

EXIM BANK: RESEARCH BRIEF

CIS Region: A Study of India's Trade and Investment Potential



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Introduction

Besides being traditional and important trading partners, India's bilateral trade relations with the CIS region has witnessed an upturn in recent years, while the CIS region is also increasingly emerging as major destinations for India's overseas investments. Sustained growth momentum in the CIS region in recent years, buoyant foreign trade and rise in foreign exchange reserves, coupled with sharp rise in FDI inflows into the region in recent years, would present opportunities to further enhance India's bilateral trade and investment relations with the CIS region.

In light of these developments, the Study analyses, *inter alia*, recent economic performance of the CIS region, trends and structure of India's trade and investment relations with the CIS region, and endeavors to identify potential areas for increased two-way flow of trade and investment between India and the CIS region. The Study further outlines broad strategy and recommendations which, while building upon the opportunities identified, would serve to foster enhanced commercial relations between Indian and the CIS member countries.

Economic Performance

Economic growth in the CIS region has registered robust growth in recent years, reflecting among others buoyant energy and metals prices and strong domestic demand. Real GDP growth for the region as a whole strengthened from 7.9% in 2003 to 8.4% in 2004. Strong growth momentum in the largest economies in the region, such as Russia, Ukraine,

Belarus, Kazakhstan, has supported economic activity in other member countries. During 2005, growth momentum was sustained, although at a lower level of 6.5%. During 2006, reflecting high commodity prices and strong export growth, economic activity has picked up, with real GDP growth for the region projected to strengthen to 6.8%.

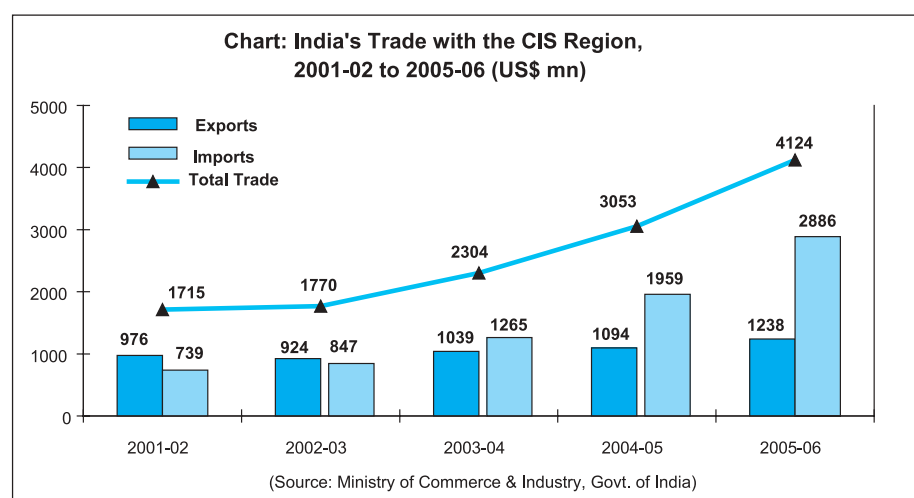
Current Account Balance and FDI Inflows

Reflecting increased earnings from oil and commodity exports, the current account surplus of the CIS region has risen from 6.3% of GDP in 2003 to 8.1% in 2004, and further to 8.8% of GDP in 2005. For net energy exports such as Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan, the current account surplus was a high as 8.7% of GDP in 2004, which increased further to 10.0% of GDP in 2005.

Total FDI inflows into the CIS region have been rising continuously from an average of US\$ 4 bn during 1992-97 to reach a peak of US\$ 27.2 bn in 2005. Four countries, Russia, Azerbaijan, Kazakhstan and Ukraine, together accounted for 95% of the total FDI inflows in 2005. While in the first three countries, FDI has been driven mainly by projects in natural resources (especially petroleum and natural gas), in Ukraine it has been more broad-based. Besides streamlining the investment climate with a view to creating an enabling environment, many of the CIS countries have set up investment and trade promotion agencies, which facilitate inflows of foreign investment and act as a one-stop-shop for investment-related activities.

India's Trade and Investment Relations with the CIS Region

Trade Relations - India's total exports to the CIS region, after contracting from



Note: Data for Imports do not include oil imports.

US\$ 976 mn in 2001-02 to US\$ 924 mn in 2002-03, due primarily to decline in exports to Russia, thereafter picked up to amount to US\$ 1.24 bn in 2005-06 (Chart). India's imports from the CIS region, on the other hand, have registered a continued rise from US\$ 739 mn in 2001-02 to US\$ 2.9 bn in 2005-06. Reflecting these trends, India's total trade (exports plus imports) with the CIS region has increased more than two-fold from US\$ 1.7 bn in 2001-02 to US\$ 4.1 bn in 2005-06 (Chart).

Russia continues to dominate India's overall exports to the CIS region, while exports to other CIS members such as Ukraine, Kazakhstan, Kyrgyz Republic, Azerbaijan, Georgia, and Uzbekistan have also risen. As regards imports from the CIS region, besides Russia and Ukraine, other countries such as Kazakhstan, Uzbekistan and Georgia have also emerged as important trading partners.

Indian Investments in the CIS Region -

The CIS region has also emerged as important destination for India's overseas investments in recent years. During the period 1996 (April) to 2006 (February), India's overseas investment approved in the CIS region amounted to US\$ 3.01 bn, accounting for a significant share of 19.7% of total overseas investments approved (US\$ 15.3 bn) during the period. In the case of Russia, in fact, the country has emerged as the largest destination for India's overseas investment, accounting for 20% (US\$ 2.83 bn) of the total overseas investments approved during the period. In view of the investment opportunities in the CIS region, a number of Indian companies have endeavoured to set up joint ventures (JVs) and wholly owned subsidiaries (WOS) in several sectors in these countries.

Potential Areas for Enhancing Bilateral Trade and Investment Relations

Trade Potential - Based on import demand in the CIS region and India's export capability, the potential items of export to the region could include the following:

Russia - machinery (electrical and non-electrical) and transport equipment, chemical and related products including

pharmaceuticals, food and related products, articles of apparel and clothing, cotton and synthetic yarn, plastics and articles;

Ukraine - machinery and transport equipment, chemicals and pharmaceutical products, iron and steel products, food and related products, perfumery and cosmetics, plastics and articles, articles of apparel and clothing;

Kazakhstan - machinery and transport equipment, chemicals and related products including pharmaceuticals, articles of iron and steel, food products, ores and minerals, petroleum products, ceramic products;

Uzbekistan - food and food products, articles of iron and steel, plastics and articles, machinery & equipments, transport equipment, zinc ores and concentrates, pharmaceutical products;

Belarus - In line with Belarus' import demand, potential items of exports would include: non-electrical and electrical machinery, transport equipment, articles of iron and steel, chemicals and pharmaceutical products, plastics and articles, food and related products;

Other CIS Countries - As regards other CIS countries, potential items of exports would broadly fall under the following categories: food and related products, articles of iron and steel, non-electrical and electrical machinery, transport equipments, petroleum products, plastics and rubber products, carpets and other textile floor covering, garments fabrics and made-ups, furniture and parts.

Import Potential - There is also scope to source imports from the CIS countries. Principal items that can be imported from Russia could include mineral fuels, iron and steel, fertiliser, and paper and paperboard, while organic chemicals, and paper and paperboard could be sourced from Ukraine. India could import mineral fuels, inorganic chemicals, iron and steel, electrical machinery and natural or cultured pearls from Kazakhstan. The items that hold import potential from Belarus are mineral fuels, fertiliser and plastics.

Investment Potential - Besides trade, the CIS countries offer tremendous opportunities in terms of investment. Food processing, retailing, pharmaceuticals, information technology, textiles,

infrastructure development among others present potential for investors.

In **Russia**, potential sectors for investment could include energy sector, auto vehicles, pharmaceuticals, food processing, retailing, tourism, agri business. In **Ukraine**, focus could be on agriculture and food processing, energy sector, telecommunications, healthcare, construction, IT, and financial services. Potential sectors for investment in **Kazakhstan** could include oil and gas, power generation and distribution, telecommunication equipments, medical equipment and supplies, agricultural machinery, food processing and packaging, construction and engineering services, and mining. In **Uzbekistan**, focus could be on sectors such as energy sector, IT sector, mining sector, food processing and packaging, textile machinery and equipment, and tourism infrastructure. In **Belarus**, the government is actively promoting investment in sectors such as telecommunications network, modernization of transport system as also transit transportation via Belarus, airline infrastructure facilities, road transport, food processing, packaging facilities, manufacture of equipment for soil cultivation, chemical plant protection, and biopharmaceuticals.

In **Armenia**, sectors offering potential for investment would include jewellery and diamond processing, electronics, IT and light industry (carpet, footwear, textiles and clothing). In **Azerbaijan**, sectors which present investment opportunities are oil and gas equipment, chemical and petrochemical industry, electric transmission lines and distribution networks, agriculture and food processing, transportation infrastructure, construction and financial services. In **Georgia**, the key sectors of economic activity and potential sectors for investment are energy, agriculture, trade, tourism, transport, as well as projects in the food processing and telecommunications industries.

Sectors such as agribusiness, mining equipment and technology, electricity generation and maintenance of distribution systems, tourism infrastructure, IT sector, small and medium scale light manufacturing equipments offer investment potential in **Kyrgyz Republic**. In **Moldova**, the most

promising sectors for investment include energy sector (modernization, gas pipelines, gas stations and distribution networks), tourism, IT sector, wine-making and food industry. In **Tajikistan**, investment opportunities are in mining and related equipment, medical and pharmaceutical supplies, textile machinery, telecommunications, oil and gas extraction equipment, eco-tourism, agribusiness and related sectors. In **Turkmenistan**, in line with the government's priority, potential areas for investment would include oil and gas industry (exploration, development services and equipment), electrical energy (equipment and services), chemical & mining industry, transportation, communications (equipment and services), environmental technology and services, and healthcare and medical industry.

Exim India in the CIS Region

Export-Import Bank of India (Exim India) operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with the CIS region. The Bank has four operative Lines of Credit (LOCs) of US\$ 10 mn to Bank TuranAlem, Kazakhstan, which covers all the 12 member countries of the CIS, LOCs of US\$ 25 mn to Vneshtorgbank (Bank for Foreign Trade), US\$ 10 mn to Vnesheconombank, and US\$ 10 mn to Absolut Bank, Russia. Exim India is also exploring LOCs to other countries in the CIS region. In the area of project and product exports, Indian companies have secured several contracts in the CIS region with the support of Exim India, across various sectors including: supply of pharmaceutical products to Russia, power project / bauxite project in Azerbaijan, equipment project in Tajikistan, and procurement advisory and auditing services in Georgia and Armenia. Further, With a view to support Indian companies in their endeavour to globalise their operations, Exim India has supported joint ventures in the pharmaceuticals sector in Kazakhstan, Uzbekistan and Ukraine.

To support India's export to the 27 countries of operation of the European Bank for Reconstruction and Development (EBRD), Exim India has in place an arrangement with EBRD called

the Export Credit Loan Arrangement Technique (ECLAT), which provides for mutual co-operation in co-financing and enhancement of export credit to CIS and Central & Eastern European regions. To support Indian consultants to take up projects in the CIS and Central & Eastern European regions, Exim India has an arrangement with the International Finance Corporation (IFC) under the latter's Private Enterprise Partnership (PEP) programme, where in Indian consultants can execute short-term consultancy assignments for IFC sponsored projects in countries such as Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, Ukraine, and Uzbekistan.

In the area of institutional strengthening, export development and export capability creation. Exim India has rendered technical assistance to a number of institutions worldwide, including those in the CIS region, such as: export development project in Ukraine, and enterprise support fund in Armenia. In its endeavour to forge alliances and institutional linkages, Exim India has signed Memoranda of Understanding (MOUs) with a number of institutions in the CIS region, which include: Export-Import Bank of the Russian Federation, Russia; Vnesheconombank, Russia; Belvensheconombank Belarus; UZBEKINVEST – National Export-Import Insurance Company, Uzbekistan; and National Bank for Foreign Economic Activity, Uzbekistan.

Exim India has taken the initiative of setting up of Global Procurement Consultants Ltd. (GPCL), in partnership with leading consultancy firms in India, for providing procurement related services to multilateral agencies such as World Bank and Asian Development Bank. GPCL has undertaken project audit assignments for World Bank in a number of countries in the CIS region, such as Armenia, Georgia, Kyrgyz Republic, Uzbekistan, and Russia.

With a view to promote active exchange of trade and investment related information, Exim India helps bring out a quarterly, bilingual (English and Russian) publication "Indo-CIS Business" for the benefit of Indian and CIS businessmen and investors.

Strategy and Recommendations

Broad strategy and recommendations to enhance two-way transfer of trade, investment and technology between India and countries in the CIS region could encompass the following:

Wider Dissemination of Information - An important element of the strategy to boost commercial relations would be to effectively disseminate relevant information about the trade and investment opportunities to potential exporters and investors in India as also prospective partners in the CIS region. Reciprocal visits by trade and industry delegations / economic missions would serve to increase awareness in the region about India's economic reforms, strengths of Indian industry and export capabilities. These trade/economic missions could focus on specialized and industry specific fairs and exhibitions; organizing buyer-sellers-meets; joint venture facilitation; organising specialised 'Made in India' exhibitions showcasing Indian expertise; and preparation of product catalogues in electronic form. These fairs and exhibitions would serve as ideal platform for actively marketing Exim India's Lines of Credit (LOCs) to the CIS region. Relevant parties in India as well as counterparts in the CIS region could be apprised about the benefits of such credit lines as also about the ways of utilizing such credit lines.

Close Linkages with Investment Promotion Agencies - To enhance investment relations, focus could be on building closer institutional linkages with key investment promotion agencies in the CIS region such as: Armenian Development Agency, Armenia; Azerbaijan Export and Investment Promotion Foundation (Azerinvest), Azerbaijan; Belarusian Foreign Investment Promotion Agency (BFIPA), Belarus; Georgian National Investment and Export Promotion Agency (GNIEPA), Georgia; Kazakhstan Investment Promotion Center (Kazinvest), Kazakhstan; National Agency for Attracting Investments (NAAI), Moldova; National Agency for Foreign Investments, Russia; State Agency for Foreign Investment (SAFI), Turkmenistan; Ukrainian Center for Foreign Investment, Ukraine; Foreign

Investment Agency, Uzbekistan. Such linkages would serve as important source of detailed information about existing potential areas for investment, investment regulations and incentives, as also prospective investment partners.

Technology Transfer and Development -

With restructuring and expansion of different sectors in the region, Indian companies could endeavour to emerge as key knowledge and technology partners as also suppliers of machinery and equipment in sectors such as textiles and clothing, pharmaceuticals, medical equipment, food processing, packaging.

Cooperation in IT Sector - With India having emerged as a leading IT powerhouse, Indian IT firms could explore the opportunities in the CIS region, and focus on investing in subsidiaries or joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing and developing software programmes and services for banks and financial institutions in the region. Designing specialised e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities.

Cooperation in the Banking/Financial Sector - Facilitating and promoting bilateral trade and investment relations would call for renewed efforts to put in place a proper mechanism for financial transaction between India and countries in the CIS region. While a few Indian banks have set up branches / representative offices in Moscow and Tashkent, Uzbekistan, opening branches/ representative offices in other countries in the region, and developing correspondent relations with select banks in the region would serve to facilitate and promote commercial relations.

Focus on Multilateral Funded Projects - Multilateral funding agencies such as the World Bank, Asian Development Bank, EBRD are active in funding development projects in the CIS region, in areas such as energy and mining, agriculture, transportation, health and social services,

law and justice, finance, industry and trade. Focus on these funded projects and increased participation by Indian project and services exporters in such projects would serve to enhance India's commercial presence in the region countries. At the same time, efforts to participate in technical assistance in terms of project preparation and advisory services in such funded projects would support increased presence in the region.

Cooperation in Entertainment Industry -

With Indian movies gaining popularity in many countries in the CIS region, Indian movie makers could consider selling their rights for screening movies in the CIS region, which could enhance distribution of Indian movies in the region. There is also potential for Indian movie makers to explore some of the countries in the CIS region for shooting films at fresh and new locations.

Focus on Privatisation / Acquisition of Hotels - Many of the hotels in the CIS region are up for privatization as there are few local groups interested in renovating these hotels. This could be an ideal opportunity for Indian hotel groups to acquire some hotels and renovate them. At the same time, majority of the hotels require renovation and modernisation.

Investment by way of Indian style Ayurveda / Wellness Centers - With increasing awareness and demand for Indian style Ayurveda and Wellness centres in the CIS region, Indian companies could explore these opportunities. Along with acquisition of hotels in the CIS region, renovation of hotels could be by way of investment in setting up Indian style Ayurveda / Wellness centres in such hotels to cater to the demand for such facilities in the CIS region. Further, imparting training to local practitioners would facilitate acceptability of such treatments / centres.

Closer Economic and Trade Integration - There could be greater economic and trade integration with Russia and other CIS countries. A positive development in this direction has been the signing an MOU for setting up a joint study group to examine the feasibility of a comprehensive

economic cooperation treaty (CECA) between India and Russia. Given the strong scientific and technological background of Russia and the new emerging expertise of India in science and technology, the two countries could work together on innovative new technologies in biotechnology, pharmaceuticals, and space exploration programmes and aircraft manufacture.

Other Measures - Other measures to enhance commercial relations with the CIS region could include: Understanding local cultures, business practices and habits to facilitate business interactions; Exporters can develop their own websites giving information about the manufacturing facilities, product details & the features of the company to promote trade; Small and medium sized IT firms can be encouraged to focus on these countries and invest in subsidiaries or joint ventures to take up assignments in e-governance, financial services and e-education; Increase in direct flights to cover more cities in the CIS region and also increase the frequency of destinations to which flights are already operating.

The contents of the publication are based on information available with Export-Import Bank of India and primary desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

Note: Indian Rupees are referred in crore and lakhs:

1 crore : 10 million
1 lakh : 100 thousand

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