

Dynamics of SCO

INDIA-CENTRAL ASIA PARTNERSHIP: MOVING FOR REGIONAL DEVELOPMENT AND CONNECTIVITY



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Core IV-B, Fourth Floor, India Habitat Centre,
Lodhi Road, New Delhi-110 003, India
Ph.: +91-11-24682177-80, Fax: +91-11-24682173-74
E-mail: dgoffice@ris.org.in
Website: www.ris.org.in

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India-Central Asia Partnership: Moving for Regional Development and Connectivity

I. Introduction

Shanghai Cooperation Organization (SCO) provides platform for unravelling the potential for regional development. The mandate of SCO is to provide mechanism for cooperation in achieving political, economic and security coordination among Asian and Eurasian nations.

The SCO has laid emphasis on broadening its mandate to develop mutual trust and cooperation for regional development and ensuring inclusive and equitable growth, to achieve leaders' commitment to Agenda 2030. Its focus is on creating conducive environment for multilateral cooperation on trade, infrastructure, business cooperation and innovation.

The primary goals and tasks of SCO have been enshrined in its charter signed in 2002. Consequently, the organisation has come to have identified three evils to combat: 'extremism, separatism and terrorism'. To that effect, the SCO has established the Regional Anti-Terrorist Structure (RATS) established in 2005, headquartered in Tashkent. RATS is the body that engages in counter-terrorism activities and engages in security cooperation across all member states.

The primacy of the security agenda in the SCO was designed against the backdrop of instability in Central Asia during the 1990s, such as the civil war in Tajikistan (1992-1997), a series of armed incursions by anti-regime groups (taking and holding sovereign territory of Tajikistan, Uzbekistan, and Kyrgyzstan in 1999 and 2000), and ongoing concerns with internal insecurity in both China and Russia. This resulted in the signing of the Shanghai Convention on Combating Terrorism, Separatism and Extremism. RATS was a direct result of the implementation of the convention and has since served as a fruitful

mechanism in intelligence gathering and sharing, collection of data of extremist actors across the region. It is positively acclaimed by almost every country associated with the SCO.

However, it prudent to analyse the degree to which RATS and its security concerns are emphasised in the overall framework of SCO and whether or not other priorities should emerge that can also use SCO's attention and benefit the region's overall development and help itself attain its historic economic potential.

As a part of "extended neighbourhood", Central Asia commands India's acute attention. Central Asian Economies (CAEs) and India are becoming more dynamic economies in terms of their growth performance and there is every reason that both the regions should cooperate in the coming years in a more comprehensive way. However, existing structural and physical barriers are so strong that it has got reflected in the current trade engagement between India and the CAEs and there is now renewed focus to enhance trade between India and Central Asia. India as a major regional power and member of SCO, has keen interest in strengthening economic ties with CAEs, particularly in the field of trade and energy. Besides, historical association of Central Asia and India provides immense scope for cooperation in social and physical infrastructure development. The strategic and economic significance of the place has always been well recognized by the Indian leadership, as evident from the visits made by Indian leadership to Central Asian countries soon after their independence post 1991.

As India and central Asian countries do not share physical border, expansion of trade and strategic ties between the two countries has been difficult and expensive. Hence, the CSO is an important platform for bridging the gap between the two regions and take measures to strengthen

connectivity along with economic, cultural and political ties with the region. Thus, the member states of SCO require mutual cooperation to facilitate integration into the global economy and minimise adverse effects of globalisation. In spite of recovery from the global crises, high unemployment rate and limited demand remains a serious hindrance to sustainable development in the SCO region. Central Asia has witnessed socio-economic and environmental challenges which require immediate attention in order to guarantee the transition to a more sustainable development trajectory. In this context, Sustainable Development Goals (SDGs) offer an opportunity for the countries, by facilitating in overcoming the challenges and support the countries in their transition towards an inclusive and sustainable economy. These countries are endeavouring to integrate into the world economy and reduce their vulnerability to external shocks. Thus, SCO member states have to emphasize on creating an ecosystem for sustainable growth of trade and investment cooperation, developing and implementing joint infrastructural projects to strengthen business cooperation along with the engagement of the SCO Business Council and SCO Interbank Association.¹

The paper discusses the challenges faced by the CAEs and their scope of development in the context of Agenda 2030 on Sustainable Development Goals. In the following section, emphasis is given to the SDG framework, strategies and priorities of each CAE- Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Further, it throws light on the scope for convergence of national strategies with SDG goals and targets. The section III discusses about the need for the diversification of the economy to help move beyond the excessive dependence on natural resources and labour migration. Subsequent section delineates the requirement of regional infrastructural integration and economic cooperation among SCO members to improve connectivity for strengthening local connect in order to facilitate trade within and across Central Asia. Lastly, the paper highlights the need for prioritizing development, with focus on building resilient economies and collective governance. It also draws attention towards immense scope for cooperation between India and Central Asia through cultural ties and education.

II. Development Opportunities with SDGs

Economic cooperation is the crucial factor for harmonising the development in SCO in order to foster the long-term sustainability of all the member states for the sake of balanced regional growth. The asymmetric growth in the Central Asian region underlines requirement for immediate attention to diversify their growth engines and leverage global and regional value chain opportunities by gaining trade competitiveness through trading beyond the primary goods. SCO comprises of approximately 19 per cent of the share of world's GDP and it is home to approximately 42 per cent of the world's population.

Kazakhstan is the largest economy of the Central Asia region with GDP of USD 196 billion and Kyrgyzstan's GDP is the smallest with USD 6.64 billion in 2017 while Uzbekistan belongs to medium range (with GDP of USD 62.47 billion in 2016) and Tajikistan's GDP is USD 9.10 billion in 2017. The wide disparity in their GDP indicates the varying levels of development among the Central Asian Economies (CAEs). However, in terms of GDP growth rates, Kazakhstan is the only country among the four states which has not recorded high growth rate in the last three years. The contribution of the service sector is the highest to the GDP for all four economies. During 2013-16, contribution of the agricultural sector to GDP is observed to have fallen for CAEs, Uzbekistan's share in agriculture declined to 1.86 per cent; Tajikistan share declined around one per cent; Kyrgyz Republic at over 3 per cent while Kazakhstan share has slightly increased (0.33 per cent).

Among the SCO members, Russia has the highest per capita income of US\$ 11452, followed by Kazakhstan and China. Tajikistan and Kyrgyzstan have the lowest per capita GDP of USD 1020 and USD 1071 respectively. This indicates the glaring gap in per capita GDP among the SCO members. This calls for an urgent attention towards concerted efforts to bridge the gap among these economies, to ensure balanced growth and focus on policies which ensure equal access to economic opportunities to all the members (Table 1).

In terms of annual GDP growth rate, the growth rate of Russia has significantly fallen from 10 per

cent to 1.65 per cent from 2000 to 2017. India has shown an impressive performance among all the economies of the region with upward trend in growth rate from 3.8 per cent to 7 per cent from 2000 to 2017. China's economic growth has slowed down from 9.6 per cent in 2008 to around 6.9 per cent in 2017. All the countries have performed better than the world average of 3.15 per cent in 2017, except Russia. However, GDP growth rate of Kazakhstan has also shown a significant decline from 9.8 per cent in 2000 to 4.1 per cent in 2017 (Table 2). Tajikistan, Uzbekistan and Kyrgyzstan showed a rise from 2000 to 2008 and then sharp decline in 2017.

The economies of Central Asia are endowed with rich natural resources and all the states are relatively homogeneous in terms of resources and demography. The region has always struggled with the security challenges and conflicts. As a result, stressful environment has been created that leads to uneven and unequal relation in economic exchange among the countries. The stress arises because of various development challenges these economies grapple with. Their growth process is less resilient, lacks sustainability and inclusivity. To pursue the growth continuum, they require concerted efforts to achieve an effective development strategy. The Agenda 2030 on SDGs provides the exact platform for these countries, in order to ensure inclusive planning and effective implementation of development programmes.

SDG Frameworks and Strategies

The world leaders have committed to adopt new framework of development and the United Nations launched Sustainable Development Goals (SDGs) in 2015 under the 2030 Agenda for Sustainable

Development (2016-2030). The SDGs are built on Millennium Development Goals (MDGs), although the progress achieved in the MDGs has been uneven within and across the countries. Holistic and universal Agenda 2030 is beyond eight goals of MDGs. This agenda collectively adopted by world leaders raises substantial hope in ensuring wellbeing of all citizens across the world (leaving no one behind) through guided national policies and meaningful stakeholder and international partnership. The 17 goals and 169 targets aspire to end extreme poverty, promote equity and opportunity for all, and protect the planet earth, in close partnership among all 193 countries who have signed the Agenda 2030.

SDGs have to be inducted into the national development strategy framework. It is important to map all the SDGs and targets against the national priorities and instrumentalise into each country's national development plan. This can be further adopted into local-context that count on the awareness and leadership of the local leaders, who can flag the local-level challenges and opportunities to accelerate the implementation of SDGs at the grass-root level where it is most needed. Learning from the experience of others to improve the implementation process and progress is essential for follow-up and review process for the 2030 Agenda. The interconnectedness of the SDG goals and targets with cross domain, even cross-country ramifications stand out as the hallmark of the Agenda 2030.

Voluntary National Review

As part of the UN mandate the follow ups and review mechanisms, each country is to submit the review of progress at the national and sub-national

Table 1: SCO Member's GDP Per capita (constant 2010 US\$)

Country Name	2000	2008	2017
China	1772	3805	7329
India	829	1196	1987
Kazakhstan	4492	8698	10868
Kyrgyz Republic	654	880	1071
Pakistan	849	1038	1223
Russian Federation	6491	11090	11452
Tajikistan	415	697	1020
Uzbekistan	813	1228	2031
World	8189	9518	10658

Source: WDI, World Bank data.

level on a voluntary-basis called 'Voluntary National Review (VNR)' which would serve as the basis of regular review reporting under High Level Political Forum (HLPF) of United Nation. For the VNRs, each year some themes are identified by UN system in which the presenting country can focus on during HLPF meeting that takes place in July at New York every year. Countries may present the VNRs in multiple years. In the first HLPF 2016, 22 countries had participated and China was the only member from SCO. In the following year, 43 countries presented the VNRs including India and Tajikistan and focus goals were 1,2,3,5,9,14, and 17. Then in HLPF 2018, 46 countries conducted the reviews but none from SCO member had volunteered. In 2019, Kazakhstan and Pakistan would be the two among 50 countries, who had voluntarily agreed and the theme would be 'Empowering people and ensuring inclusiveness and equality' that includes goal 4, 8, 10, 13, 16 and 17. In the next year, 21 countries would present VNRs including Kyrgyz Republic but themes are not yet identified.

The first phase of the implementation process of SDGs requires a push in terms of policies advocacy and awareness campaigns to improve responses from the government machinery and coalesce private sector participation for comprehensively addressing issues of sustainability in all the three domains, viz. social, economic and environment. To mobilise the attainment of mass support for the successful achievement of SDGs, the government needs to be collaborative with other stakeholders including federal and state governments, multilateral institutes, civil society, private sector,

academia and public. As a result, implementation of the SDGs through numerous channels and means must be monitored. The achievements are coherently assessed based on evidence and systematic evaluation and assessment.

The first goal of the SDGs (Goal 1) suggests total elimination of extreme poverty by 2030 globally and reduction by half the incidence of poverty measured in all its dimensions according to national definitions. All targets under other SDGs that are meant to reduce marginalisation in several spheres, including agricultural livelihood, health, skills, capability and climate change related vulnerabilities, effectively add up towards a mega strategy on poverty alleviation. In the context of Central Asia, the poverty related problems faced by the countries can only be eradicated through sub-regional co-operation among them.

SDGs in the Context of Central Asian Economics

In the case of Central Asia, strong efforts are essential to achieve some of the goals either via closing the gaps (through infrastructure development, for instance) or through excellence in the areas where each country can lead the world. Sometimes, the mechanism to achieve the SDGs is unknown to the country. In such cases intervention of UN agencies and other multilateral institutes can help to develop an analytical study on key policy reform areas. The choice of issues to be addressed by the associate partner can vary from poverty reduction to environmental protection depending on country's need and partner's competency.

Table 2: SCO Member's GDP Growth (Annual %)

Country Name	2000	2008	2017
China	8.49	9.65	6.90
India	3.84	3.09	7.17
Kazakhstan	9.80	3.30	4.10
Kyrgyz Republic	5.43	8.40	4.58
Pakistan	4.26	1.70	5.70
Russian Federation	10.00	5.25	1.65
Tajikistan	8.32	7.91	7.62
Uzbekistan	3.80	9.00	5.30
World	4.39	1.80	3.15

Source: WDI, World Bank data.

In order to assist Central Asian countries, UN system is closely collaborating and supporting the government in the planning, implementation, monitoring, reporting and reviewing of policies linked to 2030 Agenda. UNDP and UNEP have been mainstreaming poverty and environment objectives in national and sub-national development planning in Kyrgyzstan and Tajikistan since 2010. Broadly, there are six themes where CAEs are collaborating and UN system is supporting this work within the framework of SPECA2 and the themes are listed below:

- Water, Energy and Environment
- Sustainable Transportation, Transit and Connectivity
- Trade and Trade facilitation
- Knowledge-based Development
- Gender and Economy
- Monitoring

A series of consultation and discussions were held in partnership with UNECE and ESCAP on SDGs and its way forward for localisation of SDGs in Central Asia. It is evident that the region has made progress in terms of the accessibility to resources such as water and energy (SDG 6, 7), quality education (SDG 4), sustainable urbanization (SDG 11) and gender equality (SDG 5). Limited development has been observed in SDGs related to 8, 10, 13, 14, 15, and 16. Though the unemployment rate among youth remains high and is a big challenge for the region, the official statistics often do not reveal the same. Therefore, an effort to correct discrepancy in the data of some indicators such as unemployment is important. The food security and lack of nutritional access are major challenges especially in the mountainous regions. Some of the reasons that attribute to this are political instability, lack of land and farmer's registry, limited statistics and insufficient cold storage and warehouse facilities. In parts of the region, especially in remote mountainous terrain, access to education is the biggest challenge. Some of the challenges are cross cutting which further aggravate due to lack of accountability and transparency. This study further focuses on four Central Asian countries and identifies their national priorities for the successful implementation of SDGs (Figure 1).

Kazakhstan

The Kazakhstan 2050 Strategy Report, addresses the ecological concerns and is envisaged to develop a new policy regarding water resources. Kazakhstan has the potential to address many vital social and economical challenges of the region, like water, energy and other sensitive issues. The 2050 Strategy Report of the country has identified their priority goals which include SDGs 16, 10 and 11 and environmental development goals 6, 7, 13, 14 and 15.

Major issues of sustainability have been addressed in their strategy report which includes sustainable agriculture and natural resource management critical for food security and the welfare of rural communities. Thus, it is important to focus on land and forest management, improved resource efficiency and sustainable farming practices as it may generate economic, social, and environmental benefits for 'green' growth. Green growth can lead to prosperity of agricultural communities, generation of new jobs, higher incomes, and a better quality of life. Government has also committed itself to fully developing potential in agricultural and agro-industrial sector, along with focus on export-centric industrialisation.³

Kyrgyz Republic

The Kyrgyz National Development Strategy 2018-2022, recognises the significance of water issues. It states that the access to safe water and adequate sanitation largely influences the effectiveness of healthcare. Special attention is given to water supply, sanitation, and hygiene, which are vital for the entire population of Kyrgyzstan, especially for the children. Consequently, SDG 6 on clean water and sanitation and all its targets are significant for the sustainable development agenda of Kyrgyzstan. The energy sector is one of the most important sectors in the Kyrgyz economy, accounting for roughly 3.9 per cent of GDP and 16 per cent of industrial production⁴. Some common challenges have been identified between Kazakhstan and Kyrgyz Republic such as issues related to infrastructural connectivity. The National Development Strategy contains specific infrastructural measures to turn Kyrgyzstan from a "transport deadlock" into a "transit" country (UNECE and UNESCAP, 2017). Kyrgyzstan has

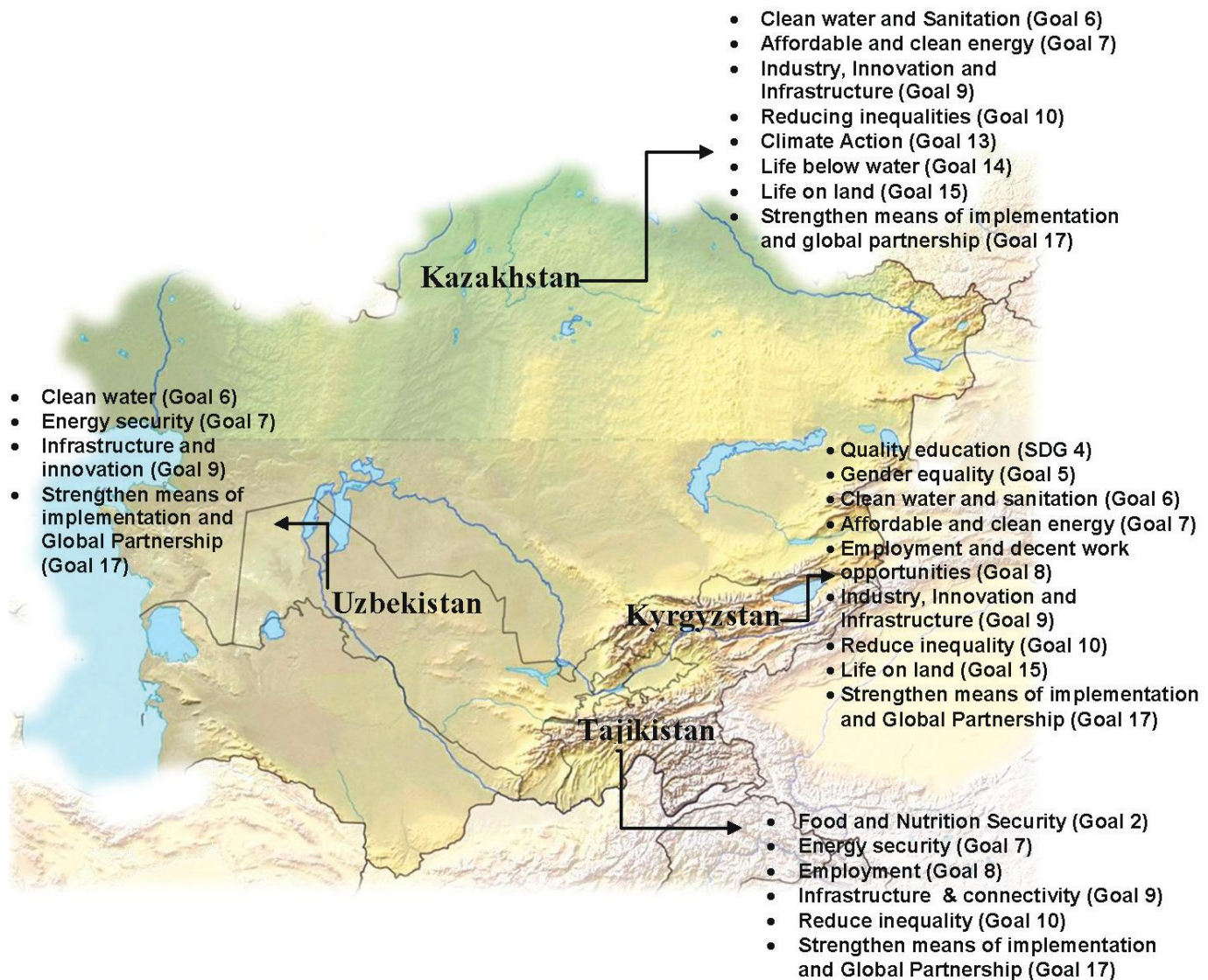
aligned its priorities with the target 8.a which emphasize on providing aid and support in terms of sustainable trade development for the developing countries. Kyrgyz government has prioritised targets 17.10, 17.11, and 17.12 which focus on increasing integration with the world trading system (UNECE and UNESCAP, 2017). Also, priority is given to target 9.5 and 9.b on enhancing scientific research and encouraging innovation, and assisting the diversification of industry and providing policies for such development.

Tajikistan

The real challenge for successful implementation of SDGs in Tajikistan is to follow public policies that promote inclusiveness and equitable growth rather than focusing only on high rate of economic

growth. The new development approach should focus more on quality growth rather than quantity. To mainstream SDGs in the national agenda of Tajikistan, the government has adopted National Development Strategy 2030 (NDS-2030) and Mid Term Development Programme of Tajikistan for 2016-2020 (MTDP-2020). The two priorities identified in the National Development Strategy 2030 (NDS-2030) are ensuring energy security and the efficient use of electricity (SDG 7) and ensuring food security and access of population to quality nutrition (SDG 2). It also focuses on interconnected issues of gender equality, industrialization (innovation and infrastructure within SDG 9), access to safe drinking water, and climate change. Issues like justice and corruption also need immediate attention.

Figure 1: List of Nationally Prioritised SDGs for Central Asia Members in SCO



Two major issues identified by Tajikistan government are efficient utilisation of water resources and employment for the youth (VNR Tajikistan, 2017). Tajikistan has achieved a high level of school enrolment but emphasis should be given to quality education (VNR Tajikistan, 2017). For achieving SDG 8 of sustainable, inclusive and productive employment, Tajikistan has to realign its policies to generate business-friendly environment for the private sector, with a view to address inter-connected SDGs. Further, they plan to strengthen statistical system and reform the existing organizational structure, in order to redefine the roles and strengthen technical coordination among compilers and ministries.

Uzbekistan

Some of the provinces of the Uzbekistan are experiencing the water deficiency and uneven distribution of freshwater (UNECE and UNESCAP, 2017). Most of the rural area is vulnerable to drinking water. Thus, Uzbekistan works closely with the multilateral institutes to fulfil these challenges of their economy. Country's priority is to fulfil the access to clean drinking water and sanitation (SDG 6). Also, they emphasised on enhancing energy-efficiency in production and consumption and development of the energy sector, based on renewable energy sources. Uzbekistan is considered to be regional leader⁵ in implementation of the Clean Development Mechanism with 11 million issued Certified Emissions Reductions (CERs) from 15 registered projects. Therefore, the country is capable to address its clean energy priorities, as in SDG 7 on affordable and clean energy. The government of Uzbekistan wants to focus on socio-economic development as it affects the agricultural sector. Also, Uzbekistan government stresses on SDG 9 towards developing transboundary infrastructure to promote and deepen trade relationship. Government has also prioritised ICT and expenditure on the modern technology and innovation in education sector.

The member states have to follow-up and review the implementation of SDGs at national, regional and global levels. Implementation of SDGs at the regional and national level requires an active involvement and partnerships of all actors of Central Asian countries and policy makers, representing ministries, national agencies, regional

institutions, civil society organizations, private sector and the public at large. The member states, aspire to further expand mutually beneficial trade and socio-economic cooperation in SCO region. Taking into the account the different national realities and diverse capacities and level of development, there is immediate need to prioritise the national policies.

III. Trade Scenario in SCO

SCO is emerging as a fast growing regional caucus in the global economy. It is also featuring five important trading countries of the world including China, India, Russia, Kazakhstan and Pakistan as its Members. The regional trade is expanding fast even during the period of deep recession. Region's trade with the world is not only growing fast, but also among the regional member economies. Moreover, the region has been registering trade surplus since its inception. Macroeconomic fundamentals are strong for several economies within the regional grouping. The region is endowed with hydrocarbon, rich minerals and quality labour force. The region has large suppliers and importers of petroleum products and minerals. The regional grouping is largely represented by Central Asia Economies (CAEs) and they form the core of the regional caucus.

SCO is a large trade grouping, with total trade of \$5.6 billion with the world in 2017 as shown in Table 3. The region's total trade has registered an increase of 7.5 times between 2000 and 2017. The regions total trade with world was less than a billion in 2000, which rose to 6.1 billion in 2014. Its trade with the world doubled between 2000 and 2004, and gain doubled between 2004 and 2007. During 2007 and 2014, total trade of the caucus increased persistently, although, it did not double. Between 2014-2016, total trade of the grouping started declining; however, it took marginal upturn in 2017. The table also indicates that the region was adversely affected by the global recession, although SCO always maintained trade surplus with the rest of the world. Upturn in trade was observed in 2017, which was a major relief for the region.

India's trade with SCO has increased steadily during 2008-17, despite the persistence of global recession as shown in Table 4. Bilateral trade

Table 3: SCO Trade with world - Time Series

(\$ Billion)

Year	Imp	Exp	Grand Total	Tr Bal
2000	329.2	416.4	745.6	87.2
2001	351.3	413.7	765	62.4
2002	421.7	506.3	928	84.6
2003	570.4	658.6	1229	88.2
2004	766.2	872.9	1639.1	106.7
2005	946.5	1148.1	2094.6	201.6
2006	1162.7	1444.4	2607.1	281.7
2007	1468.6	1798.3	3266.9	329.7
2008	1819.7	2184.1	4003.8	364.4
2009	1499.7	1718.2	3217.9	218.5
2010	2044.6	2267.9	4312.5	223.3
2011	2608.8	2832.2	5441	223.4
2012	2736.6	2997.4	5734	260.8
2013	2854.7	3171	6025.7	316.3
2014	2829.8	3271.7	6101.5	441.9
2015	2275.2	2966.1	5241.3	690.9
2016	2218.7	2752.5	4971.2	533.8
2017	2607.3	3015.1	5622.4	407.8

Source: Direction of Trade Statistics, IMF, 2018

between India and other member countries has increased at the rate of 6.4 per cent on average during 2008-17. However, India's trade with the region is growing at the cost of growing trade deficit with the region. During the aforesaid period, India's bilateral trade deficit with the region compounded at the rate of 35 per cent per annum. Trade Surplus for India has been registered with four out of seven partner countries of SCO. In the grouping, China and Russia are the major trading partners of India. Their share accounts for more than 96 per cent of India's trade with the region. Therefore, India's trade with the regional economies has been lopsided. In this context, such wide trade gap within the region may be effectively addressed through the SCO.

India's interest in SCO has been diverse in both exports and imports. So far as India's import interest is concerned, nearly half of it is in machinery sector. Another important sector of India's interest has been chemicals. India's import bill for these two sectors was \$51.4 billion, making up 64 per cent of total trade in 2017.

Other important sectors for imports include Gems and Jewellery, base metal and mineral products. Although, India's export to the region was much lower than its imports, sectoral concentration of trade was higher in imports than exports. India's major export sectors were chemicals, minerals, textile, base metals and machinery. Other important sectors for exports were fruits and vegetables, fats and oil, plastics and automobiles. This asymmetry in trade with the region caused huge trade deficit for India. India's exports to the region covered 21 per cent of its regional imports in 2017. The single most deficit sector for India was machinery, which was followed by chemicals, gems and jewellery and base metals.

The growth momentum of CAEs is heavily dependent on the natural resources based trade and remittances from labour migration to neighbouring countries. Among the SCO nations, Russia and China have been traditional trading partners of Central Asian countries. China has emerged as a major trading partner for Central Asian economies, particularly because of its

Table 4: India's Trade with SCO Member Countries

(\$ Billion)

Partner	2008			2013			2017		
	Exp	Imp	Tr Bal	Exp	Imp	Tr Bal	Exp	Imp	Tr Bal
CHN	20.3	31.5	-11.2	17	48.4	-31.4	16.4	68.1	-51.7
KAZ	0.2	0.2	0	0.3	0.3	0	0.2	0.7	-0.5
KGZ	0	0	0	0	0	0	0	0	0
PAK	1.7	0.4	1.3	1.9	0.4	1.5	1.7	0.3	1.4
RUS	1.7	5.2	-3.5	3.1	7	-3.9	2.9	6.5	-3.6
TJK	0.1	0	0.1	0.1	0	0.1	0.1	0	0.1
UZB	0.3	0	0.3	0.6	0	0.6	0.3	0	0.3
SCO	24.3	37.3	-13	23	56.1	-33.1	21.6	75.6	-54

Source: DoTS.

enormous interest in the natural resources sector. The average growth rate of SCO's trade with the world for the period 2000 to 2017 was almost 14 per cent. The share of SCOs' intra-regional trade to its total trade with the world experienced an impressive increase from 5.6 per cent in 2000 to 9 per cent in 2017. Estimated value of inter-regional trade has substantially increased by 12 times from 2000 to 2017. These figures indicate the strengthening of trade relations among the SCO members as shown in Table 5.

However, the study reveals that 73 per cent of total trade between SCO members and world is attributed to China alone. China's exports accounted for slightly above 75 per cent of total exports of the region in 2017, followed by Russia (12 per cent) and Kazakhstan (1.6 per cent). In 2017, share of trade of Central Asian members of SCO with world was merely 1.96 per cent. Over during the period of 2008-2017, there was a consistent fall in the share of Central Asian economies trade with the world. The share has fallen from 3.4 per cent in 2008 to 2.8 per cent in 2013, which further plummeted to mere 1.96 per cent in 2017. Exports from Kazakhstan and Tajikistan have significantly declined during 2008. This trend clearly exhibits the growth momentum of Central Asian economies which are heavily dependent on the natural

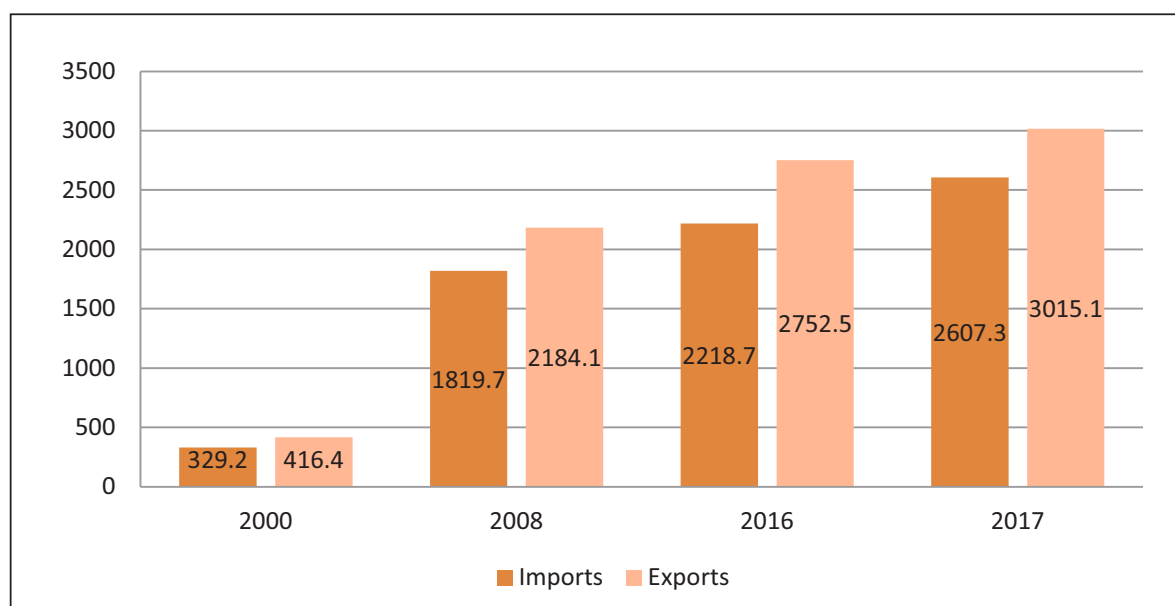
resources based trade. When the prices of these commodities fell on account of certain external shocks occurred in the international market, their export performance fell considerably (Figure 2 and Table 6).

The trade dependence of Central Asian members of SCO is broadly limited to a few countries namely, China, Russia and some countries of European Union. Moreover, their trade basket is barely diversified, with petroleum, natural gas and metals forming the major chunk of the total trade. Kazakhstan is a major oil exporter among them. Kyrgyz Republic and Tajikistan do not have oil reserves, and their export basket comprises of gold, aluminium and other metals. Gold and petroleum form important component of Uzbekistan's total exports as well. There is an urgent need for diversification of these economies. Specialization in a few products, which are non-renewable and subjected to price instability, is not suitable for maintaining long-term, resilient growth momentum in these economies. Therefore, there is a need for emphasizing on simplification of trade procedure and addressing infrastructural bottlenecks in the Central Asian region. They act as major obstacles in the development of trade ties among the member nations.

Table 5: Intra-Regional Trade in SCO (Billion)

Year	IRT Value	Trade with World	IRT Ratio (%)
2000	41.9	745.6	5.6
2008	345.9	4003.8	8.6
2016	413	4971.3	8.3
2017	503.9	5622.4	9.0

Source: Direction of Trade Statistics, IMF, 2018

Figure 2: SCO Trade with the world – Selected Years (USD Bn)

Source: Direction of Trade Statistics, IMF, 2018.

Referring to Table 4, India's trade with SCO members was about USD 97.2 billion, but it was highly skewed as 87 per cent of India's trade takes place with China alone in 2017. India's trade with four Central Asian SCO members was USD 1.53 billion in 2017 which accounts for only 1.5 per cent of India's total trade with SCO members. This miniscule share was due to lack of physical border connectivity and efficient transport linkages. India has shown interest in enhancing trade partnership with the region since it has a huge potential market for SCO members, particularly Kazakhstan, having market for goods like machinery, base metals chemicals and minerals. Present bilateral trade with Kazakhstan was USD 1.12 billion in 2017, making it the major trading partner for India among other Central Asian members of SCO.

India's Trade Potential

It has the potential of being raised up to USD 1.26 billion. Current trade of machinery and base metal amounts to USD 32 million and USD 12 million respectively. Further, it can be boosted to reach around USD 180 million and US 369 million respectively. Similarly, in case of Kyrgyzstan, there lies immense scope of boosting trade in machinery from mere USD 1 million in 2017 to around USD 13 million. Out of all the commodities, India's

trade in machinery has the maximum potential of increase to USD 10.16 billion from USD 42 billion (2017). The detailed analysis is given in Table 7.

There is a need for collaboration between India and Central Asia. India, as a leading country in high-quality technology, can be an important market for Central Asian economies. They can work towards diversification of the economies, and extending trade link with other countries. Section V will throw light on need and ways for diversification and how India and Central Asia can collaborate in their pursuit of development through trade and infrastructure development. For CAEs, hydrocarbon, minerals and remittances are important source of revenue and economic engagement. Besides, SMEs play a critical role in fostering economic activities and trade for these economies. ACO needs to address these issues which are considered important for most of the Member countries of the forum.

Key Role of Oil, Remittances and SMEs for CAEs

Energy plays a central role in the economies of Central Asia. Given that Kazakhstan and Uzbekistan are energy-rich states, fall in the oil market in 2014 hit Kazakshtan and the production

Table 6: SCO member country: Trade with World

(\$ Billion)

Member	2008			2013			2017		
	Imp	Exp	Tr Bal	Imp	Exp	Tr Bal	Imp	Exp	Tr Bal
CHN	1131.9	1428.9	297	1949.3	2210.7	261.4	1832.1	2280.1	448
IND	321.4	195.1	-126.3	467.9	315.1	-152.8	443	296.2	-146.8
KAZ	37.9	71.2	33.3	49.1	82.4	33.3	29.1	48.3	19.2
KGZ	4.1	1.6	-2.5	6.4	1.6	-4.8	4.5	1.8	-2.7
PAK	42.3	20.2	-22.1	43.8	25.2	-18.6	57.3	21.5	-35.8
RUS	267	459.6	192.6	315	527.3	212.3	226.1	355.7	129.6
TJK	3.4	1.5	-1.9	3.7	1.3	-2.4	3.2	1	-2.2
UZB	11.7	6	-5.7	19.6	7.5	-12.1	12	10.4	-1.6
SCO Total	1819.7	2184.1	364.4	2854.8	3171.1	316.3	2607.3	3015	407.7

Source: Direction of Trade Statistics, IMF, 2018

fell for the three consecutive years (Putz, 2017), although it maintained the legacy of top producer of oil in the Europe and Eurasian region. Downturn of Kazakhstan indicates that even the Central Asian energy market has been impacted by the transition in global energy market. In the era of climate change, technological advancement and sustainability, focus of efficiency is changing the consumption and production pattern towards cleaner and renewable energy.

With reference to the priorities stated in the SCO Charter, members need to support each other in the innovative sector, including small and medium enterprises to create decent and quality jobs in the region and set an example for the world with regard to the implementation of the SDGs. Therefore, India can emerge as the key development partners and share the best practices and develop cooperation between the entrepreneurs through regular joint forums, exhibitions and seminars among the business leaders representing SCO member states that aim to facilitate SMEs and innovative businesses like e-commerce.

Natural resources and Labor

The strength of Central Asian economies lies in their abundant natural resource base and young and educated labor force. Moreover, the geostrategic location of the region in the center of Eurasia not only reaps massive benefits in terms of economic revenues but also draws strategic interests of major

economic powers. Its central location allows it to establish relationships with both Asia and Europe. The region has been dynamic and has huge potential for economic development. China, India, Russia, and the US have keen interest in extending ties with these countries to extract the benefits of their rich resource base and strategic location. Though the region is quite similar in terms of resources and demography, the countries have adopted divergent paths since independence, and as a result, these countries are quite diverse in terms of their stages of economic development. Since the beginning of this century, these economies have performed impressively in terms of economic growth and international trade (OECD, 2018a). But the major proportion of growth has been led by exports of natural resources and minerals, and migration of labor. This poses a major challenge to the sustainability of growth process. Apart from excessive dependence on natural resources, these countries are grappling with a multitude of challenges like infrastructure bottlenecks, weak financial system, issues in governance and creation of a strong business ecosystem.

Impact of Oil and Other Natural Price Cycles

CAEs are endowed with one of the world's largest energy supplies but only a small proportion of it is being currently utilized (Das, 2013). Kazakhstan possesses high-quality mineral reserves and stands as one of the world's major oil and mineral

Table 7: India's Trade Potential in SCO Countries (USD Million)

Section	Products	China	Kazakhstan	Kyrgyz Republic	Pakistan	Russia	Total
1	Animal Products	296.02	4.21	0.06	8.34	62.14	370.77
2	Fruits & vegetable	213.59	29.36	0.71	56.7	222.99	523.35
3	Fats & Oils	29.32	0.93	1.74	1.89	7.76	41.64
4	Prepared Food	755.05	52.97	5.39	19.46	226.34	1059.21
5	Minerals & metals	4889.6	103.28	1.2	173.81	76.52	5244.41
6	Chemicals	3405.7	145.09	9.71	123.1	852.57	4536.17
7	Plastics	2312.4	70.95	4.16	86.8	359.26	2833.57
8	Skin & Leather	71.61	2.66	0.55	2.41	24.83	102.06
9	Wood Products	175.98	1.95	1.41	0.43	4.33	184.1
10	Pulps	219.17	32.16	1.6	25.73	101.06	379.72
11	Textile	1115.8	38.83	2.47	86.13	252.57	1495.8
12	Footwear	144.57	20.74	2.57	1.11	110.49	279.48
13	Cement etc	282.73	20.94	1.6	16.1	57.24	378.61
14	Gems & Jewel	1439.2	0.64	0	0.15	7.99	1447.98
15	Base Metals	2537.3	179.99	5.13	87.36	307.27	3117.05
16	Machinery	8163.2	369.78	12.97	324.86	1290.2	10161.01
17	Vehicles etc	4366.3	104.15	3.44	31.52	567.25	5072.66
18	Photography	2272.7	49.04	1.62	26.9	177.47	2527.73
20	Other Mfg	216.25	36.98	1.02	7.6	83.7	345.55
21	Works of Art	3.48	0.28		0	0.08	3.84
	Total	32910	1265	57	1080	4792	40104

Source: Author's calculation based on RIS Database.

producer. Uzbekistan has large gas resources and deposits of minerals including uranium and gold. Kyrgyzstan has huge major gold reserves and Tajikistan has one of the important aluminum reserves in the world. As a result, CAEs are highly reliant on their enormous resource wealth for their economic growth.

The world experienced a consistent rise in commodity prices during the first decade (2000 to 2011). This has been termed in literature as "super-cycle" (OECD, 2018a; Cuddington and Jerrett, 2008). The expanding Chinese economy during this period has been regarded as the major reason for this phenomenon. The rise in Chinese demand for oil and minerals has two major impacts: First, it led to increase in crude oil prices. Second, the supply of the natural resources significantly increased from CAEs to China.

Resource wealth is a major determinant of higher incomes and GDP growth among the CAEs. For example, export of oil is the major contributor

to the growth in Kazakhstan's economy. During 2015 and 2016, Kazakhstan's economy experienced a low real GDP growth rate of slightly above 1 per cent. However, in late 2016, there was increase in oil production in Kashagan oil field of Kazakhstan. The boost in oil production, accompanied by a rise in oil prices in the world market turned the terms-of-trade in its favor, leading to a rise in its export's earnings. This has played a major role in boosting its GDP growth in recent years. The real GDP growth rate of Kazakhstan jumped to about 4 per cent in 2017. Moreover, the growth estimate for real GDP has been revised to 3.8 per cent for 2018. (Sarsenov and Aldiyarov, 2018).

Kyrgyz Republic, an economy highly dependent on gold exports, experienced a different scenario during the same period. The real GDP growth experienced a deceleration, as real GDP growth fell from 3.7 per cent in 2017 to 3.1 per cent in 2018, caused by contraction of exports. The fall in GDP was attributed to several reasons like weak

external demand, fall in gold production, rise in prices of gold and enforcement of stringent quality standards by Eurasian Economic Union. (Dubashov *et.al.*, 2019)

Another country of the region, Tajikistan, experienced a rise in private consumption because of improved remittances from abroad and an increase in net exports of metallic minerals. Hence, its economy experienced acceleration in real GDP growth from 2016 to 2017 (World Bank, 2018).

From the above analysis of the CAEs, two things are apparent; firstly, CAEs are resource-export oriented economies. Secondly, these countries are highly vulnerable to the commodity price cycle. This is well evident in the case of Kazakhstan. These economies are heavily reliant on exports of hydrocarbons and minerals, and are thus subjected to what is called the “resource curse” (OECD, 2018a). As observed in the case of Kyrgyzstan, fall in the production of the resources or fall in external demand has a direct impact on the growth of the economy. If any of their neighboring countries face some sort of negative shock (like currency depreciation, fall in export consumption demand, etc.), it has a direct bearing on them. Moreover, these countries have very limited trade partners owing to their landlocked location. This poses a major threat to the sustainability of the growth momentum in the entire region, thus subjecting it to high levels of uncertainty. This is well exemplified by the growth experience of CAEs. They had experienced a similar slowdown in 2012-13 as well because of fall in commodity prices because of decline in Chinese demand, and resultant fall in their terms of trade. As the expansion of the Chinese economy has a direct bearing on the growth of CAEs.

The excessive dependence of the economy on natural resources is detrimental in yet another way. Mining and hydrocarbon sectors are characterized as capital intensive. These sectors depend relatively less on labour compared to other sectors of the economy. As a result, they do not generate large number of job opportunities (OECD, 2018a). Thus, extractive industries can lead to high real GDP growth rate, but they cannot solve the problem of large-scale unemployment in the region.

To overcome the challenges in CAEs, there is a need for more sustainable and inclusive models of growth. To achieve this, the literature suggests the need for diversification, robust connectivity, boosting competition and addressing infrastructure bottlenecks (OECD, 2018a; Sarsenov and Aldiyarov, 2018; Das, 2013).

Remittances

Another major driver of growth in the region is the remittances received by these countries from migrant labors. Tajikistan and Kyrgyzstan have weak export capacity. Thus, labor migration has been an important driver of their GDP growth. Various infrastructure bottlenecks and weak institutions, along with high unemployment and low salaries, have incentivised the labor in these economies to migrate to neighboring countries, mainly Russia. Remittances from the migrants have helped in boosting the GDP growth in these economies.

As per the data (Table 8), dependence on remittance has been very high for Kyrgyzstan and Tajikistan, accounting for 32.86 per cent and 31.30 per cent of GDP in 2017 respectively. This is much higher than the world’s remittance shares of 0.73 per cent of GDP. From 2000 to 2017, Kyrgyzstan’s dependence has gone up by around 205 times from 0.16 per cent to 32.86 per cent of GDP. Dependence of Kazakhstan, which is a relatively resource-rich economy, has remained very low at 0.2 per cent of its GDP.

Migration of labour has various social and economic costs. Male dominated migration in the region has led to the problem of “missing men” (OECD, 2018a). Moreover, migration of highly skilled workers leads to the problem of “brain drain” thus aggravating the underdevelopment of the region caused by the dearth of human capital. The excessive male-dominated out-migration also impacts the social system, bearing repercussions on women, children and family structure (OECD, 2018a).

The excessive dependence on remittances also subjects the economy to the same type of risks just as excessive dependence on exports does. Any shock in the labour-absorbing country has serious repercussions on the remittance receiving nation’s growth momentum. As mentioned in Table 7,

Tajikistan earned remittances of 31 per cent of GDP in 2017. The share has also reached as high as around 43 per cent in 2013 with the real GDP growth rate of Tajikistan being 7.4 per cent. But, excess dependence on remittances from Russia put the economy at greater risk. When the Russian Ruble depreciated with respect to USD after 2013, the remittance share to GDP for Tajikistan dwindled to 37 per cent and GDP growth came down to 6.7 per cent in 2014. However, with the revival of growth in Russia, Tajikistan's economy experienced acceleration in growth rate in 2017.

The above examples cogently point out that precariousness and low sustainability of the growth process in the CAEs. The excessive dependence of these economies on foreign labor markets can be reduced through diversification of their economies. For instance, the Tajikistan's economy has a high potential for the growth of SMEs and agri-business exports. But structural challenges like lack of connective infrastructure act as major impediments to the diversification of the economy. Similarly, Kyrgyzstan also needs a shift from remittance dependence through diversification. It faces strict structural constraints including weak business ecosystem and poor transport connectivity which limits the scope for diversification.

Small and Medium Enterprises (SMEs)

In a globalised world with increasing mobility and access to world resources in terms of factor of production and final products, it is very important for the country to provide competitive and decent economic environment for production. In the era of digitalisation, deliverability of the public goods has been improved through broadband-enabled technologies, therefore, the journey of achieving SDGs has become smooth, and economic and social well-being of the populations in both rural and urban areas are improving. In the process, ICT is playing critical role towards achieving SDGs 8, 9 and 17.

SMEs, as the driver of the growth process, help to reduce the trade cost through the adoption of modern technologies in logistics and marketing strategies and developing banking systems for enhancing the accessibilities and financial inclusion (UNESCAP, 2017a).

Kazakhstan stands out as one of the most advanced economies of Central Asia, with regard to GDP but the agricultural sector share in total domestic production accounts for only 5 per cent of the GDP. In such economies, SMEs play a vital role. In the case of Uzbekistan, the contribution of SMEs to GDP has risen significantly to 56.9 per cent in 2016 from 38.5 per cent in 2005, while share in exports has doubled, since 2008 (OECD, 2017). In Central Asia, SMEs initially entered the private sector in the 1990s with limited experience. These countries mainly export low value-added commodities which gave birth to the need for strengthening SMEs, to increase their competitiveness and promote transformation into the global value-chain in the agriculture, manufacturing and service sectors. It is to be noted that because these countries have relatively low incomes, their purchasing power limits the integration of SMEs into the global-value chain. Also, their potential to innovate is hampered due to lack of accessibility to digitization. This further increases their cost of entering the domestic and international markets, inhibiting their integration in the global value-chain.

SMEs in the CAEs are met with high trade costs, in terms of transportation costs, tariffs and duties, and other related costs in the domestic market. These impositions of financial burden on the SMEs inhibit their sustainable access to international markets. As an outcome of the SCO Council meet in 2018, the world leaders affirmed to create favourable conditions for trade and investment, and emphasised on joint collaboration to facilitate trade procedures, incentivising e-trade, and developing the service industry and trade in services, particularly for SMEs (UNECE and UNESCAP, 2018).

Another major challenge faced by SMEs in Central Asian countries is the lack of accessibility to finances, which hinder their growth. The SMEs usually face a higher interest rates and stringent borrowing terms due to the notion of SMEs being riskier. SMEs, on the supply-side face inhibitions from financial institutions with regard to risks, while on the demand side, they face high collateral requirements and credit rationing. Lending to agri-business SMEs is riskier due to the fact that the farmers are unable to meet these requirements as their major assets include land

Table 8 : Personal Remittances received in CAEs (per cent of GDP)

Year	World	Kazakhstan	Kyrgyz republic	Uzbekistan	Tajikistan
2000	0.37	0.37	0.16	-	-
2005	0.55	0.11	12.37	-	20.18
2010	0.65	0.15	26.41	7.27	35.81
2015	0.77	0.11	25.27	4.58	28.76
2016	0.74	0.2	29.28	3.68	26.86
2017	0.73	0.22	32.86	-	31.3

Source: WDI, World Bank.

and buildings. Though microfinance institutions are active in all Central Asian countries, the level of importance given to them varies among the countries. Although these institutes have the potential to support local economies, especially the regions with scarce bank branches, but they face challenges like raising more funds in the local currencies, diversification in the product line and strengthening and consolidation of the existing financial institutions, thus hindering their growth and expansion in these countries. Limited availability and accessibility to infrastructural support and information asymmetry cause constrain in access to credit facilities in SMEs.

SMEs and labour markets are highly interconnected and have an important impact on poverty eradication. The stagnancy in the poverty reduction is significantly correlated with the employment status of the region. For instance, the poverty rate remains unchanged for Kyrgyzstan at 25.6 per cent in 2017, whereas the employment rate declined by 1.8 per cent over two years to 55.9 per cent in 2017 (Sarsenov and Aldiyarov, 2018). Table 9 shows the picture of SMEs and employment generated in four Central Asia Economies, which are the members of SCO. Classification of SMEs depends on the country.

- In case of Kazakhstan, SMEs contributed to about 20 per cent of the GDP, around 90 per cent of the companies are SMEs and account for about 28 per cent of employment in the country (as per the latest data available).
- In Kyrgyzstan, as of 2015, SMEs contribute to about 37 per cent of the GDP and account for about 19 per cent of employment in the country.
- In Tajikistan, around 54.7 per cent of the companies are SMEs, which account for about 50 per cent of employment in the country as on 2015.

- In Uzbekistan, as of 2014, SMEs contribute to about 56 per cent of the GDP, and employment of 76.5 per cent of the labour force in the country.

The analysis shows how SMEs can play an instrumental role in achieving high rates of employment and make significant contribution to GDP of CAEs. Promotion of SMEs helps in diversification of the economy by tapping the underutilised resources, besides incentivizing entrepreneurs to explore new markets. It will help in expanding markets, leading to expansion of income and job opportunities. In countries like Tajikistan, where rate of labour migration is very high, SMEs will incentivise human resource to access viable opportunities within the country, thus reducing their dependence on remittance. This will help in fostering employment and opportunities for growth at grass-root level.

IV. Regional Connectivity for Growth Localisation

The most distinguishing feature of Central Asia is its strategic location, which builds opportunities for trade, medical tourism, and educational exchange. Given the strategic location at the heart of the Eurasian Continent, the sub-region requires infrastructural connectivity to support trade and investment competitiveness. Export products from CAEs are mainly of low value-added commodities. As per the UNESCAP report, trading of parts and components accounted for 2-6 per cent of manufactured goods exports in 2013 in comparison to 23-39 per cent for emerging economies in East Asia and South-East Asia (UNESCAP, 2017b). Thus, CAEs would have to be more open for trade while lowering tariffs and non-tariff measures, to utilize comparative advantage and diversification of markets over

Table 9: Status of Employment Generation through SMEs in Four Member Countries of Central Asia of SCO

Country	Classification of SMEs – employees	SMEs contribution to GDP (per cent)	Per centage of SMEs among companies	Employment in SMEs (per cent)
Kazakhstan	<250 employees	20 (2014)	90 (2015)	28 (2013)
Kyrgyzstan	Depends on sector and turnover <200 employees or 50 employees	37 (2015)	Missing	19 (2015)
Tajikistan	<200 for agricultural producers <100 for others	Missing	54.7 (2015)	50 (2015)
Uzbekistan	<100 employees in general, varies according to the industry	56 (2014)	Missing	76.5 (2014)

Source: UNESCAP (2017) working paper on Building a Resilient Digital Economy: Fostering SMEs in Central Asia.

time (ADBI, 2014), for being competitive player in regional markets. Kazakhstan has been a member of WTO since 2015 and enjoys the support for openness at national level, through rule-based multilateral trading system, while Uzbekistan is the only country among the SCO members which is not yet a member of the WTO.

For strengthening its trade ties with the rest of the world, robust connectivity is a non-negotiable pre-requisite. Landlocked geography, aggravated with weak infrastructure, acts as double jeopardy for the region. It limits its connectivity with new potential partners as well as attenuates the scope for diversification, thus making them dependent on limited number of trade partners and limited export basket. This issue is well reflected in India's limited engagement with Central Asia. The engagement between the two parties is hampered by the lack of physical infrastructure connectivity i.e. (road, rail and air), digital connectivity, and financial connectivity. For example, there are very limited direct flights and the difficulty to obtain visas which cuts India off from the region. Further, India does not share land borders with Central Asia but is focusing on finding alternate routes for increasing India's trade and investment links by connecting with the Chabahar port in Iran. An Agreement has been signed to facilitate access to the sub region via Afghanistan through the Zaranj Delaram Road to the rest of Central Asia. Strategically it is very important to forge greater collaboration in the region. Thus, investment in

infrastructure related to transport, energy, ICT and networks, particularly through the Southern Corridor would be helpful to reduce the trade cost and is essential for the pro-growth strategy. However, the weak infrastructure at the cross-border corridor leads to the biggest hurdle in the access to the largest markets of East Asia, South Asia and Europe. As a result, planning and understanding the interconnectedness among these areas are important to formulate coherent policies that minimize the trade-off and maximize the synergies for inclusive and sustainable growth.

Connectivity is highly contingent on the availability of financial infrastructure in the region. Without these resources, all other forms of infrastructure (transport and digital) cannot be effectively developed. In this context, financial inclusion is important driver for growth in resource-rich countries (like Kazakhstan and Uzbekistan), where extractive industries and related services are facilitating them for economic integration, as well as also for non-resource-rich economies (Kyrgyz Republic and Tajikistan), where remittances are the major source of income. The ability to access and use financial services would help CAEs to strengthen their social safety-nets and act as driver for growth and poverty alleviation. It is evident that people from Central Asia have no trust toward banking system, as almost 30 per cent of the population does not have a bank account, which is much higher than the developing countries average of 15 per cent (Knigge, 2019). As

a result, the CAEs need to strengthen their social safety-nets, for which financial inclusion needs to be considered as their priority. Improving financial services available to the poor as a means to social security could be a farsighted measure towards minimising the burden of poverty and generating greater confidence among the poor. Thus, India's successful case of Jan Dhan Scheme can be considered as way forward for Central Asian Countries to capture the spirit of SDG 1 to ensure growth and eradicate poverty.

Given the underdevelopment of a financial institution in emerging market economies and vulnerabilities faced by them, role of assistance from Multilateral Development Banks is pertinent for meeting the objectives of poverty reduction and sustainable development. MDB lending can help encourage public investments in various areas including development of soft and hard infrastructure, promotion for small and medium scale enterprises, and environmental protection in this region.

During the Soviet era, physical connectivity was not given enough priority. It was only after their independence that measures like nationalisation of transport network to enhance regional connectivity were given some attention. Quality of the infrastructure is one the major parameters to evaluate competitiveness of any country. Competitiveness of these economies still lags behind as compared to other Asian countries because of weak transport infrastructure (ADBI, 2014). To overcome the limitations posed by their landlocked nature, many agreements within and across the region have been signed, regional cooperation has not been up to the mark (ADB, 2006; UNDP, 2005). As per the ADB study in 2014, there has been dearth of practical regional cooperation, although the MDBs have made efforts through Central Asia Regional Economic Cooperation (CAREC)⁶ programmes.

Multilateral Development Banks like the Asian Infrastructure Investment Bank (AIIB) also recognize the need for development finance in Central Asia. It aims to facilitate the integration of Central Asia with another region, thereby overcoming the obstacles faced by these economies. Development financing through ODA is one of the effective solutions to address the economic

vulnerabilities of the region by improving inter-regional connectivity (AIIB, 2019).

One of the major investors for development finance in the region is the European Bank for Reconstruction and Development (EBRD). It has undertaken more than 590 projects in this region (EBRD, 2018). EBRD investments have ensured focus on country-specific needs of this region. In Kazakhstan, they have majorly focused on diversification, and have undertaken partnership agreements to co-invest with the Kazak Government. In the Kyrgyz Republic, the major motive has been to foster sustainable growth and enable SMEs to scale up and provide critical infrastructure. Stabilizing and rebuilding trust in the banking sector, development of private enterprises and agri-business, enhancing availability, reliability and quality of municipal services and improving the quality of energy supply, regulation, and energy efficiency has been the major focus in Tajikistan. For Uzbekistan, the focus lies on enhancing the role of the private sector, promotion of green energy across sectors and greater integration at the regional and international level.

Therefore, infrastructure financing addresses the issues of connectivity in the region. It provides a conducive environment for the growth of industries, particularly SMEs; capacity building and fostering job creation and thus better integration with the world market. Besides, developing quality infrastructure, development finance would improve the quality of public and private institutions and ensure an inclusive and sustainable growth along with fulfilling the agenda of SDGs at community level.

Localization

The Central Asian members of SCO have their own set of national priorities. These priorities are endemic to the development challenges faced by these nations. For instance, Tajikistan's priority lies in improving the quality of their municipal services and ensuring energy supply efficiency. For Uzbekistan, promotion of green energy and efficient utilization of resources has been a critical concern. Providing a conducive environment for the growth of SMEs and access to public services has been recognized as crucial for facilitating the development process of Kyrgyz Republic.

Thus, there is a need to exploit the synergies emanating from the interaction among international institutions and local and regional governments. Unless the basic services are availed at the grass root level, the goals under Agenda 2030 are difficult to be achieved. Thus, taking the sub-national context into account while fabricating policy framework at the international level such as SCO, is of extreme importance. Central Asian nations majorly suffer from issues like poor regional connectivity, weak financial institutions, and underdeveloped business ecosystems. In this regard, the adoption of the localized lens is important to provide universal access to public goods like efficient road transport and improved financial systems for SMEs.

The agenda of SDGs reiterates its commitment to “no one left behind”. In order to fulfil this objective, the localization of SDGs holds immense importance. It will facilitate the mobilization of resources at the grass root level, utilization of indigenous knowledge for local administration and effective execution of development programs. It will also develop a culture of responsible, transparent and accountable government. Through localization, one can consolidate development planning with the development agenda, thereby, achieving the SDG targets in the spheres of physical and social infrastructure. For instance, the problem of high unemployment rate faced by Tajikistan can be overcome through capacity building programs for agri-business exporters, as agri-business sector of the economy is still in its nascent stages of development.

Regional disparities within and across nations can be overcome only when local communities are placed at the forefront in the process of achievement of SDGs. Local governments and other stakeholders at the sub-national level are major catalysts of change in the implementation of development programs. In order to ensure the sustainability of the growth process, a multi-level and multi-stakeholder approach is a prerequisite. Hence, localization embodies “people first” approach which is essential for empowering the development narrative in the Central Asian economies.

V. Way Forward

Central Asian economies and India have strong cultural and civilizational connect, well manifested in their soft power influence on each others’ region. Indian classical dance, Bollywood movies and actors, and yoga are very popular among the people of Central Asia. Besides, the Indian Technical and Economic Cooperation (ITEC) Programme, organized by Ministry of External Affairs of India has been a major platform for young professionals of Central Asian countries for capacity building and training in wide range of areas like SDGs, science diplomacy, international trade, etc. Cultural ties between India and Central Asia have immense scope of expansion and strengthening.

To further the bilateral and multilateral ties, Indian investors need to exploit the opportunities arising from investments in infrastructure development projects including rail, road and energy sector, in these countries. Central Asia is a principal component of India’s Eurasian Agenda. Indian interest lies in strengthening of trade ties by increasing trade in oil and gas, machinery, base metals and chemicals. Central Asia and India, together, have huge potential of developing a synergistic relation to put forth the development agenda.

India requires efficient planning and project initiatives to promote the creation of long-term linkages with the Central Asian Economies. It will be mutually beneficial and, in conformity with the strategic interests of the concerned parties. Hydro-power, infrastructure, agri-business and food processing sector along with development of entrepreneurial ecosystem are some of the major areas where India can invest and cooperate with CAEs. India, being a major hub of IT sector, has vast scope for collaboration with these economies for strengthening their ICT sector.

Development First

SCO as a forum is a holistic body and hence has an inherent responsibility of addressing the socio-economic challenges grappling the region at par with its security and strategic concerns. It is pertinent for the efficacy SCO as credible international organisation promoting real and effective global governance in all spheres instead

of just serving limited political interests of the leaders of the member states.

As elaborated in section III, Central Asian economies have their unique set of problems. Geography has provided them with mixed blessings. They have abundant reserves of natural resources, with central Eurasian location and geographical proximity to China and Russia. But at the same time, their landlocked location has been a major hindrance in the path of sustainable economic growth. Thus, the development needs of these economies demand higher priority over other issues addressed by the SCO. The idea of SCO's dominant focus on regional security above all else has its roots in Central Asia's traditional dependence on other major countries in the region. In order for the CAEs to embark on their trajectory of economic prosperity, they have to readjust the existing agenda to better suit their development agenda and related economic initiatives. While SCO has not completely ignored these concerns, it is evident⁷ that the focus has been on regional security, strategic and defense related cooperation. SCO as a multilateral grouping has been reorienting their discussions towards improving trade facilitation, infrastructure development and inclusive growth. This is particularly possible because of the principle of equality of all nations emphasized in the SCO Charter.

Governments in these countries have initiated some reforms to achieve macroeconomic resilience. Kazakhstan government has concentrated its efforts to reduce the role of the state in the economy, increase privatization and reduce dependence on extractive industries. It has adopted the Strategic Development Plan 2025 to steer the economy towards new growth models by focusing on regional development, thus enhancing competitiveness for the better business environment, transforming the public sector, leading to inclusive and resilient growth (Sarsenov and Aldiyarov, 2018). But reforms have not been uniformly adopted among all the countries of the region. Moreover, there exist many gaps in effective implementation of the proposed reforms.

Given the multi-dimensional picture of Central Asia, there is scope for deeper cooperation at national and sub-national levels. Long-term sustainability of economic development should be

the major priority for the SCO region. SCO should aim to ensure balanced economic growth for the entire region. This involves concerted efforts towards the expansion of trade and cooperation among the member countries, particularly the Central Asian economies.

In this context, efforts have been made to strengthen India and Central Asia's engagement. India dedicated efforts in the path of economic growth, inclusive development and achievement of SDGs has rendered a global significance to India's development efforts. CAEs can learn and adopt from the experience and development initiatives of India. For example, as mentioned in previous section, India's successful experience with Jan Dhan Yojana can provide a model for ensuring financial inclusion in their economies. Similarly, various measures taken by India to ensure localization of SDGs, like SDG monitoring cell, engagement with civil societies, establishment of Nodal departments, etc. can provide important lessons for effective implementation of SDGs in CAEs.

As mentioned, Central Asia is an important region for India Eurasian Agenda. Strong ties with Central Asia will help in ensuring strengthened relations with Eurasia Economic Union (EAEU) as well. FTA with EAEU will also be crucial for deepening inter-regional connectivity with CAEs and improving conditions of trade. Just as economic cooperation is at mainstay in China, Russia and India's relations with EAEU, similarly, economic and development agenda should be the major priority in these countries engagement with CAEs at SCO as well.

India has keen interest in deepening the partnership with CAEs and in doing so, both the parties can exploit the rich cultural and historical linkages, along with developing close partnerships to further nourish ties for mutual benefit. In this regard, in January 2019, Kyrgyzstan and India decided to initiate collaboration to boost investment and trade in areas like energy, IT, textiles, education, and pharmaceutical sectors. They have further realised the immense potential of India's investment in hydropower generation in Kyrgyzstan. Efforts are being made to strengthen cooperation in the field of education, railways, mining and tourism as well.

In order to expand its economic engagement and development partnership, the establishment of an 'India-Central Asia Development Group' was proposed at India-Central Asia dialogue in Samarkand, Uzbekistan in January 2019. It plans to bring India and CAEs together by taking up various projects in Central Asia and by creating a platform for India to share its development expertise with the region.

Building Resilient Economies

CAEs as a region is grappling with challenges related to remittances, market and investment dependency and high vulnerability of external commodity price cycles. The export of hydrocarbons and heavy metals, and remittance incomes from neighbouring countries has facilitated their economic growth, but at the same time exposed them to various risks from external shocks. As explained in Section III, any unfavourable change in commodity prices in international markets decelerates the growth momentum in these economies, as it happened with Kazakhstan in 2014-15. Similarly, high rates of labor migration to Russia have presented various challenges for these countries. Any external shock or change in migration rules can lead to a fall in the remittance incomes of countries like Kyrgyzstan and Tajikistan, which is a major component of their GDP.

In order to ensure macroeconomic stability and inclusive growth, diversification will be highly instrumental. It will ensure higher employment and higher incomes and will also help CAEs to achieve less volatile economic performance.

Diversification in the Central Asian context implies increasing non-resource based exports (like agribusiness exports), promotion of SMEs, and strengthened trade policies.

The basic requirements for diversification are:

- Better connectivity through quality infrastructure
- Improved business ecosystem
- Enhanced trade policies

Lack of quality infrastructure has been a major hindrance in the diversification of Central Asian economies. Accessing foreign markets involves a huge cost for CAEs. Because of poor road connectivity, their trade linkages with other SCO

members like India have been very limited. Poor infrastructure has had a direct bearing on their ease of doing business scores. Poor connection with the rest of the world has inhibited its trade integration.

Tajikistan has an immense scope of expanding trade in agribusiness products. But various structural challenges inhibit its connectivity with the foreign markets, thus limiting its scope for diversification. Simplifying border procedures, the establishment of agriculture clusters and better road connectivity, can be some of the measures taken to overcome the hurdles. Organizations like CAREC, ADB, and the Islamic Development Bank have been involved in upgrading roads and opening economic corridors to allow easier and safer transport of goods across borders.

Strengthening business ecosystem will further facilitate the diversification of the economies. SMEs in central Asia frequently face problems in accessing finance. Many financial institutions find SMEs in Central Asia risky and hence an unattractive destination for investment. SMEs have to meet high collateral requirements. Better data availability regarding SMEs will help in removing the information gaps, along with capacity building for SMEs to enrich their knowledge about various financial instruments. To facilitate trade, a single window system for clearance can help in speeding up the export-related clearance processes by allowing the use of ICT for quick exchange of data. Uzbekistan and Tajikistan have taken measures in this direction (OECD, 2018b).

In 2018, the Kazakhstan government adopted the Strategic Development Plan 2025 (Strategy 2025) which aims at providing a framework for fostering economic and social development of the country. The aim is to facilitate the transition of the economy and steer the economy towards a new growth model. The new growth model aims to enhance the resilience of the economy and ensure sustainability through the model by focusing on improved technology and digitalization and better skills and capabilities of the workforce to make them more flexible to changing market needs. It also involves strengthening the business environment by ensuring fair competition and rule of law for all. It also aims to ensure regional development and improved role of the public sector.

Privatization has an immense scope in diversifying the economy. It can help in eliminating the inefficiencies inherent in state-owned enterprises and will ensure fair competition in these economies. In the same way, Public-Private Partnership can provide opportunities for investment in infrastructure sector like transport, power, and social infrastructure. In this context, SCO needs to provide assistance to support the Central Asian economies to ensure macroeconomic stability through diversification and greater integration with the global economy. It is critical to provide the infrastructure which will give them access to foreign markets. They should take measures to strengthen cooperation which will urgently address the development needs of these economies and ensure attainment of SDG under Agenda 2030.

Collective Global Governance

Good Governance aims to ensure active engagement of all the stakeholders through collective action in solving multitude of challenges faced by the region. Given the nature of problems faced by them, CAEs have immense scope of deriving benefits from collective governance. The Qingdao Declaration, 2018 took a stand for the improvement of the architecture of the global economic governance and the development of trade, economic and investment cooperation, endorsing the World Trade Organisation as a key platform for discussing and adopting the rules of the multilateral trading system. It also affirmed against the fragmentation of the world economy and rejected any form of trade protectionism. Collective governance is one of the solution-oriented models, where diverse stakeholders work in partnership. To address the issue of development financing, collective action is needed to improve and utilise public resources and delivery of services. Consequently, for the implementation of joint SCO projects, there is the SCO Interbank Consortium. However, the initiative of the formation of the SCO Development Bank and Development Fund has still not materialized and needs immediate action. Therefore, mainstreaming the economic and development narrative in the SCO is important for improvement in policy fabrication and implementation mechanism related to trade, financial flows, labour and businesses, among

the member countries. This will help in ensuring attenuation of regional disparities as well as advancement of stability and economic growth of the region in a sustainable fashion.

Deepening Cooperation in Education Sector for better Understanding

Geographical challenges and extreme weather conditions are major constraints in access to education. When viewed from the lens of SDG, the problem gets more acute. To address these challenges, India and CAEs can collaborate to bridge the regional gap in development of education sector. For instance, the Area Studies Programme (ASP) of the University Grants Commission (UGC) has helped in creating the capacities across various educational institutions and universities in promoting holistic understanding of the area with its cultural, social, economic and strategic specificities. The Area Studies Programme started in 1963 in different universities now requires a thorough overhaul for its connect with contemporary policy challenges and for meeting varied expectations of partner countries. The programme started with the objective of developing alternative paradigm of area studies from the perspective of postcolonial societies and to contribute towards Indian perspectives of the region and issues. However, the ASP, at many centers could not connect with changing global realities and their imperatives. As a result, the idea providing critical input to the policy makers particularly in India's economic, strategic and political interest, remained confined to only very few entities. There is an urgent need to evolve new mechanisms for connecting ASPs with their counterparts in various regions and to bring knowledge of regions of the world to the core of intellectual disciplines. Similarly the India Study Centers that had come up in many Central Asian countries also need to be energised and freshly reorient in their approach and orientation.

People to People Connect

An important part of global governance is emphasis on people to people connect. Track 2 and 3 forms of diplomacy are key for consolidating strong bilateral and multilateral relationships. In that context, recent efforts like the SCO Film Festival have been successful in bringing together

diverse groups of people in popular culture. However, there is a large scope in expanding these linkages and enhancing cultural cooperation. SCO has the capacity to initiate large scale multilateral cooperation in the areas of science and technology, education, health, tourism, culture *inter alia*. Joint research projects are an excellent way of enhancing relationships and strengthening the regional partnerships between the member countries. The entire region has much to gain from focusing on the capacity building of the populations. The Indian Technical and Economic Cooperation programme is a historic initiative in bringing together peoples from 161 countries including all Central Asian countries⁸. India being a historic partner of the Central Asian region can play a very significant role in the furthering of the development of all CAEs.

Endnotes

1. Stated in SCO Charter
2. 12th Session of SPECA Governing Council Report
3. Presidential address of the Republic of Kazakhstan on October 5, 2018. Retrieved from: https://strategy2050.kz/en/page/message_text20171/
4. UNECE 12th session Governing Council Study Report
5. UNECE and UNESCAP. (2017). Twelfth Session of the SPECA Governing Council Implementation of Sustainable Development Goals in the SPECA Region
6. CAREC programs aim to facilitate infrastructure linkages between Kazakhstan, Kyrgyz Republic, Uzbekistan and the Xinjiang region of China.
7. Analysis of the SCO Summits and Ministerial meeting documents reveal that security related issues have dominated the discussions. An analysis of their contents also highlights the heavy emphasis on security infrastructure and other such concerns, with limited focus on economic aspects of the region.
8. ITEC Official Website available at <https://www.itecgoi.in/about.php>

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Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi-110 003 India., Ph. 91-11-24682177-80
Fax: 91-11-24682173-74, Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>

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