

Indo - Russian Economic Relations: Course and Way Forward

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Abstract: *For a considerable period, of time Russia has been a reliable ally for India. Bilateral ties are an important part of India's foreign policy, and Russia has always been a reliable partner for the nation. Since the Cold War, the bilateral ties between India and Russia were established. The bilateral alliance between India and Russia is built on six key pillars: politics, defense, civil nuclear energy, counter - terrorism, trade, and space. India and Russia participate in a number of global conferences together, including the BRICS, SCO, and RIC. In addition to endorsing India's offer to take part the NSG, Russia actively favors India obtaining a permanent seat on the UN Security Council (Nuclear Suppliers Group). In international relations, tactical independence is essential. Provided Russia's hegemony in the Eurasian region, India requires close financial and technical ties with Russia. Activity autonomy – Even after its close relations with the United States, India cannot choose to distance itself from Russia, which has a wide range of bilateral relations with India. India and Russia have a long tradition of friendship shared confidence and reciprocal advantageous partnership. This is a diplomatic relationship that has existed for a long time and has the citizens of both nations behind it.*

Keywords: Indo-Russia, INSTC, Arctic circle, Far East, bilateral

1. Introduction

India and Russia have been trade partners since the cold war. Trade between two nations was based upon the Rupee - Ruble agreement which received a jerk in 1992 leading to declining trade between the two nations. The agreement reflected a soviet version of bilateral aid and more emphasis being paid to political imperatives and the crux was that the agreement was either beneficial to Russia or India but not both. [1] There are two core institutional mechanisms that look after the trade between both the nations: 'India - Russia Intergovernmental Commission on Trade' and India - Russia Forum on trade and Investment. [2] Critics say that a major reason for weak India - Russia trade is over dependence on arms trade, although, currently trade in oil has picked up. Another reason for depletion is Russia's problems with the west over the Ukraine issue as Ukraine had planned to develop natural gas reserves in Crimea in partnership with US companies for two years. It is not in interest of India to take the side of Russia in this case as it has warm relations with both US and Ukraine. Also, Russia has tilted towards import substitution, which has affected trade with India as well. [3]

The defence sector has always given a major boost to economic relation between the two. In fact, Russia's resurgence as a military power in recent times is conducive to India's domestic initiatives such as the Make in India project. The finalizing of the S - 400 defence system agreement between two nations despite the threat of imposition of CAATSA sanctions has shown India's predictable resistance to external pressures given its historical ties with Russia. Also, the Kudankulam Nuclear Power Plant (KNPP) is one of our most successful engagements as Unit 1 and Unit 2 are already in commercial operation and reactors are being built for Unit 3 and Unit 4. [4]

2. International North - South Transport Corridor

The Economic and commercial relations between India and Russia has not been given the importance which is given to

the defence sector. The issues of accessibility and connectivity don't find substantial mention. As of now, there is no direct overland trade route between the two, but the International North - South Transport Corridor (INSTC) will be much instrumental in building that connectivity. The agreement for the corridor was signed between India, Russia and Iran in 2002. Today, it has 13 member countries including Belarus, Krygyzstan, Oman, Belarus, Syria, Ukraine, Turkey, etc while Bulgaria has the observer status. The route connects India and Russia through Iran and Azerbaijan. The earlier trade route was through the Suez Canal. The corridor links the Persian Gulf, Caspian Sea and Indian Ocean to the Russian Federation. It helps India as it bypasses Pakistan that is quite a difficult country to deal with for the Indian exporters. [5] India's Container Corporation of India (Concor) and Russian Railways Logistics (RZD) signed a MoU to transport cargo between the two nations via the INSTC. The trade through the corridor will be of benefit to the importers and exporters of both the nations by bringing down the transit time and incurred cost of transportation. Also, the shipping time is cut from 40 to 25 - 28 days. The activation of the corridor will also unlock large chunk of opportunities for the mainly landlocked Central Asian Countries to have trade in both directions. [6] India also sees Iran as an important connectivity route here as the INSTC connects Mumbai to Chababar. It also intends to double its trade with Iran, mostly consisting of oil and gas products at US \$14 Billion per annum. Afghanistan and Iran have signed an agreement with India to provide preferential treatment to the Indian goods (heading towards Central Asia and Afghanistan). Also, Chababar provides India with a lot easier land - sea route to Afghanistan that provides a reason for the large Indian investment in the Chababar port. In these regards, India - Iran relations could be instrumental in making an impact over Delhi's intentions to connect with Russia.

In this era of connectivity, China's BRI serves as a mammoth initiative but some critics point out that INSTC could act as a possible counter to BRI if it is successful in overcoming the financial issues and the lack of political differences among the members. Before the pandemic, the WEF (WORLD ECONOMIC FORUM) had forecasted that

India's economy would see the growth of 7.5 % a year over the next decade (the revised forecast is 11.5% in 2021) [7]. Thereby, Russia as well as other members of the INSTC is of the view that because of India's economic growth, the corridor's use will increase. Additionally, provided the deteriorating Sino - Indian relations, it might happen that Delhi is more interested in encouraging the development of INSTC as a direct counterweight to BRI'S CPEC.

3. Significance of the Vladivostok Summit, 2019

Mr. Narendra Modi visited Russia on September 4 - 5, 2019 for the 20th India - Russia annual Summit at Vladivostok. Side by side, he too participated in the 5th Eastern Economic Forum as the Chief Guest. The leaders took note of how the Special and Privileged Strategic partnership between the two nations has surfaced over the years. Both have given priority to strong and multi - faceted economic and trade cooperation as the base for increasing the gamut of the relations. Also, the work of the IRIGC on Trade, Economic, and Scientific, technological and cultural fronts was much appreciated. They too expressed their interests about the role which the Russian business could play in "Make in India" and the investments of Indian Companies in Russia. [8] As of now, the Russians have a presence in India, generally in the form of small traders but the country appeals a lot to the Russian investment funds as well because of the propensity of huge private wealth in India. There lies an abundance of free trade and development zones for Russian Companies.

The two sides also agreed to work deeper towards eliminating trade barriers as well as customs and administrative barriers. The proposed Trading Agreement between India and Eurasian Economic Union (EaEU) could act as a catalyst in this regard. The EaEU is a free trade bloc including Krygyzstan, Belarus, Armenia, Kazakhstan and Russia. It intends to become a large trade area serving both the East and the West Eurasia. The Indian FTA with EaEU will perhaps boost the bilateral trade between two nations. The two also want to inculcate cooperation in the geological exploration and development of oil and gas fields (including the off - shore fields). They expressed their determination to continue searching for ways to deliver energy resources from Russia to India. They discussed about the prospects of further developing hydropower corporation and even designed a road - map for this field in 2019 - 24. Also, the two sides have been actively working for encouraging the participation of Indian companies to develop energy resources in Russia. ONGC Videsh Limited has 20% stakes in Sakhalin - 1. OVL has also set up the Joint Study Group (JSG) with Rosneft and a Joint working Group (JWG) with Gazprom. [9]

4. Importance of Russian Far - East and Arctic Council for India

When Narendra Modi visited Russia to attend the fifth Eastern Economic Forum (established in 2015 for economic development of Russian Far East and to provide a boost to international cooperation in Asia - Pacific) he, alongside Vladimir Putin unveiled the 'ACT FAR EAST' policy for

increasing India's engagement in the Russian region. Also, Modi is the first Indian Prime Minister to have visited the Far East region in Russia. There, India concluded agreements worth around \$5 billion and even announced a line of credit worth \$1 billion for developing the resource rich region. The development of resources at the Far East is one of the primary concerns for the Russian government as 98% of diamonds and 50% of Gold is mined there. India has an old connection with the Far East as around half a century ago, when the British and the US navies tried to intimidate the Indian security at the time of 1971 Indo - Pak war, USSR helped India by dispatching the nuclear armed flotilla from its Pacific fleet located at Vladivostok. Since then, the city of Vladivostok occupies a very special place in the heart of several Indians. [10]

The Far East forms a part of the Asian Russia and is much less developed than the European ones. It is situated in the cold climate of Siberia, sharing maritime borders with Mongolia, China, North Korea and Japan. The Russian President has been inviting the foreign countries to make investment in this region and in the last five years, about 17 countries have made investments in the region. India is interested in this region as it is a resource rich region and has plenty of oil, timber, natural gas, diamond, gold and other resources. Also, U S and china are trying to have an upper hand in the region [11]. But still the engagement is limited to certain areas such as Irkutsk where Sukhoi and MiG fighter lanes are made and Sakhalin where ONGC Videsh had made investments worth \$ 6 Billion in gas and oil exploration. In 2001, ONGC Videsh obtained 20% stakes at Sakhalin. The feasibility of the Chennai - Vladivostok sea - route is also looked upon by two countries. The route would be time efficient, decreasing the time India takes to access Far East to 24 days (compared to 40 days by the Suez Canal). This route is capable of adding peace and prosperity in the South China Sea and new avenues to the trilateral cooperation between India - Russia - Vietnam. [12]

The Arctic Council is an intergovernmental forum that works for enhancing cooperation and interaction among the arctic states and indigenous communities on issues concerning environmental protection and sustainable development in the Arctic. Its main purpose is to promote the economic development and social and cultural development of the permanent members. A few days ago, a new Arctic policy was drafted by India for enhancing scientific research, and mineral oil and gas exploration in the region. India has a lot of interest in the Arctic including the environmental interest as India has an extensive coastline making it quite prone to the impact of Arctic warming on the fisheries weather patterns, ocean currents and the monsoons. Also, India's scientific Community will get help to study about the Himalayan melting rate, commercial Importance as it is estimated to have 22% of world's unexplored resources plus mineral deposits that are 25% of the global reserves, buried deep in Greenland, strategic interest as the Council would help to counter the strategic implications that China has over the Arctic and Russia's growing economic and strategic partnership with Russia need close monitoring. So, the time is ripe that India's focus on the Arctic expands from just scientific exploration to other aspects as well,

thereby making the drafting of the policy significant in every regard. [13]

5. The Way Forward

In the 21st Century, India has made noteworthy economic progress and has emerged as a key destination for global players because of the infrastructural development, diversified trade markets, huge potential in the market sphere and increased share of exports and investments. But when it comes to Russia, economic engagement between two countries is still the weakest link. Therefore, they are critically looking for feasible ways to boost and revamp the economic relations such as the Business Councils, India - Russia Trade, Investment and Technology Promotion Council, India - Russia Business Dialogue, India - Russia Chamber of Commerce, St. Petersburg International Economic Forum” and multi - modal network such as the INSTC. Also, the ever - growing importance that is attached by Russia to the Far East also needs India’s attention as it could gain access to the Arctic region and would also be instrumental in expanding India’s economic clout over the Indo - Pacific.

Although defence, energy and nuclear cooperation have a significant role to play in the bilateral economic relations, sectors like agriculture still remain to be explored. Russia’s growing interest in this sector provided India is one of the leading nations of the world when it comes to agricultural production. After 2014 imposition of Western economic sanctions over Russia, it has engaged in diversifying its trade interests as well as to achieve self - sufficiency and import substitution, therefore, presenting a huge opportunity to the local farmers in Russia. One effort in this direction is the Russian Homestead Act which provides similar opportunities to the citizens and the foreign nationals to acquire a free hectare of land in the Far East for lawful purposes.

India and Russia may initiate a pilot project that assists in attracting Indian farmers to explore the potentials of the Far East for agricultural production and related services. [14]

India and Russia have succeeded in establishing non - western organizations such as BRICS and SCO. The member states have their own capabilities and limitations but have still established mechanisms that address economic and strategic interests, such as the New Development Bank. There exist asymmetries among the member states of SCO and BRICS with regard to distribution of resources, economic growth performance and military strength. Additionally, although China is a member of such multilateral organizations, at the individual level Beijing has exercised assertive posturing that has caused concern in India. This can be seen by its irrational border claims and actions in the Indian Ocean region. The pandemic has prompted countries to explore alternate market destinations because of shifts in the business environment. The crisis has opened opportunities for countries such as India and Russia to reposition them in the global supply chain. The current global situation has given rise to some daunting challenges for the partnership once again, some of them being linked to the disruptions being caused to the international order by

traditional and non - traditional threats such as rebuilding the shattered economies, climate change, data security secure communication challenges etc. [15]

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