / construction / food processing / telecommunication / data processing equipments and parts, passenger / public transport vehicles and parts*); chemicals and related products; iron & steel products; ores and minerals; petroleum products; food products; tobacco; cement; aluminium; measuring instruments.

Potential items of exports to Turkmenistan would include machinery (*piston engines and parts / harvesting, textile weaving/knitting machinery/ air, vacuum pumps & compressors*); transport equipment (*passenger & public transport vehicles / semi-trailer tractors*); chemicals and related products; food products; iron and steel products.

In Tajikistan, food products (*durum wheat / sugar, tea*); chemicals and related products (*inorganic bases / fluorides / medicaments & antibiotics / soaps & detergents*); machinery and transport equipment; iron and steel products; motor car tyres; cotton yarn and fabrics; cement; polished glass and glass articles present potential for exports.

Commodities having export potential in Kyrgyz Republic are chemicals & related products (*inorganic acids / medicaments & antibiotics / soaps & detergents / polycarbonates*); machinery & equipment (*wheeled tractors / construction, mining, mineral working machinery*); transport equipment (*passenger / public transport vehicles and parts*); textiles and garments; wheat; sugar & sugar confectionary; tea.

In Uzbekistan, potential items of exports would include machinery and equipments (*agricultural, horticultural, harvesting machinery and parts / textile machinery / insulated wires & cables*); transport equipment; iron and steel products; measuring/checking/precision instruments; organic & inorganic chemicals; pharmaceuticals; plastics and articles; tea; rice; sugar and sugar confectionary; ceramic products.

In Pakistan, commodities having export potential for India are chemicals and related products; iron and steel products; machinery and transport equipment; petroleum products; soya bean oil; car/bus & other pneumatic tyres; paper & paperboards; cotton yarn/synthetic filament yarn/ textiles and garments; plastic articles.

As regards Afghanistan, potential items of exports would include machinery and equipment and parts (electrical & non-electrical); transport equipment; iron and steel products; diary produce; tea; sugar & sugar confectionary; cereal preparations; fruit juices; yarn and fabrics; garments; rubber pneumatic tyres, pharmaceutical products; carpets and other floor coverings; knitted and crocheted fabrics.

Potential Sectors for Investment

In Kazakhstan, potential sectors for investment include oil & gas sector; power generation; telecommunication equipment; medical equipment & supplies; pollution control equipment; agricultural machinery; food processing & packaging;

construction & engineering services; mining. In Turkmenistan, sectors which present potential for investment would include oil and gas; electrical energy; chemical and mining; transportation and communications; environmental technology and services; healthcare and medical industry.

In Tajikistan, sectors having investment potential are mining and related equipment, medical and pharmaceutical supplies, textile machinery, telecommunications, eco-tourism, oil and gas extraction equipment; agribusiness and related sectors. In Kyrgyz Republic, agribusiness; mining sector; electricity generation; tourism; IT sector; and small and medium scale light manufacturing equipment are potential sectors. In Uzbekistan, potential sectors for investment include energy sector; IT sector; mining sector; food processing & packaging; textile machinery and equipment; and tourism infrastructure.

In Pakistan, sectors which have potential for investment include industry (IT / oil & gas / agriculture / textiles / medical engineering / tourism); services; infrastructure; agri-farming. The potential sectors of investment in Afghanistan are housing and construction; agri sector; transportation; communications; banking and financial services; and tourism.

'Focus CIS' Programme

Considering the potential of the CIS region in India's trade configuration, the Government of India has launched the 'Focus CIS' Programme with a view to significantly enhance trade with the region. The main objective of the programme would be to increase mutual direct interactions among businessmen by identifying the areas of bilateral interest and investment.

Under the 'Focus CIS' Programme, India's trade with the CIS region is

envisaged to be enhanced through integrated efforts of the Government of India and various agencies like the India Trade Promotion Organisation (ITPO), Export Promotion Councils, Apex Chambers of Commerce and Industry, Indian Missions and Institutions such as the Export-Import Bank of India, Export Credit Guarantee Corporation.

Exim India's Initiatives in the Central Asian Region

Export-Import Bank of India (Exim India) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment with countries in the Central Asian region. The Bank has an operative *Line of Credit* (LOC) of US\$ 10 million to Bank TuranAlem, Kazakhstan, which covers all the member countries of the Commonwealth of Independent States (CIS), including the Central Asian Republics. An offer for an export line of credit (LOC) of US\$ 25 million has been made to Government of Tajikistan by Exim India at the behest of Government of India. It is hoped that the line of credit agreement will soon be signed.

In the area of *project exports*, Indian companies have secured several contracts in the Central Asian region, with the support of Exim India, across various sectors such as highway/hotel projects in Afghanistan, power project / bauxite project in Azerbaijan, equipment project in Tajikistan, and procurement advisory and auditing services in Georgia and Armenia. Further, Exim India has supported *joint ventures* in the pharmaceuticals sector in Kazakhstan and Uzbekistan in the Central Asian region.

Exim India has in place a *programme in association with the European Bank for Reconstruction and Development* (EBRD), which envisages a credit enhancement facility from EBRD to

Exim India for supporting Indian exports to CIS countries. This will enable the Bank to confirm Letters of Credit (L/Cs) received by Indian exporters from pre-approved banks in these countries, including the Central Asian Republics. Further, Exim India has also entered into an arrangement with EBRD called the Export Credit Loan Arrangement Technique (ECLAT), which provides for mutual co-operation in co-financing and enhancement of export credit to Central and Eastern Europe and CIS countries, including the Central Asian Republics. These arrangements are expected to improve trade with the Central Asian countries in the medium term.

To *support Indian consultants* for projects in Central and Eastern Europe, Exim India has an arrangement with International Finance Corporation (IFC) under the latter's Private Enterprise Partnership (PEP) programme, under which Indian consultants can execute short-term consultancy assignments for IFC sponsored projects in countries such as Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, Ukraine, Uzbekistan and Mongolia.

Exim India has rendered technical assistance to a number of institutions worldwide, including those in CIS region. Examples include: Regional cooperation in export finance and export credit guarantees, and Study on promotion of international competitiveness and export of manufactured goods for the Economic and Social Commission for Asian and the Pacific (ESCAP); Designing of Export Financing Programmes in Turkey; Export Development Project in Ukraine; Enterprise Support Fund in Armenia.

In its endeavour to forge *alliances and institutional linkages worldwide*, Exim India has signed Memoranda of Understanding (MOUs) with a number of institutions which include:

UZBEKINVEST – National Export-Import Insurance Company, Uzbekistan; Croatian Bank for Reconstruction and Development (HBOR), Croatia; Czech Export Bank (CEB), Czech Republic; Export-Import Bank of the Russian Federation, Russia; Vnesheconombank, Russia; Hungarian Export-Import Bank Ltd., Hungary; Hungarian Investment and Trade Development Agency, Hungary; Polish Agency for Foreign Investment (PAIZ), Poland; UNIDO Industrial Cooperation and Investment Promotion Service, Poland; Romanian Export-Import Bank (BEI), Romania. These cooperation arrangements will facilitate joint investment opportunities in Central Asian countries.

Exim India has also taken the initiative of setting up of *Global Procurement Consultants Ltd. (GPCL)* for providing procurement related services to multilateral agencies such as World Bank, Asian Development Bank and African Development Bank. GPCL has undertaken projects in a number of countries in Central Asia and Eastern Europe including Armenia, Albania, Bosnia & Herzegovina, Croatia, Georgia, Kyrgyz Republic, Poland, Romania, Russia, Turkey and Uzbekistan.

Further, Exim India's equity holding in specialized institutions in India like Agriculture Finance Corporation; promoter-membership in Small Farmers' Agri-Business Consortium (SFAC), places Exim India in a vantage position to share its expertise and support development related activities in the Central Asian region. In order to promote active exchange of trade and investment related information, Exim India in the process of bringing out a quarterly, bilingual (English and Russian) publication for the benefit of Indian and Central Asian businessmen and investors. Similar publications are already being brought

out by Exim India for Africa and Latin America.

Exim India has in place an MOU with the Central Food Technological Research Institute (CFTRI), India, to promote small-scale food processing projects. Towards this end, Exim India's publication titled 'Market Maker: Technology Aided Business Solutions' (published in English, French, Russian languages) delineates project profiles in food processing sector based on CFTRI technologies, which could be appropriate for SME units in countries in the Central Asian region.

Strategy and Recommendations

Strategy and recommendations to enhance two-way transfer of trade and investment between India and countries in the Central Asian region would encompass:

- Wider and effective dissemination of relevant information about the opportunities and potential existing in fostering commercial relations. Reciprocal visits by trade and industry delegations / economic missions would serve to increase awareness in the region about India's economic reforms, strengths of Indian industry and export capabilities.
- Building closer institutional linkages with key investment promotion agencies in the region; Kazakhstan Investment Promotion Center (Kazakhstan), State Agency for Foreign Investment (SAFI) (Turkmenistan), Agency for Promotion of Foreign Investment (APFI) (Tajikistan), Foreign Investment Agency (Uzbekistan), Board of Investment (Pakistan).
- As evidenced by successful SME clusters, India could contribute significantly to entrepreneurship development and capability creation in the Central Asian region by sharing its experience and expertise in this area. Tie up with select institutions in India, such as Central Food Technology Research Institute (CFTRI), and Entrepreneurship Development Institute of India (EDI), Ahmedabad, would be an important step in this direction.
- With restructuring and expansion of different sectors in the region, Indian companies could endeavour to emerge as key knowledge and technology partners as also suppliers of machinery and equipment in sectors such as textiles and clothing, pharmaceuticals, medical equipment, food processing, packaging. Besides catering to the local markets in the region, such ventures could serve as export hubs to the EU and CIS regions.
- Indian IT firms could explore the opportunities in the Central Asian region, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing and developing software programmes and services for banks and financial institutions in the region.
- Opening branches/representative offices in countries in the region, and developing correspondent relations with select banks in the region would serve to facilitate and promote commercial relations.
- To facilitate bilateral trade with countries in the Central Asian Region, a trilateral Transit Agreement between India, Iran and Turkmenistan has been signed. To reduce the time taken in shipment to the region, speedy implementation of Transport Corridor involving India and all the Central Asian Republics would be an important measure. Trade liberalisation with Pakistan will enable India to expand its trade with Afghanistan and Central Asian Republics in a more efficient manner due to logistic convenience and reduction in transportation costs.
- Multilateral funding agencies such as the World Bank, Asian Development Bank, EBRD are active in funding development projects in these countries. Focus on these funded projects and increased participation by India project and services exporters in such projects would serve to enhance India's commercial presence in these countries. At the same time, efforts to participate in technical assistance in terms of project preparation and advisory services in such funded projects would support increased presence in the region.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million
1 lakh : 100 thousand

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