

INDO-RUSSIAN ECONOMIC COOPERATION: THE NEED FOR A NEW VISION

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In the current global economic set up, India has stepped into the new millennium with noteworthy economic progress. The country has fast emerged as a pivot of all important economic and political developments due to its huge market base and international role. Economic development will be one of the key factors in determining India's national priorities and its strategic vision of playing an influential role in international affairs. The contemporary developments in international relations, and the economic sanctions on, and isolation of, Russia by the West, have caused deep and long lasting damage to the Russian economy. Though it has introduced economic measures to counter the stringent policies initiated by the West, Russia, aware of its weak economic position, is now looking for prospective markets that will not only help in the revival of its economy but also provide long-term market security. While many of the components in India-Russia relations have projected a success story, the same cannot be said while defining the economic ties as these fail to correspond with the commercial potential offered by both countries, despite enjoying a long history of strong bilateral engagements. In this context, this paper will analyse various factors responsible for the weak economic ties and the failure to capitalise on the economic potentials

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The disintegration of the Soviet Union had serious ramifications on the relations between India and Russia, the successor state of the Soviet Union, as it not only led to a transition in the foreign policy approach but also in their respective economic policies.

offered by both India and Russia. It will also investigate the scope and future prospects for establishing strong economic ties between India and Russia that can enhance the relations in this sphere manifold.

HISTORICAL BACKGROUND

It is a firmly held opinion that the economic commonalities between India and Russia date back to even before India's independence, as socialism became the social and economic norm of India during its freedom struggle and continued to be so until the Soviet disintegration. Efforts to emulate

some aspects of the Soviet economic system after India's independence were made by leaders like Nehru who introduced the 'Five-Year Plan' in his economic policies, followed by Indira Gandhi, who introduced the 42nd Amendment that incorporated the words 'socialist and secular' in the Preamble of the Indian Constitution. Since 1953, a long-term trade agreement was put in place between India and the erstwhile Union of Soviet Socialist Republics (USSR) as several agreements had been signed and the bilateral trade was conducted through a specific system of trade and commercial transaction called the Rupee Trade System based on annual plans and, thus, the payments were made in non-convertible currency.¹

The disintegration of the Soviet Union had serious ramifications on the relations between India and Russia, the successor state of the Soviet Union, as it not only led to a transition in the foreign policy approach but also in their respective economic policies. Russia transformed from a state controlled command economy to a market economy. By the same token, India too adopted 'Liberalisation, Globalisation and Privatisation' (LPG) in 1991. Through this policy, India remodelled its economy from a centralised economic system to economic liberalisation. The causes for India's transition during this period were: (a) unmanageable balance of payment crisis; and

1. Gulshan Sachdeva, "Reviving Economic Interests", *Frontline*, vol. 17, issue 21, October 14-27, 2000.

(b) high rate of inflation that was building up in the 1980s and climaxed in 1990-91.²

The implementation of pro-market reforms has had far-reaching implications for India's industrial structure and strengthening of its economic status in the international system. Significant sectors of the economy opened up for private participation too. Thus, the economic reforms undertaken by India have led to the development of the economy in the industrial, agricultural and service sectors, with high growth rates. Following its rapid and exponential economic growth, the Indian market has since then been courted by international businesses.³ However, as for defining India-Russia economic relations, a large part of the 1990s constituted a period of difficult adjustments for both Indian and Russian businesses despite having vigorous economic and trade relations in the past.

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Table 1: India-Russia Trade from 1993-94 to 1999-2000 (in million dollars)

	Total Exports to Russia	% Share in Total Exports	Total Imports from Russia	% Share in Total Imports
1993-94	648.60	2.92	256.89	1.10
1994-95	807.38	3.07	504.54	1.76
1995-96	1,048.55	3.29	857.53	2.33
1996-97	811.84	2.42	628.96	1.61
1997-98	954.12	2.72	679.02	1.63
1998-99	709.26	2.14	545.42	1.29
1999-00	952.60	2.53	618.23	1.31

Source: CMIE : Centre for Monitoring Indian Economy Pvt. Ltd.

- Charan D. Wadhwa, "India Trying to Liberalise: Economic Reforms Since 1991", in J. Rolfe, ed., *Asia Pacific: A Region in Transition* (Honolulu: Asia-Pacific Centre for Security Studies), 2004, pp. 260-261.
- Parbati Sen Vyas, "India's Economic Relations with World's Major Powers", Ministry of External Affairs, August 27, 2014, <http://www.mea.gov.in/distinguished-lectures-detail.htm?126>. Accessed on December 21, 2014.

These economic transformations changed the very attributes and characteristics of foreign economic relations between the two countries.⁴ The argument presented in this regard was that lack of stability in the very nature of Indo-Russian trade relations coupled with the elimination of state monopoly over foreign trade were the major causes for the decline in the bilateral relations between the two countries in the post-Cold War era.

ECONOMIC RELATIONS IN THE POST-COLD WAR ERA

In the years preceding the break-up of the Soviet Union, due to the economic crisis, trade relations between New Delhi and Moscow witnessed a huge setback as the trade turnover declined by more than \$2 billion to a negligible amount of \$ 3,487 million. It is a firmly held opinion regarding the dismal performance that both India and Russia renegotiated the entire trade regime based on an agreement signed in 1993. According to the terms of the agreement, the rupee-rouble trade arrangement was terminated and all bilateral trade transactions were mandated to be conducted on hard currency basis. Alongside the economic crisis, currency convertibility further exacerbated the method of payment on countries like India that had conducted barter trade with the erstwhile Soviet Union.⁵ However, the settlement of the debt repayment issue between the two countries in 1995 provided a boost to bilateral trade, which increased to \$1,914 million. In the subsequent years, Indo-Russian trade witnessed difficulties, despite the relations enjoying a high-level of political proximity.⁶ During the year 1999, bilateral trade was worth only about \$ 1.5 billion, which accounted for only 2.5 percent of India's exports and about 1.3 percent of imports.⁷

Many observers argue that the paradigm shift in the economic system of both India and Russia led to major repercussions on the relations between the two countries. For instance, the defence trade between the two

4. Sachdeva, n.1.

5. Anupam Srivastava, "Indo-Russia Military Technical Cooperation: Implications for Southern Asia", *World Affairs*, vol. 161, no. 4, Spring 1999.

6. Arun Mohanty, "Indo-Russian Trade and Economic Cooperation: The Way Ahead", in Phunchok Stobdan, ed., *India-Russia Strategic Partnership: Common Perspectives* (New Delhi: Institute for Defence and Studies and Analysis), 2010, pp. 165-167.

7. Srivastava, n. 5.

countries had almost collapsed over the rupee versus rouble debate. In fact, a significant feature of Indo-Russian trade during the decade 1993-2003 was that nearly 80 per cent of Indian exports were financed through the debt repayment channel. This mode of transaction for Indian supplies delivered a serious blow to Indian exports to Russia.⁸

The relationship between India and Russia gained momentum with Putin's visit in 2000 which held out an opportunity to create a special bilateral economic relationship with the signing of the "Strategic Partnership between India and Russia." Realising the potential areas of trade growth that included defence, energy, nuclear, diamonds, pharmacy and science and technology, the two countries established annual summit meetings which fostered extensive collaboration and dynamism for economic development. Since 2000 onwards, investment cooperation between the two countries has increased and various initiatives and policy measures have been undertaken from time to time in order to promote trade and economic cooperation, though trade and economic ties continue to be much below their potential. According to Russian sources, the balance of trade between the two countries was more than \$3.5 billion in the year 2008 in favour of Russia. If one includes defence purchases, then the balance of trade would further heavily tilt in favour of Russia.⁹

In 2009, both sides set a target of US \$20 billion bilateral trade by 2015. In 2012, India became the third largest economy in the world in terms of purchasing power parity and its economic performance. After decades of failing to realise its full economic potential, India is now one of the world's fastest-growing large economies which comprises activity ranging from information technology to subsistence agriculture.¹⁰ Ironically, the economic relations failed to make any impact as the India-Russia bilateral trade in 2013 stood at just \$10.01 billion, out of which India's exports to Russia stood at \$3.1 billion (an increase of 1.7 percent over 2012) and India's

8. Mohanty, n. 6, p. 166.

9. Ibid., pp.165-167.

10. Department of Foreign Affairs and Trade, Australian Government, "India Country Brief", <http://www.dfat.gov.au/geo/india/pages/india-country-brief.aspx>. Accessed on November 23, 2014.

imports amounted to just \$7 billion (showing a decrease of 14 percent over 2012). Indian investments in Russia are estimated to be \$7 billion, the bulk of which is in the energy sector, while Russian investments in India are estimated to be of the order of \$3 billion, primarily in the telecommunications sector. Priority areas for expanding bilateral economic cooperation are pharmaceuticals, Information Technology (IT), steel, diamonds, aviation, fertilisers, infrastructure, heavy engineering and food products.¹¹

The denouement of the 15th annual summit held in New Delhi (2014) reflected the synergy between the two time-tested strategic partners. The conclave laid out the signing of 20 agreements between the two countries covering various sectors such as defence, nuclear cooperation, energy, trade and industry, infrastructure and Research and Development (R&D). Economic interaction other than in the defence and energy sectors between the two traditional partners continues to be a weak link. There is some progress in this area as, for the first time, more agreements were signed to boost cooperation between the private sectors and state-run companies. For instance, India's Essar group reached an agreement to import one million tonnes of crude oil and petroleum products from Russia's major oil giant Rosneft for the next decade.¹² Other areas of economic cooperation were also explored such as supply of rough diamonds in the next three years by Russia to India; fertilisers and pharmaceuticals were also identified as promising areas for increased cooperation. Both sides have set a target of \$30 billion worth trade turnover and \$30 billion investment in each other's country by the year 2025.¹³

Taking into account the developments in international relations, especially with regard to Russia's growing economic concerns amidst the sanction politics and India's geo-economic interests, it is important to investigate the future prospects in the economic relations between the two countries. As prospective economic states with similar economic goals,

11. Prakash Nanda, "Why Russia Still Matters", *Indian Defence Review*, December 11, 2014, www.indiandefencereview.com/news/why-russia-still-matters. Accessed on January 16, 2014.

12. Arun Kumar Mohanty, "Putin's Visit and India- Russia Summit", *Mainstream Weekly*, vol 52, no.1, December 13, 2014, <http://www.mainstreamweekly.net/article5397.html>. Accessed on January 18, 2015.

13. Ibid.

aiming for integration into the world economy, the areas of potential cooperation between these two countries need to be explored as there is also growing global economic competitiveness.¹⁴

TRADE AND INVESTMENT

The relations between the two states achieved a qualitative new character in the post-Cold War era but the economic ties between the two countries continue to pose a major challenge in the relations as bilateral trade is inadequate despite the robust partnership between them. Hence, for strengthening the bilateral ties further, the political leadership of both countries has repeatedly initiated measures to bolster the trade and economic cooperation.

The India-Russia Inter-Governmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation (IRIGC-TEC) is the main institutional mechanism to review economic cooperation. It integrates seven working groups on trade and economic cooperation, modernisation and industrial cooperation, energy, investment projects, tourism and culture, science and technology, and communications and IT. Mechanisms such as the India–Russia Business Council (partnership between FICCI of India and CCI of Russia), India-Russia Trade, Investment and Technology Promotion Council (partnership between CII of India and RUIE of Russia), India–Russia Business Dialogue (partnership between CII of India and Russia’s Business Council for Cooperation with India) and India-Russia Chamber of Commerce (with focus on Small and Medium Enterprises—SMEs) supplement the efforts to build direct Business-to-Business (B2B) ties. In May 2014, the 5th India-Russia Business Dialogue was held within the framework of the annual St. Petersburg International Economic Forum (SPIEF), which is a leading international economic and business forum held

14. Sergei Lunev, “Russia-India Relations: The Significance of Subjective Factors”, The London School of Economics and Political Science, August 7 2013. This post comprises excerpts from an article that first appeared in Russia and India, in the magazine of Russia’s Business Council for Cooperation with India, on the St. Petersburg International Economic Forum 2013, <http://blogs.lse.ac.uk/indiaatlse/2013/08/07/russia-india-relations-the-significance-of-subjective-factors/>. Accessed on October 20, 2014.

India's exports to Russia contracted from 6.46 percent in 2013-14 to \$2.15 billion, while its imports from the country shrank from 7.85 percent to \$3.9 billion during the same year.

annually in Russia.¹⁵

As for export-import relations, the main items of traditional export from India are tea, ready-made garments, drugs and pharmaceuticals, coffee, tobacco, rice and leather goods. Recently, some non-traditional items like electronic goods have also shown strong growth. But there has been some negative growth in export items from India such as tea and coffee. Russia has been a key destination for Indian tea for decades. The reason for the sharp decline in tea export, for instance, is that countries like Sri Lanka are cutting into India's share of the Russian tea market.¹⁶

One of the reasons for the decline in India's tea export to Russia is that, after the collapse of the Soviet Union, Russia began to switch to cheaper teas derived from various sources like Sri Lanka, Kenya and Vietnam that had made inroads into the Russian markets, in particular, Sri Lanka with its aggressive marketing and promotional efforts. Hence, it became the number one exporter of tea.¹⁷ Along with the impact of the economic crisis, Russia turned from a quality-led to a price-led import market.¹⁸ Other problems identified were collapse of the barter system (rupee-rouble trade), strong growth in domestic consumption in India, dismantling of the central purchase system, deterioration of the quality of exported tea from India, demand for cheap Indian teas in the Russian market, payment problems and diversion of export business to the European and Middle East markets.¹⁹

15. Embassy of India, Moscow, "Bilateral Relations: India-Russia Relations", 2014, <http://indianembassy.ru/index.php/bilateral-relations/bilateral-relations-india-russia>. Accessed on January 2015.

16. Mohanty, n.6. pp. 167-171.

17. Dadan Upadhyay, "Indian Tea Regains Popularity in Russia", *Russia and India Report*, December 4, 2014, http://in.rbth.com/economics/2013/12/04/indian_tea_regains_popularity_in_russia_31357.html. Accessed on February 12, 2015.

18. "Hot or Cold: Coffee and Tea in Central and Eastern Europe", *Tea and Coffee Trade Online*, vol.174, no.6, June/July 2001. Accessed on November 13, 2014

19. Ibid.

Table 2: Top Ten Commodities of Export from India to Russia in 2012
(Amount in US \$ million)

S.No.	Product	2011	2012	% increase/ decrease
1.	Pharmaceutical products	722.229	775.90	(+) 7.4
2.	Electrical machinery and equipment, parts thereof, audio recording equipment, etc.	476.295	489.08	(+) 2.62
3.	Articles of apparel and clothing accessories,	192.97	183.54	(-) 4.8
4.	Iron and steel	91.727	163.81	(+) 78.5
5.	Coffee, tea and spices	143.352	142.81	(-) 0.38
6.	Boilers, machinery, and mechanical appliances	136.618	141.91	(+) 3.74
7.	Miscellaneous edible products	121.033	103.942	(-) 14.1
8.	Tobacco and its industrial substitutes	110.151	97.31	(-) 11.6
9.	Organic chemicals	61.816	81.29	(+) 31.5
10.	Plastics and articles thereof	52.243	59.40	(+) 13.7
	Grand Total	27,864,84	30,341,456	(+) 9.15

Source: State Customs Committee, <http://indianembassy.ru/index.php/en/economic-cooperation/statistics>

Traditional imports from Russia include fertilisers, iron and steel, non-ferrous metals, newsprint, synthetic rubber and chemicals. In 2014, India imported coal, coke and briquettes, worth \$40 million, from Russia. There has also been strong growth in raw cotton, electronic goods and printed books.

Table 3: Top Ten Commodities of Export from Russia to India in 2012
(Amount in US \$ million)

S. No.	Product	2011	2012	% increase/ decrease
1.	Ships, boats, and floating	55.793	1683	+2917
2.	Fertilisers	779.286	1083.53	(+) 39.04

3.	Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof	577.269	543.50	(-) 6
4.	Electrical machinery and equipment, parts thereof; audio recording equipment	490.624	530.84	(+) 8.2
5.	Iron and steel	377.723	501.80	(+) 32
6.	Optical, photographic, measuring, checking instruments, parts and accessories thereof	203.173	314.46	(+) 54
7.	Mineral fuel, mineral oils and products of their distillations	283.415	175.59	(-) 38%
8.	Paper and paper board, articles of paper pulp, etc	157.527	145.48	(-) 7
9.	Salt, sulphur, plastering materials, lime and cement	65,668	117.59	(+) 79
10.	Edible vegetables, certain roots and tubers	31.573	120.07	(+) 260
	Grand Total	6,079.836	7,915,553	(+) 30.1

Source: States Customs Committee, <http://indianembassy.ru/index.php/en/economic-cooperation/statistics>

Analysing the trade trends between India and Russia, it can be noted that one of the weak characteristics of the trade relations has been the narrow base of the trade basket. The composition of the Indian exports to Russia shows that agricultural products such as tea, coffee, rice, tobacco, spices, pharmaceutical products and textiles and accessories constitute nearly 80 percent of the exports. Similarly, metals, newsprint, chemicals and fertilisers dominate the Russian export basket to India.²⁰

Post- Soviet break-up, India-Russia trade turnover had drastically gone down from Rs.7,800 crore in 1990-91 to Rs.6,337 crore in 2001-02, a fall of 18.76 percent.²¹ India's exports to Russia contracted from 6.46 percent in 2013-14 to \$2.15 billion, while its imports from the country shrank from

20. Ibid.

21. Sachdeva, n.1.

7.85 percent to \$3.9 billion during the same year.²² The bilateral trade during the period January–December 2014 amounted to \$9.51 billion, with Indian exports amounting to \$3.17 billion and imports from Russia amounting to \$6.34 billion.²³ The trend has been mentioned in detail in Table 4 below.

Table 4: Bilateral Trade Figures for Last Ten Years

Year	India's Import from Russia	India's Export to Russia (in US\$ Billion)	Total Trade (in US\$ Billion)	Percentage Increase YOY
2004	1.55	0.63	2.18	(-)34.17
2005	2.31	0.78	3.09	41.78
2006	2.98	0.96	3.95	27.66
2007	4.01	1.30	5.32	34.51
2008	5.23	1.71	6.94	30.56
2009	5.93	1.52	7.46	7.4
2010	6.39	2.14	8.53	14.4
2011	6.09	2.79	8.89	4.19
2012	7.91	3.04	10.95	23.8
2013	7.01	3.10	10.11	-7.34
2014	6.34	3.17	9.51	- 5.6

Source: Embassy of India in Moscow, February 2015

Investment cooperation, on the other hand, is much needed for increasing bilateral economic relations between India and Russia despite the former's efforts of initiating 49 percent Foreign Direct Investment (FDI). The cumulative Indian investments in Russia for the period 2000-14 are estimated to be about \$8 billion which include Imperial Energy Tomsk; Volzhsky Abrasive Works Volgograd; 20 percent in Sakhalin-I, and

22. Asit Ranjan Mishra, "India Looks to Boost Exports to Russia", *LiveMint*, August 6, 2014. <http://www.livemint.com/Politics/FlgXRq2sxEhfolQrXZtaiL/India-looks-to-boost-exports-to-Russia.html>. Accessed on October 20 2014.

23. Embassy of India in Moscow, "Overview of India-Russia Economic Cooperation", February 2015, http://indianembassy.ru/index.php?option=com_content&view=article&id=705&Itemid=705&lang=en. Accessed on January 15, 2015.

Indian companies are quite active in the Russian market. The wide-ranging investment projects in Russia include 20 percent stake in the Sakhalin-1 oil and gas project and purchase of Imperial Energy Corporation PLC producing oil in the Tomsk region of Russia by ONGC Videsh Ltd (OVL).

Commercial Indo Bank. Russian investments in India total about \$4 billion, including Kamaz Vectra in Hosur; Shyam Sistema Telecom Ltd, Sberbank and VTB. In order to promote strong bilateral trade, both governments have undertaken initiatives in this direction, primarily through facilitating high-level government B2B contacts apart from the on-going investment process in strategic sectors in both countries. Investment cooperation has been envisaged in a few priority sectors such as hydrocarbons, power, coal, nuclear power, fertilisers, IT, pharmaceuticals, mineral and metallurgy, amongst others.²⁴

Indian companies are quite active in the Russian market. The wide-ranging investment projects in Russia include 20 percent stake in the Sakhalin-1 oil and gas project and purchase of Imperial Energy Corporation PLC producing oil in the Tomsk region of Russia by ONGC Videsh Ltd (OVL). ICICI Bank (the Indian multinational banking and financial services) has opened its subsidiary in Russia – ICICI Bank Eurasia. Furthermore, Tata Motors has established the assembly of its light-duty trucks at the Ural Auto Motor Plant and of its buses at the Volzhanin and Samotlor plants. Tata Tea is also implementing projects in the Russian food industry; Dr. Reddy's Laboratories Ltd and Lupin Ltd have formed a joint venture in the pharmaceutical sector; Berger Paints in paints production, etc. Carborundum Universal Ltd. (Murugappa Group) has purchased 84 percent stake in the Volzhsky Abrasives Plant in the Volgograd region. Other Indian companies, including OVL, GAIL (India) Ltd, Indian Oil Ltd (oil and gas sector), Coal India (coal mining), Reliance Industries Ltd (petrochemicals production), Tata Consultancy Services and Infosys (information technologies) are looking into investment

24. Ibid.

possibilities in the Russian economy.²⁵

AGRO-INDUSTRIAL SECTOR

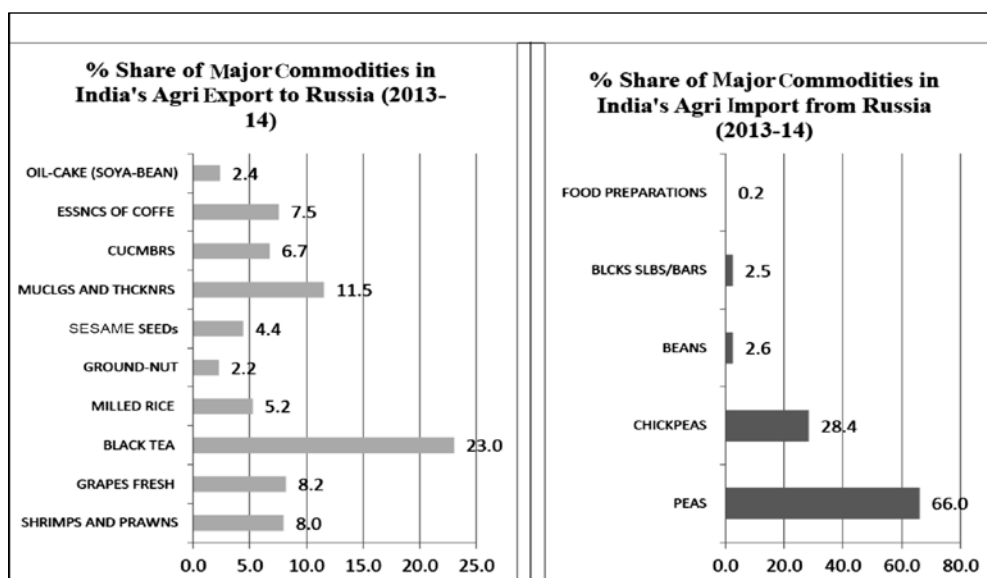
India has an established expertise in the agricultural sector which continues to be the predominant occupation of a majority of its population. Encouragingly, the aggregate agricultural production has increased exponentially in recent years. Therefore, bilateral cooperation in the agricultural sector might open up Russia's path to the widely acclaimed achievements of Indian agricultural science. In the year 2013-14, India's total export of agricultural commodities to Russia was US \$ 447.51 million. India's principal exports during this period include grapes, tea, rice, mucilage and thickeners, coffee concentrate, cucumber and preserved gherkins, etc. During the same period, India's agricultural imports from Russia were of the order of US \$ 93.17 million. India's principal imports were pulses and food preparations. Russia imports live plants, roses, and tomatoes, pepper of the genus capsicum, mangoes, pepper, coconut oil, sugar and cotton from other countries in the world. Russia can explore the possibility of sourcing these agricultural items from India. Sanitary Phytosanitary²⁶ (SPS) and other requirements in respect of these products can be sought from Russia.²⁷

25. Mikhail Rapota, "Trade and Investment Cooperation between Russia and India", *Russia and India Report*, August 10, 2010, http://in.rbth.com/articles/2010/08/10/trade_investment_cooperation_russia_india_04592.html. Accessed on January 15, 2015.

26. Sanitary and phytosanitary are measures to protect humans, animals, and plants from diseases, pests, or contaminants. The Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement) entered into force with the establishment of the World Trade Organisation on January 1, 1995. "Sanitary and Phytosanitary Measures: An Introduction: Understanding the WTO Agreement on Sanitary and Phytosanitary Measures", World Trade Organisation, May 1998, https://www.wto.org/english/tratop_e/sps_e/spsund_e.htm. Accessed on February 16, 2015

27. "Brief on India's Agricultural Trade With Russia", <http://www.agricoop.nic.in/imagedefault/trade/Russia.pdf>. Accessed on February 20, 2015.

Fig 1: India and Russia % Share of Top Commodities in Agri Export and Import



Source: <http://www.agricoop.nic.in/>

Russia is keen on raising India's investment in its agro-industrial sector. India has to date retained high import duties for agricultural produce (the average duty on farm produce in the fiscal year 2010-11 stood at 33.2 percent, compared with import duties on other kinds of produce, which stood at 8.9 percent.²⁸

Meat Industry

The Indian meat industry production is estimated at 6.3 million tonnes and is ranked fifth in the world's meat production and accounts for nearly 3 percent of the total world meat production, with a total of 220 million tonnes. The contribution of cattle, sheep, goats, pork and poultry is 31 percent, 5 percent, 10 percent, 10 percent and 11 percent respectively. Unfortunately, this sector has failed to expand its export market to Russia as it has received inadequate

28. "Postulates on Russia- India Relations", Working Paper, Russia International Affairs Council, Moscow 2013. Accessed on February 20, 2015.

attention by entrepreneurs, policy-makers, scientists and the government at large. Another major cause of concern is the unhygienic meat produced for the domestic market and the complaint has often been that the industry has not yet been exposed to modern technologies for its domestic market.²⁹

Russia is a major importer of meat, importing about one quarter of all meat consumed in the country. The stimulation of the private sector, given ample incentives and privileges by both governments, is an essential part of revitalising the strategic relationship. While helping Russia overcome its resource-based economic disability by spurring on other sectors like trade and technology, India can solve its own problems, such as feeding its energy deficiency and advancing in science with the help of Russian technological knowhow.³⁰

Dairy Industry

The dairy industry of India is a fast growing sector and is popularly known as 'the Oyster'. Compared to the US' 63 cents and Japan's \$2.8 dollars, India currently has the lowest cost per litre of milk in the world that stands at 27 cents. The advantage of the lowest cost of milk production gives India an immense opportunity for profitable overseas ventures as multinational companies are planning to expand their activities in India. Additionally, some of these milk producers have already obtained quality standard certificates from the authorities. This will help them in marketing their products in foreign countries in processed form. While world milk production declined by 2 per cent in the last three years, according to the Food and Agriculture Organisation (FAO) estimates, Indian production, on the other hand, showed an increase of 4 per cent. The milk production in India accounts for more than 13 percent of the total world output and 57 percent of Asia's total production. The top five milk producing nations in the world are India, the USA, Russia, Germany and France.³¹

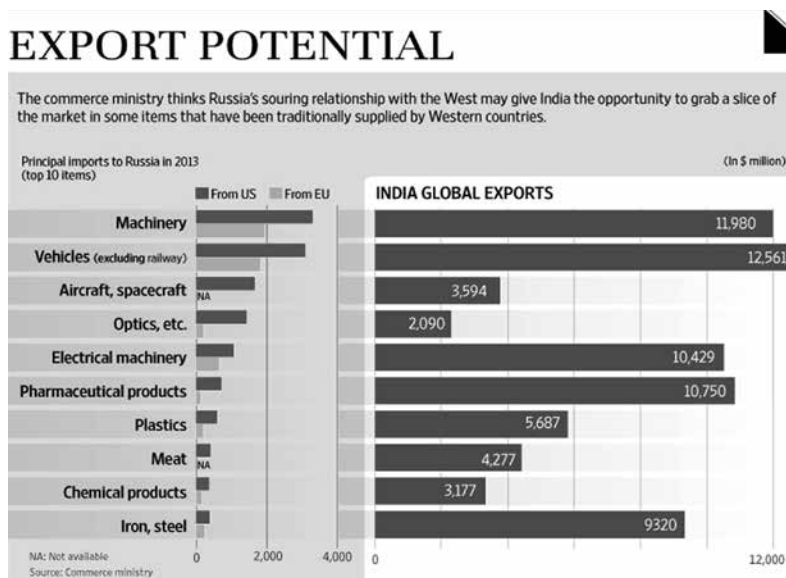
29. n.27.

30. Katherine Foshko Tsan, "Re-Energizing the Indian-Russian Relationship: Opportunities and Challenges for the 21st Century", *Jindal Journal of International Affairs*, vol 2, issue 1, August 2012, p. 1.

31. "Indian Dairy Industry- A Profile", <http://www.aavinmilk.com/dairyprofile.html>. Accessed on March 11, 2015.

Given the fact that India is the world's largest producer of milk at the lowest cost, a top exporter of meat and seafood products, the export market to Russia continues to be dormant. The ban has provided a wider scope for the Indian agro- trade industry like the dairy sector; for instance, Amul, became the first Indian dairy company to enter the Russian market.³² As Russia is a milk deficit country, Galactica Group, which has about 3 percent share in the Russian dairy market and ranks among five largest dairy manufacturers in the country, is a part of FoodLine Holding, one of Russia's largest distributors of milk products and components. FoodLine Holding is likely to become the distributor of Amul products, including Amul milk powder and some cheese items, in the Russian market. The powdered milk will be sold to the dairy products manufacturers across Russia.³³

Fig 2



Source: <http://www.livemint.com/r/LiveMint/Period1/2014/08/07/Photos/g-Russian-import-web.jpg>

32. "Russia to Increase Imports of Vegetables, Meat and Dairy Products from India Soon", *APEDA Agri- Exchange*, December 10, 2014, <http://agriexchange.apeda.gov.in/news/Newssearch.aspx?newsid=18649&Date=10Dec2014#>. Accessed on April 11, 2015.

33. Alexandra Katz, "Russia's Galactica Keen to Partner with Amul", *Russia and India Report*, September 12, 2014, http://in.rbth.com/economics/2014/09/12/russias_galactica_keen_to_partner_with_amul_38237.html. Accessed on May 23, 2015.

The Commerce Ministry of India has also chalked out a strategy to boost its exports of around 24 items to Russia. Items identified by the ministry include machinery, vehicles, aircraft and spacecraft, optics, electrical machinery, pharmaceuticals, plastics and meat.³⁴ Russia is expected to increase imports of fruits, vegetables, meat and dairy products from India starting December 2014 under an agreement reached between Russia's phytosanitary watchdog Rosselkhoznadzor and India's Agricultural and Processed Food Products Export Development Authority (APEDA).³⁵

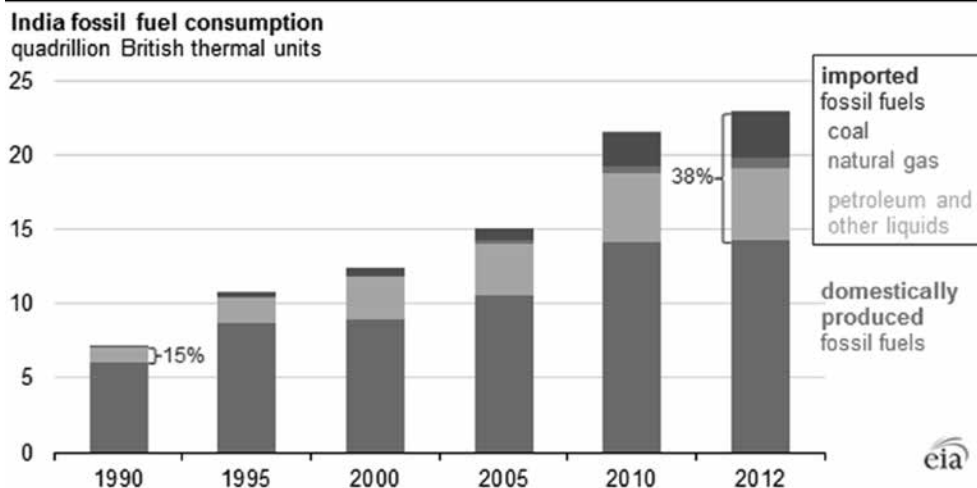
ENERGY

The energy sector remains the prime interest for emerging countries like India and China which are hugely dependent on this market. As energy ranks among the most important interests in attaining economic aspirations through financial security and infrastructural development, India falls in the category of energy dependent countries like China which is unable to fulfil its growing energy demands. In order for India to sustain its growth in the global economic system, it has to find viable options to quench its growing energy demands through a dependable energy supply market. While the Gulf is an important supplier region in this respect, Russia, a major energy market and net oil exporter, is keen on tapping into countries like India which have huge energy demands. More importantly, the Gulf region is a volatile territory that is frequently under siege by Islamist extremism. Hence, in order to achieve security of energy supply, India should diversify its energy supply markets and Russia being the most reliable partner of India, the two countries should develop closer cooperation in this sector.

34. "India Looks to Boost Exports to Russia", August 7, 2014, <http://www.eximbits.com/news/india-looks-to-boost-exports-to-russia>. Accessed on September 20, 2014.

35. "Russia to Increase Imports of Vegetables, Meat and Dairy Products from India Soon", *Indian Trade Portal*, 2014 <http://www.indiantradeportal.in/vs.jsp?lang=0&id=0,10,567>. Accessed on October 26, 2014.

Fig 3



Source: U.S. Energy Information Administration, International Energy Statistics

The enterprises built in cooperation with the Soviet Union contributed nearly 80 percent of India's production of metallurgical equipment and hydraulic turbines for power stations, around 50 percent of its oil production, 30 percent of oil processing, 30 percent of the country's steel output and a substantial part of its power generation. Russia can play a crucial role in mitigating India's energy needs as India in the past has invested nearly \$1.7 billion in the Sakhalin energy project from where the first oil shipment reached the country.³⁶ In 2011, India had sought a stake of at least 20 percent in the Sakhalin-3 project of oil and gas fields as Petronet Liquefied Natural Gas (LNG), the nation's largest LNG importer, was in talks with Russia's Gazprom to jointly develop projects for production of LNG, and marketing and transportation of gas.³⁷

India is also seriously considering taking part in the development of the Kovytko gas field and has a keen interest in investing in the East Siberian oil and gas fields. The Russian gas giant Gazprom has entered into a strategic cooperation agreement with the Gas Authority of India Ltd (GAIL) and

36. Mohanty, n.6.

37. "India Seeks Stake at Sakhalin-3", *The Hindu*, December 8, 2011, <http://www.thehindu.com/business/india-seeks-stake-in-sakhalin3/article2695712.ece>. Accessed on March 13, 2014.

has signed a Memorandum of Understanding (MoU) with Oil and Natural Gas Corporation (ONGC) Videsh Ltd (OVL) for projects to supply gas and hydrocarbons. Gazprom and Zarubezhneftgaz are working jointly with GAIL on exploration and drilling operations in the Bay of Bengal. Russia's Lukoil and Indian Oil Corporation (IOC) have signed an agreement for annual supplies of 15 million tonnes of oil and petroleum products to India. Lukoil and OVL are also engaged in talks for cooperation. Reliance has shown interest in investing in the Russian energy sector.³⁸

India, which is among the world's largest energy consumers, will be keen to have access to the Russian energy resource, thereby reducing its dependence on the highly volatile Middle East. Lack of direct road, rail and sea links is one of the biggest hurdles in India's economic interaction with Central Asia and beyond. Hence, the pursuit of energy sufficiency can be achieved only if both countries take rigorous measures to secure transport routes in these regions among India, the Central Asian Republics and Iran. The transport route suggested is the Mumbai-Chahbahar-Zaranj-Dilaram-Herat-Naibabad-Khairaton-Termez route as well as the Mumbai-Bander-Abbas-Mashhad-Turkmenabad-Bukhara route.³⁹

During the 2014 annual summit, both Russia and India agreed in principle for long-term crude oil exports from Russia to India. It was a booster dose for Russia by signing a raft of pacts worth \$ 10 billion that would allow India's Essar group to import one million tonnes of crude oil and petroleum products from Russia's major oil giant Rosneft for over a decade. In addition, India is a fast growing economy but faces a formidable challenge in meeting its energy needs. In order to sustain its economic growth at a rate of 8-10 percent over the next 25 years and meet its human and national development, it has to not only increase its primary energy supply but also establish long-term sources of energy supply markets.

As it is one of the vital strategic priorities, India has to take its bilateral relations with Russia to the next level alongside its complementary relations with the Central Asian Republics and Iran, which also possess

38 Mohanty, n.6.

39. Nanda, n.11.

As it is one of the vital strategic priorities, India has to take its bilateral relations with Russia to the next level alongside its complementary relations with the Central Asian Republics and Iran, which also possess rich hydrocarbon reserves.

rich hydrocarbon reserves. It is high time that India and Russia finalise the construction of what is called the daddy of all pipelines that will transport gas from Russia across the Himalayas via China to India. At a projected cost of \$30 billion, the pipeline, when constructed, will enable Russia to sell its energy to Asia by lessening its dependence on the Western markets.⁴⁰

NUCLEAR COOPERATION

The case of the India-Russia energy cooperation, including nuclear energy cooperation, is an elaborate saga. Russia is a significant contributor to India's energy mix, and the potential of cooperation is definitely huge. The negotiations for building nuclear reactors had started during the Soviet era in 1988. The Soviet collapse brought a pause to the negotiations due to external pressure, and the initial fragility in the post-Cold War relations contributed to the slow pace. The Nuclear Suppliers Group (NSG) pact in 1992 had complicated the scenario but the relations revived soon thereafter. The Russian Minister of Atomic Energy signed a deal in New Delhi in 1998 to build two nuclear reactors at Kudankulam.⁴¹

Russia is a steady partner in India's peaceful exploration of nuclear energy. In India's nuclear odyssey, it recognises Russia as a country with advanced nuclear technology and an impeccable non-proliferation record. Construction of the Kudankulam Nuclear Power Plant (KKNPP) Units 1 & 2 (VVER 1,000 MW units) is an example of fruitful cooperation between India and Russia. The KKNPP Unit 1 became operational in July 2013, and attained full generation capacity on June 7, 2014, while its Unit 2 is at an

40. Ibid.

41. Debidatta Aurobinda Mahapatra, "India-Russia Nuclear Ties on an Upswing", *Russia and India Report*, March 12, 2015, http://in.rbth.com/economics/2015/03/12/india-russia_nuclear_ties_on_an_upswing_41935.html. Accessed on February 27, 2015.

advanced stage of construction.⁴²In January 2014, the testing programme was successfully completed at a power setting of 50 percent.⁴³ During President Putin's visit to India for the 15th annual summit, he expressed satisfaction at the level of nuclear cooperation,⁴⁴ and to further expand cooperation in this sector, Russia has agreed to construct 12 more nuclear plants in India.⁴⁵

DIAMOND INDUSTRY

The gem and jewellery industry is a foreign exchange earner for the Indian economy, with gold jewellery and diamonds comprising a primary segment of the economy. It contributes to nearly 6-7 percent of India's GDP. Currently, India is the world's largest diamond processing (cutting and polishing) country with around 1 million processors treating over 57 percent of the world's rough diamonds by worth. As one of the fastest growing sectors, it is extremely export oriented and labour intensive. Exports from the industry amounted to US\$ 17.1 billion in 2006-07 against US\$ 16.64 billion in 2005-06, reflecting a growth of 26 percent and accounting for nearly 64 percent of the total exports. The export of the cut and polished diamond segment amounts to US\$ 10.90 billion, while the export of gold jewellery yielded US\$ 5.21 billion last year (2014).⁴⁶

The Government of India has declared the sector as a focus area for export promotion based on its potential for growth and value addition. The government has recently undertaken various measures to promote investments and to upgrade technology and skills to promote brand India in

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42. Upadhyay, n.17.

43. Andrei Retinger, "Why Electricity from Russian Nuclear Power Plants is Cheaper?" Russia and India Report, February 27, 2015, http://in.rbth.com/economics/2015/02/27/why_electricity_from_russian_nuclear_power_plants_is_cheaper_41689.html. Accessed on November 4, 2014.

44. Mahapatra, n. 41.

45. Retinger, n.43.

46. India Exports and Business Trade Zone, "Indian Jewelry", <http://www.india-exports.com/jewellery.html>. Accessed on January 12, 2015

the international market. India exports 95 per cent of the world's diamonds, as per statistics from the Gems and Jewellery Export Promotion Council (GJEPC). India imported 163.11 million carats of rough diamonds worth US\$ 16.34 billion and exported 36.46 million carats of polished diamonds valued at US\$ 20.23 billion in 2013. The country exported gems and jewellery worth US\$ 36.04 billion in 2013.⁴⁷

Most of the diamonds meant for cutting reach India through trade hubs in Antwerp, Dubai, Tel Aviv, London, New York and Hong Kong. India is keen to receive Russian diamonds directly and is ready to set up joint companies for jewellery exports. Diamonds and precious stones contribute not more than 1.3 per cent of Russia's GDP and the gems and jewellery sector of India contributes 6 to 7 percent of the country's GDP. India, which owns the largest rough diamond cutting industry in the world and Russia which controls 25 per cent of world's diamond deposits, struck another deal worth \$2.1 billion which was signed in the December 2014 summit. Accordingly, nearly 12 Indian diamond companies can import diamonds directly from the Russian diamond-mining giant, Alrosa, which controls about 27 per cent of the global diamond trade.

So far, Alrosa has been selling most of its goods through the Antwerp and Dubai trade hubs. Alrosa's 2013 diamond sales totalled 38 million carats of diamonds. Its revenue in 2014 increased 12 percent to \$4.67 billion, according to Alrosa financial reports. GJEPC believes direct supplies of rough diamonds to India could easily reach the level of \$4-5 billion. In India, Alrosa currently has six sight-holders.⁴⁸ Alrosa and GJEPC signed a Memorandum of Understanding (MoU) aimed

47. India Brand Equity Foundation, an initiative of the Ministry of Commerce and Industry, Government of India, <http://www.ibef.org/industry/gems-jewellery-india.aspx>, updated February 2015. Accessed on April 1, 2015.

48. A sight-holder is a company on the Diamond Trading Company's (DTCs) list of authorised bulk purchasers of rough diamonds. DTC is controlled by the De Beers Group, the single largest producer and purveyor of rough diamonds in the world. DTC sight-holders are amongst the world's leading diamantaires and collectively handle approximately 75% of the world's diamonds. http://www.jckonline.com/article/291865-DTC_Sightholders.php. Accessed on April 13, 2015.

at improving cooperation between the Russian and Indian diamond communities in 2014.⁴⁹ The diamond diplomacy between India and Russia is a two-way affair benefitting both countries at large as there has not been direct diamond trading between them. Moreover, the diamond diplomacy will give a much needed lift to B2B ties and involve the private sector in a big way as there has been hardly any direct trade between the companies of the two countries.⁵⁰

PHARMACEUTICAL INDUSTRY

In the pharmaceutical industry, India has emerged as the most reliable supplier of quality generic drugs to Russia. This has paved the way for further cooperation between the two countries. Major export items in 2009 to Russia were pharmaceuticals (30 percent, US \$464 million), machinery and equipment, transport vehicles and instruments (18 percent, US \$268 million), agricultural produce and food (11 percent, US \$165 million) and textiles (10 percent, US \$156 million). Over the past five years, Indian exports of pharmaceuticals to Russia have more than doubled.⁵¹ Under the Pharma 2020 programme of the Russian government, which aims at developing the domestic production base, leading Indian pharma companies have started engaging with Russian partners to consider the possibilities of joint investments. Several B2B agreements were concluded during 2011 in this regard. During the Annual Summit 2011, an MoU between the Central

During the Annual Summit 2011, an MoU between the Central Drug Standard Control Organisation of India and the Federal Service on Surveillance in Healthcare and Social Development of the Russian Federation on assurance of quality, safety and efficacy of medicines was concluded for facilitating future cooperation in this sector.

49. Alexandra Katz, "Establishing Diamond Hub in Mumbai may Help Russia-India Trade", *Russia and India Report*, November 26, 2014, http://in.rbth.com/economics/2014/11/26/establishing_diamond_hub_in_mumbai_may_help_russia-india_trade_39943.html. Accessed on March 18, 2015.

50. Rajeev Sharma, "How Diamond Diplomacy Adds Sparkle to Indo-Russian Ties", *Russian Times*, December 16, 2014, <http://rt.com/op-edge/214771-diamond-industry-russia-india/>. Accessed on December 31, 2014.

51. Rapota, n. 25.

In view of the robust partnership between the two countries, there is tremendous potential for mutual cooperation. Russia is keen to use the Indian experience in this area for building IT parks in several of its leading cities.

Drug Standard Control Organisation of India and the Federal Service on Surveillance in Healthcare and Social Development of the Russian Federation on assurance of quality, safety and efficacy of medicines was concluded for facilitating future cooperation in this sector. In the pharmaceutical industry, the Russian consumer will reap the benefits of Russia-India cooperation, as high-quality Indian drugs are significantly cheaper compared to other imported equivalents.⁵²

INFORMATION TECHNOLOGY

As India is one of the world's leading nations in IT with a 40 per cent annual growth, it is said that the profits generated from Indian software exports are comparable to the revenues generated from Russian gas exports to Europe. In view of the robust partnership between the two countries, there is tremendous potential for mutual cooperation. Russia is keen to use the Indian experience in this area for building IT parks in several of its leading cities. President Putin's visit to Bangalore (known as the Silicon Valley of India) in 2004 clearly indicated Russian interest to use India's experience in the area.⁵³

Russia is also one of the fastest growing IT markets in the world and this has become a crucial strategic vector for the modernisation of Russia. Therefore, the new ambitious Skolkovo Innovation Centre (which is the flagship project undertaken by Moscow), aims to create an opportunity for high-level interaction of the government and business community of both Russia and India to further enhance the bilateral cooperation between the two in this sector. An inter-governmental MoU on Cooperation in Information Technology was also concluded at the Annual Summit in 2010. A renewed emphasis to enhance bilateral cooperation in this sector would be one of the priorities in the future.

52. Ibid.

53. Mohanty, n. 6, pp. 169-170.

**BROADER ECONOMIC ENGAGEMENT:
THE NEED FOR A NEW VISION**

Bilateral engagements between India and Russia have stood the test of time and, therefore, in order to strengthen the economic ties, the focus should be on exploration of long-term prospects and tapping into resources that will benefit the two countries. Several bottlenecks need to be identified in the economic transactions between the two countries.

One of the major impediments in the economic activities is the language barrier that exists between India and Russia, thus, hampering business interactions. This has led to alienation of the Indian Diaspora that comprises only around 40,000 in Russia.

Russia, due to its fragile economic status, is considered a risky and volatile market. This image of 'no go zone' discourages foreign business, including from India. Hence, Russia's economic policies should make efforts to 'revive' its economy and its image by introducing policies that will transform the management style and protect the interest of the investors. It can also provide market security in order to attract Indian entrepreneurs and investments.

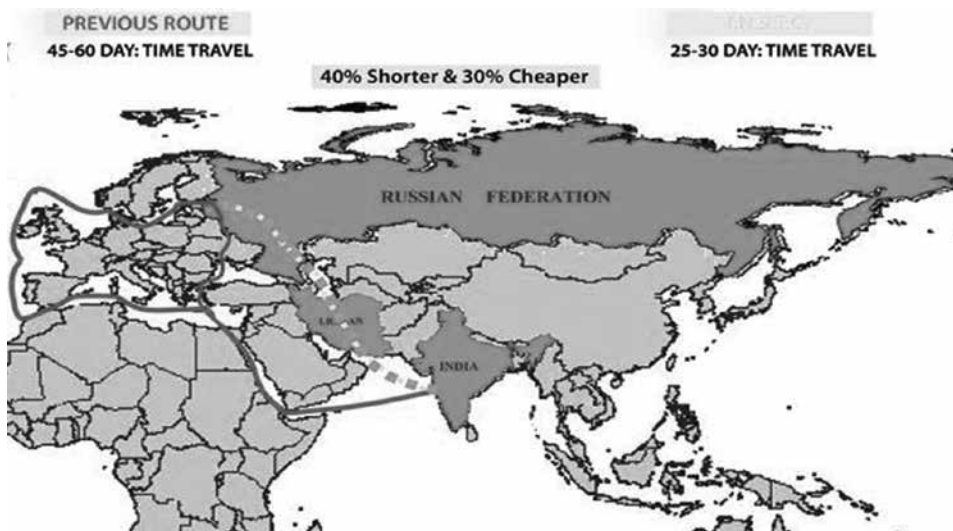
Educational exchange programmes at university level should also be encouraged through large scale funding in order to attract the fast growing younger cohort which can be later absorbed in the required fields of skilled labour.

Russia for long has struggled with a demographic decline and India, on the other hand, has a huge workforce. Russia can attract skilled labour from India by removing restrictions placed on the migration of skilled labour and provide infrastructure facilities to facilitate industrial growth. Another major problem identified for the weak economic transactions between the two countries is the geographical distance as it takes more than 50 days

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for Indian goods to reach Russia and vice versa. The functioning of the North-South transport corridor is a potential alternative route as the transit time and transport expenses will be reduced by almost 50 per cent.⁵⁴ In the 15th Annual Summit held in 2014, it was decided that the functioning of the North-South International Transport Corridor would be accelerated and also a Free Trade Area and Comprehensive Economic Cooperation Agreement with the Eurasian Economic Union for strengthening trade and economic cooperation was signed. The proposed route comprises sea and land links across India, Iran and Russia, and will shorten travel time by as much as 10 days. The new route will be Mumbai-Bandar Abbas (Iran) and Astrakhan (Russia).⁵⁵

Fig 4: North- South International Transport Corridor



Source: <http://www.politicsforum.org/forum/viewtopic.php?f=5&t=140599>

54. Ibid.

55. Sachdeva, n.1.

Another route that would be an alternative option for India to conduct trade is the much talked about 'New Silk Road'⁵⁶ which will help India gain more geographical access to transport its goods. The Eurasian Customs Union free trade zone initiative will also help in strengthening economic ties between India and Russia. India's permanent membership in the Shanghai Cooperation Organisation (SCO) will be an added advantage.

Fig 5: The New Silk Road



Source: <http://www.thewritingreader.com/>

Nevertheless, one has to bear in mind the fact that the transport corridor is still not functional and the relations between India and China continue to be dominated by mutual suspicion and hostility, and marred mainly by territorial disputes. Access to China's initiative will require establishing confidence and understanding between the two countries. However, China continues to object to India's inroads into the Central Asian region and its interest in permanent membership in the SCO. Hence, both India and

56 The 'New Silk Road' will begin in Xi'an in central China before stretching west through Lanzhou (Gansu province), Urumqi (Xinjiang), and Khorgas (Xinjiang), which is near the border with Kazakhstan. The Silk Road then runs southwest from Central Asia to northern Iran before swinging west through Iraq, Syria, and Turkey. From Istanbul, the Silk Road crosses the Bosphorus Strait and heads northwest through Europe, including Bulgaria, Romania, the Czech Republic, and Germany. Shannon Tiezzi, "China's 'New Silk Road' Vision Revealed", *The Diplomat*, May 9, 2014. <http://thediplomat.com/2014/05/chinas-new-silk-road-vision-revealed/>. Accessed on June 31, 2014.

Russia should work more closely to find other viable options apart from the geographical trade route.

One option that India and Russia could consider is air connectivity. In 2005, India found a feasible solution to boost its economic ties with the US by signing the “Open Skies Agreement” according to which the two countries aimed to increase their air connectivity thereby improving commercial and trade relations. On similar lines, Russia and India can replicate such an agreement that will look into the economics of air cargo transport, and available airport infrastructure and liberalisation of air cargo markets and other such issues can be explored.

Agricultural exports to Russia from India, especially in sectors like the meat industry are neglected, partly due to strict quality standards and Russia’s preference for agriculture products from Europe and neighbouring countries. Consequently, in order for India to expand its trade relations with Russia, India should introduce modern methods of packaging and transport, which are hygienic to meet the Russian standards and market demands. Significant opportunities in other areas should also be explored like undertaking joint infrastructure projects such as developing smart cities and engineering services.

In recent years, the Indian foreign policy interests have been mainly focussed on geo-economics and, therefore, Indian markets should launch new products/brands which satisfy the current Russian market demands and not just rely on traditional trade items. In order to encourage business enthusiasts, the governments of both countries should encourage innovative business ventures and large promotional campaigns, and be abreast with the changing preferences of the population and the markets on both sides. This task can be undertaken by business lobbies of both sides to identify such preferences and traditional markets that are showing a decline in performance. This can help in the restoration of the brand image through ‘brand-building campaigns’.

Indian Multinational Corporations (MNCs) have ventured into foreign investments by acquiring companies and establishing operations in countries like the US. Hence, through inter-dependence of trade, Indian

MNCs should identify 'sick industries' in Russia and as a way of widening business interaction, can collaborate with these Russian companies. For instance, some Russian enterprises have proposed joint ventures with Western firms, but in many cases, the Russian partners lack funding for such ventures. For example, due to the imposition of sanctions, devaluation of the rouble and inflation, there has been a dramatic plunge in car sales against a backdrop of rising costs. Thus, the automotive industry is one such enterprise that can be explored by MNCs like Tata Motors of India that has already penetrated into Russia.

Lastly, initiatives such as de-dollarisation aim to devalue the US dollar's position, and both India and Russia should explore this measure to widen the scope for the use of their own currencies for trading and for other commercial transactions by a way of bilateral currency agreements. Additionally, in 2013, the Brazil, Russia, India, China and South Africa (BRICS) member nations envisaged their own credit rating agency and created a joint foreign exchange reserves pool. As a result, the initial reserves amount decided was \$100 billion. The establishment of the 'New Development Bank' is aimed at strengthening the financial security of the members of the global economic forum—BRICS. The \$100 billion BRICS New Development Bank should introduce measures of economic transactions through national currencies between the countries and ensure the economic security of all BRICS member states.⁵⁷

Addressing some of these issues may help boost the economic relations between the two traditional strategic partners for long-term prospects.

57. K.T Jaganattan, "Banking on BRICS", *The Hindu*, July 20, 2014, <http://www.thehindu.com/business/Economy/banking-on-brics/article6229155.ece>. Accessed on September 20, 2014.