

## INDIA'S TRADE RELATION WITH KAZAKHSTAN: CHALLENGES AND PROSPECTS

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### ABSTRACT

*The existence of international trade lies in its potential to benefit the participants. Given between institutional and logistic infrastructure, trade generally is a source of prosperity for the economies of the participating states. Nonetheless, the existence and expected expansion of bilateral trade depends on the one hand upon the institutional and infrastructural facilities and at the same time upon the spread and extent of comparative advantages enjoyed by the participants continues in relation to each other. This paper analyses the dynamics and potential of trade between India and Kazakhstan. It analysis states of the trade and commercial policies in the two countries and the extent of trade takes place as a result of official efforts and the consequent trade agreements. The paper focuses particularly on the potential of trade with special reference to energy and information technology sector. Further, the other general areas while trade has vast potential to flourish. Nonetheless, as the paper describes a bright future for trade and present difficult challenges in terms of institutional and infrastructural bottlenecks. The paper concludes on the note, while as there are comparing areas of comparative advantage, there is acute shortage of institutional and logistic infrastructure to cater it. The latter has lifted a huge gulf between actual trade between the two countries, which needs to be bridged.*

**Keywords:** India, Kazakhstan, Trade Potential, Energy Potential, Bilateral Relations

### INTRODUCTION

India and Kazakhstan have historical, cultural, and social links. In this respect, the trade relationship between the two countries has its own significance. Literature reveals that both the countries have comparative cost advantages in trading amongst themselves for several reasons. Historic trade relation, geographical proximity, identical culture, similar agriculture productions and economic development are few cited examples quite repeatedly.<sup>1</sup> At the same time, however, these trade relations between the two are not without constraints. Although trade statistics show an increasing trend of trade in both the exports and imports of

India and Kazakhstan, it is nevertheless noteworthy that the trade balance is not in favour of Kazakhstan. As such, it does not present a convincing picture in the macro-economic performance of Kazakhstan. Trade agreements held between the two countries are continuously reflecting this fact. Still both countries have realized the significance of bilateral trade. Kazakhstan's trade with India is likely to play a key role in trade and industrial fronts in the future of the country. Therefore, taking into account these factors, an attempt has been made here to analyze some of the key issues related with Indo-Kazakh trade relation and scope for improving trade relationship between these two countries in future.

### **Trade Policy**

The international trade maximizes output and benefits all nations. However practically all nations impose some restrictions on the free flow of international trade. Since, these restrictions and regulations deal with nation's trade and commerce, they are generally known as trade or commercial policies. The following section gives a brief outline of India's and Kazakhstan's trade policy. This will help us to prepare a framework for the scope, extent and focus of trade between India and Kazakhstan.

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### **Trade Policy of India**

India adopted liberal trade policy from 1991 onwards. In the pre-reform period, India's trade policy was highly complex marked by a structure of high tariff levels and non-tariff restrictions. The transition from socialistic pattern of society to market economy and integrating Indian economy with the global market were practiced at through economic reforms.<sup>2</sup>

India significantly reduced its tariff rates and rationalized the structure progressively towards the goal of simplicity and transparency of custom tariffs after 1990s. tariff rationalization is shown in table 1 reveals that unweighted average import tariffs during 1995-99 were 28.92% which were brought down to 12.86% in 2005-06, again in 2010 goes down to 10.00%.

**Table 1.** Average Import Tariffs (Percentage) India

<b>Period</b>	<b>Un-weighted</b>
1995- 1999	28.92
2000-2004	24.08
2005-2009	12.86
Latest	10.00

**Source:** World Trade Organization

Considerable rationalization of the tariff structure occurred and progress was made towards achieving a degree of uniformity and removing some tariff anomalies. Tariff on agriculture products were reduced from 37.6% in 2005 to 31.8% in 2009.<sup>3</sup> Similarly, the tariff rates were also brought down on non-agriculture products from 16.4% in 2005 to 10.1% in 2009. Coefficient of variation and number of tariff lines shown nearly the same trend form 2007 to 2009 as shown in table 2.

**Table 2.** Summary Indicators of MFN Tariffs in India

Indicators	2007	2008	2009
Simple average	14.5	13.0	13.0
Duty-free	3.7	3.7	2.8
Non- <i>ad valorem</i> duties	5.1	5.1	5.2
Duties > 15 %	17.3	17.3	16.6
Duties > 3 * AVG	2.7	2.7	23
Maximum duty	150	150	170
Number of distinct duty rates	306	306	379
Coefficient of variation	125	125	124
Number of MFN applied tariff lines	11893	11893	11359

**Source:** World Trade Organization

### Trade Policy of Kazakhstan

Before the republic of Kazakhstan acquired independence, it had no experience in conducting foreign trade. Indeed, the entire foreign economic activities of the enterprise of Kazakhstan, including foreign trade was controlled by Moscow. About 60% of the volume of exports was going to countries in the Council of Mutual Economic Assistance (CEMA)<sup>4</sup>. Trade policies of centrally planned economy of the former Soviet were highly inward-oriented. Foreign trade was regarded as unavoidable to obtain goods and services, which could not be produced domestically. Domestic industries enjoyed complete protection from international competition.

With the disintegration of Soviet Union, all newly formed independent states decided to embark on the path of constructing a state based laws. They also started a transition form central planning to market economy. In 1992, Kazakhstan began to conduct a market oriented economic reform, starting with a liberalization of prices, foreign economic activity and institutional transformations. Initially Kazakhstan made licenses for different items such as metals, foodstuffs, grains and other consumer goods because of the following objectives<sup>5</sup>:

- To preserve the natural resources
- To maintain stable price

Trade policy that is being currently followed, constitutes an integral part of a market-oriented economic system. Form 1993, onwards most imports have been free from quotas. Privatization of many sectors of industry, reforms in the banking and financial sectors and other market reforms undertaken during the period 1994-96 enabled the government to

continue major, but gradual reform of the foreign trade sector, including a substitution of administrative methods of regulation by economic methods<sup>6</sup>.

- Abolition of export quotas
- Reduction of products for which licenses are required
- Reduction of custom duty
- Creation of number of free trade zones

This led Kazakhstan to liberalize its economy that offers the most attractive business and investment climate among the countries in the CIS. Thus, the country has eliminated state intervention in the economy. This is why foreign investors are focusing in the economy of Kazakhstan, which has to some extent contributed to the economic growth. In this respect, reducing average tariff rates has been one of the key factors as evidenced in the following table, which reveals that tariff rates have gone down from 7.32 in 1995-99 to 4.1 in 2005-09.

**Table 3.** Average Import Tariffs (Percentage) Kazakhstan

Period	Un-weighted
1995-1999	7.32
2000-2004	4.72
2005-2009	4.1

Source: World Trade Organization

**Table 4.** Summary Indicators of MFN Tariffs in Kazakhstan

Indicators	2007	2008	2009	2010
Simple average	7.8	6.0	5.9	9.2
Duty-free	19.5	24.1	23.4	16.5
Non- <i>ad valorem</i> duties	8.4	8.5	8.5	12.5
Duties > 15 %	7.9	3.6	3.2	10.0
Duties > 3 * AVG	1.7	3.2	3.0	1.5
Maximum duty	415	456	332	321
Number of distinct duty rates	1256	285	185	379
Coefficient of variation	111	155	127	123
Number of MFN applied tariff lines	11199	11078	10851	11171

Source: World Trade Organisation

As can be seen from the above analysis of both India and Kazakhstan are following liberal trade regimes necessary for bilateral trade and investment. Both countries can avail this facility to gain market in each other's economies in the areas their relative advantages.

## Agreement between India and Kazakhstan

The main objective of bilateral trade agreements is to promote mutually beneficial trade. It will not only lead to strengthening of bilateral and intra-regional co-operation, but will also lead to the economic development of the trade partners. Trade agreements are generally carried out through progressive reductions and finally elimination of obstacles to bilateral trade between the two nations. Since 1991, India has enjoyed warm and cordial relations with Kazakhstan that have progressed smoothly over the years; Kazakhstan's outlook towards India has changed significantly from the last few years.

**Table 5.** Selected list of High level visits from India to Kazakhstan

Period	Visitor	Outcome
February 1992	P. Chidambaram, then minister of trade and commerce	The two countries agreed to accord each other the most favored nation treatment in all matters of trade and economic cooperation. Agreements were signed on the: a) diplomatic relations protocol to establish embassies and consultants. b) Cooperation in science and technology, culture and sports. c) Trade agreement. d) Banking agreement with state bank of India.
May 1993	Narshima Rao, then Prime Minister of India	Agreements signed included: a) agreement on technical cooperation between Kazakhstan and India. b) Cooperation in the field of science and technology. c) Credit agreement Kazakhstan and India. d) Agreement on establishment of joint inter governmental commission on trade commerce and scientific and technical cooperation. India also offered a credit line of \$20 million to Kazakhstan.
June 1994	Salman Khursheed, Minister for commerce	Agreement to establish joint ventures and business council were signed. Also an agreement was signed to start a regular flights between Almaty and New Delhi
September 1996	K. R. Naraiian, Vice President	High level meeting and cooperation agreements
September 1999	Jaswant Singh, Minister of External Affairs	Attainted CICA ministerial conference.
July, 2005	K. Natwar, Minster of External Affairs	Attainted the SCO summit and India was admitted as an observer to the SCO.
February 2005	Minishanker Shanker Aiyer, Minster of Petroleum and Gas	Attainted the 5 <sup>th</sup> meeting of the Kazakh-Indian inter governmental commission on trade, economics, S&T cooperation. MOU on cooperation between Kazmunaygaz and ONGC was signed.

April 2011	Manmohan Singh, Prime Minister of India	During this visit, several agreements were signed such as: a) agreement between ONGC Videsh Limited and Kazmunaigas on Satpayev Exploration Block. b) Agreement in cooperation in the peaceful uses of atomic energy. c) Joint Action Plan for furthering the Strategic Partnership between India and Kazakhstan (Road Map) for the period of 2011-2014. d) Agreement between the Ministry of Health of India and the Ministry of Health of the Republic of Kazakhstan on cooperation in the field of healthcare.
June 2011	S. M Krishna	Attend 10 <sup>th</sup> summit of the SCO

**Table: 6.** Selected list of High level visits from Kazakhstan to India

Period	Visitor	Outcome
1992	Nursultan Nazarbyev, President	Declaration on main principles and directions of inter-state relations; protocol on establishment of diplomatic relations and agreements on cooperation in fields of trade and economic relations, S&T, culture, arts, education, mass media were signed.
February 1995	S.K Nurmagambetov, Minister of Defence	Issues pertaining to defence cooperation were signed.
March 1999	Zh. Karibzhanov, Deputy Prime Minister	Attained an international conference entitled “Kazakhstan’s investment opportunities” interacted with Indian business people.
2002	Nursultan Nazarbayev, President	In this visit both sides agreeing on foreign tie-ups in the a) oil and gas sector. b) Energy c) new technology (IT, Bio- and nano technology d) defence interaction e) trade and regional cooperation.
January 2003	Adilbek Zhaksybekov, Ministry of Industry and Trade.	A MOU on IT cooperation was signed.
November 2005	L. Kiinov, Vice- Minister for Energy and Mineral Resources	Attended International Round on Energy Cooperation, hosted by India’s Minister for Petroleum and Natural Gas.
October 2006	Baktykozha Izmukhambetov, Minster of Energy and Mineral Resources	Attended 6 <sup>th</sup> session of India-Kazakhstan Inter-Governmental Commission on trade, economic and science and technology cooperation.

January 2009	Nursulatan Nazarbayev, President	On the Republic Day of India 26 <sup>th</sup> January 2009, Nursulatan was chief Guest. The agreements that were signed included a) supporting the accession of Kazakhstan to WTO, b) a MOU between Nuclear Power Cooperation of India and National Company KazAtomprom. c) a MOU between India Space Research Organization and National Space Agency of Kazakhstan. d) an agreement between ONGC Mittal Energy Limited and National Company Kazmunai Gas for cooperation in the field in natural gas and oil
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Since the independence of Kazakhstan, trade relations between India and Kazakhstan have made healthy gains. Many agreements were signed on science and technology, trade agreements, establishment joint ventures and business council were signed, regular flights between India and Kazakhstan, avoidance of double taxations etc. have facilitated bilateral economic ties. However, the level of institutional support, through these agreements, is very low currently and therefore economic integration is not substantial. To achieve a good level of economic integration both countries have to cover the areas through agreements, which are excluded so far.

### **Trade between India and Kazakhstan**

Indo-Kazakh trade is the most dynamic segment of India's foreign trade in Central Asian region. In February 1992, when president of Kazakhstan visited India, considered India as an important trade partner in the region of south Asia. Kazakhstan is very grateful that India was one of the first countries to support Nursultan Nazarbaev's idea to establish the Conference on the Interaction and Confidence Building Measures in Asia (CICA), which is a multi-national forum for enhancing cooperation towards promoting peace, security and stability in Asia.

India and Kazakhstan have been in the process of developing good trade relation and both countries signed many agreements on trade. In 1994 deputy commerce, Minister Mr. Salman Khurshed visited Kazakhstan and during this visit, agreement to establish joint ventures and business council was signed. The growing trade relations have led to very rapid development of economic relation. This has been evident in the growing volume of trade turnover and its diversification over the decade.

Trade and commerce are considered an important component of expanding multi-faceted partnership between India and the Kazakhstan. Kazakhstan offers an enormous amount of opportunities for trade and investment and vice versa. In recent years, there has been a significant promotion in export and import resulting in a huge total trade turnover. As is evident from the data given in table 7 the trade turnover between India and Kazakhstan has considerable form 1996-97 onwards. The growing total trade turnover has generally been in India's favour as is shown by the trade balance data record in the said table. From \$4.39

million in 1996-97 India's exports to Kazakhstan rose to US\$ 50.08 millions in 2000-01 and further to US \$ 74.81 millions in 2003-04. Imports from Kazakhstan during these years though declined from \$12.57 million to \$7.39 million, rose marginally to 9.26 and jumped to \$61.51million and \$111.86 million in 2007-08. India's exports and imports to and from Kazakhstan during the last one decade commands a share of below one per cent each of the total India's international exports and imports. It can be inferred from the analysis of data that the trade between the two countries showed a healthy trend.

**Table 7.** Trade between India and Kazakhstan: 2000-01 to 2010-11 (US Million \$)

Year	India's Exports to Kazakhstan	Growth Rate (%)	India's Imports from Kazakhstan	Growth Rate (%)	Trade Turnover	Balance
2000-01	50.08	84.18	14.04	4.33	64.12	36.04
2001-02	45.70	-8.74	07.39	-47.33	53.09	38.31
2002-03	46.88	2.58	12.73	72.14	59.61	34.15
2003-04	74.81	59.58	09.26	-27.23	84.07	65.55
2004-05	81.42	8.83	15.39	66.18	96.81	66.00
2005-06	90.86	11.60	26.30	70.87	117.16	64.56
2006-07	83.18	-8.46	88.30	235.76	171.48	-5.12
2007-08	111.99	34.63	76.78	-13.04	188.77	35.21
2008-09	131.68	17.58	159.03	107.11	290.71	-27.35
2009-10	136.54	3.69	154.91	-2.59	291.45	-18.37
2010-11	167.88	22.95	138.42	-10.64	306.30	29.46

**Source:** Directorate General of Foreign Trade, Government of India

The rate of growth in India's trade with the Kazakhstan has been very impressive. During the one and half decade period (2000-2011), India's exports to Kazakhstan were generally growing. Almost same trend in its imports from Kazakhstan has been seen but in recent years, the percentage increases of imports from Kazakhstan over the previous years had been higher than in the early years. However, the present level of trade between the two countries is nowhere near the real potential, there are many other areas through trade cooperation will enhance. These to economies are complementary to each other not competitive.

### Trade Balance with Kazakhstan vis-à-vis world

Table (8) reveals the salient features of indo-Kazakh trade relation. While India's trade balance with Kazakhstan has most of the time been favourable, but the same has been overall unfavorable with the rest of world. The trade gap with the world increased from \$ 5662.5 million in 1996-97 to \$ 7586.6 million in 2002-03 to \$14306 million in 2004-05 and \$ 59341.42 million and 2007-08. The tendency towards protectionism by the developed countries of Western Europe and the USA, and steep fall in the internal prices of many of India's traditional products are some factors that caused the decline in India's exports to those countries. But trade balance between India and Kazakhstan remained favorable for India. Trade balance has increased from US \$25 million in 1998-99 to US \$38.31 million in

2001-02 and it has been US \$66.03 million in 2004-05. With a marginal deficit of US \$4.86 million in 2006-07, India recovered its balance of trade in the following years.

**Table 8.** India's trade balance with Kazakhstan vis-à-vis world (US Million \$)

Trade balance/Year	2007-08	2008-09	2009-10	2010-11	2011-12
Trade Balance with World	-88,521.83	-118,400.95	-109,621.45	-118,632.94	-183,355.57
Trade Balance with Kazakhstan	35.21	-27.35	-18.37	33.74	78.04

**Source:** Directorate General of Foreign Trade, Government of India

### Trade of India with Central Asian Region

Kazakhstan is the major trading partner of India in Central Asian Region shown in table 9. More than half of trade is done with Kazakhstan. Trade turnover between India and Kazakhstan, in 1996-97 was \$16.96 million, \$ 0.98 million with Kyrgyz, \$ 1.53 million with Tajikistan, \$1.65 million with Turkmenistan, and \$10.74 million with Uzbekistan. India's trade is growing with this region, but Kazakhstan trade with India is growing faster than other republic states. In 2007-08 trade between India and CAR's shows, \$188 million with Kazakhstan , \$32.47 million Kyrgyz, \$22.1 million with Tajikistan , \$44.64 million with Turkmenistan , \$56.37 million with Uzbekistan. This data also shows that Kazakhstan is India's major trading partner in this region.

**Table 9.** Trade between India and Central Asian Republics (US Million \$)

Year	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
1996-97	16.96	0.98	1.53	1.65	10.74
1997-98	51.16	10.8	1.12	1.7	20.3
1998-99	50.43	8.8	3.04	2.04	14.5
1999-00	40.64	15.62	4.71	6.02	22.91
2000-01	64.12	22.02	4.09	3.83	19.97
2001-02	53.09	11.53	2.56	6.3	23.8
2002-03	59.61	15.14	8.73	15.69	25.62
2003-04	84.07	38.77	8.42	28.55	42.84
2004-05	96.81	50.2	10.68	26.13	52.81
2005-06	117.16	29.56	12.13	31.18	50.57
2006-07	171.48	37.84	15.41	45.94	63.6
2007-08	188.77	32.43	22.21	44.64	56.52
2008-09	290.71	23.95	34.18	53.5	116.27
2009-10	291.45	27.48	32.56	46.15	84
2010-11	310.58	26.99	41.33	35.89	81.05
2011-12	410.74	31.22	28.37	60.53	150.97

**Source:** Directorate General of Foreign Trade, Government of India

In fact as of 2011-12, the trade between India and Kazakhstan has reached 410.74 million USD, which confirms that Kazakhstan continues to be the main trade partner of India in Central Asian region in terms of both exports and imports. A study of the range of commodities exchanged between the two countries can give a closer idea about the nature and composition of trade. Table 10 highlights the major items of import and export between the two countries.

<b>Export items to Kazakhstan from India</b>	<b>Import items from Kazakhstan to India</b>
Tea, Coffee and Spices	Salt, Sulpher and Stone
Pharmaceuticals and Drug	Iron and steel
Machinery and mechanical products	Natural pearls
Leather products	Other crude minerals- gold and silver
Primary semi-finished iron and steel	Electronics

Growing collective interests between India and Kazakhstan and the identity of views between them over a number of issues have led to very rapid development of economic relation. This has been very clearly seen in the growing volume of trade turnover and its diversification. A close look at the export commodity profile indicates that the share of traditional products, which constitute a large percentage of India's total exports, declined over the years while the share of non-traditional items almost doubled over the share of these items about decades. The study of diversification of the commodity structure of Indian exports to the Kazakhstan is both a typical feature at obvious advantage of Indo-Kazakhstan trade. Several, new items were added during different trade agreements. India is poised to enter Kazakhstan computer market in a big way. India would better concentrate on other economic niches in Kazakhstan, its growing need for chemical, mining, and electrical equipment, and IT and services. Telecommunications and electronics, and the training of specialists in IT, healthcare, environmental technology, and tourism are areas where Indian expertise is strong. While India's trade with all CAR's exhibits a positive trend, but Kazakhstan is particularly significant mainly due to its vast potential and growing trade relation with India.

### **Potential for India-Kazakhstan Economic Relation**

Communication during the Soviet period was managed by Moscow. India was one of the few countries that had links with the region during that period. With collapse of the Soviet Union in 1991, the Kazakhstan established independent contacts with the international community. India was quick to establish diplomatic relation with this newborn nation.

The economic relations between India and Kazakhstan have vast opportunities for mutual benefits, which could be harnessed through trade and investment. Foreign direct investment is considered to be the engine of growth for the host countries. This investment can help both countries to achieve the main objective of economic growth. It can also raise the welfare of the people by transfer of technology and by improving productivity of labour. Investment also flows in both directions. To promote and further expand the investment by creating favorable conditions, both India and Kazakhstan entered into Bilateral Investment Promotion & Protection Agreement (BIPAs) on 9 December 1996 and it came in to force on 26 July 2001<sup>7</sup>. The agreement would promote and protect on reciprocal basis investment of the investors. The agreement enlarges the nature and scope of investment for the investors. India

has potential for expansion of trade and investment with Kazakhstan. There is great scope for joint ventures in this region's, rich mineral resources that could be tapped, exploited and converted into value added products. In addition, there is potential for cooperation in many other areas, such as pharmaceuticals, tea, construction works and textiles. India has made significant progress in many spheres prominently in areas such as refining of petroleum and gas, infrastructure, advanced agriculture related products and in information technology. Many Indian companies are also present in Kazakhstan market, such as Ispat Karmet, Larsen Turbo, Punj Lloyd, OVL, Punjab National Bank, Mittal Steel etc and most of them are in the field of trade and infrastructure<sup>8</sup>. Thus, there is opportunity for Indian firms and they can reap benefits, but it is also beneficial for domestic firms of Kazakhstan. While Kazakh companies are also establishing their presence in India in recent times. The major Kazakh companies present in India are KazStroyService (infrastructure), Caspian Shelf (oil exploration), TVL (retail equipment), and STL (transportation and logistics) There are following sectors where both the countries can gain:

### **Energy Sector**

The economic development of Indian is very much depending upon the development of energy, the growth of economy increase in the demand for energy as well. In India, the domestic consumption of energy is more than domestic production. This imbalance in demand and supply creates a problem for the growth of the growing economy. It is well reflected by the fact that India is the world's 11<sup>th</sup> energy producer, i.e. with only 2.4% of domestic energy production while being the world's sixth largest energy consumer, (3.5%) in the global energy market. seventy percent of the total energy demand is met by domestic production of coal. The remaining 30% is met by the use of petroleum of which 65% is imported. The total energy demand is expected to be double by 2025. The import of petroleum is going to increase to 90% of its total consumption<sup>9</sup>. To balance this gap, India has to import cost effective energy products.

In this respect, the energy rich Central Asian States have great significance for India. It is the area where India's foreign policy has the immediate connection with its economic growth plans. Therefore, India has opportunity to look towards CARs, which is best alternative for India given the distance between India and CARs, which is minimal as compared to Gulf countries. If India will avail, this opportunity its transportation cost will decrease.

The CAR's are considered the next oil and gas frontier, where proven oil reserves are between 15 billion to 31 billion barrels, which accounts for the 2.7% of world reserves. Similarly, proven natural gas reserves are at 230 to 360 trillion cubic feet comprising the 7% of the world reserves. Caspian region alone has huge expected energy potential, but still a considerable part of this potential is unexplored, as offshore oil and gas fields of Guneshli, Chiraq and Kyapaz in Azerbaijan are not fully utilized<sup>10</sup>.

There are five main basins of major oil and gas resources, including South Caspian, (extends to several regional countries), North Caspian, North Usturt and Mangyshlak, which are mainly Kazakhstan and Amu-Darya in Uzbekistan. Kazakhstan has the second largest oil reserves, and is the second largest oil producer among the former Soviet Union after Russia. The country has also large reserves of natural gas. If oil fields are fully utilized, then it could make Kazakhstan as world's fifth oil producer in the coming future. So for as economic relation between India and Central Asia in the energy sector concerned, Kazakhstan is a

country of great importance to the India. With estimated oil reserves of 39.8 billion barrels, proven natural gas reserves of 105.9 trillion cubic feet<sup>11</sup>, and other natural resources. Kazakhstan developed its major oil fields such as Tengiz, Karachaganak and Kashgan and is expected to double its production by 2019<sup>12</sup>. Several other major oil and natural gas fields are not yet utilized.

In this backdrop Central Asian countries in general and Kazakhstan in particular are developing their energy capacity as more oil, gas and coalfields are extracted. Even there is now an attempt to build up advanced infrastructure and to expand pipeline networks outside the region, and transport facilities. This process will enhance capital inflow in central Asian States and will bring Central Asia on the threshold of exciting energy opportunities. Reserves of hydrocarbon, especially gas are vast. Hydropower capacity and deposits of coal and uranium are additional sources. Besides wind regimes make the region one of the worlds' best in wind power potential. Together, these resources could ensure self-sufficiency and help make the region an important for the Indian economy. Thus these countries have great export energy potential, in Kazakhstan, Turkmenistan, and Uzbekistan are the best reserves of oil, natural gas and coal. Thus, India has to focus on Central Asia. The Indian oil companies have best experience to investment abroad

### **Information Technology**

India has comparative advantage in the information technology (IT) sector. The contribution of IT sector in India's total export is comparatively higher than other commodities. This sector attracts huge foreign direct investment. As far as the Kazakhstan's development strategy is concerned, they emphasize on information technology which plays a vital role on development of industries. Presently relation in this sector between India and Kazakhstan is very low. If Kazakhstan made better infrastructure for Indian IT firms, then it is beneficial for both the countries. India has its own interest to provide technical help to Kazakhstan for buildup IT parks<sup>13</sup>.

### **Other Potential Area**

There are significant potential for expanding mutually beneficial partnership between the two sides. With the partnership between the two countries getting stronger, it also becomes necessary for both countries to identify future areas of strategic cooperation. There are many areas of mutual interest viz. infrastructure, information technology, telecommunication sector, science and technology, knowledge industries such as pharmaceuticals and biotechnology and in the field of education and healthcare. Indian Prime Minister Visit Kazakhstan, both sides signed an agreement which envisages cooperation in the field of healthcare, medical services and pharmacy. It proposes establishment of direct cooperation between public health organizations as also scientific research and medical institutes. It also envisages joint scientific research, visits of experts and specialists, exchange of information in the field of health services and medicine. Similarly, an agreement was also signed in the field of agricultural research and technologies, food and agricultural production. It also envisages cooperation in the spheres of agricultural science, food processing, crop production, plant protection and agricultural trade.

The economic and political relation between two countries is growing. Both the countries has good trade potential, but there is urgent need to make greater progress on the proposed

“North-South” transport corridor which would reduce the time and cost of transportation. Well-established and large industrial firms in India should explore the possibilities of setting up joint ventures in Kazakhstan in science and technology, energy sector and hi-tech areas. This would open further possibilities for facilitating trade within region and enlarge the market for prospective joint ventures.

## Challenges and Opportunities

India have tough task ahead before it can successfully exploit the advantages of its strategic partnership with Kazakhstan. India and Kazakhstan are two traditional trade partners. Bilateral trade between the two countries has been quite smooth. However, there persist ups and downs in trade flow. With the signing of Trade signing of trade agreement and Memorandum and Understanding since 1996, much of the problems seemed to have been resolved. As a consequence of the positive impact of the Trade agreement the volume of exports from India to Kazakhstan increased considerably. Specifically, it has been remarked that few articles were being imported in India in bulk quantity. Presently their exists certain problems and issues, which could not be easily resolved. India- Kazakhstan trade matters have not been isolated from the social, political, ideological and economic factors.

It is important to note that both the countries are heading towards to deal trade affairs under the WTO regime. In this direction, they have adopted trade liberalization approach followed by macro-economic reforms. Moreover, a series of reform processes are under way. Even though, there is an indication that trade activities are not going in a desired direction. Against this background, the following problems are identified which could be considered to review for further sound bilateral trade.

- The unstable situation in Afghanistan and Pakistan will remain the main obstacle to more productive relations between India and Central Asia. The security and stability in Central Asia is important for India because of missing potential markets.
- India has failed in becoming an important actor in Central Asia, both in the strategic and economic domains. It is not in a position to play with the “big four” (Russia, China, the United States, the European Union), and its influence cannot even be compared to that of Turkey or Iran, or even to that of countries with an important economic impact on Central Asia such as South Korea or Japan.
- India is absent from the “new Great Game” because it is still a relatively non-influential actor.
- In the energy sector, India’s needs are immense but its entry into the Caspian basin remains unsuccessful. In spite of multiple agreements and memorandums of understanding, India is not yet one of the top ten countries involved in the exploitation of oil and gas resources in Central Asia.
- In order to fulfill India’s interests in Central Asia connectivity remained a major obstacle. India does not have direct borders with any of the Central Asian states. India has to depend on Pakistan, China or Iran for access to Central Asia. However, the “New Silk Road” has the potential to bring more economic activities in Central Asia. It will develop links, between Asian countries, with their neighbors, finally with Western Europe. Its aim is the construction of land transport linkages within

Eurasia. In 1990s, India's prime minister initiated this idea and expected that it will develop interregional economic development. India has a huge expertise in railway transportation, while Central Asian states have a lack of it.

- The peace in Indian neighboring countries creates favorable environment for Turkmenistan, Afghanistan, Pakistan, and India TAPI gas pipeline, a 1,050-mile project that would link the four countries. This project is expected to be operational in 2014-2015. This pipeline would supply 33 million cubic meters of gas a year from Daulatabad gas field of Turkmenistan to India and Pakistan through southern provinces of Afghanistan. New Delhi has also signed on to a \$7.6 billion project to build pipeline. This will also enable the economic development of Afghanistan where India is investing. Regarding energy import from Central Asia India is searching for and taking initiative to connect the country through Iran. India initiated a rail route plan to Central Asia through Iran. This "international North-South transport corridor" from Iran to Russia via Turkmenistan and Kazakhstan is supposed to ensure a seamless connectivity to Central Asia. The project has multiple transportation network that connects ports on India, Bandar Abbas in Iran, Bandar Anzali port on the Caspian Sea, Rasht and Astara on the Azerbaijan border onwards to Kazakhstan, and further onwards towards Russia, and through Mediterranean to Ukrainian ports of Odessa and Kiev, and then onwards to Russia and Central Asia. This will develops connectivity between India and Russian markets.
- India has interests in other transportation networks from Central Asia, all of them going through Iran. These are Kazakhstan-Turkmenistan railway line connecting these countries with Iran and the Persian Gulf. It will link Kazakhstan with Turkmenistan and Gorgan in Iran.
- India wants that construction of Iran's Chahbahar port, which will give direct access to India to Afghanistan and Central Asia without depending on Pakistan. Former Foreign Secretary Nirupama Rao views this project is common interests of not only India, Iran and Afghanistan, but also Central Asia. These projects indicates that India "Look North" or "Look Central Asia Policy" priorities.
- The membership of Afghanistan in the SAARC and implementation of SAFTA will enhance economic relation among Afghanistan, India and Kazakhstan. It influences positively on other under consideration projects such as TAPI and IPI.

## CONCLUSIONS

India and Kazakhstan have historical, cultural, and social links. In this respect, the trade relationship between the two countries has its own significance. At the same time, however, these trade relations between the two are not without constraints. Trade agreements held between the two countries are continuously reflecting this fact. Still both countries have realized the significance of bilateral trade. Kazakhstan's trade with India is likely to play a key role in trade and industrial fronts in the future of the country.

In addition, policy reforms in both India and Kazakhstan after 1991 use variety of means to foster bilateral trade. Regulatory relaxations along with relaxation in imports excise and

customs play an important role in fostering of bilateral trade. Both countries have undertaken liberalization policies to attract foreign direct investment into their economies. Both countries are serious about the opportunity of developing closer, long-term strategic ties that would be mutually beneficial. The economic development of Indian is very much depending upon the development of energy, the growth of economy ceases an increase in the demand for energy as well. In India, the domestic consumption of energy is more than domestic production. In this respect, the energy rich Central Asian States have great significance and alternative for India. Indo-Kazakh trade is the most dynamic segment of India's foreign trade in Central Asian region. However, the present level of trade between the two countries is nowhere near the real potential, because of certain existed regional and global issues those can solved through proper understanding among regional players.

The paper concludes on the note, while as there are comparing areas of comparative advantage, there is acute shortage of institutional and logistic infrastructure to cater it. The latter has lifted a huge gulf between actual trades between the two countries, which needs to be bridged.

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