India

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Political Economy & Security in GCA: Background

The strategic location and abundance of natural resources were reason enough for many analysts to create theories of a "*New Great Game*" akin of the nineteenth century Great Game between Tsarist Russia and the British Empire. This new game centers on the competition among companies to develop energy resources as well as among nations to determine export routes. Recently the role of the military and "regime change" experiments through "color revolutions" have added a new dimension to the game.

Since the early 1990s the economic and political systems of the countries in the region have been transformed. Despite a very complex legacy (of central planning, dissolution of the former Soviet Union, distorted economic structures, and ethnic problems) most of the countries of Greater Central Asia (GCA) have made significant progress in market reforms, but this progress on democratic reforms falls far below expectations. Due to such features as natural resources, strategic location, political systems, and the background of the political elite, countries of the region has used both standard as well as non-conventional strategies for economic transformation.

In the political arena, the authoritarian leaders who came to power in the late Soviet era with little or no competition have tried to promote economic stability while securing their own dominance in the new political system. They have learned lessons from the Chinese model of development as well as from the East and Southeast Asian "tiger" economies. As they did in Central and Eastern Europe, Western countries and multilateral institutions have promoted democracy and the development of market economies, sponsored peace through cooperation within and among the countries of the region, and supported the integration of these countries with the larger international community.

In terms of geo-strategy, the events in Afghanistan, both before and after September 11, 2001, have had a significant impact on the region. This impact led many nations within the region and beyond to a re-evaluate their strategic priorities. The 2001 Bonn Conference established a new process of political reconstruction in Afghanistan. The adoption of a new constitution in 2003, a presidential election in 2004, and the election of the National Assembly in 2005 have fostered a more democratic political environment across the GCA region.

Despite the varied players, the real competition in the region has been between the United States and Russia. Although Russia had the advantage of history and geography in it's so called " near abroad," the United States consolidated its position both before and after September, 2001. It was further enhanced with the opening of Baku-Tbilisi-Ceyhan (BTC) pipeline in 2005. Recently, China has joined the race by investing in transport, pipelines, and trade diplomacy.

In the strategic field, the West tried in the 1990s to influence the region through the North Atlantic Treaty Organization's (NATO) Partnership for Peace and through the Organization for Security and Cooperation in Europe (OSCE). Other important security mechanisms revolve around the Russian-dominated Collective Security Treaty Organization (CSTO), and the Shanghai Cooperative Organization (SCO), in which China's influence predominates. The establishment of military bases by the United States, Russia and India in Uzbekistan, Tajikistan, and Kyrgyzstan has also added to the strategic dynamic.

In recent years, the major issue for the United States has been to balance two of its major foreign policy goals in the region — democratization and counterterrorism, which together have left the United States overstretched in West and Central Asia. Aware of this U.S. preoccupation, China and Russia have, in an effort of cooperation, consolidated their positions in the region. Central Asian Republics, after witnessing the Rose revolution in Georgia, the Orange revolution in Ukraine, the Tulip revolution in Kyrgyzstan, and the violent protests in Uzbekistan, have moved clearly to seek support for their regimes from Russia. The SCO statement calling on the United States to set a deadline for the removal of its military bases in the region, as well as Uzbekistan's decision to close the U.S. base, indicate a new geopolitical scenario. Some analysts have blamed the U.S. "regime change" experiments in Georgia, Ukraine, and Kyrgyzstan for this. Others, however, argue that as a result of the "war on terror," the United States actually focused less on building democratic institutions in the region than it had intended. However, the very real popular discontent against the regimes cannot be ignored for long. These factors suggest the likelihood of political instability among most of the countries of GCA in the near future.

After the fall of the Soviet bloc, countries in the region started the transition toward market economies. Even countries which still consider themselves socialist or communist, like China and Vietnam, shifted, to a great extent, from bureaucratic coordination of resources to market-based allocations.[1] Most of the earlier reform deliberations within these countries were confined to improving "market socialism." From the vast literature on transition, however a consensus on a new paradigm emerged. Though it may be nearly impossible to capture the complex analytical framework of transformation, it is not that difficult to cobble together from a few key writings a workable "model" of this transformation.

Kornai[2] highlights two changes: 1) forcing a move from a seller's market to a buyer's market by means of price liberalization, and 2) enforcing hard budget constraints through privatization and by ending various government-supported mechanisms. Blanchard[3] defines this process of change as comprising two elements: 1) reallocation of resources from old to new enterprises, through closures and bankruptcies and the establishment of new enterprises, and 2) restructuring within surviving firms by means of labor rationalization, product line change, and new investment. The policy actions

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[1] Grzegorz Kolodoko, *Ten Years of Post-Socialist Transition: The Lessons for Policy Reforms* .Policy Research Working Paper No. 2095 (Washington DC: The World Bank, 1999).
[2] Janos Kornai " Transformation Recession: The Main Causes" *Journal of Comparative Economics*, Vol. 19, No.1, 1994, pp.33-63.
[3] Oliver Jean Blanchard *The Economics of Post-Communist Transition* (Oxford, Clarendon Press, 1997).

needed to put these ideas in place have been outlined in many works[4] well exemplified by Fischer and Gelb.[5] The key measures of reforms are (1) macroeconomic stabilization; (2) price and market liberalization; (3) liberalization of exchange and trade system; (4) privatization; (5) establishment of a competitive environment with few obstacles to market entry and exit; and (6) redefinition of the role of the state.[6]

The *1996 World Development Report*[7] argued that building on early gains of transition would require major consolidating reforms, strong market supporting institutions, a skilled and adaptable work force, and full integration with the global economy. It also recognized that while initial conditions were critical, decisive and sustained reforms were important for recovery of growth and social policies designed to protect the most vulnerable. It emphasized that investing in people is the key to growth. After a decade of reforms, the World Bank[8] highlighted the key role in generating economic growth and employment of the entry of new firms, particularly small- and medium-sized enterprises. It called for an "encouragement strategy," which was to be accompanied by a "strategy of discipline." It also called for the strengthening of legal and regulatory institutions to oversee the management and governance of enterprises, both those in the private sector and those remaining in the state sector. It recognized that winners from the early stages of reforms may oppose subsequent reforms when these reduce their benefits or rents.

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[4] Oliver Blanchard, Kenneth A Froot and Jeffery D Sachs (eds.) *The Transition in Eastern Europe,* 2 Volumes (Chicago: University of Chicago Press ,1994); Paul Marer & Salvatore Zecchini (eds*) The Transition to a Market Economy,* 2 Volumes, (Paris:OECD,1991).

[5] Stanley Fischer & Alan Gelb " The Process of Socialist Economic Transformation" *Journal of Economic Perspectives*, Vol.5, No.4, 1991, pp.91-105

[6] Some of this literature survey has been taken from Oleh Havrylyshyn, Thomas Wolf, Julian Berengaut, Marta Castello-Branco, Ron van Rooden, and Valerie Mercer-Blackman, *Growth Experience in transition Countries, 1990-98,* Occasional Paper No.184, (Washington DC: IMF, 1999).

[7] The World Bank *From Plan to Market: World Development Report 1996,* (New York: Oxford University Press ,1996).

[8] The World Bank ,Transition: The First Ten Years: Analysis and Lessons for Eastern Europe and Former Soviet Union, (Washington DC: The World Bank, 2002).

As a result of these policy prescriptions and later empirical findings,[9] most of the multilateral institutions devised a new approach for the economies, which it called the "economics of transformation,". Most recently, research on transition economies has moved from purely economic issues to political economy as a whole. Central Asian economic transition has, however, other dimensions. Apart from managing the challenges of transition, the region simultaneously faces challenges in development.[10]

Despite a common historical and cultural background, including more than seven decades of Soviet rule, the five former Soviet countries of the Greater Central Asia have demonstrated different abilities for coping with the challenges of transformation. The transition strategies adopted by these countries have also been influenced greatly by the political environment of the region and of that in their particular countries. Discussion of possible "models of development" in the region has dominated intellectual discourse since the early 1990s. Discussion ranged from the Turkish secular political model to the Iranian theocratic model, the Chinese model of gradual economic reform, and to Russia's shock therapy approach. There has been very little attempt in the region to define the exact implications of any of these models for the domestic and foreign policies of the countries in the region. Still, the reference to a "model of development" has become an important part of these countries' attempt to create a new national/regional identity within the international community.[11]

From the beginning, Central Asian leaders understood that western investment and assistance would come only after political and economic

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[9] Stanley Fischer and Ratna Sahay , *The Transition Economies After Ten Years,* IMF Working Paper 00/30 (Washington:IMF, 2000); *UN Economic Survry of Europe* (From 1990-91 To 2001) (Geneva;UNECE).

[10] This point was discussed first by Joseph E Stiglitz in the context of Chinese economic transformation, . See Joseph E Stilitz, "Whither Reform? Ten Years of the Transition" *Annual World Bank Conference on Development Economics 1999,* 2000, pp.27-56.; Also see Laszlo Csaba, *The New Political Economy of Emerging Europe* (Budapest: Akademiai Kiado, 2005).

[11] See Rafis Abazov, "Central Asian Republics' Search For a "Model of Development" in *Central Asia in Transition,* SRC Occasional Paper No. 61 (Hokkaido University: Slavic Research Center, 1998) [Online web]http://src-h.slav.hokudai.ac.jp/publictn/CentralAsia/rafis/rafis.html

reforms. Most countries in the region shifted to a state-controlled economic system, mixed with nationalist revivalism and regional cooperation. Each president in the region formulated his own economic and social strategy.

Major dilemmas faced by the regional elite in the former Soviet republics of the Greater Central Asia are still not fully resolved. They are still discovering the national economic models appropriate to their complex identities. After being part of a Eurasian power for so long, many also continue to identify themselves more with Europe than Asia. But the deficit in market reforms and democratic processes push them to search for solutions within their Asian surroundings.

Progress with Economic Reforms in GCA

In the early years, the break-up of the Soviet Union hit the region very badly for many reasons. The creation of new borders caused interruptions in trade and transit, the costs of transportation increased, and illegal checkpoints emerged while traditional markets collapsed. Industrial and agricultural production was disrupted by inaccessibility to inputs and markets. Enterprises and households lost social subsidies. Administrative structures collapsed and the pool of skilled labor shrank, as many Russians left the region. Reduced access to secure water and energy resources was also a regional problem, greatly affecting agriculture, industry, and household economies. Countries in the region were left with large environmental burdens (including the Aral Sea ecological disaster, as well as industrial, nuclear, and biological waste). Above all, the prevalence of ethnic tensions and civil war (in Tajikistan) inhibited economic reform.[12] All these were added complications to the 'normal' transformational problems faced by any country moving from a centrally planned economy to a market system.

After fifteen years of reform, the countries of the region display some common trends and some significant variations. One commonality in all the countries of the region is a very deep and long decline in output. The greatest loss of output occurred in Kyrgyzstan and the least in Uzbekistan. According

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[12] See Johannes Linn, "Central Asia: Ten Years of Transition", Talking points for Central Asia Donors' Consultation Meeting, Berlin, Germany, March 1, 2002.

to World Bank data, Central Asia had an average of seven years of decline, resulting in the loss of almost 41 percent of the initial measured output. Measured by the base year of 1990, even at the end of the decade Central Asia had recovered only 75 percent of its starting GDP values. Recovery in some of the countries was further derailed by the 1998 fiscal crisis in the Russian Federation.

This "transformation recession" is now over. Some of the countries in the region are now on a strong path to recovery. There is, however, a serious problem with data regarding the countries of the Greater Central Asia. Data from the International Monetary Fund (IMF), European Bank for Reconstruction and Development (EBRD), and the Asian Development Bank (ADB) do not agree with one another. In the following tables the ADB data is used as it is closest to official statistics from the countries in the region. These data show that the countries are fairly stable, with low inflation and exchange rate stability. They are all growing briskly and have very low rate of unemployment.

Table 1: Growth Rate of GDP in GCA (in % per year)

	2001	2002	2003	2004	2005	2006*	2007*
Afghanistan	-	28.6	15.7	8.0	13.8	11.7	10.6
Kazakhstan	13.5	9.8	9.2	9.4	9.4	8.5	8.5
Kyrgyz Rep.	5.3	0.0	7.0	7.0	-0.6	5.0	5.5
Tajikistan	10.2	9.5	10.1	10.6	6.7	8.0	6.0
Turkmenistan	20.4	19.8	23.0	21.0	10.0	6.5	6.5
Uzbekistan	4.2	4.2	4.4	7.7	7.0	6.2	6.0

* projections

Source: Asian Development Bank Outlook 2006 (ADB, 2006), p.311.

Table 2: Inflation in GCA (in % per year)

	2001	2002	2003	2004	2005	2006*	2007*
Afghanistan	-	-	10.2	16.3	10.0	8.0	5.0
Kazakhstan	8.4	5.9	6.6	6.9	7.6	7.3	7.0
Kyrgyz Rep.	6.9	2.0	3.0	4.0	4.4	4.5	4.3
Tajikistan	38.6	10.2	17.1	7.1	7.1	7.0	5.0
Turkmenistan	11.6	8.8	5.6	5.9	-	-	-
Uzbekistan	27.4	27.6	10.3	1.6	7.8	9.2	6.0

* projections

Source: Asian Development Bank Outlook 2006 (ADB, 2006), p.318

Table 3: Unemployment Rates in GCA (in %)

	2001	2002	2003	2004	2005
Afghanistan	3.9	3.9	3.8	3.8	-
Kazakhstan	10.4	9.4	8.8	8.4	7.8
Kyrgyzstan	7.8	8.6	9.0	9.0	9.0
Tajikistan	2.3	2.2	2.2	1.8	-
Turkmenistan	2.6	2.5	2.5	-	-
Uzbekistan	0.3	0.3	0.2	0.2	-

Source: Asian Development Bank Outlook 2006 (ABD, 2006), p.316

Table 4: National Currencies: Exchange Rate to the US dollar (annual average)

	Currency	Symbol	2000	2001	2002	2003	2004	2005
Afghanistan	Afghani	AF	67.3	54.4	44.8	49.0	47.7	49.8
Kazakhstan	Tenge	T	142.3	146.9	153.5	149.5	136.7	132.9
Kyrgyzstan	Som	Som	47.7	48.4	46.9	43.7	42.7	41.0
Tajikistan	Somoni	TJS	1.8	2.4	2.8	3.1	2.9	3.1
Turkmenistan	Manat	TMM	5200	5200	5200	5200	5200	5200
Uzbekistan	Sum	SUM	237.3	423.3	772.0	971.0	1020.0	1115

Source: Asian Development Bank Outlook 2005 (ADB, 2005), p.321 and Asian Development Bank Outlook 2006, (ADB, 2006) p.329.

Other economic analysis, however, suggest that successes in market-oriented structural and institutional reforms are resulting in mixed progress throughout the region. According to different methodologies developed by major multilateral organizations and independent agencies to measure the progress of reform in transition economies, Kazakhstan and Kyrgyzstan have progressed much faster. By contrast, Uzbekistan and Turkmenistan have been classified as countries that have achieved less progress in establishing market institutions. According to EBRD indicators, reforms of prices, enterprises (privatization), the banking sector, foreign exchange and external trade, privatization, enterprise reforms, and the banking sector are high in Kazakhstan and the Kyrgyz Republic, with progress in some areas that is comparable to Russia and Poland. Tajikistan also has made significant progress in price reforms, external sector reforms and the privatization of small firms. The level of reforms in Uzbekistan and Turkmenistan is low, particularly in the external, enterprise, and banking sector.

External economic reforms in the region touch on five areas: liberalization of foreign trade prices, reform of the system of trade, market diversification, phasing out of barter trade, and currency reforms. Progress on these reforms has varied across the region.[13] The earlier trend of diversification towards non-CIS countries has partly reversed in recent years and, with the exception of Afghanistan, these economies are still linked more closely with European (Russia) than Asian partners (Tables 6 and 7).

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[13] For details see Jimmy McHugh and Emine Gurgen "External Sector Policies" in Emine Gurgen et.al, *Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan,* IMF Occasional paper No. 183 (Washington: International Monetary Fund, 1999), pp. 35-47.

Table 5: Progress with Transition: EBRD 2005 Indicators

(Average transition Score from 1 to 4)

Enterprises					**Markets & Trade**			**Financial Institutors & Infrastructure**		
Country	Private Sector Share (% of GDP Mid-2005)	Large Privati-zation	Small Privati-zation	Enter-prise Restruc-turing	Price Liberali-zation	Trade & Foreign exchange system	Compe tition Policy	Banking Reform and Interest Rate Liberali-zation	Security market & Non-Bank FIs	Infra-structure Reforms
Kazakhstan	65	3.00	4.00	2.00	4.00	3.33	2.00	3.00	2.33	2.33
Kyrgyz Rep.	75	3.67	4.00	2.00	4.33	4.33	2.00	2.33	2.00	1.67
Tajikistan	50	2.33	4.00	1.67	3.67	3.33	1.67	2.00	1.00	1.33
Turkmenistan	25	1.00	2.00	1.00	2.67	1.00	1.00	1.00	1.00	1.00
Uzbekistan	45	2.67	3.00	1.67	2.67	2.00	1.67	1.67	2.00	1.67

Source: Transition Report 2005, EBRD.

Table 6: Direction of Exports in GCA in 2004

(percent of total merchandise exports)

	Asia	Europe	North & Central America	Middle East	South America	Africa	Oceania	Rest of the World
Afghanistan	53.0	25.0	13.2	3.0	2.3	3.3	0.2	0.0
Kazakhstan	18.3	57.9	16.1	3.8	0.0	0.2	0.0	3.7
Kyrgyzstan	29.6	43.6	2.6	24.2	0.0	0.0	0.0	0.0
Tajikistan	26.6	64.2	1.1	8.0	0.0	0.1	0.0	0.0
Turkmenistan	10.4	62.9	4.3	20.4	0.0	0.0	0.0	2.0
Uzbekistan	46.6	45.4	4.5	2.6	0.2	0.1	0.0	0.6

Source: Key Indicators of Developing Asia and Pacific Countries (ADB, 2005), p.168

Table 7: Direction of Imports in GCA in 2004

(In percent of total merchandise imports)

	Asia	Europe	North & Central America	Middle East	South America	Africa	Oceania	Rest of the World
Afghanistan	62.0	23.1	9.2	1.5	0.1	3.9	0.3	0.0
Kazakhstan	22.5	72.2	3.4	0.8	0.8	0.2	0.1	0.1
Kyrgyzstan	57.0	36.4	4.6	1.8	0.1	0.1	0.0	0.0
Tajikistan	44.0	37.4	7.2	7.7	2.8	0.8	0.0	0.0
Turkmenistan	22.5	52.3	11.8	13.3	0.1	0.0	0.0	0.0
Uzbekistan	39.1	55.8	4.0	0.5	0.2	0.1	0.1	0.3

Source: Key Indicators of Developing Asia and Pacific Countries (ADB, 2005), p.169

World Energy Trends and the Importance of GCA to India

Global energy consumption is projected to increase by 57 percent from 2002 to 2025. According to the U.S. Energy Information Administration, the world's marketed energy consumption is projected to increase on average by 2.0 percent per year until 2025—slightly lower than the 2.2 percent average annual growth rate from 1970 to 2002.[14] Emerging economies are going to account for much of this projected growth.

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[14] *International Energy Outlook 2005*, (Washington DC: Energy Information Administration, 2005), p.1.

Among the emerging economies, the highest demand is expected to occur in Asia, particularly China and India. During this period, the use of all energy sources is going to increase. Fossil fuels will continue to supply much of the energy, while oil will remain the dominant energy source. World oil use is expected to grow from 78 million barrels per day in 2002 to 103 million barrels per day in 2015 and 119 million barrels per day in 2025. The projected increment in worldwide oil use will require an increment in world oil production capacity of 42 million barrels per day over 2002 levels. As Table 8 shows, the area of the former Soviet Union will play an important role in supplying this energy. In addition, countries of the Central Asian region (including Azerbaijan) will account for about 6 percent of the global oil capacity by 2025.

Table 8: World Marketed Energy Consumption by Region, 1990–2025

(in Quadrillion Btu)

					Average Annual % Change	
Region	**1990**	**2002**	**2015**	**2025**	**1990-2002**	**2002-2025**
Mature Market Economies	183.6	213.5	247.3	271.8	1.3	1.1
Transitional Economies	76.2	53.6	68.4	77.7	-2.9	1.6
Emerging Economies	88.4	144.3	237.8	295.1	4.2	3.2
Asia	51.5	88.4	155.8	196.7	4.6	3.5
Middle East	13.1	22.0	32.0	38.9	4.4	2.5
Africa	9.3	12.7	19.3	23.4	2.7	2.7
C & South America	14.5	21.2	30.4	36.1	3.2	2.3
Total World	348.2	411.5	553.5	644.6	1.4	2.0

Source: International Energy Outlook 2005, (Washington DC: EIA, 2005), p.7.

Table 9: World Oil Production Capacity by Region, Reference Case, 1990–2025

	History (Estimates)		Projections			
	1990	2002	2010	2015	2020	2025
OPEC	27.2	30.6	39.9	43.7	49.7	56.0
Persian Gulf	18.7	20.7	28.3	30.8	35.2	39.3
Non OPEC Mature Market Economies (US, Canada, Mexico, North Sea, Australia, NZ, etc)	20.1	23.7	25.2	26.1	25.8	25.4
Former Soviet Union	11.4	11.2	13.6	15.3	16.5	17.6
Russia	11.3	9.6	10.3	10.8	11.1	11.3
Total World	69.4	80.0	96.5	105.4	113.6	122.2

Source: International Energy Outlook 2005, (Washington DC: EIA, 2005), pp. 157, 160.

Estimates suggest that the region could be sitting on the world's third largest oil and natural gas reserve (after the Middle East and Russia).

Kazakhstan is the only country in the region with proven onshore and offshore hydrocarbon reserves, which are estimated to be between 9 and 29 billion barrels. During the first half of 2005, it exported on average 1.1 million barrels of oil per day (bbl/d.) It exported in three directions: northward (via the Russian pipeline system and rail network); westward (via the Caspian Pipeline Consortium Project and barge to Azerbaijan); and southward (via swaps with Iran). It also exported about 30,000 bbl/d eastward to China via the Alashankoy rail crossing.

Turkmenistan's proven oil reserves are estimated to be between 546 million and 1.7 billion barrels. Oil production has increased from 110,000 bbl/d in 1992 to about 260,000 bbl/d in 2004, when exports reached approximately 170,000 bbl/d. The country plans to boost oil extraction to 2 million bbl/d by 2020. It has proven natural gas reserves of approximately 71 trillion cubic feet (Tcf).

Uzbekistan is also one of the top ten natural gas-producing countries in the world, with estimated reserves of 66.2 Tcf.[15]

To reduce the region's dependence on Russia, a few massive projects like the Caspian Pipeline Consortium Project (CPC), the Baku-Tiblisi-Ceyhan oil pipeline (BTC), and the South Caucasus Pipeline (SCP) have been outlined. These will redirect the region's energy flows from the existing northern routes toward Russia, to western, eastern and southern routes toward Europe and Asia. In recent years, Asian demand (particularly in China and India) has been expected to grow much faster than European demand, and eastward routes towards China and southern routes (through Iran) or southwest routes via Afghanistan were looked upon as economically lucrative options.

Unfortunately, all routes from the region face serious political, security, and financial constraints. Moreover, due to asymmetric investments as a consequence of different economic policies, the north Caspian states of Kazakhstan and Azerbaijan have emerged as major oil producers and exporters. In fact, Kazakhstan's production accounts for about two-thirds of the roughly 1.8 millions bbl/d currently being produced in the region. As a result of new investments, its production level is expected to increase to about 3.5 million bbl/d by 2015.

On the energy front, India is facing a huge challenge. Primary commercial energy demand grew almost three-fold at an annual rate of 6 percent between 1981 and 2001.[16] In an effort to catch up with the rest of Asia and to reduce poverty, it is essential for India to continue growing at about 8 percent or more over the next 25 years. According to the Indian government's recently released draft energy policy, even a conservative projection of India's energy needs to fuel this kind of growth will require that basis capacities in the energy sector and related physical infrastructure such as rail, roads, highways, and ports will have to grow by factors of 3 to 6 times by 2031, with nuclear and renewable resources rising to over 20 times their current

[15] Figures in this paragraph are taken from various country pages of Energy Information Administration of the United States [Online web http://www.eia.doe.gov]

[16] *Tenth Five Year Plan 2002-2007*, (New Delhi: Planning Commission, 2002) p. 759.

capacities. According to estimates, energy consumption is expected to grow from a low of 5.5 percent per annum to high 6.2 percent per annum.[17]

Currently, India's primary energy source is fossil fuels imported from about 25 countries. Nearly two-thirds of this total comes from just four countries: Iran, Kuwait, Nigeria, and Saudi Arabia. With this current scenario, India's oil import dependency is likely to grow beyond the current level of 70 percent.[18]

Table 10: Sources of India's Oil Imports 2004–05

Middle East			Other Regions		
Country	Oil Imports (mmt)	% of Total imports	Country	Oil Imports (mmt)	% of Total imports
Iran	9.61	10.03	Angola	2.44	2.55
Iraq	8.33	8.69	Brazil	0.29	0.30
Kuwait	11.46	11.85	Brunei	0.81	0.84
Neutral Zone	0.15	0.15	Cameroon	0.35	0.36
Oman	0.14	0.14	Congo	0.14	0.14
Qatar	1.19	1.24	Egypt	2.12	2.21
Saudi Arabia	23.93	24.96	Equator	0.15	0.16
UAE	6.43	6.71	Equatorial Guinea	1.66	1.73
Yemen	3.51	3.66	Gabon	0.28	0.29
			Libya	1.47	1.53
			Malaysia	3.43	3.58
			Mexico	2.28	2.38
			Nigeria	15.08	15.73
			Russia	0.16	0.16
			Sudan	0.33	0.34
			Thailand	0.27	0.28
Sub Total	64.64	67.43	Sub Total	31.23	32.57

Source: Draft Report of the Energy Committee on Integrated Energy Policy (New Delhi: Planning Commission, 2005), p. 63.

[17] Draft Report of the Energy Committee on Integrated Energy Policy (New Delhi: Planning Commission, 2005), p. 72.
[18] *Tenth Five Year Plan 2002-2007*, (New Delhi: Planning Commission, 2002) p. 765.

India believes that energy security can be increased both by diversifying its energy mix as well as diversifying sources of energy imports. As a result, India is seriously perusing nuclear energy options, as well as other import possibility from beyond the Middle East. New energy sources from the Greater Central Asia will play an important role in Indian energy strategy in the coming years.

In the last ten years, there has been lot of discussion on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline.[19] ADB has brokered the 1,700 km pipeline project since 2002. It has already proposed various structures of the pipeline for attracting investors, contractors, and financial institutions. Turkmenistan has informed members that an independent firm — De Golyer and McNaughton — had confirmed reserves of over 2.3 trillion cubic meters (TCM) of gas at Daulatabad field. Additional reserves of about 1.2TCM are expected after drilling of the adjacent area. The gas production capacity of the field could be increased to about 125 million cubic meter per day (mmcmd) from the current 80 mmcmd. Turkmenistan is committed to providing sovereign guarantees for long-term uninterrupted supplies to Pakistan and India.[20] On 15 February, 2006, India was invited to join the $5 billion pipeline project.[21] In May 2006, the Indian government officially approved its participation in the TAPI project and authorized the Petroleum and Natural Gas Ministry to make a formal request to join.[22]

Major challenges to this project exist: there are remaining uncertainties about the volume of gas reserves in Turkmenistan, still unstable security situation in Afghanistan, and serious difficulties in India-Pakistan relations. Yet, despite these, all parties are considering the proposal very seriously.

In another serious attempt to enter the central Asian energy sector, India's international branch of the Oil and Natural Gas Corporation (ONGC Videsh) recently lost a close bid of about $4 billion to China National

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[19] Happymon Jacob "India and the Trans-Afghan Gas pipeline" http://www.observerindia.com/ analysis/A020.htm
[20] "Delhi Invited to Join TAP Project" http://www.dawn.com/2006/03/16/top10.htm
[21] "India Invited to Join TAP Project", *The Hindu*, 17 March 2006.
[22] Union Cabinet decision press release May 18, 2006, http://pib.nic.in/release/release.asp?relid=17859&kwd=

Petroleum Corporation (CNPC). The competition was over the acquisition of Petrokazakhstan, which accounts for about 12 percent of oil production in Kazakhstan and is that country's third largest oil producer. Recently, the Indian Petroleum Ministry and public sector gas company GAIL India have signed a memorandum of understanding (MOU) with Uzbekistan's Uzbekneftegaz for oil and gas exploration and production. It is also reported that GAIL and an Uzbek company have jointly agreed to build a few liquefied petroleum gas plants in western Uzbekistan. Each plant will have US$50 to US$60 million invested to produce 100,000 ton per annum capacity, and will produce liquefied petroleum gas mostly for the Uzbek domestic market.[23]

Regional Economic Initiatives in the Greater Central Asia and India

In an effort to counter the disadvantages of their landlocked locations and relative remoteness from major world markets, the GCA countries have participated in many initiatives to foster regional and international trade. It is argued that regional cooperation can help the region to liberalize trade policies at low costs, reduce the risks of protectionist measures with trading partners, create new trade, and improve social welfare.[24] According to some estimates, slashing trade costs by 50 percent would increase GDP in Kazakhstan by 20 percent and 55 percent in Kyrgyzstan over 10 years. The poor would be the biggest benefactor of this boost in trade .[25]

Historically, it has proven difficult to develop regional cooperation among all the countries. States such as Kazakhstan and Uzbekistan have jockeyed for the role of regional leader, while Turkmenistan has consistently declared a policy of neutrality. Afghanistan, meanwhile, has yet to become a key player due to its unstable political and security situation.

Four Central Asian countries are important members of the Commonwealth of the Independent States (CIS). This organization has not implemented a customs union or a free trade area covering all member states, but in

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[23] http://www.upi.com/Energy/view.php?StoryID=20060508-113000-5315r

[24] Central Asia: Increasing Gains from Trade through Regional Cooperation in Trade Policy, Transport, and Custom Transit, (ADB, 2006).

[25] Central Asia Human Development Report (UNDP, 2005), p.4

September, 2003, the idea of Single Economic Space (SES) (sometimes called the "Common Economic Space" or "Common Economic Area") was introduced during a CIS Summit in Yalta. Among the states of a Greater Central Asia, only Kazakhstan is the member of the SES.[26] The problem with the SES is that almost every member is pursuing a different goal. Russia and Belarus sought to create a customs union and a monetary union based on the ruble. Kazakhstan preferred a monetary union based on a new currency called the "Altyn." Ukraine feels that the Union conflicts with its European objective, and hence would like to see it as a free trade area. Despite these inherent problems, member states are trying hard to make it a meaningful organization.

In 1995 Kazakhstan and Kyrgyzstan formed a customs union with Belarus and Russia, with Tajikistan joining in 1999. In October 2000, the customs union became the Eurasian Economic Community (EAEC). Ukraine, Moldova, and Armenia have also been granted observer status in the EAEC. As a result of the merger between EAEC and CACO, Uzbekistan gained membership in 2006. Its main objective is "to create the necessary conditions for cooperation between the member countries in the trade, economic, social, humanitarian and legal spheres with an optimal balance of national and common interests." Its stated long-term objective is to promote the creation of a customs union and the Common Economic Space, as well as to ensure the effective execution of other objectives defined in the Customs Union Agreement of January,1995, and related agreements of 1996 and 1999.

In 1994, Kazakhstan, Kyrgyzstan, and Uzbekistan formed the Central Asian Union (CAU). The aim was to create a single economic space with improvements in payment arrangements and reduction in tariffs among member countries. In 1995, CAU members approved the principle of free trade. A Central Asian Bank for Cooperation and Development was also created. In 1998, Tajikistan joined the group. During the same year the organization was renamed the Central Asian Economic Community (CAEC). In 2001, the CAEC became the Central Asian Cooperation Organization (CACO) and Russia joined the organization in May 2004.

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[26] Belarus, Russia, and Ukraine make up the other three members.

Ukraine, Georgia, and Turkey were given observer status. In 2005, the member states of EAEC and CACO agreed to allow Uzbekistan to join the EAEC and to merge both organizations.

This merger could lead to improved opportunities for meaningful regional cooperation. It also raises serious issues regarding harmonizing Uzbekistan's restrictive trade policies in line with other countries.

The Economic Cooperation Organization (ECO) was created by Iran, Pakistan, and Turkey in 1985 to promote what it called Regional Cooperation for Development (RCD). The main objectives of the organization is to "promote conditions for sustainable economic development and to raise the standard of living and the quality of life in the member states" through regional economic cooperation, and the "progressive removal of trade barriers within the ECO region and expansion of intra and inter-regional trade" The organisation has signed a number of agreements with various multilateral agencies like the UNDP, ASEAN, FAO, and the Islamic Development Bank (IDB).However, the dozen agreements and MOUs signed by the ECO members, only four agreements have become operational. Immediately after the disintegration of the former Soviet Union, six new members (Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) were admitted in the organization. All GCA countries have joined the ECO.

All GCA countries have also joined the Organization of Islamic Conference (OIC), an intergovernmental organization with 56 members, established in 1971 in Saudi Arabia. Its aim is to promote Islamic solidarity by improving cooperation in the political, economic, social and cultural, and scientific fields.

Along with China and Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan are also members of the Shanghai Cooperation Organization (SCO). The SCO was founded in 2001 on the basis of its predecessor, the Shanghai Five grouping. It began as a forum for discussing border delineation issues, but as a result of the threat of terrorism in the region, it now focuses more on security issues. Economic cooperation among its members is also envisaged.

The Central-South Asian Transport and Trade Forum (CSATTF) is an initiative to establish transport corridors in Central and South Asian. It began with ADB assistance in 2003 with the aim of promoting economic growth and social development and reducing poverty in the six participating countries—Afghanistan, Iran, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. This will be done by strengthening regional transport and trade links and by opening up alternative routes for third country trade. The corridor initiative is expected to cost about US$5.7 billion. Iran also participates in its meetings as an observer and uses its own resources for infrastructural and customs improvement. China, India, Kazakhstan, and Kyrgyz Republic participated in its second meeting in March, 2005.[27] It is expected that funding will be a joint effort of the countries concerned and assistance will be provided by multilateral institutions and the international community.

Kyrgyzstan has become a member of the WTO and the other regional states have also shown interest in becoming members. The European Union (EU) has granted Central Asian countries access to the Generalized System of Preferences (GSP). It allows tariff reductions on manufactured products and certain agricultural goods. To encourage regional cooperation, the ADB initiated a program called Central Asia Regional Economic Cooperation (CAREC). The operational strategy of CAREC is to finance infrastructural projects and improve the policy environment for promoting cross-border activities in the areas of trade, energy, and transportation.

The United Nations also started a Special Program for the Economies of Central Asia (SPECA) in 1997. The objective of the program is to strengthen regional cooperation in order to stimulate economic development and facilitate integration into Europe and Asia.

Another international initiative, known as the CIS 7 Initiative, promotes poverty reduction, growth, and debt sustainability in the following seven low-income CIS countries: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Uzbekistan and Tajikistan. The initiative is sponsored by the following organizations: ADB, EBRD, IMF and IDA (part of the World Bank), and a group of bilateral creditors/donors. Currently 24 countries participate in the CIS 7 Initiative and an additional six organizations/countries act as observers. These include Canada, China, the

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[27] www.adb.org/Documents/Conference/in 120-05.pdf

European Union, the Organization for Economic Cooperation and Development (OECD), the IDB, France, Germany, Italy, Japan, Russia, Turkey, the United Kingdom, and the United States.

Other regional initiatives, including the Inter-governmental Commission on Central Asian Sustainable Development, the Inter-State Water Commission, the Central Asian Energy Advisory Group, and Regional Electricity Grid, focus on technical issues.

Afghanistan's membership into the South Asian Association for Regional Cooperation (SAARC) in late 2005 created a new dimension in the economic integration of Greater Central Asia. Afghanistan's membership to SAARC has the potential to fundamentally change and rejuvenate regional economic linkages between the South and Central Asian regions.

An Agreement on the South Asia Free Trade Area (SAFTA) was signed by member countries in January, 2004. Negotiations on all aspects of SAFTA were concluded recently and the implementation of the tariff liberalization program was begun in July/August 2006.

The following table summarizes major regional economic cooperation initiatives in the GCA:

Table 11: Some Important Regional Economic Initiatives in GCA and India

	CIS	EAEC	CACO	ECO	OIC	CAREC	SCO	CIS-7 Initiative	SAARC	SPECA	INSTC	CSATTF
Afghanistan				X	X	X			X*			X
Kazakhstan	X	X	X	X	X	X	X			X	X	P
Kyrgyzstan	X	X	X	X	X	X	X	X		X	X	P
Tajikistan	X	X	X	X	X	X	X	X		X	X	X
Turkmenistan	A			X	X					X		X
Uzbekistan	X	X	X	X	X	X	X	X		X		X
India							O		X		X	P

X – Member A – Associate member O - Observer P – participated in meetings. * membership approved, subject to completion of formalities

CIS- Commonwealth of Independent states (with Armenia, Azerbaijan Belarus, Georgia, Moldova, Russia, Ukraine).

EAEC – Eurasian Economic Community, ex Customs Union (with Russia and Belarus + Moldova, Ukraine and Armenia observers)

CACO – Central Asian Cooperation Organization (with Russia since May 2004 + Georgia, Turkey and Ukraine Observers), ex Central Asian Economic Community), merged with EAEC in 2006

ECO - Economic Cooperation Organization (with Iran, Pakistan, Turkey and Azerbaijan)

OIC- Organization of Islamic Conference (total 56 members, established in 1971)

CAREC (ADB) - Central Asia Regional Economic Cooperation (with Azerbaijan, Mongolia and Xinjiang Autonomous Region of China and Russia)

SCO - Shanghai Cooperation Organization (with Russia and China + Iran, Mongolia, Pakistan as other observes)

CIS-7- An International initiative to promote poverty reduction, growth and debt sustainability in seven low-income CIS countries: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Uzbekistan, Tajikistan

SAARC: South Asian Association for Regional Cooperation (with Bangladesh, Bhutan, Pakistan, Nepal, Sri Lanka and Maldives).

SPECA: Special Program for the Economies of Central Asia

INSTC: International North South Transport Corridor (with Iran, Russia Belarus, Oman, Armenia, Azerbaijan, Syria, Bulgaria, Ukraine and Turkey)

CSATTF -Central and South Asia Transport and Trade Forum (with Pakistan as member and Iran as observer, China, India Kazakhstan and Kyrgyz Republic also participating in meetings)

As a result of these initiatives, the countries in the region have made some modest gains in regional cooperation. Although a limited amount of regional trade has developed in Central Asia, its growth has been uneven at best. These countries started with roughly similar trade policies, but trade policy regimes today vary from very liberal in the Kyrgyz Republic to quite restrictive in Uzbekistan and Turkmenistan. Despite the common interest of increasing trade, all the countries in the region have trade-restricting policies and practices such as tariffs, restrictive procedures and regulations, and weak financial systems. Other policy-related constraints to trade include import quotas, export licensing requirements, and transport restrictions. Arbitrary and often corrupt bureaucracies throughout the region administer regulations that are archaic and frequently conflicting. Slow and difficult border procedures, multiple cargo inspections within a single country, and prohibitions that prevent vehicles from transporting goods between countries alsohinder further gains in cooperation. Other barriers to trade include high transit fees and the costs of dealing with corrupt border officials and local police. Trade is also restricted by such practices as requiring importers to register contracts and restrictions on currency conversion. Due to the lack of a healthy financial system, a large part of trade is still conducted through inefficient cash transfers or barter.[28]

The above analysis demonstrates that most of the regional initiatives in Central Asia are either groupings to recreate lost linkages among the former Soviet republics or initiatives by multilateral organizations to strengthen regional linkages in the areas of trade, energy, water resources, infrastructure, and communications. These are largely affairs within the former Soviet space. Other countries like China, Iran, Turkey, and Pakistan have also been able to create some formal structures for closer interactions, some of which may become useful in the long run.

It is clear that as far as regional economic initiatives are concerned, India has integrated into the region only recently through INSTC, its observer status in the SCO, participation in CSATTF meetings and through Afghanistan's membership to the SAARC. However, considering its indirect access to the GCA region and its difficult relations with Pakistan, India's major initiative in the region so far has been cooperation in building up the North-South trade corridor.

Russia, Iran, and India are founding members of the International North South Transport Corridor (INSTC), consisting also of Belarus, Kazakhstan, Tajikistan, Oman, Armenia, Azerbaijan, Syria, Bulgaria, Ukraine, Turkey, and Kyrgyzstan. This corridor establishes a transit link between Scandinavian countries and Russia to the Indian Ocean, the Persian Gulf, and Southeast Asia. This transit route connects European countries and

[28] See Chapter 3, Central Asia Human Development Report (UNDP, 2005).

Russia through the ports of Amsterdam, Copenhagen, Hamburg, Helsinki, and Stockholm to St. Petersburg and Moscow and can extend to the southern ports of the Caspian Sea (for example, Anzali and Amirabad). It also connects Central Asia through Russian ports north of the Caspian Sea and can extend to Iran via the southern ports to the Persian Gulf and countries on the Indian Ocean to Southeast Asia. Compared with the current long and costly sea transport routes (Suez Canal), this route will be faster and cheaper. The route links the Indian port of Mumbai with Bandar Abbas in southern Iran through maritime transport. From there, goods will be shipped to northern Iranian ports on the Caspian Sea (Bandar Anzali and Bandar Amirabad) through roads and railway and then finally will be dispatched to Astrakhan and Lagan ports in Russia.[29]

Chahbahar on the coast of Iran is the only example of an Indian-supported transport project in the GCA to use this program. India will build a 235 km link from Zaranj on the Iran-Afghan border to Delaram, from where all major cities in Afghanistan and further north Central Asian republics are connected. India is also building on the Afghan side of the 22 km Zaranj-Milak road. Another road transport project involves the linking of the ChahBahar port to the Iranian rail network which is connected to Central Asia and Europe (Figures 1 and 2).[30] When completed, this initiative will make possible faster flows of goods, especially energy, from greater Central Asia to Iran and to India. Once these linkages are operational, the Indian economy could be meaningfully linked with the GCA region. Still, the shortest route from India to the GCA is through Pakistan.

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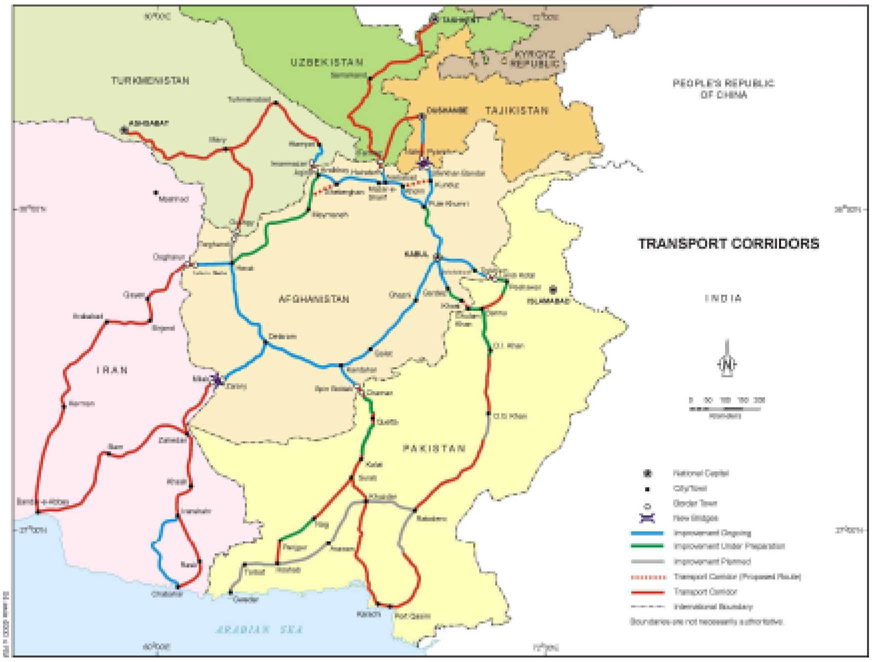
[29] For details about the INSTC see www.instc.org

[30] For details see *Report on the Economic Impact of Central-South Asian Road Corridors* (ADB, 2005); C Raja Mohan, “India, Iran Unveil Road Diplomacy” *The Hindu*, 26 January 2003; Sudha Ramachandran, “India, Iran, Russia Map out Trade Route” *The Asia Times*, 29 June 2002 and Stephan Blank, The India-Iranian Connection and its Importance for Central Asia, Eurasianet.org, 3/12/03

Figure 1: Transport Corridors: Greater Central Asia



Source: Report on the Economic Impact of Central-South Asian Road Corridors (ADB, 2005), p. 8.

Figure 2: International North South Transport Corridor

Source: International North South Transport Corridor Secretariat website www.instc.org

Other economies in the region could also become partners of SAARC. China and Japan already have observer status and the United States and South Korea have formally requested it. Iran has also shown interest in the grouping. During his visit to India, former Iranian Foreign Minister, Kamal Kharrazi, said that "the issue of Iran's accession to SAARC was under discussion."[31] He also spoke about the possibility of a West Asian Economic bloc comprising Iran, Pakistan, India, and Central Asian republics.[32]

Following the establishment of the Interim Administration in 2001, India has supported the reconstruction effort in Afghanistan, providing extensive humanitarian, financial, and project assistance. India's commitment to Afghanistan's reconstruction adds up to over $600 million, including one million tons of wheat as food assistance. Major projects include:

- Funding and construction of a 220KV double circuit transmission Line from Pul-e-Khumri to Kabul and a 220/110/20KV Sub-station at Kabul. The project is to be implemented by the Power Grid Corporation of India;
- Reconstruction of the Zaranj-Delaram road (approximate cost $84 million);
- Reconstruction and completion of the Salma Dam Power Project in Herat province (approximate cost $80 million). The project, which will provide 42 MW of power, is being executed by the Water and Power Consultancy Services (India) Ltd;
- Funding the construction of a new parliament building in Afghanistan;
- $200,000 contribution per annum to Afghan Reconstruction Trust Fund managed by the World Bank; and
- The gift of 300 vehicles to the Afghan National Army, which include one hundred 2.5-ton troop carriers, 15 field ambulances, 120 jeeps and fifty 4.5-ton troop carriers.

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[31] "Iran is not Averse to Joining SAARC", *The Hindu_*, February 23, 2004.
[32] "Pay for Iran Gas on Arrival" *Hindustan Times*, February 23, 2005.

A further $100 million worth of financial assistance were announced at the Tokyo conference in 2002:

- 400 buses for public transport system;
- 3 Airbus aircrafts transferred from Air India to Ariana Airlines;
- Indian Medical Missions were opened in Kabul, Mazar-e-Sharif, Herat, and Kandahar;
- Rehabilitation of Habibia School and Indira Gandhi Hospital;
- Common facility and tool center set up at the Industrial Park in Kabul;
- Emergency restoration of basic telecommunication networks in 11 provincial capitals;
- Setting up power transmission lines and substations in Farhad province;
- 105 utility vehicles/equipment (water tankers, rear drop tippers, dump trucks, bulldozers, motor graders and garbage tippers) provided to the Kabul Municipality;
- Revamping an augmentation of TV hardware in Jalalabad and Niagara Province; and
- Training has been provided in India to more than 800 Afghans in different fields.[33]

The aim of the SAFTA agreement is to eliminate trade barriers and facilitate the cross-border movement of goods between contracting states; to promote conditions of fair competition; and to establish a framework for further regional cooperation. It also provides for the creation of two institutions to oversee implementation: the SAFTA Ministerial Council (consisting of ministers of commerce or trade of the member states, meeting at least once a year) and the Committee of Experts (meeting at least once every six months). Qualifying for SAFTA preferences has some additional requirements regarding rules of origin, sensitivity lists, balance of payments,

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[33] The details of different programs are taken from Indian Ministry of External Affairs website http://meaindia.nic.in/

and safeguard measures. Concerns over the fate of less developed countries have also been considered, as shown by planned tariff cuts under SAFTA:

Table 12: Planned Phased Tariff Cuts on Intra-SAFTA Trade

SAARC Countries	**First Phase (two years)**** 1/1/2006–1/1/2008*	**Second Phase**** 1/1/2008–1/1/2013	1/1/2008–1/1/2016
Least Developed Countries (LDCs) — Bangladesh, Nepal, Bhutan, and Maldives	Reduce maximum tariff to 30 percent		Reduce tariffs to the 0–5 percent range in 8 years (equal annual reductions recommended, but not less than 10 percent).
Non-LDCs-- India, Pakistan, and Sri Lanka	Reduce maximum tariff rate to 20 percent	Reduce tariffs to the0–5 percent range in 5 years (Sri Lanka: in 6 years) NOTE: It is recom-mended that reductions be done in equal install-lments at least 15 percent reduction per year Reduce tariffs to 0–5 percent for products of the LDCs within a timeframe of 3 years	

* This phase was delayed for six months.

** These phased tariff cuts for intra-SAFTA trade may not apply to items on each country's 'Sensitive Lists'

Source: Reproduced from South Asian Free Trade Area: Opportunities and Challenges (USAID, 2005), p. 23.

The South Asian region also shows that regional economic cooperation is sometimes influenced more politics than by the principles of economics. In addition, various rounds of Preferential Trading Arrangements have not been able to produce the desired results. Despite all the talk of regional economic cooperation, intra-regional trade is still less than five percent and most products of the South Asian region actually go to rich countries such as Europe and the United States.[34]

Historically, India adopted a very cautious approach to regionalism, and was engaged in only a few bilateral or regional initiatives, mainly through Preferential Trade Agreements (PTAs) or through open regionalism.[35] In recent years it has entered into Comprehensive Economic Cooperation Agreements (CECAs) with many countries. These CECAs cover FTA in goods, services, investment, and other specified areas of economic cooperation. These include SAFTA; the India-ASEAN agreement; the framework agreement for India and Bangladesh; the India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC) FTA; the India-Thailand FTA; and the India-Singapore CECA. India already has FTAs with Sri Lanka and Nepal. India-China, India-Japan, and India-South Korea joint study groups have also been set up. Indian Prime Minister Dr. Manmohan Singh asserted recently that "this web of engagements may herald an eventual free trade area in Asia, possibly extending to Australia and New Zealand. This pan-Asian FTA could be the future of Asia and, I am certain, could open up new growth avenues for our own economy."[36] Hence, these kinds of FTA/CECA agreements with the GCA countries fit very well within India's vision for Asia. Other examples of cooperation include: agreements with MERCOSUR and Chile, the Gulf Cooperation Council (GCC), Mauritius for FTA/CECA, and joint study groups with Israel, Brazil, South Africa (IBSA).

In order for regional cooperation to be successful, a regional economic initiative consisting of all GCA countries, China, India, Iran, Japan, Russia, Pakistan, Turkey and the United States is needed, an idea consistent with S. Frederick Starr's "Greater Central Asia Partnership for Cooperation and

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[34] See South Asian Free Trade Area: Opportunities and Challenges (USAID, 2005).

[35] For details see Gulshan Sachdeva 'Indian Experience with Regional Economic Integration" in Charan Wadhva and Vatroslav Vekaric (eds) *India & Serbia & Montenegro Reengagement: Regional and Bilateral Dimensions*,(New Delhi: APH Publishing Corp, 2005)

[36] "Capital Account Convertibility in Full will Help India: Manmohan" *The Hindu*, March 19, 2006.

Development" proposal.[37] It is only by the joint endeavor of all these countries that regional economic cooperation is going to be truly successful. Pakistan and India have a common interest in unlocking the energy resources of the region. If economic opportunities are created, Russia's economic ties may not decrease but it is likely that their relative importance will. Meanwhile, China's aggressive economic strategies and the US-Iranian stand-off create complications for India in its economic engagements with GCA.

In addition, regional economic cooperation in the short and long run will be limited if the countries of GCA do not pursue policies that continue to open them politically and economically and which, lead, eventually, to WTO membership. In the meanwhile, India should be concentrating more on relations with Afghanistan and Kazakhstan for energy and trade cooperation.

Air Corridors

In regional integration, air transportation will play an extremely important role in the coming years. Since land and rail corridors are going to take time to develop, air services at reasonable rates with reliable services could greatly improve cooperation in the GCA region. However, air traffic in and out of the region may not be enough to sustain daily reliable services at economic rates. Hence, air traffic control must be linked with the main traffic routes. India has had success with this, with about 29 direct weekly flights from India to all important destinations in Greater Central Asia. These flights are operated on low-cost Central Asian airlines to and from Delhi and Amritsar to Europe via such Central Asian cities as Tashkent and Ashgabat. In the coming years, an Afghan airline could follow suit. In this way, Delhi and Amritsar could become the central air corridor for the entire region. This is the more likely because the airports of Delhi and Mumbai have the potential to become world class in the next two to three years.

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[37] S Frederick Starr " A Partnership for Central Asia , *Foreign Affairs*, Vol. 84, No.4, 2005 and S. Frederick Starr *A 'Greater Central Asia Partnership' for Afghanistan and Its Neighbors*, (Washington DC: Central Asia-Caucasus Institute & Silk Road Studies Program, 2005)

Table 13: India-Greater Central Asia Direct Air Connections

Airlines	Route	Flights Per Week
Uzbekistan Airways	Delhi-Tashkent	4
Uzbekistan Airways	Amritsar-Tashkent	6
Turkmenistan Airlines	Delhi-Ashgabat	2
Turkmenistan Airlines	Amritsar-Ashgabat	4
Indian Airlines	Delhi-Kabul	4
Ariana Afghan Airlines	Delhi-Kabul	2
Kam Air	Delhi-Kabul	3
Air Astana	Delhi-Almaty	2
Tajik Air	Delhi- Dushanbe	1
Kyrgyzstan Airlines	Delhi- Bishkek	1
Total		29

Sources: Compiled from Airline websites and with information from travel agents.

India-Greater Central Asia Trade

During the Soviet period, all contacts with the republics of the USSR were through Moscow only. In the post-socialist period, India's economic relationship with the Central Asian region declined considerably. Today, official two-way annual trade between India and the region is less than $ 500 million. Apart from trade with Afghanistan and Kazakhstan, which is restricted to traditional items, economic relations with other countries are minimal. The main commodities being exported from India are pharmaceuticals, tea, ready-made garments, leather goods, jute manufacturers, cosmetics, cotton yarn, machinery, machine tools, rice, plastic products, machinery and instruments, electronic goods, and chemicals. Imports from the CAR are restricted to raw cotton, iron and steel, and zinc (Tables 14–19).

Table 14: Trade between India and Greater Central Asia, 1996–97 to 2004–05*

(In US$ millions)

	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Afghanistan	25.79	31.95	40.93	54.26	52.45	41.89	79.23	185.98	204.05
Kazakhstan	16.96	51.16	50.43	40.65	64.12	53.09	59.61	84.07	94.75
Kyrgyzstan	0.98	10.8	8.81	15.61	22.02	11.52	15.13	38.74	49.72
Tajikistan	1.53	1.12	3.04	4.72	4.10	2.56	8.73	8.42	10.23
Turkmenistan	1.65	1.70	2.03	6.03	3.83	6.30	15.70	28.55	25.32
Uzbekistan	10.74	20.3	14.50	22.91	19.98	23.80	25.62	42.84	49.09
Total Central Asia	57.65	117.03	119.74	144.18	166.50	139.16	204.02	388.60	433.16
Total Indian Trade	72602	76490	75608	86493	95096	95240	114131	141992	189713
Percent of Total Indian Trade	0.079	0.153	0.158	0.166	0.175	0.146	0.178	0.273	0.228

* The Indian Financial Year is from April to March.

Sources: Directorate General of Foreign Trade, Government of India.

Table 15: Indian Exports to Greater Central Asia, from 1996–97 to 2004–05

(In $ millions)

	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Afghanistan	22.74	21.25	12.81	33.20	25.86	24.37	60.77	145.47	157.73
Kazakhstan	4.39	15.13	38.0	27.19	50.08	45.70	46.88	74.81	79.40
Kyrgyzstan	0.98	10.79	8.70	13.80	17.59	10.95	14.67	38.20	49.10
Tajikistan	0.73	1.12	0.51	2.38	3.55	1.22	8.65	4.47	6.25
Turkmenistan	1.38	1.68	1.93	5.64	2.71	4.35	10.29	19.21	14.63
Uzbekistan	8.14	17.59	12.83	9.94	9.39	6.53	5.08	15.14	19.66
Total Central Asia	38.36	67.56	74.78	92.15	109.19	93.15	146.34	297.30	326.77
Total Indian Exports	33470	35006	33219	36822	44560	43827	52719	63843	80540
Percent of Total Indian Exports	0.114	0.192	0.225	0.250	0.245	0.212	0.277	0.465	0.405

Sources: Directorate General of Foreign Trade, Government of India.

Table 16: Indian Imports from Greater Central Asia, from 1996–97 to 2004–05

(In $ millions)

	1996–97	**1997–98**	**1998–99**	**1999–00**	**2000–01**	**2001–02**	**2002–03**	**2003–04**	**2004–05**
Afghanistan	3.05	10.70	28.12	21.06	26.59	17.52	18.46	40.51	46.32
Kazakhstan	12.57	36.03	12.43	13.45	14.04	7.39	12.73	9.26	15.35
Kyrgyzstan	--	0.01	0.10	1.82	4.43	0.56	0.47	0.54	0.62
Tajikistan	0.80	--	2.53	2.33	0.54	1.34	0.08	3.95	3.98
Turkmenistan	0.27	0.02	0.11	0.38	1.12	1.95	5.40	9.34	10.69
Uzbekistan	2.60	2.71	1.67	12.97	10.58	17.27	20.54	27.70	29.43
Total Central Asia	19.29	49.47	44.95	52.02	56.91	46.02	57.68	91.30	106.39
Total Indian Imports	39132	41484	42389	49671	50536	51413	61412	78149	109173
Percent of Total Indian Imports	0.049	0.119	0.106	0.104	0.112	0.089	0.093	0.116	0.097

Sources: Directorate General of Foreign Trade, Government of India.

Table 17: Trade Balance between India and Greater Central Asia

(In $ Millions)

	1996–97	1997–98	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Exports to GCA	38.36	67.56	74.78	92.15	109.19	93.15	146.34	297.30	326.77
Imports from GCA	19.29	49.47	44.95	52.02	56.91	46.02	57.68	91.30	106.39
Balance	19.07	18.09	29.83	40.13	52.28	47.13	88.66	206.00	220.38

Sources: Directorate General of Foreign Trade, Government of India.

Table 18: Indian Exports to Greater Central Asia, from 2002–03 to 2004–05

(In $ millions. Only items more than $ 1 million are included)

Afghanistan

	2002–03	2003–04	2004–05
Meat and edible meat offal	0.05	0.30	1.74
Coffee, tea, mate, and spices	1.01	3.37	2.05
Sugars and sugar confectionery	2.93	4.57	0.09
Ingredients of cereals: flour, starch or milk; pastry ingredients.	0.05	0.09	2.80
Edible preparations	0.06	0.76	1.42
Tobacco and manufactured tobacco substitutes	2.62	2.90	3.30
Organic chemicals	0.49	2.60	2.22
Pharmaceutical products	4.20	22.80	23.32
Perfumery and cosmetic, ingredients	1.03	0.90	0.74
Rubber and articles thereof	13.69	7.09	8.29
Cotton	2.43	7.73	9.58
Man-made filaments	0.92	6.54	19.11
Man-made staple fibers	3.08	4.65	10.19
Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; and embroidery	1.88	0.42	2.78
Knitted or crocheted apparel and clothing accessories	0.91	26.50	1.54
Non knitted or crocheted apparel and clothing accessories	4.74	16.20	23.49
Other made-up textile articles; sets; worn clothing and worn textile articles; rags	1.19	4.90	2.69
Iron and steel	2.89	4.56	2.02
Articles of iron or steel	1.47	4.98	3.99
Machinery and mechanical appliances	2.08	6.77	7.54
Electrical machinery and equipments	0.33	0.96	7.11
Vehicles	7.15	8.41	10.30
Total	60.77	145.97	157.73

Kazakhstan

Commodity	2002–03	2003–04	2004–05
Coffee, tea, mate, and spices	14.50	31.91	28.37
Tobacco and manufactured tobacco substitutes	0.20	1.25	1.95
Organic chemicals	5.24	0.08	0.57
Pharmaceutical products	6.46	10.77	14.61
Perfumery and cosmetic ingredients	1.29	1.33	0.33
Articles of leather, travel goods, handbags and similar articles of animal gut (other than silk-worm).	4.96	5.02	7.22
Articles of apparel and clothing accessories, knitted or crocheted	1.58	1.71	6.12
Articles of apparel and clothing accessories, not knitted or crocheted	0.77	5.96	3.68
Iron and steel	0.73	2.89	3.46
Articles of iron or steel	1.91	1.47	0.11
Nuclear reactors, boilers, machinery and mechanical appliances and parts thereof	4.25	7.80	6.55
Total	46.88	74.81	79.40

Kyrgyzstan

Commodity	2002–03	2003–04	2004–05
Pharmaceutical products	0.12	0.66	2.78
Soap, crocheted preparations etc.	0.01		1.75
Articles of leather, tack; travel goods, handbags and similar articles of animal gut(other than silk-worm)	1.01	1.66	0.64
Articles of apparel and clothing accessories knitted or crocheted.	8.74	11.93	16.88
Articles of apparel and clothing accessories not knitted or crocheted.	2.72	19.71	24.11
Total	14.67	38.20	49.10

Tajikistan

Commodity	2002–03	2003–04	2004–05
Inorganic chemicals	3.63	0.02	0.00
Pharmaceutical products	0.89	0.93	0.59
Articles of apparel and clothing accessories, knitted or crocheted	0.12	1.33	2.39
Articles of apparel and clothing accessories, not knitted or crocheted	0.61	0.81	0.99
Machinery and mechanical appliances; parts	0.03	0.34	0.90
Total	8.65	4.57	6.25

Turkmenistan

Commodity	2002–03	2003–04	2004–05
Pharmaceutical products	1.32	1.44	2.89
Perfumery and cosmetic ingredients			
Articles of apparel and clothing accessories knitted or crocheted.	1.75	2.44	1.13
Articles of apparel and clothing accessories not knitted or crocheted.	1.29	1.14	1.89
Machinery and mechanical appliances; parts	1.97	6.06	1.66
Electrical machinery and equipments	1.65	4.61	5.10
Total	10.29	19.21	14.63

Uzbekistan

	2002–03	2003–04	2004–,05
Meat and edible meat offal	0.20	0.72	4.03
Ores, slag, and ash		4.10	
Pharmaceutical products	1.76	3.71	5.71
Machinery and mechanical appliances	0.58	3.32	1.54
Total	5.08	15.14	19.66

Sources: Directorate General of Foreign Trade, Government of India.

Table 19: Indian Imports from Greater Central Asia

(In US$ million. Only items that are more than US$ 1 million are included)

Afghanistan

	2002–03	2003–04	2004–05
Edible fruit and nuts; peel or citrus fruit or melons	16.33	30.44	33.31
Coffee, tea, mate, and spices	0.72	2.28	1.77
Lac; gums, resins and other vegetable saps and extracts.	0.62	5.98	10.22
Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard		1.14	0.08
Total	18.46	40.51	46.32

Kyrgyz Republic

	2002–03	2003–04	2004–05
Total	0.47	0.54	0.62

Kazakhstan

	2002–03	2003–04	2004–05
Salt, sulphur, earths and stone; Plastering materials, lime and cement	4.03	4.98	5.91
Iron and steel	3.73	2.35	7.99
Machinery and mechanical appliances		0.03	1.13
Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof ; imitated jewelry, coin	2.22		
Zinc and articles thereof	1.93	0.23	0.12
Total	12.73	9.26	15.35

Tajikistan

	2002–03	2003–04	2004–05
Cotton		3.90	1.96
Aluminum And Articles Thereof.			2.00
Total	0.08	3.95	3.98

Turkmenistan

	2002–03	2003–04	2004–05
Cotton	2.60	7.83	9.69
Inorganic chemicals	2.46	1.43	0.87
Total	5.40	9.34	10.69

Uzbekistan

	2002–03	2003–04	2004–05
Cotton	3.87	6.95	4.44
Edible vegetables and certain roots and tubers	3.13	4.15	0.81
Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof, imitated jewelry, coin		3.27	
Zinc and articles thereof	12.52	13.82	19.93
Aircraft, spacecraft, and parts thereof		1.92	0.06
Total	20.54	27.70	29.43

Sources: Directorate General of Foreign Trade, Government of India.

To give impetus to bilateral trade, economic, and scientific cooperation, bilateral inter-governmental Joint Commissions have been set up with the countries of the region. A number of high level visits have also taken place as well as ministerial visits. India has also extended lines of credit ranging from $5 million to $10 million, and signed multiple agreements for technical economic cooperation under the International Technical and Economic Cooperation (ITEC). So far more than 1,000 candidates from the region have come to India from various disciplines, such as diplomacy, banking, finance, trade, management, and small industry promotion. ONGC Videsh has also been active in Kazakhstan.

Despite all these developments, economic connections between India and the region have yet to reach their potential. The main reasons are lack of information and connectivity. The absence of economic and financial reforms in the region have also discouraged many Indian companies.

Indian policy makers and think tanks have identified potential areas for cooperation, including energy, tourism, information technology, consultancy services, petrochemicals, and construction.[38] Another area of major interest to Indian businesses is the continuing privatization of state sector enterprises. Indian companies, such as Ispat International, are acquiring some of these newly - privatized entities. Ispat International bought the 6.5 million ton capacity steel plant in Karaganda, an active power plant, and 15 coal mines in Kazakhstan. Ispat could turn this loss-making enterprise into a profit-making venture with a work-force of 67,000 local workers.

Other Indian companies, such as Punj Lyyod, have participated in oil pipeline projects in Kazakhstan. India and Afghanistan signed a Preferential Trade Agreement in 2003, providing for substantial duty concessions for such Afghan items as dry fruits. Similarly, Afghanistan has allowed reciprocal concessions to Indian products, including tea, sugar, cement, and pharmaceuticals. Trade between the two countries continues to improve.

At present, Indian trade within the Greater Central Asian region is too insignificant (just 0.23 percent of total Indian trade) to build a model. Indeed, the "gravity" models of international trade, which assesses distance heavily influences the destination of trade, have not worked, even in the case of South Asia. In the case of India-Central Asian countries, the application of the gravity model is of little use due to limitations of data.[39] Even if there is a significant increase in regional trade it will still be less than 1 percent of total India trade.

Importance of Greater Central Asia for Continental Trade

The importance of the Greater Central Asia to India, however, should not be limited to the modest amount of regional trade. With the right initiatives,

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[38] Ramgopal Agarwala, *Towards Comprehensive Economic Co-operation between India and Central Asian Republics*, Discussion Paper No. 108 (New Delhi: RIS, 2006) http://www.ris.org.in//dp108_pap.pdf; *Central Asia and Indian Business: Emerging Trends and Opportunities*, Seminar Proceedings, (New Delhi: Confederation of Indian Industry, May 2003).

[39] See presentation by Ram Upendra Das Prospects and Constraints for Trade Cooperation between India and Central Asian Republics: Some Issues, http://www.ris.org.in/ramupendradas_cii.pdf

this region has the potential to alter the nature and character of India's *continental* trade. Thus far, the majority of Indian trade is conducted by sea. Land-based border trade with China ceased after the India-China war in 1962; similarly, very little trade with Bangladesh, Myanmar, and Pakistan takes place via roads.

Despite some positive developments in border trade, policy initiatives have been limited to a few border points with a small number of commodities exchanged by local communities living on either side of the borders. These initiatives are targeted to stop large "unauthorized trade," which is already taking place through these borders.

Looking beyond the Greater Central Asia region, it is important to note that India trades a great deal with other CIS countries, Iran, and Europe. In 2004–05, India's total trade with these countries amounted to about $50 billion (Table 20). In the last three years, India's total trade, as well as trade with this part of the world, has grown at about 26 percent per year. There are indications that it may grow even at a higher rate in the coming years. Under an assumed growth of 26 percent per year, simple calculations show that India's trade with Europe, CIS, Iran, Afghanistan, and Pakistan would be in the range of $ 500 billion by 2014–15 (Table 21). Because of positive political and economic developments in the GCA region, even if 20 percent of this trade is conducted along highways, $100 billion worth of Indian trade will pass through the region within a decade.

Table 20: India's Trade with Greater Central Asian Countries plus the rest of CIS and Europe (In US$ Millions)

Exports			
	2002–03	**2003–04**	**2004-05**
EU-25	11,847.87	14,443.58	17,329.05
Rest of Europe	891.56	1,223.41	1,495.09
CIS countries	921.69	1,036.54	1,050.93
Afghanistan, Iran, Pakistan	921.66	1,350.52	1,880.70
Total Exports	14,582.78	18,054.05	21,755.77
Imports			
EU-25	12,780.42	14,991.80	18,715.89
Rest of Europe	2,500.08	3,794.90	6,373.04
CIS countries	8,44.30	1,261.47	1,807.58
Afghanistan, Iran, Pakistan	321.61	3,64.99	5,36.05
Total	16,446.41	20,413.16	27,432.56
Exports + Imports			
EU-25	24,628.29	29,435.38	36,044.94
Rest of Europe	3,391.64	5,018.31	7,868.94
CIS countries	1,765.99	2,298.01	2,858.51
Afghanistan, Iran, Pakistan	1,243.27	1,715.51	2,416.75
Total Trade	31,029.19	38,467.21	49,188.33
Percent growth		23.97	27.87
Percent growth of total Indian trade	19.84	24.41	33.61

Sources: Directorate General of Foreign Trade, Government of India.

Table 21: India's Trade Projections up to 2015 with Greater Central Asian Countries plus Rest of CIS and Europe
(Based on current trends, in billion of US dollars)

Year	**Total trade**
2004–05 (actual)	49,188.33
2005–06	61,977.29
2006–07	78,091.38
2007–08	98,395.14
2008–09	123,977.88
2009–10	156,212.13
2010–11	196,827.28
2011–12	248,002.37
2012–13	312,482.99
2013–14	393,728.57
2014–15	496,098.00

Sources: author's calculations based on current data and trends from the Ministry of Commerce and Industry data sources.

For this to happen, a massive effort is needed to rebuild Afghanistan's transport network and economy. To date, commitments from the international community and multilateral institutions are contingent on political stability in the country. Already there are plans to improve institutions and coordination as well as infrastructural in the region through the ADB's CAREC and CSATTF programs. India should start thinking seriously about participating in these programs as an active member with its own plans for linking Indian rail and road network to the GCA region. It could offer to support new plans through SAARC or some newly created organization. Within a decade, this region is going to offer the quickest and cheapest route for hundreds of billions worth of Indian merchandise, particularly from the northern Indian states of Delhi, Haryana, Jammu and Kashmir, and Punjab. This would also justify billions of dollars of infrastructural investment in the GCA. Similarly, with serious Indian participation, huge economic opportunities for all participating countries could result, particularly in Afghanistan.

The major obstacle to realizing this potential is the difficult relationship between India and Pakistan. In the last few years, however, there have been some positive developments. The changing mood is reflected in the Lahore Declaration of February 1999 and various other joint statements (6 January, 2004, 18 February, 2004, 8 September, 2004, 24 September, 2004, 28 December , 2004, and 18 April , 2005). 2004 marked a new beginning when Indian Prime Minister Vajpayee visited Pakistan for the SAARC Summit. Through a joint statement, Pakistan gave a clear commitment that no territory under its control would be used to support terrorism in any manner. Both countries also agreed to resume a "composite dialogue" process. Under this both sides have agreed to discuss "peace and security, including confidence building measures" and "Jammu and Kashmir," along with other issues.[40] This process has been strengthened by further bilateral meetings and peopleto people-contacts. In April 2005, President Musharraf and Dr. Manmohan Singh declared the peace process irreversible.

[40] For details of all agreements and statements see Ministry of External Affairs India website http://meaindia.nic.in/

Despite all these developments, India continues to have serious concerns about Pakistani terrorists targeting India. Pakistan has still not extended most-favored nation (MFN) status to India, although India granted MFN status to Pakistan in 1995–96. Things have not changed, even after SAFTA became operational; Pakistan has refused to implement the free trade agreement with India.[41]

It is clear that both countries pay huge economic costs for not cooperating in the GCA. If road and other infrastructural projects end in Pakistan, many of them will never become viable due to low volumes. Similarly, India may never be able to shift its continental trade through the north-south corridor, a linkage that could give a huge boost to Central Asian economies. Policy makers in both countries need to be sensitive to the rising opportunities in the Greater Central Asia region. Overall, the political economy of trade and improvements in physical connections (both air and road) will determine India's economic relations with the Greater Central Asia in the coming years.

Conclusions and Recommendations

Despite having a very complex legacy, the Greater Central Asia region has made significant progress in market reforms. The region has used both standard as well as non-conventional strategies to advance economic transformation. Greater Central Asia countries had to face political transformation and economic reorganization at the same time. While the regional countries have advanced a degree of economic stability its record in structural and institutional reforms is mixed. In some countries, the reforms have not been consolidated and the region as a whole is still vulnerable to external shocks.

Although countries of the region face many common challenges, the force of these challenges impact each country differently. Many of their economic strategies depend on further political reform in the region. Positive outcomes will depend on natural resources, stability in Afghanistan, good human

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[41] "Mfn Status, Safta Not Linked" *The Dawn*, http://www.dawn.com/2006/07/08/top3.htm

resources, and the willingness of leaders to push economic reforms and regional cooperation. The Greater Central Asia region faces enormous difficulties in actual realization of its potential. Negative tendencies will arise from the weak institutional capacities and investment climate in the region, limited commitment to economic (and political) reforms, the lack of concrete progress in regional co-operation and inadequate resources for public investments and social spending. Most of the regional economic arrangements have yet to prove their utility.

Due to Asia's increased demand for energy, the Greater Central Asia region will play an important role in the global energy scene over the next ten years with Kazakhstan emerging as a major oil producer and exporter. Although energy supplies from Turkmenistan to Asian markets will be less significant due to Ashghabat's restrictive economic policies, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline could nonetheless become a reality.

Due to social discontent and the play of external interests, the region will continue to experience instability in the coming years. The economies of energy-rich countries like Kazakhstan and Turkmenistan will grow much faster than the others. Booming oil prices will help them buy some political stability through state subsidies. Country's like Uzbekistan will face much harder economic choices.

Policy makers as well as analysts in India believe that GCA is important for India because of its strategic location (Tajikistan is just 20 km from Greater Kashmir) and because of its energy resources. Except for a very small military presence in Tajikistan, India has not been able to make a major impact in the region. It is not a major partner in any meaningful economic or security arrangement there. Excluding Afghanistan, two-way trade with the entire region is less than $200 million. Still, as long as regimes in this region do not become hotbeds for religious-inspired terrorism, India will feel comfortable pursuing cooperative relations. However projected oil and gas pipelines could lose all viability because of instability moments in Afghanistan or if Pakistan's stand-off with its neighbors continues. Although things are beginning to change for the better, a clear and long-term policy from New Delhi is lacking.

India will be further integrated more with the region through its observer status in the SCO and through Afghanistan's membership in the SAARC group. Due to the lack of direct access to the Greater Central Asia, and its difficult relations with Pakistan, India has chosen to focus its major initiative on the International North South Transport Corridor. Soon this will be operational throughout the region. The extension of SAFTA to the Greater Central Asia could also be useful to India. However, Central Asian regimes have shown little interest in the organization.

It is becoming clear that Soviet-era leaders in Central Asia are going to face tough domestic challenges in the coming years. These leaders have played an important role in providing stability in the post Soviet vacuum. In spite of this , these societies may face instability and further economic pains in their transition to democratic pluralism and market economies. Because this region is part of India's extended neighborhood, India should be ready to play an important role during this difficult period. India is playing a very constructive role in the reconstruction efforts of Afghanistan and has already emerged as an important donor there. The likelihood is strong that in the coming years India will also emerge as an important energy investor in Kazakhstan as well as an important partner in the TAPI gas pipeline project.

In the rapidly changing scenario, India can look at the Greater Central Asia region with fresh thinking within the following framework:

- The importance of the Greater Central Asia region for Indian trade should not be seen merely in the context of the very modest regional trade;
- Within ten years, India's trade with Europe, CIS, Iran, Afghanistan, and Pakistan will be in the range of $ 500 billion annually;
- Even if only 20 percent of this trade is conducted by continental land routes, $ 100 billion worth of Indian trade will pass through the region;
- For this to happen, a massive effort is needed to rebuild Afghanistan's transport network and economy. An immediate first step is for India's efforts in Afghanistan's reconstruction to be greatly expanded;

- To eradicate duplication, there is need to coordinate INTEC, CSATTF, and TRACECA. India should present its own design for linking its rail and road network with the Afghan economy and beyond;
- The difficult relationship between India and Pakistan is a major impediment to continental trade across Eurasia.
- The impressive emerging possibilities in the Greater Central Asia region suggest that the cost of conflict between India and Pakistan is going to be much bigger in terms of lost “opportunity cost” for both countries than was thought earlier;
- Ideally, the Greater Central Asia area needs a regional economic initiative consisting of all GCA countries, China, India, Iran, Japan, Pakistan, Russia, Turkey, and the United States. These countries should in their interaction cooperate on an *a la carte* basis. Unless all these players are accommodated, suspicions and tensions will continue; and
- All important players in the region have good relations with India. It maintains “strategic partnership” agreements with the United States, Russia, and China and has good relations with Iran. In cooperation with all these countries, India could work seriously for an entirely new regional economic organization for the GCA.

With well conceived initiatives, the GCA region has the potential to alter the nature and character of India’s continental trade. India, in turn, is ideally positioned to expand greatly the volume and directions of land-based trade across Greater Central Asia, and also to become a regional hub for the GCA region as well.