

# India's relations with Russia

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## Introduction

During the March 2010 visit of the Russian Prime Minister Vladimir Putin to New Delhi, the Indian Prime Minister Manmohan Singh described Russia in fulsome terms:

Relations with Russia are a key pillar of our foreign policy, and we regard Russia as a trusted and reliable strategic partner. Ours is a relationship that not only stands independent of any other, but whose significance has grown over time. Our partnership covers areas such as defence, civil nuclear energy, space, science and technology, hydrocarbons and trade and investment.<sup>1</sup>

During discussions, bilateral economic as well as regional security issues were top of the agenda. Putin's India visit was also watched very carefully in many Western capitals as this was happening immediately after the London Conference, where the Western alliance had been working on exit strategies in Afghanistan. The Putin visit was seen by many in India as a precursor to any hedging strategy involving Russia, India, Iran and the Central Asian republics against the possibility of a Taliban return in Afghanistan. Since the signing of their Declaration on Strategic Partnership in October 2000, this had been the subsequent 11th summit meeting. Similar to earlier meetings, five more agreements were signed in March 2010. Apart from multi-billion dollar arms deals, an inter-governmental agreement on broad-based co-operation in atomic energy and a 'road map' for future co-operation were also signed. Similar to the last few summits, strategic congruence, defence purchases, hydrocarbons and nuclear power dominated the agenda. The visit obviously gained more significance because of a changing strategic scenario in India's *neighbourhood*. This chapter aims to analyse how *and* if, to use Manmohan Singh's phrase, its 'significance has grown over time', in a relationship that first took shape in the days of the old USSR.<sup>2</sup>

## Historical background

Historically, the USSR under Stalin (Iosif Dzhugashvili), was suspicious of the genuineness of India's independence and non-alignment. However, Indo-Soviet bonhomie started with

Jawaharlal Nehru's visit to the USSR in June 1955 and the Nikita Khrushchev/Nikolai Bulganin visit to India in December 1955. This was also the time when the Congress party in India was affirming its belief in state planning and a 'socialistic pattern of society', and Nehru was playing a leading role in the Bandung Conference (1955) of 29 Afro-Asian nations.<sup>3</sup> During the same period, the USSR began to use the instruments of aid, trade and diplomacy in developing countries, to limit Western influence.<sup>4</sup> Subsequently, Indo-Soviet relations flourished over the decades in the metallurgy, defence, energy and trade sectors. During the India-China war in 1962, the USSR tried to be neutral between what it called 'brother China' and 'friend India', with the People's Republic of China seeing this as a betrayal of international communist solidarity on the part of the USSR, and a factor that reflected and further exacerbated the growing Sino-Soviet split. In the early 1970s both Indian and Soviet leaders looked on the emerging US-Chinese rapprochement as a serious threat to their security. Their response had been in 1971 with the Indo-Soviet Treaty of Peace, Friendship and Cooperation, which provided immediate consultation in case of military action against parties to the Treaty.<sup>5</sup> During the India-Pakistan war in 1971, the USSR took a firm position in favour of India and sent ships to the Indian Ocean to counter any move by the USA, which had already sent its 7th Fleet ships into the Bay of Bengal. The results of the 1971 Indo-Pakistani war and emergence of Bangladesh established a trusted partnership between India and the USSR. During the 1980s both Rajiv Gandhi and Mikhail Gorbachev advocated a nuclear-free world. However, after the Soviet invasion of Afghanistan in 1979, India was also confronted with a dilemma of how to preserve its non-aligned credibility without jeopardizing its relations with the USSR.

In the initial post-Soviet period, bilateral relations in the 1990s went through a period of uncertainty when Russia was preoccupied with domestic economic and political issues, and with its relations with the USA and Europe.<sup>6</sup> Now India had to deal with a new Russia which was Eurocentric, economically dependent on the West, and neither had the interest nor the resources for Third World regimes.<sup>7</sup> President Boris Yeltsin, during his visit to Delhi in 1993, tried to recreate the spirit of old friendship with a new Treaty of Friendship to replace the old India-Soviet 1971 treaty. However, the fundamental character of the Treaty was transformed and in case of any threat to peace, the new Treaty vaguely called for regular consultations and co-ordination.<sup>8</sup> Although Yeltsin described India and Russia as 'natural partners', he was careful not to give the impression of a 'special relationship'.<sup>9</sup> Although relations were restored to respectable levels, the early years (1991-96) of 'benign neglect' of India by Russia left a deep mark on Indian policy-makers.<sup>10</sup>

The situation changed when the new Russian Prime Minister Yevgeny Primakov (1998-99) started shifting from the previous pro-Western Russian foreign policy. To strengthen his country's relations with old allies, Primakov visited India in 1998 and pushed proposals for creating a Russia-India-China (RIC) strategic triangle, although RIC coherence remains questionable for some Indian commentators like Abanti Bhattacharya: 'the development of a strategic triangle would be unrealistic. The reasons can be easily found in the mutual suspicion between India and China'.<sup>11</sup> The new Russian leadership under Vladimir Putin (president, 2000-08) reversed the Yeltsin-era drift in India-Russia bilateral relations, signed the Declaration on Strategic Partnership with India in 2000 and established the institution of annual summit meetings.<sup>12</sup> Moscow realized that as a Eurasian power, an active Russian role and influence in dynamic Asia would be limited without a solid partnership with old friends like India.

Indian commentators welcomed Putin's comment in his 2004 visit, that 'India is our strategic privileged partner [...] And speaking from the point of view of geographical representation [...] India is number one', as recognition of India's own rise:

The emphasis is to be interpreted both in the geopolitical context and also in the military context. In terms of geo-political interpretation one could say that Russia accords primacy to India in the Indian sub-continent and all that it implies. In the military context it stresses that Russia recognizes India not only as a strategic partner but also as a 'privileged strategic partner'. If this is Russia's emphasis truly, then the long range prospect of Russia-India strategic cooperation is pregnant with exciting prospects.<sup>13</sup>

Despite its improving relations with the USA, China and Europe, India also did not want to abandon its time-tested relationship with Russia. In a world dominated by a single power (the USA), both the Indian and Russian vision of a multi-polar world coincided. The issue of terrorism has also brought the countries together. Within South Asia, Russia has consistently supported India on the issue of Kashmir unconditionally over time or regime change and opposed its internationalization.<sup>14</sup> These issues continue to be reiterated at their Summit Declarations. Another point which both the partners have been emphasizing after every important meeting is that their partnership is neither against any third country nor at the expense of their relations with other major powers, understandable given Russia's strategic links with China and India's with the USA.

### State linkages

Since 1992 about 15 summit meetings have taken place and about 135 agreements have been signed between the two countries. To improve their economic relationship, an Indo-Russian Inter-Governmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation (IRIGC-TEC) has been working towards promoting bilateral co-operation. The Commission covers 11 joint working groups, namely: trade and economic co-operation; pharmaceuticals; petroleum; the coal industry; metallurgy; science and technology; cultural co-operation; information technology; power and energy; the environment and natural resources; and co-operation with the regions. In the 15th meeting of IRIGC-TEC, held in Moscow in October 2009, a new trade target of US \$20,000m. by 2015 was agreed.

As already mentioned, a major turning point in their bilateral relationship was their formal Declaration on Strategic Partnership between Republic of India and the Russian Federation, signed during Putin's visit to India in October 2000.<sup>15</sup> Broadly, this agreement meant enhanced co-operation in the political, economic, defence and cultural fields. It talked of 'deepening and diversifying cooperation in sectors such as metallurgy, fuel and energy, information technology, communications and transport, including merchant shipping and civil aviation', and of 'further development of cooperation in banking and finance, and improving credit and insurance facilities'.<sup>16</sup> There was mention of simplifying rules and procedures for travel by entrepreneurs and businessmen of both countries. It was also agreed to jointly explore the possibilities of regional trading arrangements with third countries. Since then, summit meetings are taking place almost every year with many more agreements signed every year. The crux of all these summit meetings and accompanying declarations has been common positions on major global issues like international terrorism and desire for a multi-polar world and close bilateral relations. These summits have been a very useful platform for formulating common positions and responses to emerging global political and economic issues.

However, what do these Summit declarations actually mean in real terms? There are many ways of looking at these developments. Every time the summit meeting takes place, the diehard proponents of old Indo-Soviet/Russian friendship emphasize the need to look at these agreements and declarations as a testimony of a time-tested, mutually beneficial friendship. They

even go one step further and suggest that along with Russia, India should forge solid friendships with other like-minded countries including China to soft *balance* some of the negative trends of a unipolar world, dominated by a single economic and military power.

However, many people in the new generation of Indians, who have entered the business or academic professions in the post-Soviet period, have somewhat different impressions about these summit meetings and declarations. They argue that countless bilateral meetings have taken place since 1992, and a plethora of agreements have been signed between the two countries. Various inter-governmental commissions and committees are also working to improve bilateral relations. In addition, both the countries are in an avowedly 'Strategic Partnership'. Yet, despite all this rhetoric, India's exports to Russia have remained lower than countries like Bangladesh, Nigeria, Kenya, Thailand, Israel and Viet Nam. In today's Russia about 70% of the economy is in the private sector, yet India has not moved beyond public sector and government declarations. So it is argued that India needs to strengthen the commercial component of its relationship through the linkages between the dynamic sectors of Indian industry, commerce and services and the newly emerging Russian private sector. In the absence of this relationship, it is argued that 'strategic partnership' may soon start losing its charm.

There is truth in both arguments. Even 20 years after the Soviet collapse, India's relations with Russia were still in transition, particularly in the commercial field. After some disruption, both have been able to restore and improve their political linkages. In the economic and academic fields, however, most old India-Soviet linkages have broken and new India-Russia links have not developed to the same extent. Both governments have recognized this fact. Still, these summit meetings have been able to tackle the issue in a significant manner.

It could be argued that under new circumstances, business in both countries is no more the business of the governments. Therefore, it is up to the private sector to take advantage of conditions created by these agreements. Despite this, these high-level visits could have been used more effectively to promote Indian economic interests in Russia. Compared with India, Russians have done good business during these visits. Russia has a comparative advantage in the arms industry and India has purchased arms worth billions of dollars during these visits. Nine annual summit meetings over nine years were good opportunities for special bilateral economic relationships to have been created, even under entirely different circumstances. In 2005/06 trade still stood at a relatively modest \$2,760m. In 2006 a Joint Study Group was set up to work out a programme for increasing bilateral trade to \$10,000m. by 2010, and to explore the possibilities of a Comprehensive Economic Cooperation Agreement (CECA) between the two countries. The group submitted its lacklustre report in July 2007.<sup>17</sup> Except for the recommendation of a CECA, there were few specific recommendations. Subsequently, a Joint Task Force between the Indian Ministry of Commerce and Industry and the Russian Ministry of Economic Development was set up in February 2008 to monitor progress on a CECA, but with few concrete results emerging from the exercise. Trade by 2008/09 had increased to \$5,420m., but fell back to \$4,550m. in 2009/10, some way off the earlier target set for \$10,000m. by 2010.

## Defence linkages

There are estimates that about 800 Russian defence production facilities are kept in operation by Indian defence contracts.<sup>18</sup> Although China used to be the number one arms importer from Russia, India has emerged as number one since 2007. Some analysts have argued that in arms exports, geopolitical and economic factors will eventually force Russia to make a choice between China and India, a contest that India will probably win.<sup>19</sup>

India's major purchases from Russia over the last 18 years have been varied and extensive, including aircraft (MIG 29, MIG 29 SMT, SU 30K, SU MK1), helicopters (Mi-17, Mi-18, etc.) and air-defence systems (AK 630 30mm, etc.). In June 2010 the Cabinet Committee on Security cleared another deal of more than \$3,000m. to buy an additional 42 Sukhoi-30 MKI fighters from Russia. The deal came on top of the 230 aircrafts already contracted from Russia in three deals worth a total of \$8,500m. The initial contract was for 50 fighters, at \$1,460m. In 2000 the Government contracted the licensed production of 140 fighters by Hindustan Aeronautics Limited. Then another 40 were added to the contract.<sup>20</sup> Some purchases have been of artillery and armoured vehicles (256M Tunguska), engines, sensors and a variety of missiles. Maritime purchases have been noticeable, including frigates (Talwar stealth class), submarines (Kilo/Sindhughosh), nuclear submarines (Akula-2 lease) and an aircraft carrier (the delayed Gorshkov purchase originally due for handover in 2008–09, now scheduled for handover at the end of 2012). Joint production has seen India also starting to producing significant portion of armaments at home, including Brahmos missiles, T72M1 tanks, radars, anti-ship and anti-tank missiles, etc. Most tanks and aircraft are also being assembled in India. In 2009 both countries agreed on a new military technical co-operation agreement for the period 2011–20. The new programme covers both ongoing projects, such as the Su-30 MKI fighter plane and the T-90 tank production in India, and 31 new projects, which include a fifth-generation fighter aircraft, the multi-role transport aircraft and a new multi-role helicopter. Under this programme India hopes to further shift from the buyer-seller relationship to joint design, development and production.

India also has a long tradition of collaboration in space with the USSR/Russia. Thumba Equatorial Rocket Launching Station was set up with Soviet help and many Indian experimental and remote sensing satellites were launched with Soviet co-operation. In 1990 India entered into a \$350m. contract agreement with Russia to supply the cryogenic engines and technology for their manufacture within the country. Russia earlier agreed to provide India with the technology, but then reversed the decision after it signed the Missile Technology Control Regime agreement with the USA. The USA objected to giving India the technology because of its potential use for nuclear missiles. Commercial and political factors later compelled Russia to sell the rocket engines while withholding the technology. Soon afterwards Indian scientists were able to develop Indian engines. Currently, both countries collaborate on many space projects, which include India's unmanned lunar space flight project (Chandrayaan-2), the human space flight project and the development of the Indo-Russian Student Satellite, Yuthsat. Russia has also agreed to provide India with access to signals from its Global Navigation Satellite System (GLONASS).

### Commercial linkages

One important point of the old Indo-Soviet friendship was a special bilateral trade and economic relationship. Although this arrangement had many of the usual weaknesses, like corruption and patronage transactions in low-quality products, it helped many small and medium-sized private Indian companies to become exporters. After the disintegration of the USSR, this relationship was badly damaged. Economic transformation in Russia from a centrally planned economy to a market economy in 1992 coincided with the policies of economic liberalization in India. These developments changed the nature and character of foreign economic relations in both countries. Therefore, despite having solid economic and trade relations in the past, most Russian and Indian companies are still struggling to adjust in each other's markets. Economic relations are still surviving mainly because of defence purchases and some public sector

investments by India. Commercial initiatives are slow to take advantage of Russian economic transformation. Despite good intentions, both governments have been unable to facilitate any major economic initiative which could have given a new direction to bilateral commercial ties.

### *Background of trading linkages*

Since 1953, when the first trade agreement took place, seven long-term agreements have been signed between the two countries up to the collapse of the USSR. This bilateral trade was conducted through a specific system of trade and payment called the Rupee Trade System, based on annual plans. The important point of the system was payments in non-convertible currency. The trade turnover between the two countries increased from less than 2 crores in 1953 to about 8,000 crores in 1990–91. In 1990–91 more than 16% of Indian exports went to the USSR and about 6% of imports came from there.

One of the most striking characteristics of the Soviet centrally planned economy was that it had created a system of exchange in non-convertible currencies with many of its trading partners. This trade behaviour existed not only with the Council for Mutual Economic Assistance (CMEA) countries, but also with some other friendly countries like India. The value of exchange between the Russian rouble and Indian rupee currencies was arrived at through periodic bureaucratic negotiations.

Most of the ideologically-motivated scholars in India regarded this arrangement as a Soviet version of bilateral aid. The mainstream academia in India also declared that India had ‘derived substantial benefits from its trade with the socialist world’.<sup>21</sup> In the late 1970s and early 1980s a few scholars in India had already warned that despite short-term gains, this type of arrangement would harm long-term requirements of efficiency and growth.<sup>22</sup> After initial industrialization, India had problems of importing further machinery either for joint production for third countries or for the exclusive production for the socialist bloc. India did not want Soviet participation in those areas where it could get markets of its own. It also did not want ‘captive units’, the production of which could not be exported anywhere else but to the Soviet bloc and could give the Soviets the possibility of dictating terms.<sup>23</sup> Except for a few works, academia in India by and large did not bother to critically examine this pattern. The whole arrangement reflected political imperatives rather than economic rationality. After the Soviet break-up, the new policy elite in Russia also found these ‘irrational’ arrangements with developing countries unaffordable. The haste with which bilateral payment arrangements were scrapped in favour of payments in convertible currencies indicated that Russian and Indian policy-makers considered such bilateral arrangements undesirable under the new economic policy regimes in both countries.<sup>24</sup>

After the collapse of the USSR, the Indian and Russian Governments renegotiated the entire trade regime. The 1993 agreement terminated the traditional rupee trade arrangement and mandated all bilateral trade transactions to be conducted on a hard currency basis. However, with this agreement the issue of repayment of civilian and military loans taken by India from the former USSR also came up. Finally, after prolonged negotiations, the rouble credit was denominated in rupees and a repayment schedule was drawn up. The agreement provided for an annual repayment of about the equivalent of \$1,000m. in rupees to Russia over a period of 12 years starting from 1994, with smaller amounts for a further period of 33 years. The rupee debt funds were to be used by the Russian side for import of goods and trade-related services from India. The rupee debt funds are maintained in a central account with the Reserve Bank of India. Under a three-year perspective plan, which came to an end in 1997, a part of the rupee debt funds was allocated for the import of tea, tobacco, soya meal and pharmaceuticals to designated Russian agencies. The balance was either auctioned or allocated to various states or

importing organizations in Russia. In January 1998 this mechanism was replaced with a weekly auction of rupee debt funds conducted by the Vnesheconombank (Bank for Foreign Economic Affairs). During 1999 allocations made for the import of pharmaceuticals and medical equipment from India were utilized by several ministries in Russia. Between 2000 and 2006 the utilization of rupee funds continued through the auctions. In 2007 it was agreed that India's restructured rupee debt would be invested in Russian projects in India. According to Indian finance ministry sources, in December 2007 India still owed \$1,970m. in debt to Russia under this category.

### *Contemporary trading ties*

As a result of these changes, contemporary trade between India and Russia is based on payments in freely convertible currencies. All Russian exports to India follow the new system. However, in the 1990s about two-thirds of Indian exports were financed through the renegotiated rupee debt-repayment mechanism. As a result of all these economic policy changes, traditional actors in Indo-Russian trade and other economic relations like the public sector units and state trading corporations are no longer as relevant as they used to be in the Soviet era. Sections of the Indian private sector, which used to get away with selling many products of questionable quality under the bilateral system, also found it difficult to adjust to the radically changed economic and commercial environment in Russia, driven by market forces.

Although Indo-Russian trade has improved in the last few years, it has hovered around a 1% share during the first decade of the century. In quantity terms, although its volume has gone up from \$905m. in 1995/96 to \$4,547m. in 2009/10, it is still a very small sliver of India's trade; indeed, a 1.98% share in 1995/96 down to a 0.97% share in 2009/10. Of course, statistics may not reveal the full story. Some imports from Russia, particularly metal, metal scrap, fertilizers, paper and paper products, may be sourced through international suppliers and are not reflected in these official figures. Similarly, many Indian goods enter Russia via 'shuttle trade' or through third countries. Still, this will not significantly change the broader picture. Russian trade figures have also included some of the arms exports in commercial trade figures in the last few years. Main items of traditional exports from India are pharmaceuticals, tea, coffee, ready-made garments, cotton, tobacco, edible preparations, iron and steel, etc. Recently, some non-traditional items like machinery have also shown some growth. Imports from Russia include iron and steel, fertilizer, wheat, minerals, chemicals, paper, rubber, copper, nickel, nuclear machinery, project goods, etc. Apart from goods, services trade may also become more significant in coming years. According to the Russian Central Bank, India and Russia had about \$680m. in services trade in 2008. Russian services exports are mainly associated with construction and maintenance of equipment. In the last two years, services trade has moved in favour of India, with Indian exports in this category increasing from \$90m. in 2003 to about \$500m. in 2008.

### *Investment linkages*

In the energy sector India's state public sector Oil and Natural Gas Corporation (ONGC) is active in Russia. In 2001 ONGC Videsh Limited (OVL) acquired a combined 20% interest in the Sakhalin-1 project. From 2006 this project started to generate positive cash flow. During 2008/09 ONGC's share of production was 1.853m. metric tons of oil and 0.372 billion cubic metres of gas. In 2009, at a total cost of \$2,100m., OVL also completed the acquisition of seven blocks in the Tomsk region of western Siberia, previously held by a United Kingdom-listed

company, Imperial Energy. At present, this Tomsk acquisition produces oil mainly from two fields and has its own infrastructure including pipeline network, field processing facilities and connections to the Transneft pipeline system.

The Indian ICICI Bank has opened its subsidiary ICICI Bank Eurasia in Russia, with branches in Moscow and St Petersburg. TATA Motors launched a project to assemble its light-duty trucks at Russia's Urals Automobile and Motors plant and assembling plant for buses at Volzhskanin and Samotlor. The SUN group has also invested in Russia's food and real estate industries. Similarly, pharmaceutical companies like Dr Reddy's Laboratories Ltd and Lupin Ltd have investments in Russia. Berger Paints has also started operations in Russia. Carborundum Universal has purchased an 84% share in Russia's Volzhsky Abrasive Plant in the Volgograd region. The GMR Infrastructure has participated in a tender for the reconstruction and maintenance of St Petersburg's Pulkovo Airport. Other companies that are exploring possibilities for investment in Russia include GAIL, Indian Oil, Coal India, Reliance and Tata Tea.

Similarly, a few Russian companies are active in the Indian market. Silovye Mashiny and Tekhnopromeksport are providing equipment and technical assistance for the construction of the Sipat thermal power plant in Chhattisgarh, Bihar and Uttar Pradesh. Two 1,000-megawatt nuclear power plants in Kudankulam, Tamil Nadu, are being constructed with the help of Russian Atomstroiekspor. In March 2010 both agreed on the construction of two more reactors (units five and six) at Kudankulam and two reactors at Haripur in West Bengal during India's 12th Five-Year Plan period, 2012–17. Their agreement also outlined the timeline for the steps to be taken for the construction of Kudankulam units three and four, and called for progressive indigenization of supplies for units five and six at Kudankulam. For all six reactors at Kudankulam, Russia will provide the equipment and components, while Nuclear Power Corporation of India will build them.

The Russian AFK Sistema owns a 73% share in the Indian telecom operator Shyam Telelink. It is constructing a pan-Indian transmitting network, Shyam. The Russian VTB bank has also started operations in India. Sberbank also intends to enter the Indian market. The numerous other infrastructure companies that are already operating in India include Transstroj and Tsentrtdorstroi (road construction), Elektrostal and Tyazhpromeksport (metallurgical industry) and Stroitransgaz (gas pipeline). A joint venture between Russian truck-maker KamAZ and India's Tatra Vectra Motors is nearing completion. The unit will produce Kamaz-6540 dump trucks of over 25 metric tons and Kamaz-5460 prime movers. Zarubezhneftegaz is doing exploration work along with GAIL in the Bay of Bengal. Russia's GidroOGK and India's SUN Group launched a joint venture called RusSUNHydro in 2009, with the newly formed company planning to participate in hydro-electric projects in India. At the India-Russia Summit in 2007 a decision was made to establish a joint India-Russia titanium product facility. In February 2008 Russia's State Property Committee, the St Petersburg-based engineering company Tekhnokhim Holding and India's Saraf Group agreed to set up a plant in Orissa. The Russian share in the project is 55%, which is expected to be financed through Indian outstanding debts to Russia. Overall, however, Russian investment in India remains minuscule. According to the Indian Ministry of Commerce and Industry, total foreign direct investment (FDI) from Russia during the period between April 2000 and March 2010 was about \$373m., which was 0.34% of total FDI inflows to India during that period.

## Conclusions

Except for a very brief period in the early 1990s, India's relations with Russia have been based on mutual trust and confidence. In the mid-1990s relations were restored to respectable levels



which have been further strengthened since the signing of their 'strategic partnership' in 2000. Currently, the main pillars of this relationship are strategic congruence, defence ties, nuclear power and hydrocarbons. The trouble for Indian policy-makers is that these areas still remain skewed in favour of Russia.<sup>25</sup>

The major challenge for both India and Russia is how to sustain this relationship in the absence of dynamic commercial ties. Future bilateral economic relations will depend on Russia's importance to India's developmental needs and vice versa. In the past, the USSR played an important role in India's industrialization process. It had a comparative advantage in sectors like steel, which was central to its needs. India now has to assess where Russia has a comparative advantage. So far, India has been able to develop linkages in defence production, the oil and gas sector and in nuclear energy. Indian industry has already identified areas of mutual interest, namely information technology, pharmaceuticals, telecommunications, financial services, hydrocarbons, energy and power, oil and gas, food processing, financial consultancy, management services, textiles and diamond processing. The problems are well known, however, including lack of information, visa problems and logistical issues. Still, very little attempt has been made to address these issues. There was a lot of hope that a Eurasian north-south trade corridor would be able to tackle some of the transportation problems. Owing to low trade volumes, however, the trading community has not yet developed this route. The strong political will in both countries to improve bilateral economic relations could have been converted into real economic gains if some imaginative initiatives had been taken, particularly when the Russian economy was booming between 2000 and 2007. With the global economic slowdown impacting in 2008/09, things have become more complicated for increasing India-Russia economic links, with trade declining from \$5,420m. in 2008/09 to \$4,550m. in 2009/10.

Current Indo-Russian commercial relations are certainly not commensurate with existing potential. In the last few years India has signed bilateral trade deals with many partners and many are under negotiation. However, until Russia joins the World Trade Organization (WTO), it is highly unlikely that India and Russia will be able to sign any significant bilateral trade and economic co-operation agreements. In the last two decades the Indian and Russian economies have moved far from each other. With no major breakthrough, Indian and Russian economic ties will continue to depend on the arms trade, and nuclear and energy industry linkages. Russian exports to India are likely to be from the extraction industries and limited Indian exports will continue to be from low-volume, high-value and high-profit sectors.

It is clear now that defence ties constitute the core of bilateral relations. Russia has provided the most advanced aircrafts, tanks, rocket launchers, missiles, frigates and submarines to India. Through licensed production of arms, missiles and aircraft, India is slowly developing its own defence industry. There have been problems in defence supplies concerning product support, cost escalations, delays in delivery and incomplete transfers of technology. Still, substantial arms imports continue to come from Russia. With a changing foreign policy orientation in India, the importance of arms imports from Russia may see a declining trend in coming years. There was some uneasiness in Russia when India signed a Strategic Partnership with the USA in 2006, and there was talk of Russia being elbowed out as India's main arms supplier, particularly in the midst of troubled negotiations during 2008-10 over the sale of the Admiral Gorshkov aircraft carrier. Nevertheless, overall Russia remains an important factor in Indian foreign policy debates. Moreover, at the broadest level, the Indian elite believes that a strong Russia is important for maintaining a desired international equilibrium, both supporting the idea of multi-polarity and a rule-based international system, within which India can continue its rise. This remains India's basic 'strategic synergy'.<sup>26</sup>

## Notes

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