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No. 44 May 2015

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# CENTRAL ASIA

INDIA'S NORTHERN EXPOSURE

P STOB DAN



INSTITUTE FOR DEFENCE  
STUDIES & ANALYSES

रक्षा अध्ययन एवं विश्लेषण संस्थान

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# INTRODUCTION

India's stakes in Central Asia is high, but a cogent policy is the need of the hour. As India re-examines its role in Asia, India's historical links with Eurasian region that go back to more than 2500 years cannot be ignored. In the past, the ancient Indian texts referred to nations lying beyond the Himalayas or Hindukush as *Uttara-kuru*. Of course, there are many descriptions on this concept in the Hindu-Buddhist literature. However, since the days of Saka or Indo-Scythian tribes, the links remained uninterrupted.<sup>1</sup> The great Indian epic, *Mahabharata* and ancient Pali literatures give account of a great trade-route referred as *Uttarāpatha*<sup>2</sup> that originated from the Indo-Gangetic plains passing from Taxila to Central Asia. It perhaps joined the Great Silk Route cross-points along which Indian religion, philosophy, commerce, trade and science flourished and expanded beyond Europe and Asia. Since then many facets of history linked India with Central Asia.

In the medieval times, many Central Asian rulers including Zahir-ud-Din Babur came from the Ferghana Valley and established the Mughal Dynasty in India in the 16<sup>th</sup> century. However, the events of contemporary history led to almost total snapping of India's age-old cultural and trade ties with the region. We are familiar with the British India's "Great Game" engagement in Central Asia in the 18<sup>th</sup> and 19<sup>th</sup> century. The partition and subsequent Pakistani occupation of parts of Kashmir finally led to direct physical cut-off that spelt the death knell for India's northern outreach. In fact, this snapping of ties is still a

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<sup>1</sup> The Sakas, Yavanas, Kambojas, Pahlavas, Paradas etc. are known to have come from Central Asia to India and were all absorbed into the Kshatriyas and Jat community in India.

<sup>2</sup> Prakash Chandra Prasad, "Foreign Trade and Commerce in Ancient India," *Abhinav Publications* 2003 (The ancient Transoxiana of Central Asia including the Uttarakuru, Uttaramadra, Param-Kamboja and parts of Saka-dvipa were located in the Uttarapatha) Srivastava, Balram, "Trade and commerce in ancient India from the earliest times to C.A.D 300", *Varanasi: Chowkhamba Sanskrit Series Office*, 1968

reality reflected from the fact that the total two-way trade with the whole region is a paltry over \$1200 million.

## **Strategic Rivalry in Central Asia**

Central Asia is now rapidly changing after the world has started taking more notice of this energy-rich region. Already the flow of capital and expansion of trade is triggering large-scale infrastructure, shipment of goods and flow of people across the region - a phenomenon aptly being compared with the waves of transformation earlier occurred in Europe and Southeast Asia.

Owing to this, great powers rivalry over security and energy stakes in the region has also increased. The major powers have responded in many ways to benefit from region's strategic and energy resources. Russia is the traditional player and wishes to exert political influence after a short gap of retreat from the region. Moscow has strengthened the Collective Security Treaty Organization (CSTO) and now it is aggressively pushing the Eurasian Economic Union (EEU) to keep Central Asia under its stiff economic control.

The main contestant in the region is China, which has been waiting in the wings, since the Soviet collapse, for fully entering into the region with multiple motives. China considers this region as a source of energy and a critical partner for stabilizing its restive Xinjiang province. China has fully used its geographical proximity to the region and while pursuing an ingenious soft-power policy, it has successfully converted every challenge in Central Asia into an opportunity. China has pursued its interest while using the Shanghai Cooperation Organization (SCO) as a multilateral vehicle for promoting multiple interlocking of economic, security and even cultural ties. In fact, China has rapidly challenged Russian monopoly over Central Asia's energy exports. Massive infrastructure development including building of pipelines, roads, and railways completed in the recent years are facilitating transport of oil, gas, uranium and other minerals to the Chinese towns.

In fact, China's swift foray in Central Asia has gained an air of respectability and an image of reliable partner in the region. Beijing's latest Silk Road Economic Belt scheme envisages \$40 billion fund for promoting infrastructure, industrial and financial co-operation from

Asia to Europe through Central Asia. The countries have quickly pledged support to the 'Silk Route Belt' idea for deepening their ancient ties with China. In the words of Gen. Liu Yazhou of the PLA, "Central Asia is the thickest piece of cake given to the modern Chinese by the heavens."

The US and its allies remained deeply engaged in the region and used it as a valuable supply hub for the Afghanistan war effort. However, against the backdrop of the crisis in Ukraine, the United States is likely to review its Central Asia strategy. Washington, it seems, is getting concerned about the situation in Central Asia. Russia's standoff with the West, fall in ruble rate, declining oil prices and overall Western sanctions is already having ripple effects on Central Asian economies, especially on the remittances from millions of migrants from the region working in Russia.

The West is also worried political about uncertainty looming in Central Asia stemming from the succession issue of regional leaders. The leaders of Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan have so far strongly resisted political change and have successfully adopted internal political mechanisms with varying style to stay in power. So far, only the Turkmen President Saparmurat Atayevich Niyazov who served as President for life died in 2006. He was the most tyrannical dictator in the region. His successor Gurbanguly Berdymukhamedov has shown some liberal attitude and called exiled opposition leaders to participate in the 2012 elections. But, he too is likely to follow the course of Niyazov.

President Islam Karimov of Uzbekistan and Kazakh President Nursultan Nazarbayev have retained their power for over two decades now. Karimov intends to stay in power until he is able to find new means to run his legacy. Similarly, Nazarbayev has devised internal means to stay in power.

Tajikistan continues to remain locked in a difficult combination of poverty, authoritarianism, and Islamic extremism that keeps the country prone to instability. Kyrgyzstan has switched to a parliamentary democracy in 2010 but the country's institution of democracy and the rule of law remain underdeveloped. With unstable coalition government in place, there are many unresolved issues including ethnicity in the south.

With the exception of Kyrgyzstan, the politics in other states remain unpredictable. In fact, the 2010 Kyrgyz uprising had sufficiently indicated that the region is prone to the Arab-Spring-type political explosion. To thwart any such possibility, Kazakh President Nazarbayev and Uzbek President Karimov have sought re-election recently. Both leaders are aging, but none of them appear to have clear succession plans despite some surreptitious intrigues among members of the ruling. However, for the time being none of the ruling Presidents are likely to face any real opposition, though the basic politico-economic characteristics of these countries are no different from those in West Asia. All these leaders continue to face Western criticism including the rights watchdogs. The American officials continue to reaffirm their commitment to uphold regional security, respect for human rights and democratic governance in these states.<sup>3</sup> But so far both Russia and China have firmly insulated the Central Asian regimes from failing; viz Uzbekistan after 2005 Andijan crisis; Kazakhstan after 2011 Zhanaozen events. Even the Kyrgyz crises were contained affectively through regional interventions and were not allowed crossing a threshold. This makes Central Asia different from the West Asia.

In the changed context, the US also seems irked by Russia's recent creation of the Eurasian Economic Union (EEU) and the plan to bring in another Central Asian republic, Kyrgyzstan in its fold by May 2015. Washington repeatedly questioned Moscow's right to enforce its agenda on governments in the region. Richard Hoagland, the US Deputy Assistant Secretary of State for South and Central Asian Affairs recently said, "no country has the right to unilaterally determine the political and economic orientation of another country." He added that "what Russia is doing in Ukraine is cause for concern for the countries of Central Asia."<sup>4</sup>

Against the above backdrop, Washington could revive its previously envisaged New Silk Road strategy to make Central Asia, including

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<sup>3</sup> Carl Schreck, "U.S. Reassesses Central Asia Strategy", March 20, 2015, <http://www.rferl.org/content/central-asia-us-reassess-strategy/26911854.html>

<sup>4</sup> <http://www.rferl.org/content/central-asia-us-reassess-strategy/26911854.html> ( March20, 2015)

Afghanistan, a crossroad of global commerce. The shift in US Central Asian policy also comes against the backdrop of Chinese aggressively pushed "Silk Route" project for Eurasia. However, US officials believe that its New Silk Road plan is not "mutually exclusive" with China's "Silk Road" through Central Asia.

Europe is also taking a renewed interest in Central Asia following the crisis in Ukraine. The European Union is now trying to import energy directly from the source to offset fears of disruption by Russia. The EU is pushing for the 3,300-kilometer Nabucco pipeline project to import gas directly from Azerbaijan and Central Asian nations to the heart of Europe. The EU has unveiled recently a new "Southern Corridor-New Silk Route" strategy for a multiple road, rail and pipeline links between the Caspian area and Europe.<sup>5</sup>

The region is also the northern frontier of the Islamic world hitherto unaffected by fundamentalist wave. The Soviet developmental legacy ensured that Central Asia remains a significant barricade against potential extremist threats emanating from Pakistan and Afghanistan. However, behind the secular settings, a major shift to a far more religious pattern of society is underway in the region. Central Asia is now emerging as the next radical Islamic region. Islamic forces are getting stronger in Tajikistan and southern Kyrgyzstan (Osh & Batken). The democratic upsurge in Kyrgyzstan seemed to have succeeded in channeling popular anger, but pro-Islamic tone and language of debate in the Kyrgyz Parliament is beginning to impact the government policies. Kazakhstan and Turkmenistan are less affected by extremist forces. However, the unequal distribution of wealth generated from oil export has begun to instill public discontent and protests on streets. A series of serious explosions and terrorist acts by Islamists have been taking place in Kazakhstan since 2011. The fight against extremism hitherto carried out covertly by the state is now being exposed to the masses. Kazakhstan has maintained diplomatically warmer ties with the Muslim world. Turkmenistan too has forged closer relations with Iran and with the Gulf region. Uzbekistan has firmly resisted extremist drive but Islam

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<sup>5</sup> [http://www.noravank.am/eng/articles/security/?SHOWALL\\_1=1&SHOWALL\\_2=1](http://www.noravank.am/eng/articles/security/?SHOWALL_1=1&SHOWALL_2=1) ( March 20, 2015)

has traditionally been embedded in the society. To be sure, religion is likely to be a dominant factor for polity in the country in the near future. Consequently, the area extending from Chechnya, Ferghana to Xinjiang, comprising 100 million Salafi Muslims, could form new arc of instability. The Islamic Movement of Uzbekistan (IMU) is more entrenched not only in Af-Pak region but in Central Asia as well. The IMU has strong links with al Qaeda and is now expected to get stronger in Afghanistan after the NSTO's withdrawal. The appalling news is that even the Islamic State in Iraq and Syria (ISIS) has heavily recruited more and more Kazakhs, Uzbeks, Tajiks, and Kyrgyz. The security issues are likely to make more headlines. China's concerns in Xinjiang underscore the gravity of extremist threat including from ISIS.

## **WHAT STOPS INDIA PLAY IN THE GREAT GAME?**

### **Conceptual Challenge**

Following the Soviet collapse, Central Asians had considered India as one of the big and legitimate stakeholders to offset the conflicting forces in the region; a reason why the leaders of these States chose India to be the first country outside the former Soviet bloc for their State visit in 1992. India enjoyed tremendous political goodwill due to the Soviet legacy. In fact, India too did try to capitalize on the goodwill to achieve political and trade synergy with these oil-rich nations. There were also security stakes in the region. In fact, opening Indian missions in all the five capitals was a good beginning. Prime Ministers Narasimha Rao, Atal Bihari Vajpayee, and Dr. Manmohan Singh visited the region in 1993, 2002 and 2006 respectively.

However, India in the early 1990s did not have the instruments of economic and financial leverage and as such, despite enormous goodwill available in the region it failed to make commercial progress. There were, of course the geopolitical constraints; Pakistani hostility; Afghan instability among others which kept India and Central Asia physically disconnected. In addition to it, there was also the basic problem of lack of scholarly understanding of the region in terms of history, social composition and language. A tendency to understand the region from Western prism also tended to obscure rather than clarify the centrality of Indian understanding. As a result, India lacked strategic clarity for Central Asia policy. Since then, Central Asia remains a subject of continual intellectual debate and conference enterprise in India, which neither entails any meaningful academic accolade nor they meet national policy goals.

India's Central Asia policy falls within the framework of its overall foreign economic diplomacy underpinned by development assistance programme pursued by major powers towards less developed

countries for their multiple strategic interests. India's assistance programme and engagement with these countries includes providing assistance in areas such as capacity building and human resource development; information technology; pharmaceuticals and health care; small and medium entrepreneurship enterprises.

Such a policy approach pursued ostensibly to meet its strategic goals and ambitions, certainly gained a high degree of legitimacy and perhaps worked with countries in India's neighbourhood and countries in Africa and Asia that were once parts of former colonial powers. In the case of Central Asia, the countries there have been parts of a former super power state; therefore, the problems here are more related to systemic collapse and dislocation of economic structures. In the context of Central Asia, the policy becomes a little opaque and generally does not entail enduring results either for the donor or for the recipient.

## **Relationship to Partnership**

It is, therefore, necessary that India, now must lay the ground framework for an enduring policy goal in Central Asia. However, before chalking out a new policy, we must try to alter the current practices of regional economic diplomacy that often leads to creating an atmosphere of disappointment. Conceptually speaking, this stems from India's approach for not encouraging an interdependent model of cooperation. Any policy that does not result into creating interdependency becomes inevitably unsustainable for regional and economic relations in the long run. Instead, such a model invariably brings an element of unpredictability leading to strains in bilateral relationship. This has been experienced in the South Asian context. Such a discrepancy also effects India's image - as a country unwilling to forge constructive cooperative partnership. In turn, they cause confusion among people including policy makers, traders, and businesspersons. Consequently, they entail sharp conflict and sense of insecurity vis-à-vis China's growth and influence.

Policy challenges also come from India's inability to match the Chinese regional cooperation schemes presented through various conceptual ways. India and China are theoretically noted as comparative economic powerhouses, capable of setting new Asian economic order. However, the new Asian economic order has already been shaped primarily by China and the United States. Those countries like Vietnam, Japan and

others, which talk about joining hands with India are in fact already integrated with the Chinese or Western economies. Therefore, it is time that India recognizes this reality. As the second largest power in Asia, the goal of India should be to integrate with the economies of rest of Asia, rather than struggling to find a model for itself. This is only possible if India pursues a two-way partnership with the countries in the region. India, therefore, need to adopt a fresh foreign economic policy that may help create a web of economic interdependence with other countries and regional groupings. China pursues such a model while creating a network of economic and infrastructure activities spreading across Asian and Eurasian continents. China's new "New Silk Road" initiatives essentially underpin new approach for regional integration, which is getting more acceptable all over Asia.

## **Policy Challenges**

In trying to find a corollary to "Look-East Policy" this author had conceptualized a "Connect Central Asia" policy as a blueprint for seizing opportunities in the Eurasian land. The policy was officially launched in June 2012 but this formulation too lost traction and failed to gain currency mainly due to bureaucratic technicalities and policy inactions. Similarly, this author also initiated the India-Central Asia Track II Dialogue mechanism for sharing perceptions and broadening understanding at the level of policy thinkers, business leaders and academia. Indian liberal-democratic values, the decades of its experience in dealing with multi-cultural settings as against the status quo mindset were much desired among many sections in Central Asia. The framework for dialogue was meant to expand the range of interface. The dialogue framework is again reduced to an annual academic exercise under the aegis of ICWA.

The economies of Central Asian states are fast getting vested in the Chinese model of regional integration. However, some credible trade study reports suggest that Indian and Central Asian economies have high potential to become complimentary to each other. As the 'Make in India' campaign picks up its momentum, import of raw material from Central Asia would become critical for India. On the other hand, Central Asian states are likely to find it profitable to import quality goods of their needs from India. This changing situation, according to the Institute of Economic Growth (IEG) study, would lead to a huge

potential in trade between India and Central Asia.<sup>6</sup> The growing trade pattern with Kazakhstan is pointing to this fact. It is possible to develop a similar pattern with other countries of Central Asia as well.

A strong economic partnership with Central Asian countries is of high strategic importance to India, both for political and energy requirements to sustain its economic growth. In the existing volatile global economy, there is a great opportunity for India to deepen its economic and trade ties with the region. Major and regional powers are already trying to take advantage of Central Asia's location on the crossroads of Eurasia. China has already unveiled its Silk Route project to capture that space.

The future of India's economic ties with Central Asia will therefore be dependent on how it finds new ways to establish interdependency in the Asian architecture. Of course, this will not amount to sacrificing strategic autonomy. The growing Russia-China economic relationship should be taken into consideration. Importantly, India also needs to seek a strong initiative to be a part of existing regional grouping like SCO to complement rather than seeking alternative to Chinese networks. In fact, it would work to India's advantage to influence the course of regional economic order by being an integral part rather than trying to influence remotely. It would be a waste of time and resources to set its own model.

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<sup>6</sup> Pradeep Agrawal & Seema Sangita, "India and Central Asia: Trade Routes and Trade Potential", *IEGIEG Working Paper* No. 334, 2013

## CONNECTIVITY AND REGIONAL INTEGRATION

In the distant past, Indian merchants built trade relationship with far-flung areas beyond Central Asia to Siberia region. However, India's future economic engagement with Central Asia, especially the long distance trade potential would remain restricted and unexplored unless additional trade route options are explored.

India's 'Connect-Central Asia' policy elaborates the imperatives of reconnecting with this geographic space to find new markets for India's rapidly growing industrial and service sectors.<sup>7</sup> However, so far, no viable and easy transport passage, land-linking arrangements, and important transit services points have been found to realize it. The impediment of continual Pakistani hostility and instability factor in Afghanistan seems unlikely to change soon. The Ministry of Commerce's spot study reports<sup>8</sup> of 1993 and 1994 observed several optional transit routes, but the government finally considered the Iranian route as a viable transit option. A trilateral MOU on transit for trade signed by India, Iran and Turkmenistan on April 18, 1995 envisaged movement of goods from India via sea route to Iranian Bandar Abbas and onward by surface transport to Sarakhs on Iran-Turkmenistan border. In May 1996, Iran inaugurated a 295 km railway network called Mashad–Sarakhs–Tajan railroad linking Central Asia to the Persian Gulf for the first time. India had contributed financially to the trilateral railway project but even today the route is not preferably being used by Indian traders for unspecified reasons. India has lately invested hugely in

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<sup>7</sup> P. Stobdan, "*Central Asia: Democracy, Instability and Strategic Game in Kyrgyzstan*", Pentagon Press, 2014

<sup>8</sup> The Ministry of Commerce's spot study reports on the transport infrastructure and transit facilities in Iran (July 1993) and the Central Asian Republics (November 1994) observed several optional transit routes available for Indian goods to access Central Asia.

developing the Iranian Chabahar Port; upgraded the Chabahar–Zaranj road and constructed a highway from Zaranj–Delaram in western Afghanistan with the aim of accessing to Central Asian countries.

A comprehensive Eurasia policy, therefore, should incorporate a long-term strategy that would require steps for opening up borders for achieving greater connectivity with rest of Asia. In the case of Eurasia, a natural connectivity can only be sought through the northern parts of India rather than through the western seacoast. Because, the issue is not about accessing Eurasia per say, but also about orienting and benefiting from economic integration of India's immediate borderland with that of Eurasian growth line.

While it is important to pursue connectivity through over-land route through Iran and Afghanistan or via International North-South Transport Corridor (INSTC), however, even the best pursued energy pipelines such as the IPI and TAPI have so far failed to be realized. The prospects for having a seabed pipeline from Iran and Oman to a port in India is being discussed for decades. Though the time factor of delaying the process goes against Indian economic interest, Pakistan and India should not foreclose the overland alternative through Pakistan. Neither India nor Pakistan is an immediate neighbour of the region, but latter has been seeking connectivity to the region to the exclusion of India. Islamabad has done this by denying India direct access to Afghanistan through Pakistani territory.

Additionally, both routing through the sea and transiting through politically troublesome Pakistan-Afghanistan region fails to realise the real regional integration process with Eurasia. These options are not helpful for India's long-term interests. Logically, any connectivity to Eurasia should follow the traditional India-Central Asia route that went across the Himalayan passes and Xinjiang steppes. Again, the logic is not about accessing Eurasia but the most important part is seeking regional and economic integration with India's northern neighbours including China. In fact, it is the only option which is realistically attainable and worth pursuing. The shift of thinking in this direction is something that India can no longer afford to put off, unless India wants to remain disconnected with its immediate vicinity only to inculcate more insecurity and China encirclement fear.

Firstly, it needs to be understood that China and Central Asian countries have already facilitated various transit and transport systems to overcome their inter-regional trade problems. Since 1992, China has reactivated its old rail link with Kazakhstan. Several major railway, road, and pipeline projects are being launched traversing from Xinjiang across Kyrgyzstan, Uzbekistan, Turkmenistan, and Iran under China's latest "Silk Road Economic Belt" project. Xinjiang Uygur Autonomous Region (XUAR) is already the hub for any mode of transportation. It has 16 Class A ports and 11 Class B ports connecting with eight countries.

Secondly, there are other initiatives taken up by others. An ambitious railway project connecting Iran, Turkmenistan, and Kazakhstan has been inaugurated in December 2014.<sup>9</sup> A second project will cover Turkmenistan–Afghanistan–Tajikistan section.<sup>10</sup> Plans are also afoot to construct a 250-mile railroad linking Afghanistan's Akina–Andkhoy to Turkmenistan's Atamurat–Ymamnazar via Pyandzh in Tajikistan.<sup>11</sup> Once completed they would have far-reaching implications for the region especially paving the way for transforming connectivity covering the Persian Gulf region, Caspian Sea, Central Asia, Western China and the Trans-Himalayan region of India. India should press for joining these fast developing webs of transport networks to break its geographical isolation and exposure to the Eurasia region. For India, Xinjiang should become the natural and strategic choice to reach out to Eurasian region while bypassing the immediate and troubled Af-Pak region.

## Interconnectivity Option

In fact, there already exist roads and railway alignment in a north-south direction from Kazakhstan, Kyrgyzstan, Tajikistan, and Western China to India. From the north, the existing road runs from *Almaty, Korgas* (Highway No. A-353), *Yinning, Kuqa*, (No. 218) *Aksu, Kashgar*, (No. 314) *Yarkand, Yecheng* (Xinjiang–Tibet Highway No. 219) *Mazar, Shahidulla, Sumxi, Derub, Resum, Shiquanhe, Gar, Kailash, Burang, Lepu-*

<sup>9</sup> *Fars News Agency*, September 19, 2014

<sup>10</sup> *Gazeta-pravda.ru*, September 18, 2014

<sup>11</sup> *ITAR-TASS*, March 20, 2013

*lekh*. The total distance is less than 3,000 kilometers as compared to over 5,000 kilometers long route via Iran. Kyrgyzstan and Western China is connected by Bishkek–Kashgar road through Torugart Pass and Osh–Kashgar road via Irkeshtam Pass; Xinjiang highway is connected to Tajikistan through the old Silk Route across the Pamirs and Xinjiang with Afghanistan through Wakan corridor. Importantly, these routes are functional and it is only a matter of interconnectivity.<sup>12</sup>

## **Untying the Karakoram Knot**

A transport corridor through the difficult Himalayan mountain passes would be a challenge. A linkage through Ladakh to Xinjiang highway through legendary Karakoram Pass or Demchok could have been feasible but due to China's sensitivity any engagement in this sector is a problem. However, the legendary Karakoram Pass forms part of the International Boundary (IB) hence should not be a problem for both sides. Alternatively, while also considering the topographical factor, Lipu-Lekh Pass in Uttarakhand, which is opened for border trade with China since 1992, could be an entry point to start with for transit trade. Refurbishing of the road connecting to Shipkila in Himachal Pradesh and Lipu-Lekh in Uttarakhand are already in progress.

The proposed route which involves only one country (China) as a land-link between India and Central Asia, as compared to the longer western routes traversing through Iran and Afghanistan would be seasonal, but its reactivation would have a symbolic significance, essentially for reviving the traditional Silk Route that was vibrant until 1950s.

Importantly, the route passes through relatively stable Xinjiang as compared to the turbulent areas of Pakistan and Afghanistan. In fact, transiting trade through Iranian port has not been problem free. Indian traders still prefer to use Chinese port for better efficiency and timely delivery.

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<sup>12</sup> P. Stoban, "Exploring India – Kazakhstan Transport Linkages", *IDSA Policy Brief*, December 22, 2008, [http://www.idsa.in/policybrief/exploring\\_indiakazakhstantransportlinkages\\_pstobdan\\_221208](http://www.idsa.in/policybrief/exploring_indiakazakhstantransportlinkages_pstobdan_221208)

## Map 1



For India, the route has a strategic consideration rather than economic angle alone. Ladakh–Xinjiang route could help counterpoise Pakistan’s plan for an 800 kilometers long railway from Gawadar to Kashgar. Besides, India would have the advantage of gaining an access to the transcontinental transport corridors especially Chinese proposed “Silk Road Economic Belt” project linking Asia with Europe.

The route could rebuild India’s connection with Xinjiang going back to 240 BC when the Asoka’s son Kushtana founded the Khotan kingdom and introduced Buddhism in the present day Xinjiang province of China, which was historically described by the Indians as *Ratna - Bhumi*. Politically, the reconnection will benefit India regain its status of legitimate Central Asian player that it enjoyed until the closure of India’s Consulate in Kashgar in mid-1950s. It would revive the traditional

social and cultural ties between the Uighurs and people in Ladakh whose economies were interconnected to each other for centuries. Revival of cross-border trade, however small, should help enhancing confidence building between India and China.

Significant trade volumes exist for markets in India, China, and Central Asia. China could earn considerable revenue from transit fees. Conceivably, arrangements for swap deals with China could also be worked out gradually. Availability of goods from neighbouring India would cut down the cost of transporting basic economic commodities from Eastern to Western China. Indian goods are extremely popular in Xinjiang, which was demonstrated during the trade-fair first held in Urumchi in 1992. Similarly, for India, opening the Xinjiang route would allow imports of essential goods from across the border. This will reduce the delivered costs of goods including fuel supplies to remote trans-Himalayan region through difficult passes. Currently goods worth crores of Rupees cross into Ladakh's Dumsale post through illegal means.

With the technological breakthrough, the negative side of the feasibility is now reduced to geopolitical factor of China's willingness to cooperate. China may be receptive to the idea of cross border cooperation serving as a confidence building measure which would lead to boundary settlement, the issue of territorial disputes between India and China would certainly come in the way. But any security apprehensions could be mitigated by assuring the Chinese that India could be counted as a factor of stability rather than a threat to restive Xinjiang. In fact, any resulting gains and prosperity from economic exposure to the Chinese and Central Asian frontiers could only trigger major development actions and growth in J&K, Punjab and Himachal Pradesh.

The risks of trans-border exposure are for both the sides. China is equally vulnerable in Xinjiang where the Uighur people show closer affinity and warmth to Indians than to the Chinese. China could achieve better internal harmony by exposing Xinjiang to India than to Pakistan. The Karakoram Highway is already becoming a terrorist highway to export the trained jihadis from Pakistan into Xinjiang.

The reasons for not moving ahead are well known, but actions to bridge the gaps are lacking. Fortunately, the possibility of India and

China cooperating in Central Asia is already becoming a reality. An India-China oil consortium in Central Asia is being talked about. India's GAIL Company has invested in Chinese gas pipeline projects in Kazakhstan. Both India and China are carrying out mega projects in Afghanistan's energy and mining sectors including extraction of iron ore and copper field. Eventually, the two countries could develop huge stakes in the stability of Afghanistan as they have common economic and security interests.

Russia and India have been aiming to collaborate in Eurasia. The Indo-Russian 2014 Joint Statement envisaged some tangible actions including early implementation of the International North-South Transport Corridor (INSTC) through Nhava Sheva via Bandar Abbas to Astarkan, exploring the possibility to have a Comprehensive Economic Cooperation Agreement between India and the newly formed Eurasian Economic Union (EEC) by Belarus, Kazakhstan, Russia and Armenia. Kyrgyzstan has recently joined the EEC. Russia has offered Siberian oilfields (Vankor and Yurubcheno-Tokhomskoye) for gas and oil exploration and production as well as in LNG projects and supplies by ONGC. It has talked about exploring the building of a \$40 billion long-distance oil and gas pipeline system from Russia to India. Agreement to facilitate scientific cooperation to explore prospects in the Arctic and the Northern Sea Route is also envisaged. All these projects are certainly not possible to implement easily but they are promising areas and if they are materialized, they would turnaround the trade prospect and bring rationality in Indo-Russian-China relations. Again, any viable future long-distance transport grids, including energy highway from resource rich Western Siberia and Central Asia to India cannot be realized without them transiting through Western China.

Clearly, the convergence of interests among Russia, India, and China (RIC) are gradually growing. The trio is committed, politically and economically, for broadening their base of interactions under the BRICS, G20, EAS, and RIC forums. They share similar perspectives on many key regional and global issues, including cross-border terrorism, Afghanistan, Syria, Iraq and Iran. The RIC also have more direct and vital strategic stakes in the immediate region. The rising tide of Islamic fundamentalism in their geostrategic vicinity would inevitably have implications far beyond. They cannot overestimate the US propensity

to underwrite Pakistan's misadventures in South Asia, Central Asia, and Western China. The Western countries continue to maintain an ambiguous policy towards contentious domestic issues in Russia, India, and China. The Central Asian republics are deeply worried of the consequences of the US troop's withdrawal from Afghanistan. They fear attacks from extremists from across the borders of Afghanistan and Pakistan.

The sustained China-Pakistan alignment and US-Pakistan ties have essentially served for India to erect a barrier-wall for a direct access to Eurasian region. If India overlooks the fast developing transport and pipeline network, intersecting with growing Sino-Russian, Sino-Pakistani and now Pakistani-Russian partnership, they could adversely affect India's long-term interest. A creative diplomacy is therefore urgently needed to overcome the physical barrier with Central Asia.

### **Action Plan**

India needs to note that Central Asian States have been seeking India's entry as a balancing force. With India likely to join the SCO, its stakes in Central Asia could inevitably grow and this cannot be realized without the Chinese and Russian cooperation. Prime Minister Modi, during his forthcoming visit to Ufa in July 2015 would attend the BRICS Summit and hopefully, the SCO Summit should frankly articulate India's viewpoints.

1. Prime Minister has to highlight that the entire Eurasian region share common history and culture once bounded by the Silk and Spice Trade Route. Clearly, these connecting points would help to flourish better economic relations and enhance improved political ties. Moreover, the security and stability of these countries will get more and more intertwined.
2. Prime Minister needs to underline that direct land connectivity from India through China to Central Asia and Russia is necessary if organizations such as RIC, BRICS, and SCO are to become more robust.
3. Prime Minister should take up the proposal of Ladakh–Xinjiang connectivity directly with President Xi. This could also form a counterpoise to China's call for India to join its Silk Route idea.

Alternatively, Central Asian countries especially Kazakhstan is in a position to take the initiative as it holds key advantages vis-à-vis China and wishes to exercise them in order to push the idea. If China responds positively, then the matter could be taken up from there.

4. The proposal should initially involve a country-specific linkage approach. India and China already have border trade agreements. However, to make the proposal viable for the longer term, it would require a regional approach at a later stage. For example, Russia, three Central Asian States, and Afghanistan should be involved in the cooperation efforts. Therefore, a proposal for a sub-regional framework agreement among India, China and Central Asian republics to facilitate cross-border transit trade along the measures adopted by ASEAN, Greater Mekong Sub-region, TRACECA, ECO, BIMSTEC, and others could be mooted.
5. China, India, and Central Asian States should consider using the existing facilitation agreements for transit transport at the multilateral, bilateral, trilateral, and sub-regional level. The proposal could be perused within the SCO framework, as well as under the Asia Cooperation Dialogue (ACD) mechanism. Several intergovernmental agreements on the Asian Highway Network already exist under the UN-ESCAP programme.
6. India and Kazakhstan already has a Joint Working Group on Transport which should be activated to include the above proposal so that exploration process and implementation could be initiated.
7. It is pertinent that a multilateral (India, Kazakhstan, China, Russia, Kyrgyzstan, Tajikistan, Afghanistan) joint study group is set up for undertaking a feasibility study.
8. India should factor the importance of using Xinjiang corridor as a priority with China and Central Asian States. Prime Minister should take up the matter with President of China at the SCO forum. India and Xinjiang Uighur Autonomous Region (XUAR) already has agreement signed on civil aviation cooperation when the governor of XUAR Ismail Tiliwaldi visited New Delhi in 2005. Starting of flights from Urumchi to Delhi will also improve India's

air connectivity with landlocked Central Asia as well as they can hob via cities such as Almaty, Tashkent or Bishkek.

9. Prime Minister should also press for the re-opening of Indian Consulate in Kashgar, which was closed in the mid 1950s. Our primary geopolitical purpose should indicate not containment of China or any other power but to promote regional cooperation and this will help us come out of the self-defeating and zero-sum approach to regional polity. Any possibility of realising a future transport link between India and China through old Silk Route would unlock huge potential for India-China cooperation and foster integration of Asian economies. It would be an ice-breaking moment for Prime Minister Modi and President Xi.

## STRATEGIC FOCUS ON KAZAKHSTAN

Uzbekistan undoubtedly is the key to Central Asia's overall regional dynamics, but Kazakhstan should deserve India's immediate attention. There are strong reasons to pick out oil-rich state, Kazakhstan. The country (size of India) and largest in Central Asia, is of key interest to all major powers. Kazakhstan's location not only makes it integral to Eurasian linkages but also serves as a buffer between East and West.

Until two decades ago, Kazakhstan was known for being a dumping ground for the Soviet prisoners, gulag camps, and nuclear tests. It had the world's fourth largest nuclear arsenal with over 1,000 nuclear warheads and 40 TU-95 heavy bombers, which the country voluntarily rescinded.<sup>13</sup> Semipalatinsk was the world's second-largest nuclear military-industrial complex and the site of nearly 500 nuclear test explosions. It had a uranium enrichment plants at Ust-Kamenogorsk and rapid neutron reactor site in Aktau. In 2006, Kazakhstan diluted 2,900 kg of high-enriched uranium, which was sufficient to make 25 nuclear warheads. Besides, the country had large biological and chemical weapon facilities at *Stepnogorsk*, which too was shut down in 1990s.

Kazakhstan has today emerged as the most prosperous, stable, and secular despite Muslim majority population, and with a free economy in the entire post-Soviet era. In a short span, the country has made a brisk resurgence and is now slated to be the most sought-after modern state and the strategic focal point amongst the former Soviet republics, according to the opinion survey by the Russian Public Opinion Research Center (VTsIOM).<sup>14</sup> The country's income levels GDP per capita has

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<sup>13</sup> "For the Preservation of Humanity", *Kazakhstan 2007*, Ministry of Foreign Affairs of Kazakhstan, Randevu Publishing House, Almaty, quoted by P. Stobdan, "India and Kazakhstan Should Share Complementary Objectives", *Strategic Analysis*, 33(1), 2008

<sup>14</sup> "Russians consider Belarus, Kazakhstan most successful countries in CIS", December 15, 2015 (*BelTA*) [http://eng.belta.by/all\\_news/society/Russians-consider-Belarus-Kazakhstan-most-successful-countries-in-CIS\\_i\\_78096.html](http://eng.belta.by/all_news/society/Russians-consider-Belarus-Kazakhstan-most-successful-countries-in-CIS_i_78096.html) (Accessed on March 20, 2015)

risen from \$1,647 in 1990 to \$13,172 in 2013 – already a middle-income country according to World Bank criterion. The country maintains high growth of 6-7 per cent. It has accumulated huge foreign exchange reserve that gave birth to a credible financial and banking sector. For example, the real estate rates in Almaty are growing higher than in New York or New Delhi. The country also has a successful welfare system that has so far averted Western criticism of President Nursultan Nazarbayev, who has been ruling the country since it came into being after the Soviet collapse in 1991. He has managed to survive by shrewdly manipulating the internal politics and devising internal means to gain political legitimacy. Nazarbayev is aging and there isn't any clear succession plans despite some surreptitious intrigues among members of the ruling elite. Therefore, there is an element of political uncertainty despite high achievements on the economic front.

### **Oil - Key Driver**

The key driver behind Kazakh resurgence is obviously its oil exports. According to the Oil & Gas Journal (OGJ), Kazakhstan's oil reserves are about 30 billion barrels and are projected to touch 100-110 billion barrels by 2015.<sup>15</sup> Currently, Kazakhstan is the twelfth largest oil producer in the world. The current annual production of 100 million tons (1.7 million barrels per day) would jump to 150 million tons by 2015 per annum.<sup>16</sup> The key to production is linked to further development of giant Tengiz, Karachaganak, and specially the offshore Kashagan fields that will make the country an important player in the world's energy and oil markets.

### **Strategic Mineral Resources**

There are other resource components, including natural gas, projected at 5 trillion cubic meters by 2015. Kazakhstan has the second largest

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<sup>15</sup> *Oil & Gas Journal*, "Worldwide look at reserves and production," (January 1, 2014), Independent Statistics and Analysis, US Energy Information Administration, <http://www.eia.gov/countries/cab.cfm?fips=kz> ( January 14, 2015)

<sup>16</sup> EIA, "Kazakhstan Energy profile: Second Largest Oil Reserves among Former Soviet Republics – Analysis", January 15, 2015

phosphorus reserves, second largest copper ore reserves, 31.8 billion tones of proven coal reserves, 9.1 billion tones proven and 15.4 billion tones of potential iron ore reserves, plus trillions of dollars worth Rare Earth Metal (REM).

It is not oil and gas alone, Kazakhstan produced 22, 829 tons uranium ore in 2013, world's largest share (38 per cent) followed by Canada (16 per cent) and Australia (11 per cent) in that year.<sup>17</sup> Kazakhstan's uranium mines are vast and they already have attracted financial investments from several key foreign companies including interest from world's major Cameco Corp. Already, China's National Nuclear Corp. has a 30 per cent stake in *KazAtomProm* Company. The Japanese, French, South Korean, and Russian companies have also entered the market. Clearly, Kazakhstan is likely to play a leading role in the world's nuclear fuel commerce in future.

### **Diversification: Agro-Industrial Base**

Uniquely, Kazakhstan, unlike the countries in West Asia, does not depend on oil exports alone. With investments pouring in, the country is poised to diversify its economy beyond energy sector to focus on its vast agricultural and industrial base so as to avoid the so-called "Dutch disease." According to the International Grains Council (IGC), Kazakhstan produced over 26 million tonnes of grain in 2012.<sup>18</sup>

The country is also embarking on an ambitious diversification program to promote targeted sectors like transport, pharmaceuticals, telecommunications, petrochemicals, and food processing. Since 2010, Kazakhstan has been a member of the Belarus-Kazakhstan-Russia Customs Union and is now being transformed into the Eurasian Economic Union since January 2015.

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<sup>17</sup> World Uranium Mining Production data (*Updated February 2015*), *World Nuclear Association*, <http://www.world-nuclear.org/info/Nuclear-Fuel-Cycle/Mining-of-Uranium/World-Uranium-Mining-Production/> (Accessed on March 20, 2015)

<sup>18</sup> <http://www.world-grain.com/Departments/Country%20Focus/Country%20Focus%20Home/Focus%20on%20Kazakhstan.aspx?cck=1> (Accessed on March 20, 2015)

There are other signs pointing to Kazakhstan's growing vitality. For example, its aerospace assets are rapidly expanding. Its Baikonor cosmodrome launched Sputnik 1, Earth's first artificial satellite and thereafter, over a thousand of space vehicles were also launched. From 2011 onwards, it has become the launch site for manned Soyuz missions to the International Space Station. A new complex *Baiterek* is also being developed for space tourism.

Kazakh Defence Ministry has vast military industrial complexes of the Soviet times which the government is trying to maintain. Some of these are already being privatized and their products find ready buyers in the world's weapon market. Besides, the country also aspires to build a credible naval force in the Caspian Sea to protect its energy assets and supply routes.

## Smart Diplomacy

Kazakhstan is a unique country having economic prosperity with a pluralistic ethnic structure. The country has proclaimed a Constitution adhering to a democratic and secular system like India. President Nursultan Nazarbayev has proved adept in containing internal ethnic dissension, where other Central Asian leaders failed. Nazarbayev, notoriously characterized as a sly fox, has also been adept in foreign policy. He has shrewdly pursued diplomacy of balancing relations with Russia, China and the West. The country's location in the heart of Eurasia, its rising energy and economic profile allowed Nazarbayev to play major powers against each other while also drawing them into energy and geopolitical competition. Even the West seems to like Nazarbayev's independent streak of taking an even-handed stance on critical issues.<sup>19</sup>

After successfully courting China, Nazarbayev also tried to draw India into a delicate balancing game. India's Oil and Natural Gas Corporation (ONGC) made tough negotiations with the Kazakhs going back and forth several times on their promise to offer an oil-block. India's benign

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<sup>19</sup> Denying that US was playing a zero-sum game in Central Asia, former US Secretary Rice once said "this was not some kind of contest for the affection of Kazakhstan between the countries of the region." "U.S. plays down its role in Central Asia", *International Herald Tribune*, October 5, 2008

indifference prompted Nazarbayev maneuver against India's OVL-Mittal combine bid for a \$4.18 billion takeover of PetroKazakhstan Inc. in 2005 in favour of China.<sup>20</sup> In 2009, India made a special gesture by honouring President Nazarbayev as the Chief Guest on India's 60<sup>th</sup> Republic Day celebrations. In 2013, Kazakhstan promised 8.4 per cent stake in the Kashagan project to ONGC but later the deal was manipulated in favour of China's CNPC.<sup>21</sup> This was a huge setback and disappointment - dampened enthusiasm in India for closer relations with Central Asia.<sup>22</sup>

Clearly, Nazarbayev's achievements and his popularity instilled in him a sense of worth and as such, he seeks political recognition. It was not commerce but politics that factored in the PetroKazakhstan deal in favor of China. Many viewed that Nazarbayev has never been opposed for giving India a favorable strategic presence in terms of offshore projects but for New Delhi's reluctance in playing its potential cards assertively. In fact, for a long time Kazakhstan's strategic community has espoused the idea of engaging India for countervailing any imminent Chinese threat as anti-China sentiment looms large among Kazakhs.

## **Stakes for India**

India's inability to win major exploration bids in Kazakhstan certainly remains a discouraging point. It appeared that Central Asia was not ready for India's entry. There have been other instances of business irregularities such as non-payment for goods supplied by Indian exporters, which have scared Indian investors moving into Kazakh market.

Keeping pace with the new geopolitical reality evolving in the Eurasian region, India needs to take note of the potentials of Kazakhstan very seriously now. In fact, the matrix of Indo-Kazakh relations is quite sound. Kazakhstan is India's largest trade partner in Central Asia

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<sup>20</sup> "Kazakh oil coup for China, India cries foul " <http://www.atimes.com/atimes/China/GH24Ad01.html> ( October 22, 2008)

<sup>21</sup> Ibid.,

<sup>22</sup> "Kazakh oil coup for China, India cries foul" <http://www.atimes.com/atimes/China/GH24Ad01.html> (October 22, 2008)

amounting to \$918 million or about 75 per cent of total trade with the entire region in 2013-2014.<sup>23</sup>

Kazakhstan shares the strongest affinity with India in terms of political and economic commitment, shared values of secularism, and plural structure. Nazarbayev has been persistently pursuing an Asian dialogue on security cooperation through CICA. Kazakhstan has also shown full commitment to fight against terrorism and signed a Joint Working Group (JWG) with India on terrorism, which could form a basis for strengthening cooperation in the SCO. The two countries have a strategic partnership agreement and an agreement to cooperate in stabilizing Afghanistan.

It is amply clear now that Kazakhstan is the most promising country. According to the vision "Kazakhstan's way – 2050" the country's GDP per capita will grow from currently \$13, 172 to \$60,000 in the next two decades. Kazakhstan's Sovereign Wealth Fund Samruk-Kazyna is sitting on \$146 billion and is planning a number of large investment projects in the immediate future.<sup>24</sup> It slates mining, petrochemical, chemical industry, power industry and the real estate sector as priority areas. It seeks to import new technologies for exploration, production, and processing in the mining sector.

It has huge deposits of almost all the metals and ores. Along with Afghanistan, Kazakhstan is going to become new global centers of Rare Earth Elements (REM) production worth trillions of dollars in the future. According to its strategy, Kazakhstan wants to increase the reserves of copper, lead and iron ore.

Enormous scope exists for Indian entrepreneurs to take advantage of Kazakhstan's free market regulations and a stable government. India should start thinking about tapping Kazakhstan's abundant oil and

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<sup>23</sup> Department of Commerce, Export-Import Data Bank, Country – wise, Ministry of Commerce, New Delhi, <http://www.commerce.nic.in/eidb/default.asp> ( March 19, 2015)

<sup>24</sup> President Nursultan Nazarbayev's 2014 the State of the Nation Address, "Kazakhstan Way – 2050: One goal, One Interest and One Future", *Astana Special Issue No 1*, January 19, 2014. Also see <http://kashagan.today/?p=1796>

mineral resources. Although quite late, ONGC has tried to get a footing in the oil & gas sector wherein China has already taken a large share. The ONGC Videsh Ltd has made some deals with KazMunaiGas (KMG) lately to pick up a stake in the Satpayev block in the offshore Caspian Sea when Prime Minister Manmohan Singh had visited Astana in 2011. This was the first breakthrough for India in the Central Asian energy sector. It seems, the OVL is closely studying the proposal to be part of the massive oil and gas exploration “Eurasia Project” initiated by Kazakhstan in the Caspian Sea, which possesses a whopping 300 fields mainly in deep lying oil and gas horizons.<sup>25</sup>

Kazakhstan figures top on India's diplomatic priority for nuclear commerce. An MOU exists between the National Company KazAtomProm and the Nuclear Power Corporation of India Limited for supply of Uranium to India under the civil nuclear cooperation agreement. A deal with Kazakhstan is attractive for India in terms of both fuel supply and a possible joint venture in setting up small and medium nuclear reactors. In fact, Kazakhstan was among the first countries to support India during negotiation at the International Atomic Energy Agency (IAEA) and Nuclear Suppliers Group (NSG) at the Vienna meet in 2009.

Opportunities are plentiful in areas such as modernization of refineries, services exports, pharmaceutical, IT software, biotechnology, banking, health, and education services, defence industry, agriculture farming, textile etc. India should seek agriculture land on lease from Kazakhstan for commercial agriculture farming. The country has a number of the Soviet-time industrial units lying either abandoned or underutilized. The country has a large-scale space-technology research center and military hardware production complexes could be exploited by India for mutual benefit. But, with the singular exception of ArcelorMittal, owned by NRI Laxmi Mittal, no other Indian entity is profiting in this sector. His Midas touch on *Karmet* steel plant in Temirtau is a glaring example for what India could emulate at a bigger scale. Of course, lately India's Punj Lloyd, KEC International Limited, TCS etc. has gained

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<sup>25</sup> Sujay Mehdudia, “OVL considering being part of Kazakhstan's \$500 “Eurasia project”, *The Hindu*, December 16, 2013

a major presence in that country especially in the construction of pipeline, electric transmission lines, IT etc.

In fact, in many fields of resources, demands, expertise, and capabilities, India and Kazakhstan are complementary to each other. It also seems clear that Prime Minister Narendra Modi and President Nursultan Nazarbayev share similar economic outlook and bent of mind. Modi has launched "Make in India" program to boost India's economy and encouraging foreign investments for strengthening infrastructure and manufacturing capabilities. Nazarbayev too initiated a program 'Nur Zhol' (Path to Future) to accomplish a similar vision for Kazakhstan.

Clearly, their chemistries are likely to click as they may seek convergence of interests to work on the complementarities and focus manufacturing industries based on innovation. Kazakhstan desires Indian firms to make use of Kazakhstan as a manufacturing hub to export the products across Asia to Europe while taking advantage of its connectivity routes. A right platform is needed to envisage this vision.

Taking a cue from Premier Hu Jintao and President Putin, Prime Minister Modi should visit Astana and take the Strategic Partnership further, which will make Kazakhstan the key player linchpin of India's policy goals in Central Asia.

Kazakhstan and India share an old relationship through Buddhist and Sufi links. It needs to be reinvigorated keeping with contemporary realities. The time has come for India to mark the beginning of a new diplomatic phase in Central Asia - a region very vital for geostrategic reasons. It would also be useful to resuscitate, by way of commemorating Mirza Muhammed Haidar Dulati (1500-1551), who was the Kazakh icon in Indian history and the Governor of Kashmir under the Moghal emperor Humayun.<sup>26</sup> The Kazakhs have resurrected Haidar Dulati as their national hero. Dulati is an important reference value and a symbol of old linkages between India and Kazakhstan.

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<sup>26</sup> P. Stobdan, "India and Kazakhstan: Civilizational Explorations" *Heritage*, 2003

## OPPORTUNITIES IN CENTRAL ASIA

### Trade and Business Prospects

As mentioned earlier the complementary aspects of Indian and Central Asian economies are extremely high in potential. After experiencing complete breakdown in manufacturing sector, supply of raw materials and lack of markets, Central Asian states are fast getting linked to global market for production, supplies of raw materials and services. However, against the backdrop of changing economic environment; prolonged recession in Europe, financial crisis in Russia, fall in oil prices etc are opening new vistas of opportunities for Central Asia-India trade partnership to grow. Some expert-level studies, after identifying a trade potential index using a gravity model of trade framework, indicated huge untapped potential for increasing trade between India and Central Asian countries. The experts too identified the geopolitical constraints for enhancing trade and suggested early viable trade route.

Even though India-Central Asia trade suffered blockage by Pakistan, but trade in goods has increased manifold over the past decade.

**Table # 1: India's Trade with Central Asian Countries in 2013-2014**

	<b>Country</b>	<b>Export</b>	<b>Import</b>	<b>Total</b>
1.	Kazakhstan	261.51	656.33	917.84
2.	Kyrgyzstan	34.54	0.64	35.18
3.	Tajikistan	54.27	0.86	55.13
4.	Turkmenistan	73.62	14.10	87.72
5.	Uzbekistan	114.07	31.50	145.57
	Total	538.02	703.42	1241.44

**Source:** Department of Commerce: Export Import Data Bank Version 7.2  
<http://www.commerce.nic.in/eidb/ernq.asp> updated on 03/ 03/ 2015

**Table # 2: India's Exports to Central Asian Countries**

	<b>Country</b>	<b>2012-13</b>	<b>2013-14</b>	<b>% Growth</b>
1.	Kazakhstan	286.23	261.51	-8.64
2.	Kyrgyzstan	34.99	34.54	-1.27
3.	Tajikistan	35.16	54.27	54.37
4.	Turkmenistan	69.92	73.62	5.29
5.	Uzbekistan	124.90	114.07	-8.67
	Total	551.20	538.02	-2.39

Source; Department of Commerce: Export Import Data Bank Version 7.2 <http://www.commerce.nic.in/eidb/ergnq.asp> updated on 03/03/2015

**Table # 3: India's Imports from Central Asian Countries**

	<b>Country</b>	<b>2012-13</b>	<b>2013-14</b>	<b>% Growth</b>
1.	Kazakhstan	139.99	656.33	368.85
2.	Kyrgyzstan	2.09	0.64	-69.29
3.	Tajikistan	12.86	0.86	-93.34
4.	Turkmenistan	8.33	14.10	69.35
5.	Uzbekistan	31.85	31.50	-1.11
	Total	195.11	703.42	260.53

Source; Department of Commerce: Export Import Data Bank Version 7.2 <http://www.commerce.nic.in/eidb/ergnq.asp> updated on 03/03/2015

India's exports to Central Asia particularly remain high in the case of Kazakhstan at \$261.52 million in 2013-2014 but the growth in Tajikistan and Turkmenistan remain at 54.37 and 5.29 per cent respectively (Table # 3). However, Central Asia's exports to India particularly from Kazakhstan has suddenly jumped 368.85 per cent from 2012-2013 to 2013-2014.

A study by Pradeep Agrawal and Seema Sangita of the *Institute of Economic Growth* (IEG) entitled, *Central Asia: Trade Routes and Trade Potential* (2013) suggested that the trends in values of exports of Central Asia are heavily driven by prices of commodities in the international market, such as by energy prices in the case of Kazakhstan and Turkmenistan, and cotton prices in the case of Uzbekistan.<sup>27</sup> Of the five Central Asian countries, India's biggest trade partner was Kazakhstan at around \$917.84 million in 2013-2014. Uzbekistan is a distant second at \$145.57 million in the same year (Table # 1).

India's imports mainly include precious and semi-precious stones, chemicals, iron and steel, machineries, mineral oils, copper goods, plastic goods, wool, and leather. Exports items include coffee, tea and spices, apparel and clothing (both knitted and not knitted), pharmaceutical products electrical and mechanical equipments.

### **Partnership Prospects**

Apart from Kazakhstan, major opportunity exists for some significant trade in other Central Asian countries like Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan. Uzbekistan and Turkmenistan also have huge reserves of minerals and hydrocarbons. Uzbekistan is the world's 17<sup>th</sup> largest producer of natural gas, ninth largest producer of gold and sixth largest producer of cotton. The country's abundant natural resources are yet to be developed.

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

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<sup>27</sup> Pradeep Agrawal & Seema Sangita, "India and Central Asia: Trade Routes and Trade Potential", *IEGIEG Working Paper* No. 334, 2013

## Hydropower Sector

Unlike others, Kyrgyzstan has no rich hydrocarbon resources but it has abundant hydropower potential (estimated 142 billion kWh a year) of which only 10 per cent is exploited. The country faces the challenge of an energy quagmire leading to frequent civil unrest and political instability. The government of Kyrgyzstan plans to build hundreds of micro hydro projects to meet the power shortages. India should assist Kyrgyzstan in building at least one small/ medium-scale hydro station.

Tajikistan is the world's third-largest hydroelectric power producer, but only 40 per cent electricity production is used. Over 90 per cent of Tajikistan's hydroelectric potentials are yet to be developed. It also has huge aluminum producing capacity.

## Agro-Industry

Kazakhstan has territory almost equal to that of India but with a total population of only 15 million. Kazakhstan produced over 26 million tonnes of grain in 2012 and is also among the world's five largest grain exporters. The country's huge cultivable areas are lying barren and without being put to any productive use. In fact, the Chinese have been eyeing Kazakh land and leasing tracts of areas for growing soya bean. Indian companies could plant several hundred hectares under soya bean, value add by processing the crop into soya nuggets, soya oil, soya milk, soya sauce and soya based animal feed etc. The world's largest consumers of soya-based products are China, Korea, Taiwan & Japan.

Uzbekistan, Kyrgyzstan's Chu valley, and Tajikistan's Vakhsh River valley in southern Tajikistan offer enormous opportunity for the cultivation of pulses, which can possibly produce two crops annually. A large quantity of pulses including kidney beans (rajma) grown in the Chu Valley of Kyrgyzstan are bought over by Turkish companies and then re-exported to India. Indian agribusiness companies such as ITC or Bharti or Reliance should look into these opportunities in Central Asia for setting up commercial agro-industrial complexes.

## Construction Industry

The region is experiencing a real construction boom which presents many opportunities. Kazakhstan particularly has created a dynamic and competitive market to attract considerable foreign investments in the industry. Similarly, volume of construction works is increasing in Uzbekistan's cities such as Tashkent, Bukhara, and Samarkand. This is also true for Ashgabat (Turkmenistan), Dushanbe (Tajikistan), and Bishkek (Kyrgyzstan).

Industrial construction (petrochemicals, metallurgy, pipeline and mining) are key sectors of attraction. Billions of Dollars are being committed in oil and gas sector, processing industry, and transport and communications segment in Kazakhstan's Atyrau and Mangistau oblasts. Many engineering projects are coming up in the oil and gas sector, especially in pipeline construction in Tengiz, Karachaganak, and Kashagan fields. Such projects will require engineering and construction services. Indian's L&T is already in the pipeline construction business and doing well.

To reduce dependence on energy and mining industries, the country is seeking diversification to open several sectors, such as chemicals, nuclear and manufacturing. It has envisaged launching 927 investment projects to boost both civil engineering and non-residential construction including renovation of roads up to 2019. The new capital - Astana - is a fast growing city. New business centers, shopping malls, cultural centers, sports complexes, roads etc are being planned in the cities along the oil-rich Caspian region in the west. Turkish construction firms are already operating in the country.

India companies, financial services providers, contractors, design and project management specialists should quickly grab the opportunities. The country is encouraging international investors to expand their presence in Kazakhstan. Several Indian companies are making world-class structures in India, UAE and other Middle East & Gulf countries. DLF, Shapourji Palonji, Ansals, Lokhandwalas, Rehejas & Hiranandanis etc could find huge opportunities to join hands with local firms such as Ahseil Holding, Aldar Properties, Astana Development Group etc. This is a very profitable sector where Indian firms could build excellent structures at a reasonable cost and be a part of this project. Big Indian Companies also need to bid for road and railway construction, electric power transmission and distribution, telecommunications, power

generation etc. that are being undertaken with the support and assistance of ADB, WB, EBRD, IDB etc. Prospects are enormous for construction materials export currently imported from Turkey, China, and Germany. The Kazakh builders are using very large quantities of granite and marble in building construction. Indian granite & marble producing / trading company could present here stocking and selling materials directly to the major construction companies. A few small size Indian companies have already entered in this field.

Kazakhstan has almost unlimited reserves of iron ore and coal. Yet, the country has little production of TMT bars and other structural steel items. Most of these items are imported from Russia and China. Indian companies must look at the possibility of setting up medium size steel rolling mills for producing TMT bars, angle irons and joists etc in Kazakhstan. The steel products produced here can also be exported to China. This is what Mittal Steel does by exporting steel to meet the gluttonous demands in China.

It is imperative for Indian companies to look at the Kazakh market in a pro-active manner if they wish to garner a substantial part of the new projects that are being undertaken in Kazakhstan.

## **Information Technology**

Central Asians have huge attraction for English Language, Information Technology (IT), Management Studies, Energy Studies, and in the field of Science & Technology. Several times the Delhi Public School was opened but could not succeed. India enjoyed a niche reputation in the region for IT but no serious attempts have been made to enter into this market. The government should encourage Indian institutions to open educational centres including campuses of Indian Institutes of Technology (IITs) & Indian Institutes of Management (IIMs) in the region to impart world-class education in various fields in the English medium. There is great scope for Indian investors in this very vital field and in this process, the trained and qualified Indian teachers, IT experts would find lucrative employment in these oil rich countries.

## **Pharmaceutical Sector**

In fact, apart from tea, pharmaceuticals represent the largest components of Indian export basket to Central Asia worth \$151.41

million or 28.14 per cent of total export. Many Indian companies are representing this market. Some small scale Indian pharmaceutical companies, driven by a short-term profit motive supplied low quality drugs and therefore damaged the reputation.

However, given India's strong position in this sector, both in terms of quality as well as pricing, Indian companies, with a little focus and aggressive marketing, can significantly expand their share in the market. Some fresh initiatives that Indian companies, both private and public sector, can take are to establish joint ventures and manufacturing units for pharmaceutical products.

## **Leather Industry**

The entire region is a large producer of raw hides and semi processed wet blue skins. Uzbekistan has dynamic domestic leather production facilities, notably in Khodjaabad, Urgench, and Kokand. France has set up a joint venture Kofra Uzbek-French joint leather footwear venture in Kokand. Kazakhstan's cattle and sheep population is large. The Siriopet tannery in Petropavlovsk produces 170 tonnes of leather and leather products, and semi-finished chrome tanned cowhide monthly. About 90 per cent of raw skins are exported to China and Turkey.

Similarly, 90 per cent of Kyrgyzstan's cattle hide, sheep, and lambskin are exported to China. Tajikistan's Kukhandiz tannery in Dushanbe requires modernization and skills for marketing products. However, livestock breeding sector and leather processing facilities face difficult financial situation and require investments.

Indian leather companies should open tanneries here and convert this abundant raw materials hides and skins into finished leather as well as garments, bags & shoes of the highest quality for export to Europe. Indian companies should also source wholesale supply of raw hides and semi processed wet blue skins from Tajikistan to these countries.

## **Silk and Textile Industry**

The sericulture in Central Asia introduced in the fourth century A.D., is as old as in India. For thousands of years, sericulture and cotton textile industry has been linked to culture, traditions, and economies of India

and Central Asia. Export of raw silk and silk goods traded from China to India and Persia traversed through Central Asian towns. Other commodities like amber, glass, spices, and tea were also traded through this region.

The sericulture industry had declined and total areas under mulberry had decreased in the last few decades. However, following the Soviet collapse, sericulture, once again, is developing as a major economic source and this could potentially help rural population find remunerative employment and prevent migration to the cities. After China and India, Uzbekistan is the third largest producer of silk in the world market, (20,200 tonnes of cocoon per year); Tajikistan also produces more than 300 tonnes of fresh cocoons per year.

Today, it is one of the important potential agro-industry, but because of free-market system and the lack of potential internal and external market development, the farmers do not get much encouragement. In Kyrgyzstan, it is a dying enterprise, due to lack of any governmental support.

For quite some years, many private handicraft and textile industry outfits have been showing interest to learn from India's silk industry. In fact, their focus on India is more related to promoting sustainable development in countries like Kyrgyzstan, which does not have many natural resources to export. Learning about Indian traditional craft, silk fabric, wool industry etc was environmental friendly and viewed as reliable sources of economic stability. The learning in Indian was attractive for three things: create jobs in rural areas, remove poverty and a means to preserve national traditions. Indian investment in silk and textile industries would serve to promote positive image of handling social, cultural, and governance issues. This is a low cost option and small investments with assurance of a high visibility and positive publicity provides dividends in terms of goodwill.

All Central Asian states including South Kazakhstan also produce cotton of high quality. Some major Indian textile companies must set up a

few integrated textile plants in the region to manufacture good quality cotton & blended fabrics. Industrial land, electricity and labour are very cheap in this region. So, the textile units can be highly profitable ventures for Indian companies. The lucrative European markets are only 10-12 days away by road transit freight.

## **Demand for Fresh Flowers**

Vast quantities of fresh flowers are used every day in the Central Asian Region.. Most of the fresh flowers (especially roses) are imported from South America via Holland. Indian horticulture companies can look at this very lucrative market for export of all sorts of fresh flowers in very significant quantities. A special charter flight two times a week can easily be started in Kazakhstan itself.

## **Popularity of Indian Tea**

India is the world's second largest tea producer with production of 1205.40 million kg in 2013-14. Out of which over 200 million kilogram is exported worldwide. The Commonwealth of Independent States (CIS) alone imports 51.58 million kilogram of tea from India. It is little known that large quantity of Indian tea is consumed in Central Asia. They mostly import large quantity of crush, tear, and curl (CTC) variety. During the year 2013-2014, tea constituted \$52.63 million or 9.78 per cent of India's total export to the region. Out of this \$50.28 million worth tea was exported to only Kazakhstan.

Kazakhstan is ranked fifth in the world for Indian tea consumption and imports 12.61 million kg annually. Kazakhs are amongst the highest tea drinkers in the world. According to reports, the per capita consumption of tea in Kazakhstan is 1.5 kg annually that is an average of 5-6 cups of tea a day, a reason why many people are labeled as "tea drunkards". Given the enormous popularity of tea in our country, it is also noted that Kaznet website was created for Kazakhstani "tea drunkards".

Unfortunately, Indian tea trade is left to mainly the unorganised small tea traders who, driven by a short-term profit motive, contributed greatly towards damaging the reputation of Indian tea. Supply of low quality, poor packaging and other manipulation by Indian tea companies

has cost Indian tea dearly. Total tea export during 2013 has been reduced to 208.26 million kilogram against 211.86 million kilogram in 2012.

Kenya and Srilanka overtook India's market share in tea. This does not mean that Kazakhs have stopped drinking Indian tea. The Indian tea is still imported from countries such as UAE, Hong Kong and Russia. But this situation can be rectified by ensuring the export of good quality tea to Kazakhstan. The Indian Tea Exporters' Association (ITEA) or Indian Tea Board should take the initiative of setting up a simple tea blending & packing factory in Central Asia to offer best quality Indian teas to the tea loving people. The Indian tea is also highly popular in Uzbekistan and other Central Asian countries.

## **Tourism Industry**

The people in India and Central Asia are attracted to each other's art, culture, architecture, monuments, and goods for ages. People used to travel back and forth for centuries until snapping of physical ties took place in the 20<sup>th</sup> century. Indians are greatly drawn to the Great Silk Road, which is a rich tapestry of tourism destinations. Uzbekistan, for example, has unique and outstandingly rich Islamic heritage, the fabled mosques and madrasas of Samarkand, Bukhara and Khiva, with their intricate colourful design of tile works.

Kazakhstan, larger than the Western Europe, is a vast country of steppes, deserts, alpine ski slopes and has a wealth of tourist attractions, including picturesque mountains and lakes along the Tian Shan range. There are other interesting sites like former labour camps and nuclear test sites. Kyrgyzstan has the famous Issyk-Kul Lake. It was once called the Switzerland of the Soviet Union. Tajikistan has a rich Persian history and culture. It too has beautiful and untouched rugged mountain scenery of the Pamirs which is ideal for trekking and adventure tourism. Turkmenistan has many historical spots dating back to the 4<sup>th</sup> century BC. Both Turkmenistan and Uzbekistan, located on the Silk Road, were home to several civilizations including Buddhism.

The entire region has a bounty of natural beauty and four clear seasons. The good infrastructure and shopping places inhabited by wonderful and friendly people with exotic culture genuinely attract Indians and Indian culture. If developed, they can be as exciting and as promising

as any popular tourist destination in the world. These countries could easily attract the Bollywood film industry for shooting by holding a couple of “road shows” in Mumbai and by highlighting the beauty through advertisement to the Indian public.

Kazakhstan is trying to become a top destination for domestic and foreign holidaymakers. It intends to invest some \$10 billion to develop its tourism sector by 2020. The country aims to attract 8 million tourists a year by 2020. It is building ski slopes and lakeside retreat resorts for rich tourists. It offers a mix of European luxury and Asian landscape beauty. Astana and Almaty cities are as good as cities in Southeast Asia. In fact, all these countries are located closely to India, shorter in distance as compared to travelling from Delhi to Kerala. Yet little is known about Central Asian tourist destinations among Indian overseas travellers.

However, it is also true that a complicated visa policy is one biggest obstacle for Indian travelers visiting these countries. Kazakhstan introduced temporary visa-free entry to citizens of 10 countries that excludes India. Other Central Asian countries too put Indian visitors in the same category as of those coming from Pakistan, Bangladesh and Afghanistan. Perhaps these are carried over from the erstwhile and archaic Soviet system but they effectively curb to dampen the enthusiasm of many potential travellers to Central Asia. India needs to insist these governments to change their visa policies for Indians. This will give a great fillip to the tourism industry of these states.

### **Indian Attraction**

Conversely, India is a very popular country amongst the Central Asians as they also look towards India as a growing global power. Agra, Jaipur, Goa, Ladakh and Kerala are major attractions and interests to Central Asian tourists coming to India. Kazakh travelers currently spend about \$400 million annually on vacations abroad and most rich Kazakh tourists go for their holiday to Turkey.

### **Medical Tourism**

Central Asians recognise India's advancement in medical science with many state of the art hospitals and medical research institutions. Thousands of patients from the region are travelling to Moscow,

Istanbul and Urumqi for all sorts of medical procedures and treatment. Many patients from Uzbekistan, Kyrgyzstan and Tajikistan have started coming to India for treatment and they all go back fully satisfied with the cures and care – often at only 1/3<sup>rd</sup> of the cost they would incur in other countries.

With the surge of medical research taking place, medical tourism is likely to increase within the next decade in India. However, medical facilities in India are still not well exposed to Central Asian population. Lack of information and language barrier are the major reasons. The idea of promoting Medical Tourism from Central Asian states is a worthwhile project that India should pursue at the highest policy level. As a part of its assistance programme, India should initiate a Medical Assistance Scheme for 5 years period under which Government of India should sponsor treatment cost of at least 5-10 serious medical cases each year from each five Central Asian countries. This will help promote medical infrastructure and gradually the cost factor will attract more patients for treatment in India.

As the Soviet-built medical infrastructures are collapsing, Central Asian states including Kazakhstan lack world-class medical facilities in spite of having a large number of well trained doctors and other medical personnel. Major Indian hospital chains such as Apollo, Fortis & Maxx must consider setting up state of the art hospitals in the region, staffed by specialists from India and from amongst the local pool of excellent doctors, to give affordable world class medical assistance to the citizens of all Central Asian republics. In many other parts of the world, Indian doctors and paramedics could also become backbone of the national health services. Over thirty Indian pharmaceutical companies are well entrenched in the market selling their basic formulations, but it is time that they enter into the manufacturing opportunities in Central Asia.

## **Alternative Therapy and Spirituality**

Because of historical connections and bond, Central Asians have a special place and taste for Indian music, dance, culture and films. They are now increasingly getting attracted to Indian alternative healthcare system and to spiritual resources. Places like Goa, Kerala, Bangalore, Kodaikanal and the Himalayas are important tourist attractions for the

people of the region especially for Kazakhs. They come for naturopathy, traditional and classical Ayurvedic medicines, and authentic Ayurvedic therapy at various treatment centres and health resorts. Tibetan medicine is yet another attraction. Many of them have started visiting India for undergoing regular and therapeutic Yoga, and meditation classes. Besides health tourism, religious tourism has a big potential. Large numbers of Kazakhs come for blessings of Satya Sai Baba of Puttaparthi, Anandmayee Maa and others. This sector has immense possibilities and it could be organized and popularized among the Central Asians. Clearly, the two-way tourism can be a massive growth area between India and these countries. An action plan is required to highlight and promote tourism potential of India and Central Asian countries.

### **Spices and Dry Fruits**

Many important spices especially essential Mediterranean spices that are consumed in India are found in Central Asia. They include barberry, black pepper, basil, bay leaf, caraway seeds, cardamom, chervil, chives, cilantro, cinnamon, cloves, coriander, cumin, fennel, fenugreek, saffron, sage, almond, asafetida, black mustard seed, dill seed,, garden cress, marjoram and tarragon. Asafetida or flowering asafetida plant native to Central Asia is grown wild in the region. This spice is not consumed by the local people. Asafetida, if exported alone, could increase the volume of trade between Kyrgyzstan, Tajikistan and Uzbekistan and India. Uzbekistan and Tajikistan produces large quantity of fresh and dry fruits. Trade facilitation centres are required to bolster the centuries-old dry-fruit trade from Central Asian countries and northern Indian cities like Amritsar which is connected by road to Afghanistan via Pakistan.

### **Logistic Factor**

Similarly, no Indian airline has ventured into Central Asia. So far, only the Central Asia carrier like Air Astana, Uzbekistan Airlines, Turkmen Air, Tajik Air and Turkish Air fly between cities there and Delhi. India's middle class of 350 to 400 million people want to travel to Central Asia and experience different cultures and cuisines. India is a big country and it is very important for India's image that its national carrier be seen in these cities at least on a weekly basis. If a stand-alone flight is not viable, there should be Delhi – Europe flight via Central Asian

cities or Delhi – China flights via Almaty or Tashkent. This will also fillip to trade, business and travel between the two countries.

It is poignant that no Indian bank is operating in the region except Punjab National Bank in Almaty. In fact, Pakistan National Bank has wider network in Central Asia than Indian Banks. The government of India should address this anomaly and encourage opening of more Indian banks in Central Asian cities.

## **STRATEGIC ASSETS**

### **Status of Ayni Airfield**

In 2004, India had taken up a project to renovate a Soviet-era airfield Ayni in Tajikistan under a bilateral agreement signed between India and Tajikistan. The renovation work of the runways and hangers undertaken by Indian engineers had perhaps been completed since, after spending \$70 million by India.

However, the actual status of Indian activities at Ayni is still not clear in the public domain. Indian and international media described it to be India's first foreign military base where a squadron of MiG-29 fighter jets is reported to be stationed. Many suggested that this was perhaps part of India's grand strategic thinking to be present at a vantage location to monitor conflict-torn Afghanistan and hostile activities by Pakistan vis-à-vis India, especially after the Kargil conflict.

Many eyebrows have been raised about the Ayni airfield in terms of its utility, operability, and problem of refueling and replenishing of arms in a situation of conflict. There are also questions about its legal aspects whether the Tajik authority would actually allow India to use the airfield in a situation of crisis or is it that Dushanbe is simply using the Indian presence in Ayni as leverage against Russia, which still uses several military facilities in Tajikistan. Serious questions are also raised about the validity of having an airbase in the age of missiles system. Clearly, Tajikistan cannot allow any other country to use the base without the Russian-led military alliance, the CSTO. So far, Ayni base has not demonstrated any achievement in the manner that other foreign bases at Manas, Khanabad and Kant that were maintained recently by the US, Germany and Russia have shown in their anti-terror operations.

Like Ayni there are other such projects undertaken in Central Asia by the Ministry of Defence. The DRDO's Defence Institute of Physiology and Allied Sciences (DIPAS) had opened the Kyrgyz-India Mountain Bio-Medical Research Centre (KIMBMRC) to study mountain

acclimatization procedures in Bishkek. Defence Minister A.K. Antony inaugurated the Centre in July 2012.<sup>28</sup>

The logic of the DIPAS to study high altitude sickness and development of mountain maladies in Kyrgyzstan could not be ascertained when India has its own high-altitude Himalayan Mountains where such facilities could be set up. The Defence Minister also decided to present to Kyrgyzstan's Health Ministry equipments such as critical-care ventilators, coronary stents, dental implants, special ambulances, biogestors, and mobile catheter laboratory, all valued at Rs. 9.7 crore.<sup>29</sup>

Whether these projects come under the hard-power or soft-power gambit of India's power projection, the actual utility of these facilities for Indian security interests creates the air of ambiguity. In many ways, these are parts of many such unimpressive efforts that the DRDO keep on making without proving any concrete results that serves national interests. The government has to take a firm decision on the utility of these projects.

While a more clear thinking is required on the future of Ayni airfield in Tajikistan, prospects for investing in a more productive projects relating to procurement of defence facilities should be explored in Central Asia.

## **Prospects of Acquiring Dastan Torpedo Plant**

India has a strong business ties with Kyrgyzstan's only functional defence production unit, the Joint Stock Company (JSC) Dastan located in Bishkek since mid 1990s. The Dastan is a 40-years old Soviet time enterprise that produces naval weapons, rocket systems, aerial and armored systems, radio engineering monitoring and reconnaissance. It produces well-known weapon systems such as USET-80, modernized oxygen torpedo 53-65KE as well as recently developed mobile ground

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<sup>28</sup> P. Stobdan, "*Central Asia: Democracy, Instability and Strategic Game in Kyrgyzstan*", Pentagon Press, 2014

<sup>29</sup> T. S. Subramanian, "Kyrgyzstan Minister's visit to boost defence-related biomedical research", *Hindu*, September 9, 2011.

mine "MURENA" and multifunctional homing electric torpedo SET-92HK. It also produces most innovative ongoing maritime weapon systems, the super-cavitating 220 mph Shkval-type rocket torpedo, which has a six-mile range and can be made both in nuclear (up to 150 kiloton yield) and conventional (210 kg of chemical explosives) variants. Research Institute No. 24 created the Shkval anti-ship complex with the M-5 missile. The length of the missile is 8,200 mm; caliber - 533.4 mm. The missile can be launched from ordinary torpedo tubes. The jet torpedo weighs 2,700 kilograms. The maximum cruising range is 11 kilometers. The maximum underwater speed is 90 to 100 meters per second.

All Shkval torpedoes were dismantled from Soviet submarines in accordance with the agreement between the USSR and the US in 1989. It is said that the Western navies currently have no countermeasure against the weapon. Only in 2005, Germany managed to create a Shkval-like torpedo. A new modification was created based on the Shkval torpedo in the late 1990s. Its export version was called Shkval-E. The weapons system was first offered for sale at the IDEX-99 arms exhibition in the United Arab Emirates.<sup>30</sup> In early 2011, there were reports that components of Shkval were sold to Iran in 2010.<sup>31</sup>

Dastan has a full range of test and repair facilities and the Indian Navy has been procuring spares for its Russian made electric torpedoes as well as procures torpedoes from here. On a functional basis, apart from Indian Navy, the DRDO's scientists from Naval Scientific and Technological Laboratory (NSTL) have maintained regular touch with Dastan and ULAN companies in Kyrgyzstan since 1997.

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<sup>30</sup> *Rossiiskayagazeta*, March 24, 1999).

<sup>31</sup> "Russia's secret torpedoes sold to Iran from Kirghizia?" World-weapons.ru (January 26, 2011) noted that the editorial staff of Russian news agency *REGNUM* obtained unverified information that components of secret torpedoes *Shkval* which are currently in service at Russian Navy were sold to Iran in 2010. The news was confirmed by Kyrgyz scientist to the author. The person responsible was from Kazakhstan and is supposed to be in prison.

## Controversy with Russia

But, for a long time, Russia's Rosoboroexport has been seeking to control the Dastan manufacturing plant. Rosoboronexport's interest in the Dastan was linked to prospective deliveries of the Shkval-E torpedoes to India. Russia also intended to arm the Shuka-B (project 971) submarines with such torpedoes.

Since 2009, talks have been underway for transferring 48 per cent stake of Dastan to Russia in exchange of writing-off \$180 million Kyrgyz debt. The initial agreement was signed during the reign of President Kurmanbek Bakiyev under which 48 per cent was to go to Russia and the remaining shares were owned by President's son Maxim Bakiyev. The deal got mired into controversy over kickbacks and even after Kyrgyzstan received the first tranche on time and full (\$300 million in mid-2009) shares were not transferred then.

However, following President Bakiyev's ouster in 2010, the company was nationalized and 98 per cent of its shares were taken over by the Kyrgyz authorities. Faced with critical economic crisis, the new government in October 2010 renewed its intentions to transfer the shares to Russia through ratification by the Parliament. The transfer to Russia was expected in 2010, but the Kyrgyz leadership changed its mind. In February 2011, during the visit to Bishkek by Turkish Prime Minister Recep Tayyip Erdogan, the Kyrgyz Government abruptly announced that it would instead sell the torpedo plant to Turkey. The Kyrgyz authorities, however, later ruled out the option suggesting that it can't sell the plant to a NATO member. Of course, there remains an element of unreliability on the Kyrgyz part.

But, the issue of Dastan largely remained mired into controversy over Kyrgyzstan's settlement of debt to Russia. Moscow resisted Kyrgyz bargaining over Dastan and infact, it became a major sore-point leading to worsening of bilateral relations from 2009 to 2012. In 2012, Russia demanded a revision and sought 75 per cent stake instead of 48 per cent in the Dastan.<sup>32</sup> This was to be done in exchange for \$180 million

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<sup>32</sup> "Russia wants Kyrgyz torpedo plant", *AKIpress*, March 23, 2012 [http://www.upi.com/Business\\_News/Security-Industry/2012/03/23/Russia-wants-Kyrgyz-torpedo-plant/UPI-30151332524423/#ixzz1qTcFjz83](http://www.upi.com/Business_News/Security-Industry/2012/03/23/Russia-wants-Kyrgyz-torpedo-plant/UPI-30151332524423/#ixzz1qTcFjz83)

debt to be written-off by Russia. Russia demanded 75 per cent on the pretext that since 2009 the assets of Dastan depreciated due to wear and tear of the equipment. The Kyrgyz were against such plan.<sup>33</sup> The Kyrgyz stuck to 48 per cent and insisted that if Russia wanted 75 per cent it would be on a different terms.<sup>34</sup> Under the old contract, the value of shares to be passed on to the Russians totaled \$19.4 million.

Finally, during President Putin's visit to Bishkek in September 2012, the issue of transferring 48 per cent share to Russia was resolved. However, there were also doubts whether Russia really wanted the Dastan Plant.<sup>35</sup>

In 2012, 98 per cent of Dastan was nationalized and was administered by the Ministry of State Property which is now called as the Kyrgyz State Property Fund (SPF) while the remaining two per cent of the securities were in the hands of private individuals and company employees. Importantly, Kyrgyzstan has reserved the right to offer Dastan shares for sale through the auction to interested investors.

The Company itself had witnessed numerous scandals because of mismanagement, financial irregularities, and illegal deliveries of special-purpose devices.<sup>36</sup> The Company lacked funds to maintain the plant at

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<sup>33</sup> "Kyrgyzstan insists on its positions and waits for reply from Russia regarding handover of Dastan torpedo plant shares - Deputy Finance Minister", Bishkek, *AKIpress*, May 2, 2012.

<sup>34</sup> "Kyrgyzstan will abide by previously reached agreements concerning handover of stake in Dastan Corporation to Russia – President Atambaev", Bishkek, *AKIpress*, 7 February 27, 2012

<sup>35</sup> "Russian President's Administration Chief expresses doubt if Russia needs Kyrgyz torpedo plant", *AKIpress*, April 10, 2012

<sup>36</sup> The Chief Engineer of Dastan, Boris Udot, was detained for illegal supply of equipment of Dastan factory. Earlier the Chairman of the board of Dastan, Sergey Danilenko was detained at Manas international airport on his way to Istanbul. Read "In Kyrgyzstan a chief engineer of TNK Dastan OJSC detained", URL: <http://eng.24.kg/community/2010/11/24/14961.html> Also read "Kyrgyz Frontier Service: Turkish Airlines initiated detention of the head of TNK Dastan OJSC", Bishkek, *24.kg news agency*, November 23, 2010

a normal functional capacity.<sup>37</sup> The plant has the capacity to function for another 20-30 years. But its products face marketing problem. Indian Navy is the sole consumer apart from the services it provides to Russian naval fleet. In 2010, Russian order was 26 per cent and 70 per cent was from India.<sup>38</sup> There were also reports about Dastan selling its assets including land and building premises located in the middle of Bishkek city to private entrepreneurs.

In April 2014, the Kyrgyz Government decided to privatize 98.46 per cent state shareholding in TNK Dastan through investment tendering. A special commission comprising of Member of Parliament, officials and members of civil society for evaluating the value of the company was constituted. The applicant was required to have at least ten years of experience of global standards and financial standing. The applicant's staff must have international qualifications (CPA certificates, ASA certificates).<sup>39</sup> However, later in August 2014, media reported that the government had failed to sell Dastan for the third time due to lack of bidders.

However, if refurbished, the Dastan has tremendous prospects for joint production. As mentioned above the Dastan also produces components of super-cavitating 220 mph VA-111 Shkval-type rocket torpedo. It would be worth if India buys majority shares in Dastan for both research and production of modern torpedo and other navel equipments and spares.

## **ULAN Torpedo Range (UTR)**

ULAN OJSC or ULAN Torpedo Range (UTR) is located in the world's second largest mountain Lake Issyk-Kul (180km long and 60km

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<sup>37</sup> Julia Mazykina, "Kyrgyzstan may lose Dastan factory as the leader of the industry in Central Asia forever - Oskar Daminov", *24.kg news agency*, November 6, 2010

<sup>38</sup> "TNC "Dastan" delivers 70 per cent of torpedoes to India", Bishkek, *AKIpress*, February 12, 2012

<sup>39</sup> "State Property Management Fund Announces Tender for Valuation of Government-Owned 98.46 per cent Shares of Dastan Torpedo Plant", *AKIpress News Agency*, August 13, 2013

wide). The range is located close to another torpedo-testing range Ozero, which is presently owned by Russia Navy. There has been rumor about Russia abandoning the Ozero range. But in a new defence agreement in 2010, Russia has created a unified defence facility that included the Ozero range at Issyk-Kul in Kyrgyzstan.

ULAN is a unique Soviet built facility set up in 1943 as a Test Range of S. M. Kiro Machine-Building Plant. In the past, it was a leading manufacturer and a test range for naval armament and for specific submarines.<sup>40</sup> The UTR facility carries out trial of thermal torpedoes of various calibers from 324 mm to 650 mm. It also manufactures and supply spare parts for CET-65E, TEST-71ME, and 53-65 KE torpedoes. The plant has the capacity to service CET-65E, TEST-71ME, 53-65KE torpedoes.

The test range has access to a wide test bed to test and qualify maritime warfare equipments. The bed has an average depth of 410 meters; maximum upto 702 meters that make it easy to retrieve and recover torpedoes. The range offers condition similar to a calm sea and offer testing facility throughout the year. Located close to China border, Karakul being remote makes an ideal weapons testing site away from Western intelligence eyes.

The UTR's infrastructure include a vessel, assembly and repair shop, oxygen and air compressor stations and accumulator preparation section. But they are in a dilapidated state and require massive up-gradation. The vintage ship available at the range has no deck launch facility.

Some individuals and company employees maintain and operate the range currently. A prominent Kyrgyz leader and the former speaker of the Parliament Ahmatbek Keldibekov and Alexander, who is also the Director, External Relations of M/S ULAN holds majority 67 per cent of the securities. The other main shareholder is the Kazakh Company *Kirov Mash Zavod* factory with 22 per cent and the remaining

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<sup>40</sup> "Navy Trial Complex: ULAN Open Joint-Stock Company", Manual, Bishkek, 2012

11 per cent are in the hands of private investors including 2 per cent by M/S Dastan.

## India's Stakes

India has been using UTR range since 1997 and on an average 20 trials are being conducted in a year. Besides, torpedoes procured from Dastan by Indian Navy, the DRDO's Naval Scientific and Technological Laboratory (NSTL) that develops prototype torpedoes are brought here all the way from India to test them at the UTR.<sup>41</sup>

Following Russia's declining interests in Dastan, both ULAN and Dastan Companies had approached India for a possible future collaboration, including their willingness of leasing the facility for a specific period. However, China has been eyeing these facilities for a long time, but Kyrgyzstan does not have independence to lease any military facilities to China without the Russian consent. Turkey too has been surveying these facilities in Kyrgyzstan for quite some time.

During my assignment in Kyrgyzstan, Raksha Mantri was invited to Karakul to inspect the ULAN Torpedo Range (UTR) on July 6, 2011. But, before any deal could be signed, the international media gave a strategic spin to A.K Antony's Issyk-Kul visit.

Washington based Joseph Farah's *G2 Bulletin* wrote, "India is developing nuclear torpedoes at a deep-water lake in land-locked Kyrgyzstan and intends to equip its navy with them because of the threat posed by Chinese warships in the Indian Ocean and South China Sea."<sup>42</sup> While quoting William Selvamurthy, then Chief Controller of DRDO, the Bulletin wrote, "India is willing to develop the center to test all kinds of torpedoes such as heavy

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<sup>41</sup> T. S. Subramanian, "Kyrgyzstan Minister's visit to boost defence-related biomedical research", *Hindu*, September 9, 2011

<sup>42</sup> "India's new weaponry: Nuclear torpedo Using Kyrgyzstan testing site to refine arsenal", Joseph Farah's *G2 Bulletin* <http://www.wnd.com/2011/10/357753/> ( October 21, 2011)

weight torpedoes and those having thermal navigation system."<sup>43</sup> Similarly, Russia media also expressed envy about India's interest in the UTR. A news headline said "India to Use Torpedo Plant in Kyrgyzstan, But Where Are the Russians?" The article illustrated the sensitiveness of the Kyrgyz facility that tests torpedoes of highly sensitive prototype designs including the VA-111 Shkval, a super-cavitating torpedo capable of speeds of more than 200 knots, or 230 miles per hour.<sup>44</sup> The VA-111 Shkval is rocket-propelled and is capable of carrying a nuclear warhead. The Bulletin said that the US Navy is not known to have any defence to repel this type of torpedo. China too has no such equivalent torpedoes. It said, "In working with Kyrgyzstan, New Delhi is attempting to increase its influence throughout Central Asia through various training programs and military production efforts which analysts say are indicative of an alarming trend of the militarization of Central Asia."<sup>45</sup> The Russian media was surprised by the flurry of Indian military activities in Kyrgyzstan and questioned what Russia's role in all these was. "Will India be sharing it with Russia? It's curious that neither Russian nor Kyrgyzstani sources have appeared to say anything publicly about this deal," the media commented.<sup>46</sup>

Another media write up said "India may have been thwarted in its attempt to set up an air base in Tajikistan, but now it's building military ties with Kyrgyzstan, agreeing to train UN peacekeeping troops and establishing a joint high-altitude military research center in Bishkek."<sup>47</sup> Apart from linking India's interests in Kyrgyzstan with the situation in Afghanistan, the media also assumed that

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<sup>43</sup> Ibid.,

<sup>44</sup> "India To Use Torpedo Plant In Kyrgyzstan, But Where Are The Russians?" <http://www.eurasianet.org/node/64200> ( September 21, 2011)

<sup>45</sup> Joseph Farah's G2 Bulletin <http://www.wnd.com/2011/10/357753/> ( October 21, 2011)

<sup>46</sup> "India To Use Torpedo Plant In Kyrgyzstan, But Where Are The Russians?" <http://www.eurasianet.org/node/64200> ( September 21, 2011)

<sup>47</sup> Ibid.,

this was an effort by Kyrgyzstan's president, Roza Otunbayeva to lessen Kyrgyz dependency on Russia. Kyrgyzstan was a better option for India than Tajikistan, which was more susceptible to Russian pressure to not allow India's use of the air base in Dushanbe. The story further cautioned that 'if India is still interested in a base in Central Asia, and decides to focus on Kyrgyzstan rather than Tajikistan, that would certainly be interesting'<sup>48</sup>

In the backdrop of mystery created by Russian media over Indian Defence Minister's visit to Karakol, the ULAN OJSC's Director General Vladimir Stepanov gave a clarification to the media after 2 months. Stepanov, on September 20, 2011 said that the Indian Minister indeed visited the facility and confirmed that India and the Kyrgyz Government were planning to develop a torpedo-testing centre in Karakol. He added that the company was expecting a delegation from India's military and industrial complex in October 2011. At the same time Stepanov also told media that the "ULAN had repeatedly approached Russia with an offer of possible cooperation for many years, but Russians have not shown interest."<sup>49</sup> The ULAN was also not keen to sell its facility to the Russian company Ozero located closed by in Issyk-Kul near Koy-Sara village. The Director General announced that ULAN had maintained a mutually beneficial cooperation with the Indian Defence Ministry since the mid-1990s. Without the Indian support, the company would not have survived, he added. Vladimir Stepanov said. "Carrying out tests on the Indian Navy's orders will give us an opportunity to buy new equipment and modernize our company's logistics base. We are counting on this very much."<sup>50</sup>

The DRDO experts felt that it is feasible to develop the ULAN facility to produce state of the art torpedoes. The feasibility viewpoint

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<sup>48</sup> Ibid.,

<sup>49</sup> "Kyrgyz official upbeat on India's plans to develop torpedo testing centre", *AKIpress news agency*, September 21, 2011

<sup>50</sup> "India does not put claims for Russian torpedo testing base at Issyk-Kul – Ulan JSC Director General", *AKIpress*, September 20, 2011

concluded that the existing infrastructure can be upgraded by engaging local companies who are familiar with torpedo technology. Dastan and UTR are of strategic significance to India as both can be used as test bed and production facilities. Once refurbished, NSTL can use the facility to test its Autonomous Underwater Vehicle (AUV) developed in its laboratory in Vishakhapatnam. All together, Dastan and ULAN can potentially strengthen India's under water attack capabilities.<sup>51</sup> Besides, ULAN is also located close to Kyrgyz-China border and it could serve the purpose of a listening post for surveillance and navigation. Besides, Indian Navy and DRDO, the facility could be utilized by other wings of our Armed Forces. The facility includes a residential building as well. In 2012, the OJSC ULAN quoted a rent of \$568,000 per year for test range. It had agreed to sign a lease for 5 years and extendable for another 20 years. India should pursue the project to make it a part of its new Central Asia policy.

While India considers taking up high-profile defence projects in Central Asia, it needs to be clear that Russia still wields considerable influence in these countries, especially in respect of the region's military facilities. Coordination with Moscow is therefore necessary.

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<sup>51</sup> India to develop torpedo testing centre in Kyrgyzstan", <http://www.thehindu.com/news/national/india-to-develop-torpedo-testing-centre-in-kyrgyzstan/article2464999.ece> ( September 18, 2011)

## **INDIA'S CENTRAL ASIA SOFT POWER**

India's soft power has been demonstrated for centuries. A range of cultural attributes, respect and popularity entail huge advantage for India. It seems a little odd that many aspects of India-Central Asia connections are either not known or being neglected. India's civilizational contacts with Central Asia, extending over thousands of years, remain the most critical factor for building close relations with the five countries. Central Asia remained a fertile ground for Indian culture to grow. Buddhism was the primary mover, prominently flourished across Central Asia and transmitted beyond East Asia. Until the Arab conquest in the 7<sup>th</sup> century, the monasteries dotted along the Silk Route served as Indian cultural and commercial outposts.

The proposal for establishing an Indian University in Central Asia would still be relevant to revive and re-harness the Indo-Central Asia linkages in the context of an Asian renaissance.<sup>52</sup> It could widen India's own understanding of the Eurasian landmass as well as help broaden the operational scope in the region. This is necessary because the major powers have already started enforcing application of new norms of soft power alongside their hard-power pursuit. The American, Russian and Europeans have opened their Universities in Central Asian cities. China has swiftly established Universities, Confucius Centres and even secondary schools in Central Asia. The proposal of setting up Indian University in Central Asia was approved at the highest level in 2011, but strategically the project never gained momentum. The Indian Council of Cultural Relations (ICCR) had set up of Cultural Centres and Indian Chairs in the region. But, such practices of propagating Indian dance, music, cuisine etc in the region have long become obsolete for entailing substantive benefits and promoting Indian interest in the region.

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<sup>52</sup> The author mooted the first idea for a University in 2010. Read P. Stobdan, "India, Buddhism and Geopolitics in Central Asia: Regaining Centrality", *IDSA Policy Brief*, June 25, 2010.

Of course, history has account of Indo-Central Asian interactions through movement of people, goods, ideas and spiritual interface. In fact, explorers still unearth fresh evidence of robust Indian imprints in the region. The positive image of India in the Central Asian popular perceptions comes from their past trade, commerce and cultural linkages. The Farghana Valley - in the middle of Central Asia today shared by three countries - had uninterrupted links with India through ancient, medieval and a contemporary times. Zahir-ud-Din Babur came from Andijan and established the Mughal Dynasty in the 15<sup>th</sup> century. The famous Sufi saint of the Chishti Order, Qutbuddin Bakhtiar Kaki came from Osh.

The legendary Kazakh, Mirza Muhammed Haidar Dulati served as the Governor of Kashmir under Humayun in 21<sup>th</sup> century. Bairam Khan, mentor of Akbar, was a Turkmen and famous Persian poet Abdul-Qader Bedil was from Tajikistan. They all served in Mughal Durbar and made India as their homes. These legendary figures are once being resurrected as national heroes in each States.

## Policy Option

Today, Ferghana Valley remains prone to instability for both historical reasons and systemic collapse after the Soviet disintegration. It would be favorable for India to provide a poignant perspective of peace and harmony besides conjuring them up of their common cultural, historical and ethnic roots.<sup>53</sup> In this context, India should organize a major Cultural Summit around the theme of *India and Central Asia: Sharing Common Legacy* in the city of Osh in 2017. Presidents of all the five Central Asian countries and Afghanistan could be invited to the Summit, which could be inaugurated by Prime Minister of India.

The meaning and significance of this lies in the following ways: a) 2017 will mark the twenty-fifth anniversary of India's diplomatic relations with all Central Asian states. The year is also close to the 500<sup>th</sup> anniversary of the Mughal Empire and the occasion should send a good diplomatic message nationally and internationally. b) It would be for the first time

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<sup>53</sup> P. Stobdan, *India and Kazakhstan: Through Ancient, Medieval and Modern Times*, (Edited) Ulke Publication, Almaty, 2002. A

that leaders of all the States and India would meet in the heart of Central Asia to invoke the legacy of the Mughal culture. c) The event will put in contrast the Pakistani policy thrust of pursuing its sectarian/ Islamic agenda for the region. It will also serve to glaringly contrast our initiative with militaristic and economic goals being pursued by Russia, China and the US. d) Since the whole region is a critical strategic lynchpin in our security policy, the event will also serve to signal the outlines of our multifaceted policy approach for Central Asia anchored in shared strategic interest. The event will also help to showcase our soft-power and the idea of promoting the Asian knowledge cooperation. e) India should also simultaneously hold a string of cultural events throughout the region for example on Mughal culture, art, and painting and also on Sufi traditions.

The financial cost of this initiative will run only in few crores but the impact is likely to be huge enough to entail major goodwill for India in the region besides reinforcing the natural historic and cultural connections between India and Central Asia. The idea should be examined from all angles and the Ministry of External Affairs form an expert-level committee to be set up under the aegis of ICCR to constitute eminent experts and figures in medieval history.

Perhaps even less well known is that Indian movies since the Soviet days, had been a powerful instrument and object of citizen diplomacy. Bollywood continues to captivate huge audiences and maintain popular perceptions of India among masses in the region. This remains a huge asset and a powerful point of contact that could potentially facilitate speedy Indian access into the region.

Cultural diplomacy can still play a useful role in contemporary relations. It is high time that we learn also from China and use the best channels of opportunities available for transforming India's global outlook.

## **BENEFITS OF JOINING THE SCO**

The Shanghai Cooperation Organization (SCO) is likely to formalize India's full membership when Russia holds the next SCO and BRICS Summits in Ufa, the capital city of Bashkortostan from July 8-10, 2015. The Secretary General Dmitry Mezentsev recently stated that there are no more legal hurdles after criteria for accession was approved in 2014 Summit. The next step involves ratification of a lengthy document and all 28 agreements of the SCO.

The SCO comprises China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. India along with Afghanistan, Iran, Mongolia and Pakistan has been holding Observer Status since 2005. Belarus, Turkey and Sri Lanka are Dialogue Partners. Iran and Pakistan had applied for full membership earlier, but India submitted formal application for full membership last year in Dushanbe by External Affairs Minister Sushma Swaraj. As the popularity of SCO grows, Sri Lanka and Armenia are new aspirants for Observer Status. This will make SCO covering a triangular space extending from East Asia to East-Europe to the Indian Ocean.

So far, the grouping's expansion was blocked due to differences over criteria, rule procedure, and timetable for new entrants. Members wanted it to remain region-focused and favoured an EU-style gradual and process-bound enlargement. Additionally, the issue required consent of all heads of the member states.

Russia pushed India's membership, but China instead wanted Pakistan's entry. Others were edgy about SCO getting dragged into Indo-Pak conflict. They were keen to rope in Mongolia but Ulaanbaatar's hesitation to join. In 2010, the UN Sanction obstructed Iran's entry.

India prudently waited for SCO to complete the statutory documents and legal procedure for admitting new members. Indications were clear when India was invited to the SCO Energy Club and subsequently to the National Coordinators Meeting in the 6 + 5 format. In Ufa,

India hopes to lay the foundation for re-establishing its ancient links with Eurasia through the SCO.

## **New Imperatives**

There is no denying that SCO's profile has picked up momentum, but its progress remained elusive mainly due to 'regime security' concerns and inter-state differences that stymied its growth. On security, it failed to curb even drug trafficking from across the Afghan border. The frequent counter-terrorism drills seemingly for demonstrating capabilities were equally meant to curb potential domestic upsurge against terrorist attacks. With serious security imperatives, SCO faces threats not just from the Afghan fallout but also from the growing spread of ISIS influence into Eurasia with unseen consequences.

Little progress is noticed on trade and economic cooperation. It is still seen as a Chinese driven forum - Beijing providing massive financial incentives to keep SCO afloat with exclusive goal to accelerate its footprints in Central Asia, which makes Moscow increasingly nervous. But, what is more worrying is the ripple effect caused by the Ukraine crisis and Russia's renewed assertion forcing Central Asian States to seek out other options. Critics, therefore, doubt whether SCO would grow without considering the regional imperative of involving India, Iran and others in practical areas of cooperation. Furthermore, they fear Iran and India slipping out to join the US regional game and feel urgent to involve India.. The move, they think could add greater voice and prestige to the SCO.

Call for making SCO more than a paper tiger is evident. Russia and China are also supporting Pakistan's membership, so that Islamabad could play a constructive role to curb terrorism. Of course, China's position is also linked to promote Pakistan-China Economic Corridor project to boost regional connectivity. The political consideration underscored the decision to look beyond Eurasia to include Belarus, Turkey and Sri Lanka as Dialogue Partners. Of course, Iranian case for accession is conditioned to lifting of the UN Sanctions.

But what worries them more is not just the Russia-West standoff and its consequences but the increasing undercurrents of Sino-Russian competition seemingly arising between Russian supported Eurasian

Economic Union (EEU) and Chinese launched Silk Route Economic Belt in the same Eurasian space. Surely, SCO's poorer members view China as a factor of stability, but Russia doubts Beijing's ulterior motives behind its long-term investments strategies, especially when Moscow is firm about retaining its traditional influence. For Central Asian States, this is a sensitive matter. Any eventual clash of interests, they fear, could presage problem for the region.

The Summit this year will be held at a crucial juncture in regional and global politics, against the backdrop of post-2014 Afghanistan, closure of US military bases in Central Asia and importantly, the growing threat of ISIS to the region.

Important to assess would include consequences entail by Russia-West standoff, and Russia's shift of strategic direction towards Asia. The resulting Sino-Russian proximity makes Kazakhstan feels left out as it seeks more diversified space to protect its energy interests. And so does Uzbekistan, which is keen for widening cooperation beyond the immediate region. Since they are now in a strong position to fully control key transit routes, they are loath to deal exclusively with Moscow and China. Besides European option, India is seen as a strong stakeholder.

Russia's increased confidence with Pakistan could form a backdrop. Moscow has been praising Pakistan's anti-terror fighting capabilities and sought cooperation.

### **India's Position & Interests**

These would mean increased security and economic stakes in Central Asia. This is why New Delhi closely followed SCO's evolution and proactively participated in it as an Observer since 2005. India's early entry was opposed by China. Others were reticent and feared SCO getting mired into South Asian conflict. The apparent incompatibility between two regions and failure of SAARC became alibi to stall India's entry. Regional experts even viewed India intellectually more inclined towards West and East rather than towards Eurasia. While, skeptics also argued that India is too big to be a junior member of a Chinese-led body with lesser political voice.

India's foremost concern relates to protecting its interests in Afghanistan, where forces inimical to India could pursue their interest through the SCO mechanism. In what way the contours of Russia-Pakistan proximity will grow are not yet clear, but the development could lift Pakistan's acceptance in Eurasia, which in turn may help Islamabad use the forum as a smokescreen to cover up its support for anti-India activities. Central Asia along with Afghanistan is the area where Russian, Indian, Chinese and American interests are most closely aligned. It is the strategic area, where India could play a promising role to reset relations among major powers.

Central Asia is the next emerging radical Islamic region. Therefore, SCO's Regional Anti-Terrorist Structure (*RATS*) could be helpful for India gaining information on regional and international counter-terror measures.

India's membership in SCO will not only help build promising bridges with Central Asia beyond the existing bilateral channels, but may provide additional leeway for New Delhi to pursue energy interests and supply routes via other than Iran-Afghanistan access. Let us also hope that India and Pakistan joining the grouping could possibly change the way for CASA, TAPI, IPI and others projects finally see the light at the end.

India also stands to gain from SCO's public information and mass media mechanisms; soft-political areas of educational and environmental issues; food security and drug-trafficking control; and information and cyber security measures. Equally important would be to learn from SCO's regular military and counter-terror exercises – essential for our armed forces to widen their perspective.

Conversely, India expects to bring forth its techno-economic expertise, markets and financial commitment, including sharing experience in banking, capital markets and micro-finance. India would bring decades of experience in dealing with multi-ethnic and multi-cultural settings that the SCO states are increasingly confronted with. India's liberal-democratic values could serve as a better alternative in building civil societies, pluralistic structure, ethno-religious harmony, and rule of law, which are needed in Central Asia. Many in the region expect India's approach will contrast the Russian and Chinese polices of maintaining the status quo against the desire for a gradual change among many sections.

India needs to invest in untapped oilfields with an eye to get its way on the pipeline route. So far, thinking was wedged between a wall of Pakistani hostility and unease over doing business and explore the Chinese option. This option has been scoffed off. It is important to see how joining SCO will help India get out of this tight geopolitical spot.

For geostrategic relevance apart, India should see engagement with SCO through the prism of pragmatism. India's foreign policy obviously is now directed at promoting trends, which lend to broader economic integration through multilateral institutions of cooperation. In this sense, membership in SCO would complement India's wider objective for promoting Asian configuration. However, to be more realistic, India cannot match the leverages enjoyed by Russia and China, which are intrinsic in terms of regional proximities.

Irrespective of how the Indo-US will shape, understanding with Moscow and Beijing is assumed important for India to realize its broader geopolitical aspirations, including our quest to become a permanent member of the UN Security Council.

Prime Minister Modi would find SCO a useful means to reboot India's relationship with Russia, which is losing its vibrancy. India is unable to help Russia overcome its economic isolation as compared to China. As India's engagement with US grows, any prospect of resentment must be avoided. Russia is hugely upset and unable to digest others overtaking it as a weapons supplier to India. Many in Moscow are sulking, seeking retribution by ending the arms blockade to Pakistan.

Russia's divergent foreign policy is evident. Russia has not only pivoted itself towards China but also started to cozy up with Pakistan even though the interactions may be limited at present and this could be linked with Moscow's current isolation over Ukraine standoff. President Putin has clarified that its proposed arms supply to Pakistan will not impede ties with India.<sup>54</sup> Russia considers Pakistan as an important determinant in Afghanistan and believes that engagement with Pakistan

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<sup>54</sup> "Russia-Pakistan proximity won't affect ties with India, Putin told Modi", *Times of India*, New Delhi December 31, 2014.

will have positive influence in Af-Pak region that would serve India's interests too. However, it is possible that Moscow and Beijing may be contemplating a bigger game to bring about a serious thaw between two South Asian belligerent states in future under the SCO auspices.

Moscow's big shift of orientating its economy towards China does not portend well for India, even though it would be difficult at this stage to gauge the future direction of Russia-China relations. Beijing is certainly taking advantage of the difficult situation of Moscow. There could be an opportunistic aspect, but it may potentially alter the balance of power in Asia with major implications for India.<sup>55</sup>

This is in contrast to India's protracted standoffs with both China and Pakistan, which remain stalemated. Prime Minister should use the atmosphere for cooperation in SCO to turn around India's relationship with China in a big way. Clearly, in the changed environment, China is giving more emphasis on building a regional framework with India. Beijing sees higher convergence of interests with India including tackling terrorism in Afghanistan. Both countries also see the benefit of cooperating in energy and mining sectors. In fact, the idea for India-China oil consortium in Central Asia is already underway.

While in the SCO, India will have to keep the following things in mind:

SCO is a vehicle for Russia and China to put up a counterweight against the West. India should avoid playing an ancillary role in Russia-China game for offsetting the US influence.

The grouping intends to promote the spirit of fostering multi-polarity. Analyzing the Chinese financial muscle, disrupting China's expanded energy plans would be difficult. The European Union and Russia has realized this fact. India should utilize it to mitigate some of its core concerns as well as limit China's rising regional outreach while pursuing a nuanced diplomatic means.

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<sup>55</sup> "Sanctions-Hit Russia Signs Deals with China on Energy and Finance", *The Moscow Times*, October 13, 2014, Russia-China Military Ties Deepen Amid Western Pressure Over Ukraine", *The Moscow Times*, December 1, 2014

The rising tide of Islamic fundamentalism in India's close vicinity is equally a source of serious concern. China's concerns in Xinjiang underscores Beijing's fear about growing threat from extremism including from ISIS. Cooperation with China and Russia would be essential for assuaging this.

A creative diplomacy is needed to reduce the impact of China-Pakistan alignment that has so far served to erect barrier against India's direct access to Eurasia. A way could be found by pursuing connectivity and reliable land route under the SCO process.

India needs to be more watchful about duplicitous moves that Pakistan and China could play in SCO. Pakistan has been running with hare while hunting with the hounds for the US. Any possibility of US using Pakistan as its arbitrator of future change in the region should be impeded.

India should be aware about the fragile nature of SCO. Each member has different expectation. Uzbekistan wants SCO to pursue regional development goals rather than focusing only on exploiting hydrocarbon resources. Kazakhstan sees SCO as a pan-Asian wealth fund to address larger issues of regional peace and stability. It supports the idea of creating SCO Development Bank to expand its own regional connectivity projects under its "*Nurly Zhol* (Way into the Future) concept. Russia intends to focus on expanding trade and investments in energy, transport and high-tech areas within SCO without setting any goal of economic integration.

Mongolia on the other hand views SCO as an ineffective body, locked in political rivalries and pursuing diverse and hidden agendas. It prefers to join the Asia-Pacific than Eurasian dynamics. Belarusian interest is merely to supplement the Russian-led EEU, whereas Sri Lanka's Dialogue Partner Status was perhaps a Chinese prompting. Turkey is keen to play the balancing role as it does in Europe, Asia and Islamic world. Turkey retains affinity with China's Uighur population and its role in SCO could prove to be an interesting to watch.

India's initiative should be based on an open mind because the region is likely to remain fluid in its orientation for quite some time to come. Even though Central Asian States remain sensitive to their relations

with Russia and China, they have shown tendencies to fluctuate regularly in line with their interests and vulnerabilities by renewing external involvement, including bilateralism with US, for reinforcing their political control at home. The lesson so far has been that external involvement strengthened the hand of rulers, who ably played the suitors of one another to extract economic benefits and political support where possible.

Finally, to capitalize on SCO, India must also have a clear pro-active policy. Otherwise, it may risk becoming a focal point of criticism by the Central Asian States, like, the way India is targeted by the SAARC members. When India was not a member, expectations from it were less. But once India is in, the regional countries are going to compare India with China.

## CONCLUSION AND POLICY IMPLICATIONS

Central Asia is likely to become the center of economic, political and military power play in the 21st century. The great powers are following multiple policies to expand their footing in Central Asia. Broadly, they use financial measures and trade incentives with the aim to pursue energy and regional security cooperation measures.

Russia has traditionally been the biggest regional player but its influence in the region is gradually waning. The vacuum is largely being filled by aggressive Chinese growing footprints in Central Asia. The contenders for the region include the Islamic forces, including political Islam. As the US and NATO forces withdraw from Afghanistan, the region is a potential threat from Islamic extremism including from the ISIS.

Freed from commitment in Afghanistan and against the backdrop of West-Russia standoff over the crisis in Ukraine, the United States seems to be rethinking its Central Asia strategy. The West seems worried about the political uncertainty in Central Asia stemming from the succession issue, Russia's reassertion in the region and the rising threat from Islamic extremism to the region. All these are likely to provide specific reasons allegedly for the US to rethink its Central Asia strategy.

Of course, future policy choices are difficult to predict but the evolving development in the region could cause concern to India as well. India needs to quickly recognize the changes, challenges and opportunities in this region. Unless India bolsters its position, it will be relegated to the periphery of the Eurasian politics. Indian leadership should be aware of these potential threats.

While looking at the existing hard reality a new step is needed to make India's relationship with Central Asia more meaningful. A lot depends on the policy of Prime Minister who could rebalance Central Asia through diplomacy and cooperation rather than competition. For example, the Russia factor is still very important for any policy pursuit in the region. India has so far not sufficiently coordinated with Russia on issues pertaining to economic developments in the region. Both,

India and Russia have common stakes and it is time to take up joint economic projects in the region. It also needs to be underlined that the Indian and Chinese interests too historically converged in Central Asia. In the past, the rationale behind the Chinese and Indian historical campaigns, including the fabled Silk Road and Spice Route traversing through Central Asia and reaching up to Europe provided the economic sustenance and political stability. Both India and China should recognize the non-conflicting nature of India-China links in Central Asia. Xi Jinping is revitalizing the ancient Silk Route through which Indian goods and culture spread to the East. Any China-India congruity along the hard reality of shared history, geography, and economic resurgence could still spring surprises just as it happened in Europe. If India and China make a calibrated move for working together in Afghanistan, the outcome could be more harmonizing than conflicting.

India now must lay the ground framework for an enduring policy goal in Central Asia. However, this can be successful only if India adopts a policy approach of encouraging an interdependent model of cooperation. Creating a dependency in the regional economic relations generate element of unpredictability and this failed in the South Asian context. Policy challenges also come from India's ability to match the Chinese regional cooperation schemes presented through various conceptual ways. As one of the largest powers in Asia, the goal of India should be to integrate into the economies of rest of Asia, rather than struggling to find a model for itself. And, this is only possible if India change its approach from an aid-based relationship to a two-way partnership. India, therefore, needs to adopt a fresh foreign economic policy that may help create a web of economic interdependence with Central Asian countries and regional groupings.

Certainly, India is at a disadvantage, as the space that connects us with Eurasia is beset by serious problems and overcoming them is not easy. Therefore, any large-scale India's economic engagement with the region will face difficulties. However, the new regional forums in the region like the Shanghai Cooperation Organization (SCO) and Eurasian Economic Union (EEU) could offer opportunity for India to restore some of the lost linkages with this strategically vital region.

India needs to step up trade, economic and energy linkages through joint venture. In fact, Central Asian energy sector remains relatively

closed for Indian investors. There is the absence of significant engagement by the private sector. Indian companies need to invest in these two potentially lucrative sectors of energy and mining.

India should do everything possible for reaping the benefits from the riches of Kazakhstan. Indian energy companies should invest in downstream processing and refining of crude oil to manufacture petrochemicals and other related products. India should also outline the logic in investments for setting up downstream production facilities instead of exporting raw materials out of the region through expensive pipelines. This could help the region overcome its transport bottlenecks. The suggestion could differ from those seeking to pump out Central Asia's riches for gratifying themselves. India should convey the point that its developmental partnership with the region is not a foray for resources. In fact, Kazakhstan's desire for diversifying energy export would correspond with India's quest for diversifying imports. The two countries need to launch an inter-dependent "energy community" of suppliers and consumers.

While it is important to pursue connectivity through over-land route through Iran and Afghanistan or via International North-South Transport Corridor (INSTC), but connectivity to Eurasia should be sought directly through northern parts of India following the traditional India-Central Asia route that went across the Himalayan passes and Xinjiang steppes. Again, it is not only about accessing Eurasia but seeking regional and economic integration with India's northern neighbours including China. In fact, it may be the only option which is realistically attainable and worth pursuing.

The security is also most important consideration for India. The region could become a new arc of instability. The Islamic State in Iraq and Syria (ISIS) is heavily recruiting in Central Asia as more and more Kazakhs, Uzbeks, Tajiks and Kyrgyz are joining the ranks. China is concerned with new developments but it has taken tough measures to prevent threats from extremism. India has no structures in place to engage the region on security front and it will have to start building them from the ground zero. As the situation in Afghanistan remains predictable, a common strategy with the Central Asian countries to tackle extremism and terrorism is needed.

India needs to identify two big potential countries i.e. Kazakhstan and Uzbekistan to be the linchpins for promoting its influence in Eurasia. The significance of deepening ties with them is necessary for counterbalancing China. In this context, it is time that India extends an invitation to another Central Asian leader to be the chief guest for the Republic Day celebration. This gesture will surely go as a mark of our respect to the Central Asian independence, which is at a nascent stage. Uzbekistan's President Islam Karimov is the most appropriate leader.

India's potential role of playing the balancer in the regional power game and contributing to regional stability is well recognized. In fact, India enjoys a ready psychological acceptance in the region, as compared to the utter distrust felt towards China. Therefore, India needs to involve the people of this region in the evolving relationship. The existing India-Central Asia Dialogue should be upgraded qualitatively to a new level so that constant communication with important stakeholders in the region can be maintained.

The prevailing environment is favorable for India's active participation in Central Asia, though the windows of opportunity may close, as others become more established players.

It is time for India to reconnect with a rapidly-changing Central Asia—increasingly the focus of world attention, and rivalry among the great powers over security and energy stakes. India too has high stakes in Central Asia, and a cogent policy outlook is long overdue. Partition and the subsequent Pakistani occupation of parts of Kashmir led to a direct physical cut-off on India's northern flank. In reviving these links, India will find plenty of competition. Political uncertainty looms over the region, arising from the succession issues of its leaders. With the exception of Kyrgyzstan, the politics of Central Asia are unpredictable. The region is also the northern frontier of the Islamic world, hitherto unaffected by a fundamentalist wave. But behind the secular setting, a shift to a far more religious society is underway, and Central Asia is emerging as the next radical Islamic region. Chechnya, Ferghana, and Xinjiang, with their 100 million Salafi Muslims, could form a new arc of instability. Even the Islamic State in Iraq and Syria (ISIS) has heavily recruited from Central Asia. Central Asians had for long considered India a legitimate stakeholder in the region. To move ahead, India needs strategic clarity. It requires out-of-the-box thinking to foster regional economic integration in the North—even if it means cooperating with China to enlarge regional connectivity and trade, rather than struggling to find a model for itself. India must quickly recognise the evolving changes, challenges, and opportunities in this region to avoid being relegated to the periphery of Eurasian politics.



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