



## India-Russia: Bilateral Economic Relations

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**Abstract:** India and Russia share close strategic, economic and cultural ties for several decades. While Russia is a reliable partner of India, development of India-Russia relations is a key pillar of India's foreign policy. The strategic partnership between India and Russia was established in 1960 and up-graded to special and privileged strategic partnership in 2010. Enhancing trade and economic cooperation is a key priority for both countries. India and Russia have enhanced cooperation in almost all areas including political, security, trade, defence, science and technology and culture. A large number of institutionalised mechanisms at governmental and non-governmental levels contribute to the development of economic cooperation between the two countries. India and Russia have also developed an economic strategy to increase bilateral trade. This include development of a comprehensive free trade agreement (FTA) between India and the Eurasian Economic Union (EAEU), simplification of customs procedures, new long-term agreements in the expansion of energy trade including nuclear, oil and gas. Against this background, the main objective of this paper is to examine the trends of economic relations between India and Russia.

**Key words:** Bilateral Relations, Economic, Free Trade Agreement, Investments, Trade

### Introduction

India and Russia have a unique and long-lasting relationship. India-Russia has paved the way of friendship after the dissolution of Soviet Union (USSR) and the end of the Cold war. India sees Russia as a longstanding and time-tested friend that has played a significant role in its economic development and security. Russia was the first country with which India established a strategic partnership in 1960. In October 2000, the two countries signed the "Declaration on the India-Russia Strategic Partnership" during the visit of President of Russia, Vladimir Putin. In 2010, both countries elevated their relationship to a "special and privileged strategic partnership" status, indicating a mutual desire to emphasise the

exceptional closeness of ties even as India has developed new external relationships with various other countries. Both countries are celebrating 70<sup>th</sup> anniversary of the establishment of diplomatic bilateral relations throughout 2017.

Several mechanisms have been instituted - both at the political and official levels - to ensure regular interaction and follow up on cooperation activities. Annual Summit meeting between the Prime Minister of India and the President of the Russian Federation is the highest institutionalised dialogue mechanism since 2000. Russia is the only country with which India has annual summits. So far, eighteen annual summits have taken place alternatively in India and Russia.



The 18<sup>th</sup> annual summit was held recently on June 1-2, 2017 at St Petersburg, Russia between Prime Minister Narendra Modi and President Valdimir Putin. This was first time in the history of India and Russia relations, that the bilateral summit was held outside Moscow. During this summit, the two countries signed five agreements. These include 'General Framework Agreement and Credit Protocol' for building of two units (5 and 6) of Kudankulam Nuclear Power Plant; an agreement on Intellectual Property; a bilateral cultural exchange programme (2017-19); an agreement on a feasibility study for a high-speed railway link between Nagpur and Secunderabad; and MoU on cooperation on precious stones and jewellery. During the annual summit, the two countries also adopted a St Petersburg Declaration for political and economic development with an action plan for a bright future.

There is regular high-level interaction between the two countries. Two Inter-Governmental Commissions - one on Trade, Economic, Scientific, Technological and Cultural Cooperation (IRIGC-TEC), co-chaired by the External Affairs Minister (EAM) and the Russian Deputy Prime Minister (DPM), and another on Military Technical Cooperation (IRIGC- MTC) co-chaired by Russian and Indian Defence Ministers, meet annually.

The economic engagements between the two countries have increased in the recent years. They have signed many agreements. These include Bilateral Investment Promotion and Protection Investments (BIPA) Agreement which was signed on December 23, 1994, and became effective on August 14, 1996. The

main objective of BIPA is to promote and protect the interests of investors and create conditions favourable for fostering greater investment by investors of one country in the territory of the other country. Double Avoidance Taxation Agreement (DTAA), which covers taxes on income imposed on behalf of each Contracting State, was signed between the two countries on March 25, 1997, and became effective from April 11, 1998. To promote culture, both countries signed cultural agreement on January 28, 1993. To promote smoother and greater movement of businessmen, the two countries signed a protocol to simplify visa procedures for businessmen on December 24, 2015.

In order to strengthen the economic relations, in 2006, India and Russia signed a Memorandum of Understanding (MoU) to set up a Joint Study Group (JSG) to assess the feasibility of signing a Comprehensive Economic Co-operation Agreement (CECA) between the two countries. In July 2007, the JSG submitted its report, and recommended that there are significant complementarities between the two countries and, therefore, India and Russia could go for CECA. Non-membership of Russia in the World Trade Organization (WTO) posed a major obstacle for the two countries to sign CECA to expand their trade and economic ties. Formation of Eurasia Economic Union (EAEU), a union of five countries - Armenia, Belarus, Kazakhstan and Kyrgyzstan and Russia (in January 2015) and membership of Russia in the WTO (in August 2012) opened up the door to Russia to sign FTA with India. The Russia-led EAEU is an important block for India. To step forward, in 2014, India and the EAEU



countries agreed to formalise FTA between India and EAEU. In 2015, an agreement was signed for establishing a Joint Feasibility Study Group on India-EAEU FTA. In December 2016, the JSG submitted the feasibility report; and accepted by all countries. The JSG report recommended that the FTA is feasible and mutually beneficial; and there is a potential growth of bilateral trade between India and EAEU up to \$37-62 billion by 2025 from \$7 billion in 2016-17. The study also predicted that FTA between India and EAEU member countries would help increase India's exports to EAEU by \$14-24 billion by 2025 from \$1.9 billion in 2016-17. In other way, the FTA is expected to increase bilateral trade between India and Russia to \$30 billion by 2025 from \$6.43 billion in 2016-17. The negotiations on the proposed FTA are expected to begin by the end of this year.

This would be comprehensive FTA between India and EAEU countries, which will include trade in goods, services and investment. **Bilateral Merchandise Trade Trends**

Trade and economic relations between India and Russia are an important component of bilateral cooperation. Bilateral merchandise trade between India and Russia stood at \$6.43 billion (see Table 1). Between 2006 and 2016, bilateral merchandise trade between India and Russia grew at a compound annual growth rate (CAGR) of 6.9 per cent. India's merchandise exports and imports reached \$1.71 billion and \$4.73 billion, respectively in 2016 (see Table 1). India has a negative trade balance with Russia which indicates that India's imports are three times higher than its exports.

Table 1: Trend of Merchandise Trade between India and Russia

Year	Exports (Value in \$ Billion)	Imports (Value in \$ Billion)	Total Trade (Value in \$ Billion)	Trade Balance (Value in \$ Billion)	Russia's Share in India's Total Exports (%)	Russia's Share in India's Total Imports (%)
1996-97	0.81	0.53	1.34	0.28	2.42	1.35
1997-98	0.95	0.64	1.60	0.31	2.74	1.55
1998-99	0.71	0.55	1.25	0.16	2.14	1.29
1999-00	0.95	0.62	1.57	0.32	2.57	1.25
2000-01	0.89	0.52	1.41	0.37	2.00	1.02
2001-02	0.80	0.54	1.33	0.26	1.82	1.04
2002-03	0.70	0.59	1.30	0.11	1.34	0.97
2003-04	0.71	0.96	1.67	-0.25	1.12	1.23
2004-05	0.63	1.32	1.95	-0.69	0.76	1.19
2005-06	0.73	2.02	2.76	-1.29	0.71	1.36
2006-07	0.90	2.41	3.31	-1.51	0.71	1.30
2007-08	0.94	2.48	3.42	-1.54	0.58	0.98
2008-09	1.10	4.33	5.42	-3.23	0.59	1.43
2009-10	0.98	3.57	4.55	-2.59	0.55	1.24
2010-11	1.69	3.60	5.29	-1.91	0.68	0.97
2011-12	1.78	4.62	6.40	-2.85	0.58	0.97
2012-13	2.29	4.07	6.36	-1.78	0.76	0.86
2013-14	2.12	3.89	6.02	-1.77	0.67	0.87
2014-15	2.10	4.25	6.35	-2.15	0.68	0.95
2015-16	1.59	4.58	6.17	-3.00	0.61	1.20
2016-17*	1.71	4.73	6.43	-3.02	0.70	1.39

Note: \*Data for the year 2016-17 is available from April 2016 to February 2017.

Source: Compiled by author from Export Data Bank, Department of Commerce, Ministry of Commerce and Industry, Government of India, available at <http://kommerce.nic.in/kidb/kcntcom.asp>



Indian exports to Russia are traditionally consists of pharmaceutical products, agricultural products, edible preparations, etc. Pharmaceutical products accounts for a largest share in Indian exports to Russia – 18.3 per cent in 2016-17 (see Table 2). However, in the last few years, exports of some non-

traditional items like nuclear reactors, boilers; and aircraft, spacecraft, etc. have also increased significantly. Between 2006 and 2016, Indian exports of nuclear reactors and boilers have increased more than five times (see Table 2). Indian tea, coffee, tobacco, spices are in high demand in the Russian market.

Table 2: Top 10 Commodities of Indian Exports to Russia in 2006-07 and 2016-17

S. No.	2006-07			2016-17 (April to Feb)		
	Commodities	Indian Exports to Russia (Value in \$ Million)	Share in Indian Exports to Russia (%)	Commodities	Indian Exports to Russia (Value in \$ Million)	Share in Indian Exports to Russia (%)
1	Pharmaceutical products	281.2	31.1	Pharmaceutical products	311.8	18.3
2	Coffee, tea, mate and spices	72.8	8.1	Nuclear reactors, boilers, etc.	199.3	11.7
3	Articles of apparel and clothing accessories	63.2	7.0	Coffee, tea, mate and spices	112.7	6.6
4	Miscellaneous edible preparations	44.6	4.9	Aircraft, spacecraft, and parts thereof	98.2	5.7
5	Electrical machinery and equipment, etc.	40.8	4.5	Organic chemicals	84.0	4.9
6	Nuclear reactors, boilers, machinery, etc.	36.5	4.0	Electrical machinery and equipment, etc.	63.1	3.7
7	Iron and steel	32.1	3.6	Vehicles other than railway or tramway rolling stock	61.9	3.6
8	Cotton	30.8	3.4	Miscellaneous edible preparations	60.6	3.5
9	Tobacco and manufactured tobacco substitutes	28.9	3.2	Fish and crustaceans and other aquatic invertebrates	53.7	3.1
10	Preparations of vegetables, fruit, nut, etc.	25.3	2.8	Iron and steel	51.2	3.0
	Total (Top 10)	656.2	72.6	Total (Top 10)	1096.5	64.1

Source: Compiled by author from Export Import Data Bank, Department of Commerce, Ministry of Commerce, Government of India, available at <http://kommerce.nic.in/kidb/default.asp>



Indian imports from Russia are mainly comprised of iron and steel; fertilisers; nuclear machinery, etc. (see Table 3). However, in recent years, Indian imports of gems and jewellery and precious stones

have increased significantly. In 2016-17, gems and jewellery accounted for largest share of around 45.4 per cent in India's imports from Russia.

**Table 3: Top 10 Commodities of Indian Imports from Russia in 2006-07 and 2016-17**

S. No.	2006-07			2016-17 (April to Feb)		
	Commodities	Indian Imports from Russia (Value in \$ Million)	% share in Indian Imports from Russia	Commodities	Indian Imports from Russia (Value in \$ Million)	% share in Indian Imports from Russia
1	Iron and steel	480.8	20.0	Precious or semi-precious stones	2144.1	45.4
2	Cereals	445.8	18.5	Mineral fuels, mineral oils and products	549.6	11.6
3	Fertilisers	314.1	13.0	Fertilisers	341.3	7.2
4	Nickel and articles	193.3	8.0	Iron and steel	229.7	4.9
5	Mineral Fuels, mineral oils and products, etc.	178.8	7.4	Articles of paper pulp, of paper or of paperboard	211.9	4.5
6	Rubber and articles thereof	110.3	4.6	Edible vegetables and certain roots and tubers	176.28	3.7
7	Paper and paperboard; articles Of paper pulp, etc.	94.7	3.9	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	117.3	2.5
8	Aircraft, spacecraft, and parts	81.6	3.4	Salt; sulphur; earths and stone; plastering materials, lime and cement	107.9	2.3
9	Nuclear reactors, boilers, machinery etc.	67.0	2.8	Rubber and articles thereof	102.1	2.2
10	Copper and articles	66.4	2.8	Inorganic chemical	89.7	1.9
	Total (Top 10)	2032.8	84.4	Total (Top 10)	4069.9	86.2

Source: Compiled by author from Export Import Data Bank, Department of Commerce, Ministry of Commerce, Government of India, available at <http://kommerce.nic.in/eidb/default.asp>



### Bilateral Trade in Services

Apart from merchandise trade, services trade between India and Russia has also increased significantly overtime. Statistics from Russian Central Bank show that bilateral trade in services between India and Russia has more than doubled - from \$477 million in 2006 to \$1008 million in 2016 (see Table 4). In the period between 2006 and 2016, bilateral trade in services between India

and Russia grew at CAGR of 13.3 per cent. India's exports and imports have increased from \$134 million and \$343 million, respectively, in 2006 to \$301 million and \$707 million, respectively, in 2016. Between 2006 and 2012, India's exports grew at a rate of 8.4 per cent and imports from Russia at the rate of 7.5 per cent. Table 2 also shows that India has a negative trade balance with Russia.

**Table 4: Trend of Trade in Services between India and Russia**

Year	Exports (Value in \$ million)	Imports (Value in \$ million)	Total Trade (Value in \$ million)	Trade Balance (Value in \$ million)
2006	134	343	477	-209
2007	218	431	649	-213
2008	502	679	1181	-176
2009	213	458	672	-245
2010	224	452	677	-228
2011	254	505	759	-251
2012	335	866	1201	-530
2013	487	932	1419	-445
2014	438	644	1081	-206
2015	253	742	995	-488
2016	301	707	1008	-405

Source: Compiled by author from 'External Trade in Services of the Russian Federation by Main Partner Countries from 2006-2016', Central Bank of Russia, available at <http://www.cbr.ru/eng/statistics/?Prtd=svs>

India's exports of services to Russia are mostly comprised of tourism and construction services. India's imports of services from Russia primarily include business, professional, technical and transportation services. Other services such as communication, insurance, financial and informational services account for a very small part of the trade

and economic activities between the two countries.

### Bilateral Investments

Investment cooperation is important for the furtherance of bilateral economic relations between India and Russia. Both countries have undertaken initiatives to promote bilateral investments, primarily through facilitating high-level



Government to Business and Business to Business contacts apart from the ongoing investment process in strategic sectors. Investment cooperation has been envisaged in some priority sectors such as hydrocarbons, power, coal, nuclear power, fertilisers, IT, pharmaceuticals, mineral and metallurgy, among others.

'Make in India' initiative taken by the Indian government in 2014 has encouraged more Russian investments in India. According to Department of Industrial Policy and Promotion (DIPP) Ministry of Commerce and Industry, Government of India, between April 2000 and March 2017, cumulative equity foreign direct investment (FDI) inflows from Russia were valued at \$1.19 billion, which accounted for about 0.36 per cent of Indian cumulative FDI inflows during this period.

Russian companies have mainly invested in telecommunications, banking and infrastructure in India. AFK Sistema (Russia) has a 73 per cent stake in the Indian telecom company, Shyam Telelink. Several Russian banks such as VTB, Sberbank Vnesheconombank, Promsvazbank and Gazprombank, have representative offices/branches in India. Many Russian infrastructure companies such as Transstroi and Tsentrtdorstroi (road construction), Elektrostal and Tyazhpromeksport (metallurgical industry) and Stroitransgaz (gas pipeline) have also presence in India. Now, many Russian companies such as Silovyie Mashiny, Tekhnopromeksport are also providing equipment and technical assistance for the construction of the thermal power plants in India.

On the other side, Indian investments in Russia have also increased overtime.

According to RBI Database on Indian Overseas Investments, in 2012, Indian investments in Russia were valued at \$19.2 million and in 2016, investments increased to \$25.3 million. It is surprising to note that in three months of 2017 (from January to March), Indian investments reached to \$131 million. Today, a large number of Indian companies have presence in Russia in various sectors. These include oil and gas, manufacturing, wholesale and retail, pharmaceuticals and banking. An Indian public sector oil company, Oil and Gas Corporation (ONGC) Videsh Limited (OVL) has an equity stake of 20 per cent in the Sakhalin-1 project of \$2.2 billion and has 15 per cent stake in Rosnett Vankorneft Oil Field, the second largest oil field in Russia. Many Indian banks such as Commercial Bank of India, a JV of SBI and Canara Bank and ICICI Bank Eurasia LLC (wholly-owned subsidiary of ICICI Bank) have representative offices/branches in Russia. Many Indian pharmaceutical companies such as Glenmark Pharmaceuticals Ltd., Unique Pharmaceuticals Laboratory (P) Ltd., Meril Life Sciences Private Limited and Torrent Pharmaceuticals Ltd., have wholly-owned subsidiaries in Russia. Other Indian companies in Russia are Roots Industries Ltd, De Core Nanosemiconductors Ltd, Hexaware Technologies Ltd, Parijat Industries (India) Pvt Ltd, Agt Foods India Pvt Ltd, Aarkay Food Products Limited, Shreya Life Sciences Pvt. Ltd, TATA Motors, Sun group, Tata Tea, Choron Diamonds and L&T.

### Conclusion

Russia is an important country and there is a wide scope and potentiality to increase India's economic relations with Russia. Economic transformation in



Russia from a centrally planned economy to a market economy in 1992 coincided with the policies of economic liberalisation in India. Both countries are strategic partners and enjoy excellent political relationships. But, the bilateral trade does not reflect this strategic partnership nor does it correspond to the mutual potential. Bilateral trade (merchandise) between the two countries has increased in volume. However, Russia contributes minimal share of around one per cent in India's total trade (merchandise), and trade is restricted to selected products. Therefore, diversification of the trade basket is needed.

Economies of both countries are dominated by the private sector. However, private players in both countries are yet to look at each other for business development. Sustained efforts should be made to bring the private players of both countries in order to boost bilateral trade and economic relations. So far, both countries explored sectors such as oil and gas sector, nuclear energy, telecommunications, banking services and infrastructure. There is still untapped potential in areas such as fertilisers, mining, IT, food processing, etc.

There is a natural complementarity between India and Russia in the area of trade in real diamonds. While Russia is a major producer of rough diamonds, India is the leading processing center. Although, in recent years many Indian companies have signed long-term supply contracts with Russian companies (such as PJSC ALROSA) and a Special Notified Zone has been set up. There is more potential in this area. There are significant opportunities for Russian companies in India particularly in the area of construction, major

infrastructure projects such as dedicated freight corridors and industrial clusters, smart cities and engineering services. Russian companies are encouraged to avail of the opportunities under the 'Make in India' initiative and to explore the possibility of technology transfer and joint manufacturing in India given the advantage of skilled labour force and the available resources in India. On the other hand, Indian companies are encouraged to explore major investment options in Russia especially in natural resources such as coal, fertilisers, hydrocarbons, minerals and earth metals. Cooperation between India and Russia can be boosted up even further if people to people contact can be increased and cultural as well as educational linkages can be enhanced.

Economic relations between India and Russia are certainly not commensurate with existing potential despite of various initiatives undertaken by both countries. The two countries are members in many forums including WTO, BRICS, G20, etc. Having diplomatic and economic relationships for so long, India and Russia are unable to sign any agreement. The FTA between India and EAEU region created hope for India and Russia to strengthen their bilateral relations. Today, the EAEU is one of the youngest and most promising economic alliances in the world. The union has achieved considerable success in a relatively short time. The EAEU mainly focuses on consolidating the economic cooperation of Eastern countries, the influence of this region is beginning to spread beyond the region. At present, EAEU region has only one FTA - with Vietnam, but negotiations are underway with countries such as Singapore, Iran, Thailand, etc. Therefore, India's FTA with EAEU region would not only boost





economic engagements and bilateral trade and investments between India and other EAEU countries (Armenia, Belarus, Kazakhstan and Kyrgyzstan) but also Russia.

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