Chapter III

HISTORICAL BACKGROUND OF INDO-SOVIET/RUSSIA RELATIONS
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3.1: Introduction

The solidity of Indo-Soviet relations is so well established now that it seems hardly necessary to recapitulate the background. It is difficult to mention the factors that brought about the convergence of policies and interests of India and the Soviet Union. Indo-Soviet relations had deep roots. Trade exchanges between the Union of Soviet Socialist Republics (USSR) and India was promoted after the conclusion of a Soviet - British trade agreement in 1921. In the mid-1920s, the first batch of spices, rice, tea, raw jute and other goods were supplied from India to the Soviet Union. In 1925, Soviet oil products for the first time reached the Indian market, and at the end of the next five years, the first big consignment of Soviet sugar was sent to India. Crude oil and oil products- Kerosene and petrol were the main Soviet exports to India. Cheap and high quality Soviet Kerosene successfully competed with the oil products of British companies, causing soon a 30 % reduction in the price of these goods in the Indian market.1

In 1935, Soviet Union became the best buyer of Indian goods and itself could also supply India with a number of manufactured articles. But this was the prospect that most worried the ruling circles of Britain, by whose unilateral efforts, Soviet- Indian trade in 1939-40 was in fact reduced to zero. The main obstacle in the way of rapid development of Soviet Indian relations was the dependence of India on British imperialism. After the proclamation of India as a republic, the relations between the two countries became closer. This found reflection in agreements on exchange of goods, which ensured supply of grain from the U.S.S.R. in exchange of jute, tea, castor oil, tobacco, shellac and some other products. The first Soviet trade agency in India was established in Calcutta in 1943. India gained diplomatic relations with the U.S.S.R. and received a good impetus for all round expansion after Independence in 1947.

1: Bakshi Jyotsna (1999)
India-Russia relationship helped in different ways, on one hand, in the struggle against Western imperialism and colonialism and on the other hand, in the national interests and requirements of India in the last 20-30 years of the Soviet Union. In 1950, India had persistent balance of payment difficulties due to accelerated economic development. Bilateral trade and payment agreements with Russia helped India to a large extent.

Gorbachev wanted to end the supremacy of the communist party of the Soviet Union and democratize the administrative command system. The fall of the communist Governments in Eastern Europe also affected Soviet Union. Gorbachev failed for getting large scale economic aid and resulted in disintegration of Soviet Union. Yeltsin took charge of Russia in the year 1990 and Russia got revived in the year 1991 but there was resurgence of Russia only during Putin’s time period. Russian economy saw the doubling of nominal GDP; industry grew by 70%, investments increased by 125% and agriculture production increased as well in his period. Medvedev joined as president in 2008 and had priority for Russia’s economic development strategy up to 2020 and aimed at modernizing the economy.

3.2 Historical Relations since Independence till Gorbachev period

The agreements before 1953 were more or less quota type agreements and convertible currencies like dollar or sterling were used as the unit of account as well as to settle the balances at the end of agreement period. This was called ‘automatic transferability’. All the bilateral trade agreements during the period 1953-58 were almost like convertible currency agreements, payments relating to commercial and non-commercial transactions were to be made in rupee or pound sterling.

A new stage began in the development of Indo-Soviet relations in the mid-fifties. With former Prime Minister Nehru’s visit to the USSR and Soviet leader’s visit to India in 1955, the year 1955 became a year of radical changes in the Soviet foreign strategy. On February 2, 1955, a Soviet-Indian agreement on the construction of the Bhilai Steel
Plant was signed.² After this agreement, Great Britain and West Germany gave soft credits to India for the construction of another steel plant at Rourkela. In 1957, a new agreement was signed to the effect of construction in India of several new enterprises of heavy machine-building, mining, energy production, including oil and gas drilling. In the same year 1957, the Soviet Union applied its first veto on a resolution on Kashmir in the Security Council sponsored by UK, USA, Australia & Cuba. During India’s second Five-Year plan 1956-1961, eight of the sixteen heavy Industry projects of the Indian Government were built with the help of the Soviet Union. In the second half of the 1950s, the Soviet Union gave India economic aid worth of $681 million that constituted 27% of total Soviet aid to Asian countries. At the beginning of 1960s, Soviet-Indian trade expanded and grew by 30 times compared with 1953.³ The characteristic features of the Soviet-Indian economic cooperation were:

1. Soviet economic and technical aid was aimed at producing means of production as that was the only way to help India to obtain complete economic independence;
2. Soviet credits were cleared off in Indian rupees used by the Soviet partners to purchase Indian goods.
3. Loans apportioned to India by the Soviet Union as a rule were given for longer terms and at low interest rate than western credits.
4. Soviet economic and technical aid favoured the quick development of state owned industry in India.

In the beginning of the 1960s, Soviet-Indian relations were seriously affected by the changes in the Chinese foreign policy. On October 20, 1962, there was a conflict between India and China on the border. Moscow attempted a measure of caution to act as balancing actor between India and China.

From November 1962, the Soviet Union started arms selling to India, partly to help her in her military build-up against China, partly to counter American and British military aid to India with an idea to keep New Delhi on the crest of the fence and if possible to pull her on the Soviet side of it. In 1962-1964, the USSR shipped arms

² : Pravda, Moscow, March 3 1955
³ : Z Imam (1975)
worth of $130 million to India. In 1964, big-scale military cooperation started between the USSR and India. USSR sold 6 submarines, 70 tanks and 44 MIG-21 to India. The USSR also continued its economic assistance. By March 1965, total Soviet aid offered to India was equal to 4,842 million rupees. The USSR was also developing its relations with Pakistan. However, Soviet relations with two South Asian powers were quite balanced. India was kind of a counterbalance to China. The year 1971 became the peak of Soviet-Indian cooperation marked by signing ‘the Soviet-Indian Treaty of Peace, Friendship and Cooperation’. It was a strong support to India when it was in war with Pakistan which received support from China and the USA. At the UN Security Council, the USSR thrice vetoed resolutions on the situation on the Indian Peninsula.

On July 2, 1972 the Shimla agreement to resolve the Kashmir issue was hailed by the Soviet Union for peace and cooperation between India and Pakistan. During the period 1977-80, the former Prime Minister, Morarji Desai visited the Soviet Union twice and emphasized that the Soviet-Indian friendship had survived the test of time and it was the important factor in the cause of peace and stability in Asia and the whole world. Brezhnev had permitted Indian licensed production of some newer Soviet systems at concession prices and his willingness to accept payment in rupees, made again India heavily dependent on the Soviet Union. Despite India’s diversification efforts in the 1980s, it was almost 70 to 85 % dependent on Soviet arms supply. Moscow offered New Delhi generous terms of loans and signed agreements, granting long-term credit, repayment by export of Indian merchandise rather than by hard currency. Moscow also allowed licensed production of arms and did some technology transfer in the year 1980. During an official visit to the USSR of then Indian Prime Minister Rajiv Gandhi in 1985, an agreement was entered on guidelines for trade, economic scientific and technical cooperation in the establishment of a number of specific projects in India for further expansion of mutually beneficial contacts.

Gorbachev during the period, 1985-1991, radically altered the super power and East-West relationship to end up the supremacy of the communist party of the Soviet Union. He tried to reform and democratizes the administrative command system. Gorbachev became the General Secretary of the CPSU in 1985 and president in March 1990,
visited India after Brezhnev’s visited in 1973 to seek new areas and forms of cooperation aimed at reassuring that improvement of Soviet Union’s relations with China would not be at the cost of India. Common geopolitical interests continued to bind India and Russia. Gorbachev offered India a fresh credit of Rs.2000 crore. Both the countries faced a similar problem of modernizing and restructuring their economies. There were some problems in the Indo-Soviet economic transactions like poor quality of some of the goods exported by India, re-export of Indian goods by the Soviets to hard currency markets, oil, newsprint and industrial raw materials remained the main items of Soviet exports to India. These items could well be sold in international market for much needed hard currency. During 1987, India received a wide range of sophisticated Soviet weapons. India was among first few countries to receive MIG-29 aircraft along with the right to produce them in the country. India could pay for Soviet military equipment through the clearing system of trade i.e. exports of Indian goods and saving scarce hard currency. Due to fall in oil prices in 1986-87, India-Soviet trade had declined but by the year 1988, trade again picked up by 24% over 1987. Gorbachev’s visit to India in November 1988, focused on the importance of goods relations between Soviet Union, India and China for solving the problems of Asia-Pacific region. During the same visit Gorbachev gave the largest ever Soviet credit to India of 3.6 billion ruble or Rs.5, 400 crore. This credit was mainly for six Power Projects and nuclear power station in Tamil Nadu.  

During 1987-91, 79% of India’s 17.6 billion dollar worth of arms purchases were from the Soviet Union. Then India’s Prime Minister, Rajiv Gandhi’s visit to the Soviet Union in July 1989 expanded bilateral ties. India remained an important source of a large variety of common consumer goods at a time when the Soviet economy was hard hit by a chronic shortage of these goods. Gorbachev increased ruble credit facilities for greater imports from India. Both agreed to cooperate at the highest levels of policy-making on vital matters such as disarmament and development. In the fields of the exchange of traditional goods, the two sides had approached the ceiling in the delivery of goods. Instead of improving, the economic performance of the Soviet economy

4 : http://en.wikipedia.org/wiki/Mikhail-Gorbachev  
5 : Thakur Ramesh (1993)
actually declined, despite of Gorbachev’s efforts. By the middle of 1989, the Indo-
Soviet relations lost the warmth and confidence of four decades. So attention was paid
to new forms of cooperation including co-production arrangement.

3.3: Yeltsin’s Period, 1991-1999: When Yeltsin joined Soviet Union, Gorbachev’s
efforts to democratize the system had resulted in the foreign exchange crisis, the fall in
the production of raw materials, the fall in the supply of labour, decline in fixed capital
assets and the budget crisis.

3.3.1: Disintegration of the Soviet Union in 1991
Gorbachev was a man of vision and ideas. His bold initiatives for disarmament and
arms control stirred the hearts and minds of the people across the globe. Within a short
period he radically altered the super power and East-West relationship. He wanted to
reform, democratize the repressive, inefficient and top heavy administrative command
system. Gorbachev’s prestige soared abroad, but within the country he began to lose
popularity as shortage of common consumer goods within the economy was
aggravating the economic crisis. The fall of communist governments in Eastern Europe
further dented the Soviet Union, particularly among the Baltic republics. Governments
in the republics tried to protect their own economic interests and obstructed the
movement of goods. In the highly integrated and interdependent Soviet economy, this
led to the breakdown of crucial production chains. Gorbachev’s pleas to the West for
helping the Soviet Union through large scale economic aid failed.

The Soviet Union’s economic difficulties and problems multiplied, Soviet supplies to
India became uncertain and irregular. In 1990, Moscow lacked in rupee funds to pay
for its purchases from India. India had to finance the USSR by granting it a technical
credit of Rs.1800 crore. India herself was facing acute fiscal crisis at that time. The
grant of such a large technical credit to Moscow increased India’s budget deficit and
fuelled inflation. The Soviet Union preferred to sell their oil for hard currency rather
than supply it to India for rupee payment. It was reported in 1989 that the USSR was

6: Pankin Nikalai (1991)
putting pressure on India for signing the NPT and that the USA was pressuring Soviet Union to do so. Thus, the ‘special relationship’ between India and Soviet Union was already disturbed when the process of final disintegration of the Soviet Union started. Gorbachev’s position as the President of the Soviet Union became extremely weak. One after the other, all the republics declared their sovereignty. Yeltsin took over Russian presidency in June 1990.

By the end of the year 1991, Soviet Union disintegrated into 15 sovereign states. Moscow remained the most important capital in the former Soviet Union. The collapse of the Soviet Union was total anarchy in the initial years with near complete breakdown of the administrative system, law and order and increase in crime rate. The supply of crude oil, crucial raw materials and vital spare parts were affected and Indo-Soviet trade was dislocated and came to a standstill. India tried to protect and minimize the damage to its interests by moving closer to the West, to Southeast Asia and to China.7

3.3.2: Revival of Russia

Before 1991, Soviet Union was dominated by one republic and it was Russia. The Russian Soviet Federated Socialist Republic (RSFSR) was by far the biggest republic both from the point of view of population and territory. Its population was more than half the population of the former Soviet Union.8

Defense links between Russia and India were disrupted after Soviet disintegration, because of the breakdown of overall commercial and financial arrangements. Since 70% of the defense inventory of arms and equipment of the Indian Armed Forces were of the Russian-Soviet origin, it warranted immediate search for alternative sources.9 The policies chosen for this difficult transition of the world’s largest state-controlled economy into a market oriented economy were liberalization, stabilization and privatization.

7: Ibid
8: Montgomery, David.C. (1983)
9: Kanshi Davendra (1985)
In October 1991, Yeltsin proceeded with radical market oriented reforms along the lines of ‘shock therapy’ when liberalization of foreign trade, price and currency was effected. As the economy was disordered badly, harsh measures were essential for quick prosperity. Firm control on budget deficits and inflation resulted in factory closures and rise in unemployment over a longer period of time. This entailed removing Soviet-era price controls in order to lure goods back into Russian stores, removing legal barriers to private trade and manufacture, and cutting subsidies to state farms and industries while allowing foreign imports into the Russian market in order to break the power of state owned local monopolies. Besides the collapse of the Soviet Union, the forces of globalization affected bilateral economic relations. Both India and Russia launched the policies of liberalization and market reform in 1991. The ‘shock therapy’ proved to be very harmful. It created powerful oligarchs, who were benefited from privatization in the country and gradually evolved as real power brokers. Unbalanced economic development, high inflation, massive corruption, poverty and organized crime were other outcomes of this therapy. Corruption of Government officials made them very rich and was called ‘oligarchs’ who took billions in cash and assets outside of the economy. All these badly affected Russia’s foreign trade with India.

In January 1992, the government controlled money and credit creation especially to state enterprises. At the same time it lifted price controls but enterprise faced cut in demand for their products. Instead of curtailing production, most firms chose to build up inventories. To support continued production under these circumstances, enterprises relied on loans from other enterprises. By mid-1992, the amount of unpaid enterprise loans had reached 3.2 trillion rubles (about US $20 billion). By the end of 1992, the Russian budget deficit was 20% of GDP. This led directly to high inflation and to deterioration in the exchange rate of the ruble.10

The visit of President Yeltsin to New Delhi, in January 1993, had put Indo-Russian relations on a firm footing. India signed a new treaty with Russia ‘the 20 year Treaty of

10: www.wikipedia.org
friendship and cooperation’ in January 1993 and other treaty on bilateral Military-Technology cooperation, in 1994 valid until 2010. By 1993, Russia woke up to new realities of the burgeoning dangers of the US as ‘Sole super power’ and the negative aspects of globalization, challenges were on the head. New Russian Paradigms were as follow:

i. Strengthening Russia’s military and political positions in different regions of the world.

ii. Raising hard currency for the state needs, defense conversion projects, defense production and disposal of weapons and restructuring of defense industries.

iii. Maintaining the required level of exports of conventional weapons and military hardware.

iv. Developing a scientific and experimental basis for the defense industries and their scientific research and design institutions and organizations.

There was a departure from the above listed paradigms which India and Russia had agreed for joint development and joint production of weapons and to develop the Indian exports.

The most important item on Yeltsin’s agenda was to settle India’s debt payment which was nearly ten billion rubles due to the former Soviet Union. During 1993, India and Russia renegotiated the entire trade regime. An agreement signed in 1993, terminated the rupee trade arrangement and mandated all bilateral trade transactions to be conducted on hard currency basis. The issue of repayment of civilian and military loans taken by India was also discussed and after prolonged negotiations, the ruble credit was denominated in rupees and repayment schedule was drawn up. It was agreed that India would pay about Rs.3000 crores, being 63% of debt, annually to Russia for 12 years from 1994 with 2.4% interest, and the remaining 37% of the debt was to be paid back over 45 years with no interest, at the rate of 31.57 rupees to a ruble, that Russia would use the rupees to buy Indian goods. Later, it was agreed that this amount could be put to auction to Russian and third party enterprises at discount to

make Indian goods more economically viable. The method of repayment was reworked during 1996-97, when the Russian Ministry of Finance auctioned the debt payments at the foreign exchange tenders and Russian firms and organizations bought debt payments from them for purchase of goods in India. Further, all Russian firms and organization, mainly importers of tea and other traditional goods of Indian exports acquired the right to purchase these payments on tenders.\textsuperscript{12}

Since the year 2010, Indo-Russian bilateral trade is based on payments in freely convertible currencies. All Russian exports to India follow the new system. But only about 20% of Indian exports follow the new route. Rest is financed through the negotiated rupee-debt repayment mechanism. So, around 80% of Russian imports from India were routed through debt repayment rupee channel. Several Indian exporters took advantage of the situation by supplying goods of poor quality, which resulted in loss of the part of the Russian market for Indian textiles, leather, shoes, tea, coffee, tobacco and medicines which were major items in the Indian export basket to that country.\textsuperscript{13}

As a result, both countries finally agreed to use the balance of debt-repayment rupee funds as investment in India. Both countries have agreed to invest this money in the manufacturing of the multi-role transport aircraft, production of titanium dioxide in India for the purpose of exporting it to Russia and other projects. A part of this money has been proposed to be used as investment in the Indian energy sector. This would certainly augment bilateral economic cooperation in the coming future.

Formation of new Constitution of Russia - New Government considered macroeconomic stabilization a primary goal of Russian economic policy. In January 1993, government followed an anti crisis program to control inflation through tight monetary and fiscal policies. A new constitution was approved by referendum in December in 1993. Russia was given a strong presidential system. The Central Bank raised the discount lending rate to reflect inflation. The IMF extended the first payment

\textsuperscript{12} Mohanty Arun (2001)
\textsuperscript{13} Mohanty Arun (2011)
of US$ 1.5 billion to Russia from a special Systematic Transformation Facility (STF). State enterprise arrears had built up in 1993 to about 15 trillion ruble that is about US $13 billion according to the mid-1993 exchanged rate.\textsuperscript{14}

By October 1994, inflation began to increase due to the plunge in the value of the ruble on inter-bank exchange market by 27\%. October 11, 1994 was declared a ‘Black Tuesday’ when ruble had fallen considerably in value (30 \% in a single day) and prices rose accordingly. Within a month average wages in public sector had fallen from monthly 107.2 US dollars to 88.5 US dollars.\textsuperscript{15}

In late 1994, Yeltsin implemented a tight monetary policy that ended cheap credits and restrained interest rates. The aim of stabilization and reducing inflation had been kept at top priority by the government. During most of 1995, the government maintained its commitment to tight fiscal constraints, and budget deficits remained within prescribed parameters. Yeltsin was committed towards economic reforms.

By the end of October 1995, the ruble had stabilized and actually appreciated in inflation-adjusted terms. From June 1996, the ruble was decided to become fully convertible on a current account basis. The structure of Russian economic output had improved like a developed market economy. Energy prices remained controlled and the government had been shifting the prices upward to close the gap with world market prices. Moscow also became the centre of foreign investment in Russia.

By the end of 1997, Russia had achieved some success. Inflation had been brought under control. The ruble also stabilized and an ambitious privatization program had transferred thousands of enterprises to private ownership. Some important market-oriented laws had also been passed and the establishment of an arbitration court for resolving economic disputes. It showed that five years of Russian crises were over by 1997. Instead of an economic upsurge, a decline had registered in the first quarter of

\textsuperscript{14} Imam Zafar and Romanosky, N.V. (2000)
\textsuperscript{15} www.wikipedia.org
1998 by 0.5 % in Russia’s GNP. On top of it, oil prices in the world markets had fallen down at this time from $20 to $14 per barrel adding to Russian government’s woes.\(^{16}\)

The global recession of 1998, which started with the Asian Financial crisis in July 1997, affected Russia’s economy. There was a decline in world commodity prices, countries heavily dependant on the export of raw materials such as oil were among those badly affected. Oil, natural gas, metals and timber accounted for more than 80% of Russian exports. Oil was also a major source of government tax revenue. The sharp decline in the price of oil had severe consequences for Russia.

In an effort to prop up the currency and inflow of capital interest rates were hiked to 150% in order to attract buyers for government bonds. Russia took help from IMF to maintain its exchange rate. The value of the ruble fell badly to pay off the interest on the loans taken.

Recovery from crisis- Russia bounced back from the August 1998 financial crash with surprising speed mainly due to rapid increase in world oil prices during 1999-2000. Another reason is that domestic industries such as food processing had benefited from the devaluation, which caused a steep increase in the prices of imported goods. Since Russian economy was operating to such a large extent on barter and other non-monetary instruments of exchange, the financial collapse had less of an impact on many producers than it would have if the economy was totally dependent on a banking system. Finally, the economy was helped by an infusion of cash and enterprises were able to pay off arrears in back wages and taxes.

In late 1999, Putin was declared as Yeltsin’s successor as President. At that time Chechnya crisis was going on. During December 1999 Parliamentary elections, Yeltsin resigned from his presidency before his term. So Putin became acting President and in March, 2000, he finally became President. Five and a half fold devaluation of ruble

\(^{16}\) Ibid
had enabled many domestic industries to compete with imported goods. This had served to revive many domestic Russian industries.

Positive trends had come to operate as economic and social support for Putin’s rise to power. GNP growth in 1999 amounted to 3.6 %. Overall industrial production growth after 1998 crisis reached to about 10 % by 1999 and 2000.17

The prominent features of Yeltsin’s period were declining economic trend, failure to pursue economic reforms in the desired directions, overdependence on the West for moral, material support to carry out economic reforms and divergent perceptions among the Russian foreign policy elites. Purchasing power of ruble/dollar fell in Russia by 100 to 150 times. Yeltsin’s legacy served as an agenda for Putin to go ahead in a different economic trajectory. The Putin’s office and his position initially faced challenges from many quarters like regional leaders entrenched in the Council of Federation, oligarchs, Influential mass media, crime and corruption.

3.4: Putin Years: 2000-2008
3.4.1: Resurgence of Russia

The ideology, priorities and policies during the Putin administration marks another phase in the history of Post Soviet Russia. Putin established an institution of Presidential envoys in the seven main territorial and economic units of Russia Fast East, Volga region, Ural, East Siberia, Western Siberia, North Caucasus and North-West of Russia. Relationships with local Governors were modified and loyalty to Putin and to the centre was ensured. Putin came into office when the economy was “totally decentralized” and the state had lost central authority while the oligarchs robbed the country and controlled its power institutions. In two years, Putin had restored hierarchy of power, ending and destroying political influence of “oligarchs and oligopolies in the federal center.” During his two terms as President, Putin signed into law a series of liberal economic reforms and political measures18 such as:

17: www.wikipedia.org
1. In 2001, Putin introduced flat tax rate of 13%; the corporate rate of tax was also reduced from 35% to 24%. In a new system, companies could choose either a 6% tax on gross revenue or a 15% tax on profits.

2. Putin confronted many influential oligarchs who attained large stakes of state assets during the privatisation process. Putin also established control over Russian media outlets and print Media.

3. On October 23, 2002, Chechen separatists took over a Moscow theatre. The separatists demanded the immediate withdrawal of Russian forces from Chechnya. Putin began his efforts to eliminate the Chechen insurrection.

4. Putin came into office at an ideal time: after the devaluation of the ruble in 1998, which boosted demand for domestic goods, and while world oil prices were rising. There was a consistently positive balance of the federal budget which had cut 70% of the external debt.

5. Within this period, poverty in Russia was cut by more than a half and the average monthly salaries increased from $80 to $640, or by 150% in real rates. So, Putin was given credit for all above recovery. Putin won the Russian presidential election in 2004 without any significant competition.

In 2005, Putin launched National Priority Projects in the fields of health care, education, housing and agriculture. Putin’s regime had developed a “Corporate System”. The 2000s had so far been an economic boom for Russia, with GDP rising about 7% a year; by the beginning of 2008, Russia had become one of the ten largest economies of the world with GDP rising about 7% a year.

What Putin had built in socio-economic terms was characterized as “Petro state”: Putin, power and the New Russia. Putin had implemented mainly reforms such as a 13% flat tax and creating a stabilization Fund to lessen inflationary pressure and the renationalization of major energy assets. During 2007, with high energy prices, sound fiscal policies and tamed oligarchs, Putin no longer needed international loans for

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economic assistance and had no trouble attracting major foreign investment despite growing tension with Western governments.  

To sum up, under the Putin administration, Russia’s economy saw the nominal Gross Domestic Product (GDP) double, climbing from 22nd to 11th largest in the world. The economy made real gains at an average 7% per year (2000: 10%, 2001: 5.7%, 2002: 4.9%, 2003: 7.3%, 2004: 7.2%, 2005: 6.5%, 2006: 7.7%, 2007: 8.1%, 2008: 5.6%), making it the 7th largest economy in the world in GDP (PPP). In 2007, Russia’s GDP exceeded that of 1990, that means it had overcome the consequences of the Soviet era, 1998 financial crisis and preceding recession in the 1990s.

During Putin’s eight years in office, industry grew by 75%, investments increased by 125%, and agriculture production and construction increased as well. Real incomes more than doubled and the average salary increased eight-fold from $80 to $640. The volume of consumer credit during 2000-2006 increased 45 times. The number of people living below the poverty line also decreased from 30% in 2000 to 14% in 2008. Inflation remained a problem as the government failed to control the growth of prices. Despite of growth, the Russian economy is still commodity driven. Payments from the fuel and energy sector in the form of customs duties and taxes accounted for nearly half of the federal budget’s revenues. There was also a growing gap between rich and poor in Russia.

The Putin era has been termed as the transformational period for Russia as well as for the India-Russia strategic partnership. After the Yeltsin years, Putin was the major factor in re-vitalizing Indo-Russian closeness which has reached a stage where any change in the leadership in either country or closeness with any other country would not make much of a difference to their partnership.

After Putin’s term, the Global financial crisis of 2008 in Russia has resulted in three major shocks to Russia’s long-term economic growth through oil prices dropping from

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20: Simes, Dimitri (2007)
$140 per barrel to $40 per barrel, a decrease in access to financing with an increase in sovereign and corporate bond spreads and the reversal of capital flows from $80 billion of inflows to $130 billion in outflows which have resulted in bringing down the Russian economic growth. The ruble stabilized in January 2009, the reserves began to steadily grow again in 2009 and reached to $452 billion by the end of the year 2009. It could be stated that though deep but brief recession, Russian economy has not been as seriously affected by the global financial crisis compared to much of Europe, mainly because of the integration of short term macroeconomic policies that helped the economy to survive. On the other side India’s GDP growth had started decelerating in the first quarter of 2007-08, nearly six months before the outbreak of the US financial turbulence with increasing relaxation of capital account transactions and the close integration of the domestic economy with international financial markets\textsuperscript{22}. There was a steady fall in the value of the rupee despite substantial running down of foreign currency assets by the Reserve Bank of India.

3.5: Medvedev Vision of Russia’s Future

On May 7, 2008, Medvedev joined as the third President of Russian Federation and aimed at modernizing the economy. His vision of Russia’s future is mainly focused on energy efficiency and corruption reduction.\textsuperscript{23} On May 8, 2008, he appointed Vladimir Putin as Prime Minister. Medvedev has prioritized Russia’s economic development strategy up to 2020. The objective is to determine the ways and methods for steady rise in living standards of citizens, strengthening national security and dynamics of economic development in the long run to make Russia one of the technological leaders of the world to raise labor productivity in major sectors of the economy, to increase the share of middle class in country’s population by up to 60-70%, decrease the death rate by one and half times and enhance average life expectancy to 75 years. The strategy emphasized to concentrate efforts for solution of three key tasks:

\textsuperscript{22}: Rikshit Mihir ( 2009)
\textsuperscript{23}: Mohanty Arun ( 2010)
i) Creation of equal opportunities for the people.  
ii) Encourage motivation for innovation based development.  
iii) Significantly raise effectiveness of the economy mainly based on growth of labour productivity.

There are only four possible development strategies for Russia: rent centered strategy, mobilization strategy, strategy based on inertia and modernization strategy:

i. The essence of rent based strategy advocates that source for development would be rent collected from natural resources. During decline in energy prices, the risk of conflict based on redistribution is fairly high under this strategy.

ii. Mobilization strategy is based on concentration of resources in state-sector and its redistribution for development of priority sectors like energy, infrastructure.

iii. The inertia based strategy stipulates tactical maneuvering between various interest groups and find a solution to problems as they get acute.

iv. Modernization strategy is a complex institutional arrangement of the society, business and state. Strong point of the strategy is positive long term outcome in the sphere of socio-economic development.

Experts estimate the probability of execution of above strategies as Rent strategy-20%, mobilization strategy-20%, inertia-50% and modernization strategy only 10%. The first three forces together could take the country on to a modernization path only through their joint efforts. The new long term development plan has given priority to investment in human capital, improving the quality of education, science, health care, building of national innovation system, modernization of the economy by way of rational use of natural resources and development of new competitive sectors in high tech areas of knowledge economy.

The ultimate objective of the strategy is to make Russia one of the top five economies of the world and establish Russia as a leader in global energy infrastructure, technological innovation as well as a major international financial centre. The broad objectives of the strategy are to increase the GDP to a level that would ensure $21000 per capita income by 2020 and 3.4% share in global GDP to place 60-70% of the
population in the category of middle class and reduce poverty level to that of
developed countries. Innovation – driven development strategy would ensure transfer
of Russian economy to the trajectory of long-term sustainable growth with an average
annual growth rate of 6.4-6.5%.

Medvedev has focused on innovation as the central pillar of the long term development
strategy. Innovations in five major directions are:

i. Energy effectiveness, energy saving and work on new type of energy.

ii. Nuclear technology

iii. Space technology

iv. Technology in the medical sciences and

v. Strategic information technology.

To conclude Russia’s two decades, 1991-2010 changing economic condition (GDP)
have been shown in the following Figure No. 3.5.1:
The figure is clearly showing the Russian GDP growth during Yeltsin, Putin and Medvedev time periods. Yeltsin took the charge of Russia in 1991, when the economy was disordered badly and failed to pursue economic reforms in the desired directions. So, GDP had shown continuous fall but Russian economy achieved some success by the year 1997, as GDP had shown modest growth. Again in 1998, global recession affected Russia’s economic crisis and GDP again showed a fall. From August 1998 onwards, Russia started recovering fast mainly due to rapid increase in world oil prices during 1999-2000. Another reason was that domestic industries had benefitted from the devaluation. During Putin’s time, Russian economy made real gains at an average of 7% per year. Again in 2008 (after a decade), global financial crisis affected the Russian economy. During 2009, GDP showed negative growth but economy emerged from recession in the third quarter of 2009 and showed positive growth in the year 2010. Russia’s President, Medvedev tried to balance the situation quite fast with new technologies. It could be stated to conclude that Russia has undergone significant changes since the collapse of the Soviet Union, moving from a centrally-planned economy to a more market based and globally-integrated economy.

On the basis of strong historical relations between India and Russia it can be stated that traditionally close cooperation in the military technical field has been a major pillar of their strategic partnership and a reflection of the trust and confidence that has been built up between the two countries over the last half century. It has been recognized that considerable potential exists for mutually beneficial investments by the two countries in the privatization programmes and both have aimed at fostering technological innovation in their respective economies. This indicates vast market opportunities and scope for development of wide range of economic sectors without much resource constraint. In changing South Asia scenario, India and Russia are expected to remain potential partners strengthened the old traditions of friendship.