

India – Central Asia Relations

Introduction

- India has increased its outreach to Central Asia and leaders of the 5 Central Asian nations (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) have been invited to the 2022 Republic Day Celebrations. Recently, India also hosted the **ministerial-level meeting of the Foreign Ministers of these 5 countries**.

What is the extent of the Central Asian Region?

- **Central Asia Region** stretches from the **Caspian Sea in the west to China in the east**, and from **Afghanistan in the south to Russia in the north**.
- It includes five countries namely **Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan** which are collectively referred to as the Central Asian Republics (CARs).

How did the India-Central Asia relations evolve over time?

- India has had a long history of cultural and commercial relations with Central Asia, facilitated by its geographical proximity to India and the passage of the Silk Route through them.
- **Buddhism was central to this connection in ancient times.**
- **Many rulers of medieval India had their roots in Central Asia, including the Mughals.**
- The present Central Asian Countries came into existence **after the disintegration of the USSR in 1991**.
- India was one of the first countries to establish **diplomatic relationships with the CARs in 1991-92**; however, there was a lack of rigor in the ties in the 1990s.
- The situation began to improve in the 2000s and has gained pace since then.



What is the importance of the Central Asian region for India?

- Central Asia's location at the heart of Eurasia, its geographical proximity, and historic linkages, make the region highly relevant to India's strategic interests.
- **Mineral and Energy Security:** Central Asia is **rich in energy resources, including, oil, coal, and natural gas**. Kazakhstan is the **largest producer of uranium**.
- **Security: Terrorism, drug trafficking, and radicalization** have been a matter of concern for India and Central Asian countries alike.
- **Geopolitical significance:** Unstable Central Asia has the **potential to affect Russia and China**, which have border connectivity to these countries.
- **Trade and Investment:** The **Central Asian countries provide trade and investment opportunities** in multiple sectors like IT, Pharmaceuticals, Tourism, etc.
- This bolsters the importance of improving India-Central Asia relations.

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What are the initiatives undertaken to boost India-Central Asia relations?

- **International North-South Transport Corridor (INSTC):**

- India, Iran, and Russia in 2000 launched INSTC to develop a new trade route that would help in cutting the costs and time in moving cargo between Russia and India.
- It is a **7,200-kilometre multi-modal project with thousands of kilometers of all-weather highways.**
- Many countries have now come on board which including **Afghanistan, Azerbaijan, Central Asia, and several European countries.**



- **Chabahar port initiative:**

- In 2003, India and Iran announced the development of the Chabahar port. This was launched to serve as an alternate route to Central Asia.

- **Ashgabat Agreement:**

- The pact was signed in 2011 by **Uzbekistan, Turkmenistan, Iran, Oman, and Qatar** and aimed at developing the shortest trade route between the Central Asian republics and Iranian and Omani ports.
- India joined the Ashgabat agreement in 2018 to diversify its connectivity options with Central Asia.



- **Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline:**

- It was launched to transport natural gas from Turkmenistan to India with transit through Afghanistan and Pakistan.
- However, it has been stalled since 2006 due to a lack of support from Pakistan.

Technological and Human resources

- **Indian Technical and Economic Cooperation (ITEC):**

- India launched the ITEC programme to provide assistance to the CARs countries in the area of IT, Management, journalism, diplomacy, entrepreneurship, and banking.



- **Connect Central Asia policy:**

- It was **launched in 2012** and aimed to enhance India's political, economic, historical, and cultural connections with Central Asia.

Defence

- **Strategic Partnership Agreements (SPA):** India signed the SPA with three of the five CARs—**Kazakhstan, Tajikistan, and Uzbekistan**—to stimulate defence cooperation and deepen trade relations.
- **Multilateral and bilateral forums/organisations:**
 - Initiatives like **Shanghai Cooperation Organisation (SCO)** and **Conference on Interaction and Confidence-Building Measures in India (CICA)** have helped India to maintain regular channels of communication with the CARs.

What are the factors hindering India-Central Asia relations from reaching their true potential?

- **Landlocked region**
- **Connectivity issues**
- **Chinese presence in the region**
- **Taliban's presence in Afghanistan**
- **India's Foreign policy focus on Big Powers**
- **Trade and commercial bonds are weak**

What measures can be undertaken to enhance India-Central Asia relations?

- India can undertake steps to **enhance connectivity through the air and digital modes.**
- Although **China has the largest regional presence in Central Asia**, India's outreach may provide an alternative to CARs. Also, **India's commitment to "principles of transparency, local priorities, and respect for sovereignty and territorial integrity"** makes it a preferred alternative to China in the long run.
- **Leveraging India's Soft power:** Emphasis should be laid on maintaining **cultural and people to people contacts.**
- The **Connect Central Asia Policy must be implemented speedily with high-level visits, strategic partnerships, comprehensive economic engagement,** partnership in the development of energy and natural resources to ensure India's strategic interests.
- India must **improve trade in both goods and services.** Cooperation can be enhanced in areas such as **FDI, technology, Human resources.**
- Increased access to India's huge markets would undoubtedly be highly beneficial for Central Asian countries that are constantly on the lookout to boost their struggling economies.

Conclusion

There is certainly a long way to go before **India could be designated as one of the most consequential actors in Central Asia.** However, the **recent initiatives show it is on the right track.** India must ensure that the current momentum is maintained.



Need of Insurance for Bank Deposits

What is the issue?

- India needs to **move to a risk-adjusted premium model** so investors are more aware of the risks.

What is Revamped Deposit Insurance Scheme?

- **The revamped deposit insurance scheme was upgraded through the Deposit Insurance and Credit Guarantee Corporation (DICGC) Amendment Bill, 2021.**
- It guarantees **to compensate depositors up to a limit of Rs. 5 lakhs within a period of 90 days** from when a bank fails.

Why should we raise the value of the deposits that will be insured?

- **Rs. 1 lakh limit was set in the 1990s.**
- **Considering the inflation rate this has become extremely inadequate.**
- **Compared to international standards our insurance limit is much lower** than several comparable economies like South Korea and Brazil and also way below U.K. and U.S.A.
- Though we cannot compare figures across countries in isolation due to differences in purchasing power we still have a lower amount of deposit insurance than other countries.
- **So, by raising the limit to Rs. 5 lakhs, we are going in the right direction.**

Why do we need insurance for bank deposits?

- - Discussion on deposit insurance began in India after a number of bank failures. **Attempts were made to stabilise the banking system.**
- In the 1930s, the U.S. set up deposit insurance. **India set deposit insurance up in the 1960s to deal with bank failures.**
- So, each time your banks fail in large numbers, the central bank does something about deposit insurance.
- **Confidence Building Measures.**
- **Cost of Delayed Payment – Investors are not able to figure out good banks and bad banks.** They generally invest in banks where returns are high.
- But no one has lost money in any scheduled commercial bank in India.
- **There may be a liquidity risk but no credit risk** because the government always comes in and rescues banks. It means there is 100% insurance.
- However, there may be a delay in case of bad banks and that can be pretty costly. The sooner we get there, the better it is.
- **So, we need risk-based deposit insurance premiums, which are simply absent in India.**



Can Private insurers provide confidence during a crisis?

- It comes into play **when panic sets in, like in 2008.**
- **Everybody was panicking and wanted their money back, fueling a self-fulfilling crisis.**
- In that scenario, private insurance might not work because people might think that the private insurer will become bankrupt.
- This is where the might of the government comes in because **the government has the ability to be the lender of last resort.**
- We saw in the 2008 crisis that the U.S., which is generally seen as a more market-driven financial system, had to be eventually bailed out by the government.

What should RBI do beyond insurance for bank deposits?

- **The DICGC is basically owned by the RBI.**
- **So, when it comes to bank failures, it is the RBI and not the DICGC that is playing a major role.**
- **In the U.S.A the Federal Deposit Insurance Corporation** also plays a role in the resolution of troubled banks
- **The Federal Reserve doesn't play an active role in the resolution process** other than lending to the troubled institution.
- **Regulators are always a few steps behind the banks.** They are still playing the catch-up game in figuring out the true level of risk that banks have.
- **RBI should disclose risk information and take quick action before a bank fails.** For this, you need to have a good model to figure out which bank is under stress.
- **Depositor's discipline has to go hand in hand with improvement in risk management system across the board.**

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Esprit de corps:

- The **common spirit of comradeship** exists among the members of a group and inspires enthusiasm, devotion, and strong regard for the honour of the group.
- An example of esprit de corps is **a group marching to bring awareness to a current issue.**
- For example, **a military unit.**

Fidelity:

- It is defined as **faithfulness to obligations, duties, or observances; exact correspondence with fact or with a given quality, condition, or event; accuracy in reporting detail; adherence to truth.**
- **When a worker is unfailingly loyal to a company, this is an example of fidelity.**
- When a man and a wife are faithful to each other and do not have extramarital relations, this is an example of fidelity.
- **An unfaithful public servant tarnishes the image of the entire system.**

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