Chapter IV

INDIA-RUSSIA TRADE & ECONOMIC RELATIONS DURING THE TWO DECADES: 1991-2010
CHAPTER-IV

INDIA-RUSSIA TRADE AND ECONOMIC RELATIONS (1991-2010)

4.1: Introduction

Indo-Soviet trade relations occupy an important place in the diverse and complex economic relations between the two countries. It is based on the fact that Soviet Union gave India an opportunity to overcome its colonial legacy at its crucial period in history, when India was asserting its policy of non-alignment and economic independence. The enterprises built in cooperation with the Soviet Union contributed 80% of India’s production of metallurgical equipment and hydraulic turbines for power stations, around 50% of its oil production, 30% of oil processing, 30% of the country’s steel output and a substantial part of its power generation.\(^1\) In an independent India, the trade relations between the two countries ushered with the conclusion of an agreement in 1950 on regular sea communication followed by a barter agreement in 1951 for the supply of Soviet wheat in exchange for Indian tea and jute. These arrangements were based on the principle of equality, mutual benefit and imposed no foreign exchange burden on India, as Indian currency rupee had been accepted as the medium. These agreements saved a lot of foreign exchange for India.

Besides this, growing Indo-Soviet trade relations helped India to diversify its trade with other East European countries also. So this phenomenal growth in Indo-Soviet trade during the first four decades (1951-1990) could be attributed to the rupee-ruble clearing house arrangements. Total trade turnover between the two countries increased from 0.12% of India’s total trade in 1950-51 to a level of 11.45% in 1990-91.

Major areas of cooperation between the two countries are defense, energy, pharmacy, science and technology, space etc. The potential areas of trade growth are diamond and gold, coal, information & technology etc. Since the year 2000 onwards, investment

\(^1\): Wadhwa,K.R. (2005)
cooperation between the two countries is increasing in each other’s country. Various initiatives and policy measures have been taken from time to time in order to promote trade and economic cooperation between the two countries but still their trade and economic ties are much below their potentials. Investment cooperation is important for increasing bilateral economic relations between India and Russia in the form of FDI. India’s investment in Russia is greater than Russia’s investments in India but otherwise India is the second most attractive destination for FDI in the world after China.

4.2: India Russia Trade Relations

Following the breakup of Soviet Union in 1991, trade share had been falling. Analysis of India Russia trade is done for two decade. During the period 1991-1999, trade balance remained in India’s favor whereas during the period 2000-2010 trade balance remained in Russia’s favor.

4.2.1: India Russia Trade Relations: 1991-1999

After the Soviet breakup, India-Russia trade and economic relations underwent major changes during the last two decades i.e.1991-2010. India-Russia trade turnover has drastically gone down from Rs.7800 crore in 1990-91 to Rs.6337 crore in 2001-02, a fall of 18.76%. There was a sharp decline in the total trade in the year 1992-93. India-Russia trade data is not available for the years 1991-1992 on CMIE internet site. The end of the ‘rupee-ruble’ exchange scheme, after the disintegration of Soviet Union, transformed the nature of Indo-Russian trade based on convertible currencies since 1992. The debt repayment together with a credit line extended by the Government of India to Russian business was an encouragement to commerce after 1993 (when the repayment arrangement was formally approved). Immediately after the disintegration there was a fall of 67% in exports and 71% in imports, though there was potential to touch much higher level than the actual level. It was mainly due to lack of knowledge about business potential and lack of understanding between the private sectors of the two countries. There was no conflict of interest between the two yet bilateral trade had been faltering. Indo-Russia trade declined substantially during 1991-1999. During the year 1999, bilateral trade was only about $ 1.5 billion, which accounted for only 2.5%.

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of India’s exports and about 1.3% of imports. Throughout the 1990s, the trade balance was in favor of India. India maintained its exports much higher than imports from Russia.

Though in absolute terms the trade has recovered in subsequent years, in percentage terms the share has continued to decline. The reasons for decline in Indo-Russian trade were:

i. The bulk of trade was being conducted with other republics of the USSR.

ii. During the days of Soviet Union, public sector was playing an important role in setting up industrial units and it found economic cooperation with the Soviet Union more beneficial.

iii. Liberalization, privatization and globalization were the important developments and both countries looked towards West and European Union.

Though India enjoyed a favorable balance of trade with Russia even after disintegration of USSR but this did not include the purchase of Russian defense equipment by India.

Table No.4.2.1: Trade between India and Russia: 1993-94 to 1999-2000 (US$ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports to Russia</th>
<th>% share in total exports</th>
<th>Total imports from Russia</th>
<th>% share in total imports</th>
<th>Total trade turnover</th>
<th>Balance of trade of India</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>648.60</td>
<td>2.92</td>
<td>256.89</td>
<td>1.10</td>
<td>905.49</td>
<td>(+)391.71</td>
</tr>
<tr>
<td>1994-95</td>
<td>807.38</td>
<td>3.07</td>
<td>504.54</td>
<td>1.76</td>
<td>1311.92</td>
<td>(+)302.84</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,046.55</td>
<td>3.29</td>
<td>857.53</td>
<td>2.33</td>
<td>1904.08</td>
<td>(+)189.02</td>
</tr>
<tr>
<td>1996-97</td>
<td>811.84</td>
<td>2.42</td>
<td>628.96</td>
<td>1.61</td>
<td>1440.80</td>
<td>(+)182.88</td>
</tr>
<tr>
<td>1997-98</td>
<td>954.12</td>
<td>2.72</td>
<td>679.02</td>
<td>1.63</td>
<td>1633.14</td>
<td>(+)275.10</td>
</tr>
<tr>
<td>1998-99</td>
<td>709.26</td>
<td>2.14</td>
<td>545.42</td>
<td>1.29</td>
<td>1254.68</td>
<td>(+)138.84</td>
</tr>
<tr>
<td>1999-00</td>
<td>952.60</td>
<td>2.53</td>
<td>618.23</td>
<td>1.31</td>
<td>1570.83</td>
<td>(+)334.37</td>
</tr>
</tbody>
</table>

Source: Centre for Monitoring Indian Economy (CMIE)

3 : Centre for Monitoring Indian Economy, 2010
Above table clearly indicates that during the period 1993-2000, balance of trade was in India’s favor despite of no steadiness in trade and wide fluctuations which prevailed due to following reasons:

i. In the first half of the decade, there was sharp decline in the GDP, industrial and agricultural production, break up of linkages among the Soviet republics resulted in decline of foreign trade of Russia etc.

ii. Economic transition was still in process new banking and financial institutions were not fully developed.

iii. Specific arrangement of Rupee-trade was discontinued. But by 1993-94, there was multiplicity of trade channels between India and Russia such as Debt Repayment Account, Hard Currency account etc. which added to complexities.

iv. Lack of experience in Russia about functioning of market economy and the private organizations were not adequately equipped with to manage the foreign trade.

It is also important to mention that some Indian small scale producers and trading firms adopted unfair practices and supplied substandard products to Russia, which created problems in promoting trade between the two countries. Some of these constraints were partly overcome in the second half of the 1990s by some major Indian pharmaceutical companies and by Russian specialists who had visited India. So due to all above reasons Indo-Russia total trade turnover passed through a decadal decline after the disintegration of the Soviet Union. India’s exports to Russia declined by about 45% during the decade (1991-2000). India’s imports from Russia also fell down till 1994 and then afterwards picked up. During 1999-2000, India’s exports had crossed even 1991 level and imports also had increased substantially, total turnover increased by 15% (approx). It could be clearly stated that there were high fluctuations over the years due to lack of stability in trade relations between the two countries.

4.2.2: India Russia Trade Relations: 2000-2010

After a period of stagnation in Russian-Indian relations throughout the 1990s, Russian companies returned to their former positions on the new Indian market in the early 2000s. Overall growth environment along with favorable investment climate attracted
foreign companies to Russia. The two countries, India and Russia fostered mutually advantageous cooperation in various sectors including defense, space, energy, nuclear energy and science & technology.

India-Russia relations got a major boost with the signing of declaration of strategic partnership in 2000 with a long term perspective. A Joint Study Group (JSG) was established to examine the achievement of the trade targets. Relations between India and Russia have reached a high level and have been mutually beneficial over the past ten years. India extended ties with Russia especially in defense and nuclear spheres. India has become one of the biggest importers of Russian military assets and proved to be a growing market for hydrocarbons and nuclear energy. At present, Russia and India have to cooperate under condition of acute competition on the global market for goods and services. Russian companies in India and Indian companies in Russia have to fight to participate in public tenders and compete with major global producers.

After setting up of JSG in 2006, bilateral trade started picking up. Russia-India trade increased by 40% in the year 2007 and amounted to $5.3 billion around from $3.9 billion in the year 2006 as shown in Table No.4.2.2.

Table 4.2.2: Trade between India and Russia: 2000-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>India’s import from Russia (US $ billion)</th>
<th>India’s export to Russia (US $ billion)</th>
<th>Total trade (US $ billion)</th>
<th>Balance of trade: India (US $ billion)</th>
<th>Change in trade YOY%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.081</td>
<td>0.555</td>
<td>1.636</td>
<td>(-)0.526</td>
<td>--</td>
</tr>
<tr>
<td>2001</td>
<td>1.117</td>
<td>0.543</td>
<td>1.660</td>
<td>(-)0.574</td>
<td>1.47%</td>
</tr>
<tr>
<td>2002</td>
<td>1.628</td>
<td>0.515</td>
<td>2.143</td>
<td>(-)1.113</td>
<td>29.10%</td>
</tr>
<tr>
<td>2003</td>
<td>2.735</td>
<td>0.584</td>
<td>3.319</td>
<td>(-)2.151</td>
<td>54.88%</td>
</tr>
<tr>
<td>2004</td>
<td>1.554</td>
<td>0.631</td>
<td>2.185</td>
<td>(-)0.923</td>
<td>(-)34.17</td>
</tr>
<tr>
<td>2005</td>
<td>2.314</td>
<td>0.784</td>
<td>3.098</td>
<td>(-)1.530</td>
<td>41.78%</td>
</tr>
<tr>
<td>2006</td>
<td>2.987</td>
<td>0.968</td>
<td>3.995</td>
<td>(-)2.019</td>
<td>27.66%</td>
</tr>
<tr>
<td>2007</td>
<td>4.011</td>
<td>1.309</td>
<td>5.320</td>
<td>(-)2.702</td>
<td>34.51%</td>
</tr>
<tr>
<td>2008</td>
<td>5.231</td>
<td>1.715</td>
<td>6.946</td>
<td>(-)3.516</td>
<td>30.56%</td>
</tr>
<tr>
<td>2009</td>
<td>5.936</td>
<td>1.523</td>
<td>7.460</td>
<td>(-)4.413</td>
<td>7.40%</td>
</tr>
<tr>
<td>2010</td>
<td>6.392</td>
<td>2.142</td>
<td>8.535</td>
<td>(-)2.143</td>
<td>14.40%</td>
</tr>
</tbody>
</table>

Two way trade volumes crossed $ 6.9 billion in 2008. During 2005-10, India Russia trade registered a compound annual growth rate (CAGR) of 13% and increased by almost three times in the year 2010. India was a net importer from Russia during this period with higher CAGR of imports (15%) than that of exports to the country (8%).

During the year 2008, the Indo-Russia chamber of commerce opened to help India for building a strong business relationship with Russia. The areas focused have been transport, food industry, power generation, pharmaceuticals, mining and metallurgy, up and downstream oil and gas, information and technology, space exploration, biotechnology, and applied sciences. Lack of information on the part of corporate of both countries was an obstacle that had come in the way of expanding economic linkages between the two countries.

During the decade 2000-2010, India’s imports from Russia had increased by three and half times. But India’s exports to Russia could not be sustained. So the situation had changed dramatically since 2003-2004. During this decade India had negative trade balance with Russia that had earlier maintained a northward trend year after year. The data given in the Table Nos. 4.2.1 and 4.2.2 exclude the value of India’s imports of defense goods and equipments from Russia. The Table No. 4.2.2 has shown a huge adverse trade balance, which is against India’s economic interest. During this period, India had been losing its share in the Russian market with regard to traditional items of export. Only for pharmaceutical products, there was a major increase in India’s export to Russia.

For the period 1993-2010, India- Russia Exports, Imports, Total trade have been shown in Figure no. 4.2.1 based on data given in Table 1 of Appendix No.4.2.1. Calculations of trade trend line (Yc) are given in Table 2 of the same Appendix.
Figure No. 4.2.1: India-Russia total trade 1993-2010 and trade trend up to 2015:

(Figures in US$ billions)

Despite of conscious efforts by both India and Russia to promote establishment of new contacts and wider cooperation between commercial and industrial circles and business association of two countries, trade turnover has remained below potential. The trade trend line up to the year 2015 is indicating that total trade would increase by 2015 but actual trade curve is showing higher increase than this trade trend line during the years 2007-2010. The trade trend line is based on the assumption that the trade environment will not change much during this period; that is the rate of change of total trade will be by constant amount (-0.38) throughout the period 2010-2015 as has changed during the period 1993-2010. This gives the average trade trend. Calculations of the same are given in Appendix 4.2.1. Above graph is showing that since the year 2007, total trade curve is showing much faster trade growth as compared with the average growth shown by trade trend line. To reach the target level of trade turnover of US$ 20 billion by 2015, both the countries are implementing special measures to promote trade relations.

The Indo-Russia Chamber of Commerce opened a forum on trade and investment, in February 2008. It has met four times (12-13 February 2007 in New Delhi, 12-13 February in 2008 in New Delhi; 29 September 2009 in Moscow; 20 December 2010 in New Delhi) with wide participation from both sides. Joint Study Group in 2007 and
India-Russia Chamber of Commerce helped India to build a strong business relationship with Russia. During the period 1991-2000, India and Russia focused on political cooperation and military and technical interactions but in the new millennium Russia and India concentrated on other areas such as trade and investments.

According to the Russian statistics, India-Russia trade grew at the level of more than 30% during 2007 and 2008 and reached US$7 billion. This was an unprecedented result of cooperation during the last 5-6 years (2005 onwards). It has proved the success and efficiency of initiatives as the year of Russia in India in 2008, intensified contacts between people of both nations and due to diversified scope of the Russian-Indian trade. Russia-India trade turnover has increased from $3.955 bn. in 2006 to $5.32 bn. and to $7.46 billion in the years 2007 and 2009 respectively. According to Russian Statistics, in 2009 and 2010, there was an increase in bilateral trade with India by 7.4% and 14.4% correspondingly, despite of global economic and financial crisis. During the year 2010, Russian exports increased by 7.7% whereas Russian imports from India increased by 40.5%.^5^

Trade and economic relations between India and Russia not only remained stable but also demonstrated their ability to further grow whereas global trade was seriously affected across continents due to unprecedented global economic crisis, Indo-Russian trade remained an exception. Total trade volume increased between the two countries, Russia’s share in Indian foreign trade was almost 10% and the Indian share in Soviet foreign trade was around 4% only in the year 2010. So, there was lot of trade imbalance, it was tilted in favor of Russia. Finally, Russia’s trade with India reached $10 billion in 2010 as per the target, up from $8.4 billion in 2009, mainly due to large volume of high technology exports. Manufacturing, energy, steel production, construction and agriculture are expected to be the prime trading sectors even beyond 2010. So, trade growth was registered in 2010^6^.

^5^: www.indianembassy.ru.index
and Cultural Cooperation held in Moscow in October 2009, a new target of bilateral trade turnover of USD 20 bn. was set to be achieved by the year 2015.

4.2.3: Structure of India’s Exports to Russia

During Soviet era, India had a monopoly position of traditional items exports. But during the transformation period, Indian exporters could not maintain and sustain this monopoly position due to various reasons: complexities of utilization of Debt Repayment Funds, multiplicity of payment channels; increasing role of ‘shuttle traders’ who dealt with unfair trading practices, trading in goods of substandard quality, dumping low quality goods to get quick profits, role of mafia elements from both the sides; economic crisis conditions prevailing in Russia in 1990s; growing competition in Russian market during the last several years and so on. Besides this, by the year 2005-2006, India had paid off major part of its Soviet era debt to Russia. So, lack of Debt Repayment Fund might be partly contributing to this decline in India’s exports to Russia. There was another setback for exports of several traditional items such as tea, coffee, rice and tobacco due to a notification issued by Russia’s animal and plant health watchdog Rosselkhoznadzor, which banned import of these items from India with effect from 28 January, 2008. Another important point was reduction in demand of some items like spices, cashew, rice etc. It was so, because in the past, exports were for the entire Soviet Union, meeting demand of different regions such as Central Asia, the Caucasus and the Baltic.

Medicines, pharmaceuticals and fine chemical items were the only major items of exports to Russia, nearly three-fold increase in seven years. India is competitive in Russian market for a wide range of medicines. Indian products are 50-60 % cheaper than comparable items from Europe. It is advantageous for Russia to import from India. India has potentiality for increasing exports of pharmaceutical products to Russia. Some leading Indian pharmacy companies have opened their establishments in Russia, which have made positive contributions to enhancing trade and economic ties between India and Russia. It is high time for other export items also that the Indian exporters should lay more emphasis on improving the quality of their goods and make them more competitive to make a mark in the new competitive Russian market. According to
FICCI’s report, even for Indian companies, Russia should reduce registration time to one year from two years like for European firms. India should take strong measures for maintaining the quality standards of its pharmacy exports.7

**Structural changes in India’s Export to Russia:**
There has been a major shift in the composition of India’s exports to Russia. As supplier of traditional and low value items like tea, coffee, ginger, jute, black pepper, handloom, sandalwood etc. to the ancient and medieval Russia, India has now emerged as supplier of non-traditional and value added items to Russia. For example, during the years 2002-03 ready-made garments as a group accounted for 37% of India’s exports to Russia and increased from US $81 million in 1996-97 to US $256 million in the year 2002-03 in a span of six years, which reflected that the Indian garments had wide acceptance among Russian consumers and is continuously growing.8 Export of drugs and pharmaceuticals are on upward trend over the last many years. Other potential items in the India’s export basket to Russia include coffee, tobacco, manufactured electronic goods, machinery and instruments, plastic and linoleum products, castor oil and for the last few years (5-6 years) energy equipments, mechanical devices and ferrous metals, organic chemical compounds have also been added in India’s export basket to Russia. Over the past five years, Indian exports of pharmaceuticals to Russia have more than doubled. Indian tea, coffee, tobacco, spices, nuts, marine products, canned vegetables and fruit are in high demand on the Russian market. India manufactures a wide range of competitive machinery and equipment needed by Russia. The low volume of Russian imports of the above products in previous years has been mainly due to lack of information about Indian producers.

**4.2.4: Structure of Russia’s Exports to India**
Russia’s major items of exports to India are iron and steel products, fertilizers, non-ferrous metals, synthetic rubber and a host of other items which account for about 50% of total exports. Russia exports significant quantities of newsprint, transport equipment,

7: Ibid
organic chemical, project goods and so on. Negative growth was found in Iron and Steel, Organic and Inorganic Chemicals, Gold and Silver. In fact, India had been facing competition from the countries like Sri Lanka, China and Brazil which had entered the Russian market in a big way with specific brands to capture the market. Other principal items of import from Russia include coal, coke, non-electrical machinery and briquettes were also added in India’s import basket from Russia. Russian companies are also getting involved in Indian markets in different sectors like construction, hotels, telecoms, civil nuclear cooperation and energy which shows dynamic approach of Russia in Indian market. Russian research centers and Steel Authority of India have established cooperation in the field of research, setting up nuclear power plants and joint venture participation to set up aluminum plants. The changed scenario of cooperation has elevated the bilateral relations from largely a buyer-seller level to the plains of partnership which is beneficial for both countries.

**Trade in Services:**

India and Russia have been successful in increasing their share in world services export. According to the Central Bank of Russia, in 2008 bilateral service trade increased by 50% compared with 2007. Russian services export to India decreased by 24.5% while services import from India increased by 131% in 2009, bilateral service trade decreased on 40% compared with 2008, Russian services export to India grew by 44.5% whereas services import from India decreased 3-fold\(^9\). The dynamics of Russian services export in India has been defined by the development of economic cooperation and trade, as well as by organizing of the year of Russia in India and the year of India in Russia in 2008-2009.

The trade in services structure is mainly of business, professional, technical services and transport. The largest part of it consists of construction and modernization services of industrial facilities by Russian organizations in India, development of transport communications i.e. construction of gas and product lines, roads, mobile networks, as well as maintenance of previously supplied equipment in such industries as electric power industry and metallurgy. In order to increase the Indian tourists going to Russia,

\(^9\) Mikhail. Rapata (2010)
in the year 2008 there started an electronic filing program for tourist’s acceptance and tourist visa’s arrangement.

The Russian services import from India is dominated by organization services of Russian tourists stay and construction services provided to Russian companies, which realize economic projects in India.

According to a study conducted by the Boston Consulting Group, it is estimated that 40 million new services jobs and US$ 200 billion revenue would be generated by 2020 in India. This would include 20 million direct jobs through remote services and through import of customers. For this, India proposes to seek preferential market access in Russia, beyond what has been given in its accession vegetations.

To increase the bilateral trade flow, it is essential to improve the environment for information dissemination regarding the activities in the sphere of construction of infrastructural facilities in India. India seeks market access for ‘Contractual Service Suppliers’ (CSS) and ‘Independent Professionals’ (IP). India wants free movement of natural persons and for this visa and immigration procedures, work permit norms, economic needs and labor market tests etc. need to be modified. The Russian side view is that these issues would be considered after the agreement on visas is reached and Russia becomes a member of WTO.

4.2.5: India and Russia: Commonalities of Interest, Barriers to trade and Steps to Overcome the Barriers

Indo-Soviet/Russia relationship was based on a number of common grounds from the beginning. Russia and India have identical position on issues such as the settlement of the Middle East Crisis, Iranian problem, situation in Central Asia, Afghanistan and other issues. Russia and India have readiness for large-scale interaction in the sphere of geopolitical interests, based on their desire to strengthen their respective regional positions, India in South Asia and Russia in Central and East Asia.

There has been mutual desire of both the counties to build new pipeline networks for energy and transport lines, connecting India with the Eurasian region. Both are
positively related to the perspective project of Iran-Pakistan-India gas pipeline. India has been preparing a new project with Iran and Russia’s involvement that has been initiated by India. This is mutual construction of the international transport line that is ‘North-South’ Corridor.

In the field of energy and military, India and Russia are complimentary to each other. Besides this, Russia extends support to India’s Candidature as one of the possible permanent members of the UN Security Council. India claims its right to be a member of this body by virtue of its growing international influence and economic potential in the last one decade. Russia has also been lobbying for India’s admission to the Shanghai Cooperation Organization and for close cooperation on regional security in the Moscow-Delhi-Beijing triangle.

The economic interaction between the two countries is brightened by cooperation in new areas like energy. But Indo-Russia trade is still the weakest link in the relationship, as it faces number of problems. Both are striving to meet the international standards demanded by the competitive global trade. From IT perspective, both the customs have significantly modernized their operations. Indian and Russian custom’s partnership would provide requisite opportunity to strengthen trade facilitation measures, enforcement apparatus and risk management systems.

**Barriers to trade and steps to overcome these barriers:**

India has changed greatly over the years from 2000 onwards and has become one of the world’s leading countries in terms of GDP growth and in the fields of information technology, telecommunication, metallurgical and mining industries, space-related technologies and engineering etc. Although India’s trade with rest of the world had increased three times, its trade with Russia did not reflect this growth. Various problems have been held responsible for the poor level of bilateral trade between India and Russia. Both countries have built a sound legal foundation for promoting trade and economic ties. Agreements on mutual investment protection and avoidance of double taxation are in place for facilitating ties. But these are not sufficient. Some of the
general barriers to bilateral trade and the suggested steps to overcome them are as follows:\textsuperscript{10}:

i) **Lack of trade routes**- The greatest hindrance to trade between India and Russia has been the lack of trade routes. Indian exporters face a major problem of long duration of about two months and costly transportation of goods to be exported from India to Russia, as after the Soviet breakup goods are not sent through Odessa port which is in Ukraine. At present the movement of goods between the countries has been taking place through shipping companies of third countries. Adequate shipping arrangements and port facilities should be built for strengthening trade. This constraint can be overcome with North-South corridor via Iran and the Caspian Sea. The agreement on India-Russia transport corridor would help in reducing transport costs. This new route comprises sea and land links across India, Iran and Russia and would shorten travel time by 10 days. The new route connects Mumbai-Bandar Abbas (Iran)-Astrakhan (Russia). This route represents the shortest link to Russia from India and must be strengthened. Although this route is already in use, major choke point is the Astrakhan customs port. At the moment, they use an alternative route to Russia not through Bandar Abbas in Iran.

ii) **Insurance Coverage**-India’s Export Credit Guarantee Corporation (ECGC), which protects Indian exporters from political and commercial risks, discriminates against Russia having put it in B grade, which in practice means providing only 60%-80% insurance coverage for Russia-bound Indian goods. The ECGC coverage for exports to Russia is too expensive. At present, with significant improvement in the Russian economy, ECGC has placed Russia in group ‘A2’ in the open cover category with normal percentage of cover. Earlier most of the Russian firms which exported to India were linked to the overall high risk factor that prevailed in the 1990s. With significant improvements in the Russian economy, ECGC has placed Russia in group ‘A’ in the open cover category with normal percentage of cover. This has helped them to overcome this constraint.

\textsuperscript{10}: www.idsa.in/resurgenceofrussia/RT report 050908.html
iii) **The Rupee Ruble debt arrangement** - The funds remaining under the rupee-ruble debt agreement had been a big hurdle for expanding the trade between two countries. Russia is still left with huge rupee funds to utilize through trade of Indian commodities, while India’s trade with Russia has shifted to dollar parity transactions.

iv) **Russian Visa problem** - Many interested Indian businessmen face a major problem of time-consuming ‘visa-regime’ of Russia. When political relations between the two countries have been consistently close and cordial, such a cumbersome visa regime goes against economic interests of both the countries. The cumbersome visa process and harassment at Moscow international airport has dissuaded many Indians to do business in Russia. For example Infosys is keen to enter the Russian market but visas are a matter of concern. Russia has been insisting India for signing a re-admission agreement but India has not accepted the same. The main problem is the fact that from Russia, illegal Indians had tried to enter Europe, which pressurized Russia to check illegal migration from Russian territory. So, India has to give a serious thought to this issue of re-admission agreement, it can be resolved given flexibility, goodwill and mutual concession from both sides.

v) **Banking** - Some Indian business firms suffered losses in the 1990s especially due to financial meltdown in Russia in 1998 when several Russian banks went bust that affected trust in the Russian banking system. Besides this, after debt-repayment rupee funds were exhausted, adequate banking facilities were urgently required for facilitating bilateral trade. Indian banks simply stopped honoring Letter of Credits (LCs) and guarantees issued by Russian banks. State Bank of India and Canara Bank has now opened a joint venture bank with 60:40 equity. ICICI bank which entered Russian market in the year 2010 only, has purchased a Russian bank which is doing well. Russian banks are also planning to open their branches in Delhi for the promotion of bilateral trade and economic relations. So, it can be stated that the banking problem has been largely overcome during the last 4-5 years with private sector Indian banks operating from Moscow or posting their representatives to operate on their behalf.
vi) **High risk in Russian market** - There had been a perception among many Indian businessmen regarding the high risk factor with regard to the Russian market. After the Soviet break-up, Russia was passing through crisis and mafia elements in Russia had badly affected trade between the two countries. With the development of both the economies, the situation has changed and improved now.

vii) **Information gaps** - There is an ‘information gap’ about the Russian market conditions which has hampered growth of export trade and also B2B (Business-to-Business) contacts. During the Soviet era, Indian companies were dealing with state sector organizations, which were safe and reliable. In fact, there has been a systematic change in the Russian economy but still information about new Russian Private Sector companies, is not sufficient. But now, both countries have realized that business-to-business contacts would be the best way of promoting trade and removing information gaps.

viii) **Language** - It is one of the biggest barriers in dealing with the Russian market. Foreign businessmen face difficulties to find out their counterparts in the country if they do not have local partners. India has offered Russia to train their staff and bring them to international standards.

ix) **Lack of knowledge about the business potentials** - It is difficult for Indian firms to find out the credit-worthiness of new Russian companies and this itself makes dealings with such firms a risky proposition. Another complication of the situation is that quite often Russian banks do not provide credit reports of companies on behalf of deal with the Government and public sector units as was during the Soviet era, for instance machineries for construction sites, nuclear plant in Kudankulam etc. Russia continues to deal with state sector units and do not face problem of information gap, lack of information about the customer and payment delays from Indian side. This has helped Russian companies to sustain and increase exports to India. So lack of knowledge about the business potentials and a general climate of mistrust between the private sector enterprises in India and Russia were the key reasons for the sluggish growth in bilateral trade between the two nations. Indian companies have started
relying on private banks in Russia, as it was practically impossible to seek guarantees from Government banks for all the export deals struck\textsuperscript{11}.

The private sector of both countries needs to play a more pro-active role in strengthening bilateral trade and economic ties through trade fairs, buyer-seller meets, joint investment forums, etc.\textsuperscript{12} The annual Indo-Russian investment forum is a positive step in this direction. The USSR had played an important role in India’s industrialization process like steel industry. Similarly India can also help Russia in the process of restructuring and modernization through its expertise in IT, management and financial services.

\textbf{4.2.6: Initiatives and Policy measures to promote Trade and Economic ties}
The policy makers of both India and Russia have taken policy decisions and measures from time to time in order to promote trade and economic ties between the two countries\textsuperscript{13}:

i) An Indian-Russian inter-governmental commission on Trade, Economic, Scientific, Technological and cultural cooperation (IRIGC-TEC) was set up in 1992 to operate on a permanent basis. It has working groups on trade and economic cooperation, power generation metallurgy and mines and also on information and communication technologies. In pursuance of the memorandum of understanding on cooperation signed on February 6, 2006, India and Russia had set up a joint study group (JSG) to suggest ways and means to strengthen their trade and economic cooperation, to finalize a program for reaching the bilateral trade target of US $10 billion dollars by 2010 and to explore the feasibility of a Comprehensive Economic Cooperation Agreement (CECA) between India and Russia. A statement of understanding was signed in June 2007 to set up a Joint Task Force (JTF) with the objectives of monitoring the implementation of the recommendations of India-Russia JSG to achieve the targets and further considering the possibility of signing of the CECA between Russia and India.

\textsuperscript{11}: Ibid
\textsuperscript{12}: Sachdeva Gulshan (2000)
\textsuperscript{13}: www.mea.gov.in ,2011
ii) In 2006, India’s Ministry of Commerce and Industry and Russia’s Economic Development Ministry have established a regular annual Russian-Indian Forum on trade and investments. On December 20, 2010, there had been meeting of the fourth session of this forum. The forum’s agenda had focused on ways to develop cooperation in oil and gas, engineering, automobile manufacture, metallurgy infrastructure, power generation, chemical industry, telecommunications, information technologies, innovations and new technologies etc.

iii) In 2008, the Council of Chief Executive officers was set up with the mandate to develop a roadmap for increasing partnership and cooperation between the two countries at business level.

iv) The leading business Chambers of India and Russia have entered into partnership agreements e.g. Confederation of Indian Industry (CII) with Russian Union of Industrialists and entrepreneurs (RUIE), Federation of Indian Chamber of Commerce and Industry (FICCI) with Russian Chamber of Commerce and Industry (RCCC). An India Russia Chamber of Commerce has been established in 2008.

v) Regular participation by business representatives in the exhibitions, fairs being held in each other’s countries. During 2008 and 2009, a national Indian exhibition was organized at St. Petersburg Technical Fair.

With all the above steps, trade and economic cooperation between Russia and India is developing dynamically. The trade representation of the Russian Federation in India is focused on the development and expansion of trade and economic relationship between Russia and India. It provides Russian and Indian businessmen with required market information enabling them to establish direct contacts, encourages Russian and Indian enterprises to explore new business opportunities, and ensures understanding between the business communities of both the countries. Exhibitions and conferences, tenders, potential partners to start a business, etc. are all performed by ‘The Trade Representation of the Russian Federation in India’. So leaders of both the countries are confident with above all business infrastructure that Russian-Indian partnership would be long term and all necessary measures would be taken to achieve the trade target up to USD 20 billion by 2015, as agreed by the Governments of Russia and India.
4.3: Potential Areas of Trade

There are few areas which can promise to take the trade turnover between the two countries to a higher level:

i) **Diamond and Gold** - Russia has almost one-fourth of the global diamond reserves. India has the largest diamond cutting industry in the world with nearly 75% of the rough diamonds being cut here. This can make both countries natural partners for business in the area. A Memorandum of Understanding (MoU) was signed between the two countries during President Putin’s visit to India in the year 2000 for bolstering trade in this area.14

During Putin’s visit to India in March 2010, the two sides signed an agreement with three Indian companies under which Russia would supply rough diamonds worth $450 million to India.15 Indian diamond processing requires direct and regular supply of rough diamonds for processing. The main Russian diamond mining and exporting agency (Alrosa) is looking for alternative agencies to polish rough diamond. The cooperation between Metals and Minerals Trading Corporation (MMTC) in coordination with ‘Diamond India Limited’, sponsored by Gem and Jewellery Export Promotion Council of India (GJEPC) and ‘Alrosa’ would become a viable option for enhancing trade between the two countries. A request has been sent to Russia from India for reduction of import duty on cut & polished diamonds & other jewellery and pearls.

ii) **Coal** - India needs a huge amount of coal, which can be imported from Russia’s Siberia and Far East. The issues of railway tariff and export duty have to be tackled before importing Russian Coal. Russian companies, like Rusugolmash and Zarubazhugol, are taking keen interest in projects to modernize mines in India. According to Coal India Ltd., Russian equipment is of world class and price competitive and fully complies with the techno-economic requirements for the

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14: *Business messenger (2010)*, Moscow
15: www.mea.gov.in, 2011
development of new open cast mines in India. Russian technology in metallurgy is of international standard and cost-effective\textsuperscript{16}. Many of India’s steel plants are built with Soviet know-how and these plants need modernization. Cooperation between the two can be productive and serve mutual interest and would strengthen trade and economic relations.

\textit{iii) Highway Construction-} Russian companies are successfully taking part in India’s huge highway construction. India has earmarked huge sums for infrastructure development. Russian participation in multi-lane highway construction project is significant. India is also laying gas and oil pipelines, an area in which Russia has significant experience. Involvement of Russian companies in pipeline construction can be a major factor of trade growth.

\textit{iv) Information Technology:} India is world’s leading nation in IT with 40 % annual growth. Profits of Indian software exports are comparable to revenues from Russian gas exports to Europe\textsuperscript{17}. There is tremendous potential for mutual cooperation in this sector. Russia is keen to use Indian experience in the area of building IT parks in several of its leading cities. President Putin’s visit to Bangalore in 2004 was due to Russian interest to use India’s experience in the area. Development of IT is one of the five strategic sectors identified by President Dmitry Medvedev for economic modernization of Russia. There is potential for collaboration between Indian and Russian companies in the areas of Business Process Operation (BPO)/Knowledge Process Outsourcing (KPO), setting up of Techno Parks, IT learning, telemedicine etc.

\begin{flushright}
4.3.1: Major Areas of Economic Cooperation
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Given the geographical distance between India and Russia, India cannot take China’s place in terms of volume of bilateral trade. But India and Russia could boost greater cooperation in diverse fields through joint ventures, collaborations and joint development initiatives. Number of areas has been identified where there is

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\textsuperscript{16:} Mohanty, Arun (2010) \\
\textsuperscript{17:} Ibid
\end{flushleft}
complementarity and India seeks to intensify Russia’s cooperation. These include the following sectors:

i) Energy Sector- Russia is one of the biggest hydrocarbon resource holders of the world as it controls one-fifth of the global energy resources. On the other side, India is one of the largest energy consumers so they can become natural partners for cooperation in this area. The agreement on strategic partnership between India and Russia signed in October 2000 put energy cooperation back on agenda. The oil shipments from Sakhalin-I project are already reaching India. India has been trying hard to invest in Sakhalin-3 project and take part in the development of Kovytka gas field in Russia.18

Russia’s gas giant Gazprom has been entering into a strategic cooperation agreement with Gas Authority of India (GAIL) and with the ONGC to supply gas and hydrocarbons. Reliance Industries Ltd. has also been investing in the Russian energy sector. Energy sector provides excellent projects to achieve a quantum increase in bilateral trade, investment and business-to-business ties between Indian and Russian oil and gas companies.

ii) Nuclear Energy- Nuclear energy generation is another important area where bilateral cooperation has a bright future. The end of India’s nuclear apartheid has opened avenues for stronger cooperation between India and Russia in this area. About 20 nuclear reactors in India with Russian technical know-how would provide new quality to cooperation between two countries.

During three consecutive years i.e. 2008, 2009 and 2010, exchange of visits by President Medvedev, PM Putin and PM Manmohan Singh envisaged India and Russia for conducting joint research in the nuclear field, work on joint development of fast breeder reactor and joint enrichment of uranium. Both the countries have agreed to conduct joint geological exploration of Uranium in India and Russia and also third countries19. This would be one of most important areas of cooperation in energy sector.

18: Kumar, Kishore (2008)
19: Gupta Arvind (2009)
iii) Space Cooperation- The legal base of India-Russian space cooperation provided by the inter-Governmental agreement between Rasaviacosmos and ISRO was signed in 1994. In December 2004, inter-governmental agreement was signed on joint peaceful space exploration program. This agreement reflected entirely new standards and scale of bilateral cooperation in areas such as space, material studies, TV and radio broadcast via satellites, space, biology and medicines as well as provision of launch services. A separate agreement was on long term cooperation in expanding and using Russia’s Global Navigation Satellite System (GLONASS) for peaceful purposes.

The 2004 Inter Governmental Agreement (IGA) on GLONASS serves as the umbrella Agreement for cooperation in two segments, the launch of GLONASS-M series satellite by India’s GSLV launch vehicle and India’s participation in the joint development of GLONASS-K satellite series.

In December 2006, India and Russia signed two space agreements. One of them is a long term deal under which the countries will jointly develop and use GLONASS, the Russian designed satellite system that gives spacecraft, marine vessels and ground vehicles, a positioning capacity of 5 to 10 meters. The near term plans of bilateral cooperation include the launching of a radio telescope with a 10 meter antennae and Indian receiver. The first Russian research satellite-CORONAS-PHOTON, intended for solar studies was launched in late January 2009. The LORONAS-Photon space observatory is flying along a 550 km. orbit and is scheduled to operate for five years. The satellite has an Indian instrument that covers a wide energy range. Another key project is lunar resource (Indian name “OLA”) that would land a lunar rover on the moon. With Russian assistance, India has launched its first satellite project Chandrayan-II which used an Indian GSLV carrier rocket to deliver a spaceship consisting of an orbital and landing lunar modules to the moon around 2012. Russian and Indian Governments have approved the programme for solving concrete issues about how to share the work and determine the composition of the payload. Indian specialists are expected to take part in international missions to the Mars in 2030.

The Soviet side assisted India in setting up of the Thumba Equatorial rocket launching station and the launching of Indian experimental satellites Aryabhatta, Bhaskara-I and Bhaskara-II. The Indian remote sensing satellite IRS-IA/IB was launched by soviet
launch vehicles on a commercial basis. The flight of Squadron leader Rakesh Sharma- the first Indian to go to space in 1984, was from the Solute Space station in the USSR. Russia participated in the formation of the first group of Indian satellites for distant probing of the earth; the first launch of IRS series satellites was conducted by ‘Vostak’ rocket.

A new area of cooperation in this field is the application of Space based technologies for disaster management purposes. It is envisaged to set up a disaster management center in India, modeled on EMERCO of Russia that would utilize GLONASS signals for the effective management of natural disasters.

iv) Defense Cooperation- The traditionally close cooperation between the two countries in the military-technical field is a major pillar of the India-Russia strategic partnership and a reflection of the trust and confidence that has built up between the two countries over the period of last two decades have been worth $35 billion and both countries have successfully developed military technical cooperation under an agreement worth $18 billion covering the period up to 2010. The annual acquisition of Russian military hardware by India is worth around $1-1.5 billion20. It is important to mention that an in-principle decision has been taken for reinvesting 50 % of the contract value in India which would boost up bilateral economic cooperation with India which has remained a priority for the Kremlin and Russia is always ready to support even with additional financial means.

The ‘Indo-Russian Inter Governmental Commission on Military Technical Cooperation’ (IRIGC-MTC) mechanism was set up under a 2000 IGA and signed during Putin’s visit to India in March 2010. The commission has been supported by two working groups: on Military technical cooperation and Ship Building. Under the umbrella of IGA signed in 2004, the following cooperation projects are being carried out:

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20: Mahapatra, Aurobinda, Devidatta (2008)
(i) ‘Youthsat Programme’ established in 2007 involving joint development of instrumentation and experiments by young researchers from India and Russia for ISRO’s YOUTHSAT Satellite.

(ii) The Lunar Exploration Programme (Chandrayan II), established in 2007.

(iii) Human Space Flight (HSP) programme, established in 2008.

Major ongoing military technical cooperation projects include joint production of supersonic Brahmos missiles, and development of ‘Fifth Generation Fighter Aircraft’ (FGFA), ‘Multi-Role Transport Aircraft’ (MTA) and T-90 battle tanks. Military technical cooperation has been a shift from the earlier ‘buyer-seller’ framework to joint design and production of defense systems. Despite of India’s efforts to diversify its defense supply sources, Russia continues to be as important ally as before and its largest military partner. India and Russia have jointly produced a short-range missile Brahmos and India’s ambitions for space research rely heavily on Russian assistance.

The Indian Air Force, Army and Navy are equipped with 70 to 85 % of military hardware of Soviet or Russian origin and India still meets 50-60 % of its defense requirements from Russia. India is procuring the aircraft carrier Admiral Gorchakov along with an initial order for 16MiG 29K aircraft. Putin’s visit to India in March 2010 contributed to further strengthening Indo-Russian defense cooperation. Joint development of fifth generation aircraft T-50 and implementation of multi-role transport aircraft, are the significant achievements. India and Russia have several other major military programs:

i) Brahmos cruise Missile program
ii) INS Vikramaditya aircraft carrier program
iii) Fifth generation fighter jet program
iv) Sukhoi Su-30 MKI program (230+ to be built by Hindustan Aeronautics)
v) Ilyushin/HAL Tactical Transport Aircraft

Additionally, India has purchased/leased several military hardwares from Russia such as:

21: www.wikipedia.org,2010
i) T-905 Bhishma Program (1000+ to be built in India)

ii) Akula-II Nuclear submarine (two to be leased with an option to buy them when the lease expires)

iii) Tu-22M3 bombers (4 ordered)

iv) US $900 million upgrade of MiG-29

v) Mil Mi-17 helicopters (890 ordered) Ilyushin II-76 Candid (6 ordered to fit Israeli Phalcon radar)

**Brahmos-** It is the first joint venture between India and Russia to design, develop and market advanced defense system, where loan repayment is converted to investment. The two countries have agreed to conduct a new hypersonic version of their joint venture 290 Km range by 2015, known as ‘Brahmos-2’. Russia’s Mig-35 is equipped to change direction quickly, which gives it a major advantage in difficult situation\(^2\). This would have speed of around 600 kilometer per hour.

India’s defense cooperation has now entered a new phase by taking multi-dimensional character. More attention has been given to conversion, modification and maintenance. Joint control and full cooperation have created a solution for the defense enterprises to present the latest equipment and technology in time and to overcome delay in delivering the aircraft carrier ‘Admiral Gorshkov’ and demand for more than double the originally agreed price.

v) **Science and Technology Cooperation-** India and Russia are the major powers in the area of scientific research. Initially the science and technology cooperation was pursued under the science and technology agreement, concluded in 1972. At present, the science and technology interaction between India and Russia is conducted under the following programmes:

a) Integrated Long Term Program (ILTP)

b) Basic science cooperation program

c) Inter-academy exchange program

d) Agriculture research cooperation program

\(^2\) [www.rferl.org/articleprintview/1981887.html](http://www.rferl.org/articleprintview/1981887.html)
The Indo-Russian Inter-Governmental Commission on Trade, Economic, Scientific, Technological and Cultural Cooperation (IRIGC-TEC) presides over the functioning of the following six working groups and one sub working group, covering specific area of cooperation like working group on trade and economic cooperation, working groups on mine and metallurgy, working group on Science and Technology, working group on energy, working group on tourism and culture and sub group on banking and financial matters.

The Joint working group on science and technology, operating under the aegis of the IRIGC-TEC is the principal institutional mechanisms for S&T cooperation between the two countries. Development of semiconductor products, super computers, poly vaccines, laser science and technology, seismology, high purity material software and IT and Ayurveda have been some of the priority areas of cooperation under ILTP. Under this programme, eight joint Indo-Russian centers were established to focus on joint research and development work. Two other joint centers on non-ferrous metals and accelerators and lasers were setup in India. More than 200 joint projects have been implemented in these areas so far. In August 2007, a MoU was signed between Department of Science and Technology of India and Russian foundation of Basic Research to pursue scientific cooperation. The following are the Indo-Russian centers of excellence, where large interactive research works progress:

a. Bharat immunological and Biological Corporation limited, at Bulandashahr plant receiving continuous help and inspiration from Russia.

b. India-Russia center for advanced computing research, Moscow

c. Indo-Russian center for gas hydrates, Chennai

d. Indo-Russian center for earthquake research (MoU has been signed in November 2008).

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During September 2008, ILTP session focused on five priority areas for cooperation: energy, hydrates, chemical research, nanotechnology and bio-medical research. Another important avenue is setting up research fellowships for Indian and Russian scholars in both the countries. Healthcare and renewable energy are the two main programs identified as areas of particular importance for both the countries during the session of ILTP in mid-September 2009. A joint centre on perspective computer technology, equipped with Indian supercomputer PARAM-1000 with a capacity of 72 billion operations per second has been setup at Moscow. New cooperation is envisaged through the programmes to be set up is:

i. Innovative research programme
ii. SARAS certification & development
iii. Joint manufacturing of chips for solar energy and nanotechnology cooperation.

vi) Pharmaceutical Cooperation- In the year 2010, Russia was the second largest export destination for Indian pharmaceutical product after the United States and India's ranking in Russia's market has fallen from second position to fifth. India is competitive in terms of production costs in setting up plants. It is 40% cheaper to setup plants in India. Russia is the 8th largest pharmacy market in the world. Russia’s demand for pharmacy products are rising as diseases like cardiovascular, respiratory are increasing. Since the years 2006 – 2007, Indian exports of pharmaceuticals to Russia have more than doubled. A roadmap of a joint Russian-Indian center for TB vaccine development has been under progress.

The Indian pharmacy exports to Russia are growing at an average annual rate of 7% gap. Although it has a potential to grow at a rate of 10-11%, tough competition from European countries and China has retarded the growth. In 1999, India had a debt burden of more than $10 billion to Russia. Maximum pharmacy trade took place to clear the debts, benefiting Indian companies. At present, Russian pharmaceutical market is growing at 10-15 % per annum. Antidiabetics, CVS, gastroenterology, cold and cough

25: www.indianembassy.ru,2010
formulations are exported from India to Russia in a major way. Russia depends 70% on exports. Maximum exports are from East Europe and Europe. In January 2008, India's ‘Rasna Pharmacy limited’ and Russia's ‘Rapharma’ have signed a MoU for antibiotic substance in India. The joint project includes building a major plant for pharmaceutical production 80 km away from Delhi, with the tentative cost of the project being US $120 million.

Russia is helping to setup the national centre for production of vaccines against poliomyelitis to fully meet the demands of the Indian market. Russia is also aiding in the development of new generation immune modulators and is establishing a specialized anti-tuberculosis centre where Russian lasers would be used. There is also cooperation among medical personnel in studying and applying Aryurveda method and joint research in limnology, epidemiology and biophysics, Oncology, Endocrinology and Cardiology. Dr. Reddy’s Laboratories (DRL) is the largest Indian pharmaceutical company and the fastest growing international branded generic company by volume in Russia.26

It can be concluded that Indo-Russian trade and economic relations over the last two decades (1991-2010) has witnessed a paradigm shift. The decade 1991-2000 was marked by various institutional reforms like economic liberalization in India, deregulation of Russian economy, globalization and end of a fixed rupee-ruble exchange payment system, which transformed the business environment in both the countries. In the new Millennium, India’s globalizing service industry and corporate sector have given opportunities to diversify the Russian economy and develop bilateral trade. The decade 2000-2010 has been marked by initiatives aimed at stronger ties on various fronts like trade and economic areas. During this decade India extended ties with Russia especially in defense, nuclear spheres and hydrocarbons as it has proved to be a growing market for the same. But still there is a lot of potential for trade between the two countries as India’s exports to Russia was almost 0.55% of its total exports in 2009-10, whereas its imports were about 1.24% of its imports. Brand promotion, quality

control and diversification of export baskets are few measures to retrieve the lost market\textsuperscript{27}.

4.4: Investment Cooperation between India and Russia

Investment cooperation is important for the furtherance of bilateral economic relations between India and Russia in the form of Foreign Direct Investment (FDI). According to RBI’s figures, India’s cumulative investments into Russian economy reached to USD 4.23 billion during the period April 1960- June 2010 whereas Russian cumulative investment into Indian economy reached to Rs.2142 crore from April 1991-March 2010. Additionally, ONGC Videsh limited has also acquired Imperial energy. India’s investments in Russia stood at USD 5 billion in India in 2009-10 and Russia’s investment was USD 3.5 billion in India in the same year\textsuperscript{28}. Outward FDI from the two countries has been increasing as well.

4.4.1: Foreign Direct Investment (FDI) in India

The liberal investment regime, rapid growth of the economy, strong macro-economic fundamentals, progressive de-licensing of sectors and the ease in doing business has attracted global corporations to invest in India. FDI inflows have recorded over fivefold increase during the period 2005-2010. UNCTAD’s World Investment Report, 2005 considered India the 2\textsuperscript{nd} most attractive investment destination among the Trans National Corporations (TNCs). Significantly FDI has come to play an increasing role in the economic growth of the country. Since the year 2005, FDI inflows in India are given in Figure No. 4.4.1:

\textsuperscript{27}: www.moc.gov.in, 2010

\textsuperscript{28}: www.india-briefing.com/news/russia
India is an attractive oil and gas FDI destination. Movement towards market pricing of petrol, diesel and gas has made India an attractive destination for FDI oil and gas sectors. According to the Department of Industrial Promotion and Policy (DIPP), the petroleum and gas sector received only 2.5% of cumulative inflows during April - December 2010. In exploration and production sector, the entry of British Petroleum (BP) is an important development. In March 2011, RIL-BP joint venture in the down sector LNG would get a major boost. In the last decade, ninety one oil and gas discoveries under ‘New Exploration Licensing Policy’ (NELP) have already established the prospectively of the country’s sedimentary basins mainly for gas. The business for oil marketing for private companies was not attractive due to the scheme of subsidies along the petrol and diesel chain. But now Government of India is gradually moving towards fixing petrol prices on parity with international crude price and also the diesel prices.

**Sector wise FDIs** - A large portion of the FDI flows into skill intensive and high value-added services industries, particularly financial services and information technology.

Source: www.dipp.nic.in

Anil.K.jain (2011)
Service sector and computer software and hardware industry together accounted for about 36% of the total FDI into India between 2000 and 2007. The cost competitiveness of skilled manpower in India is the primary reason for the large share of the FDI inflow. Services sector continues to be the favorite investment destination for foreign investors. The sector has attracted 21% of cumulative FDI inflow into India.

**Government Initiatives:** The sweeping economic reforms undertaken by the Government aimed at opening up the economy and embracing globalization have been instrumental in the surge of FDI inflows:

i. Expanding the number of industries for which 100 % FDI is allowed through the automatic route.

ii. Progressively raising the FDI cap in other sectors like telecom, aviation, banking, petroleum and media sectors among others

iii. Removal of the investment cap in the Small Scale Industry (SSI) sector.

### 4.4.2: Major Investments from Russia to India

The agreement between the Government of the Russian Federation and the Government of India about investment cooperation and protection was signed on December 23, 1994 and became effective on August 14, 1996. Bilateral agreement between the two Governments about avoidance of double taxation was signed on March 25, 1997 and applied in practice from 2000-2001.

India and Russia have carried out deregulation and privatization of markets to enhance their FDI attraction prospects\(^\text{30}\). Over the past decade, the amount of the Russian investments into the Indian economy was approx US$ 120 million, out of which US$ 80 million for the enterprise of the Brahmos Pvt. Ltd. Though the total amount of Indian investments into the Russian economy is large due to big investments by ONGC Videsh Ltd. but the number of Indian investments remains few. From the year 2007, the Russian-Indian investment forums are being held on the regular basis to enhance trade and investment co-operation.

According to the Russian Federal State Statistics Service, by the end of the first half of 2009, Russian investments in Indian economy amounted to US$762.2 million including

\(^{30}\) www.dipp.nic.in, 2011
foreign direct investment of US$ 513.3 million. From 1991 to the year 2005, FDI inflows into India amounted to only $116.33 million which was less than even 0.5% of India’s total inflows.\textsuperscript{31}

Table 4.4.1: FDI Inflows into India from Russia (Cumulative from 1991 to 2005 and 2008-2009):

<table>
<thead>
<tr>
<th>Into India</th>
<th>in US$ million</th>
<th>% share in total inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia (1991-2005)</td>
<td>116.33</td>
<td>00.39</td>
</tr>
<tr>
<td>Russia (2008-2009)</td>
<td>513.3</td>
<td>14.50</td>
</tr>
</tbody>
</table>


The low level of Russian investment in India is mainly due to the low activity of Russian investors. An inter-governmental agreement was signed in November 2007, on extending the use of debt funds of India in Russia\textsuperscript{32}. Major investments from Russia to India\textsuperscript{33} are:

i) India- Russia JV for production of titanium products in Orissa. Investment in it would be about US$126 million. The project is partially financed from India’s rupee debt to Russia.

ii) AFK Sistema in Sistema Shyam tele-link services. The total investment of the AFK “Sistema” in the creation of pan-Indian mobile operator could reach 5.5 billion U.S dollars in the next seven years provided on-going dispute between Government of India and Sistema group is resolved early. In the beginning of 2010, the holding co. has invested about US$ 1.3 billion.

iii) Opening up by VTB and Sber Bank, Bank VTB, a state controlled foreign trade bank which opened an operating branch in New Delhi in February, 2008 cyber Bank with an investment of around 17-20 million U.S dollars in its development.

iv) Joint Venture automotive Company between Russian Kama Zinc and India’s Ventra Group. Initial investment volume from Russia is $8 million with share in the joint venture being 51%.

\textsuperscript{31}: www.cii.in/newsletters/newsletter/India_economic_relations.html

\textsuperscript{32}: www.meagov.in, 2010.

\textsuperscript{33}: www.rusembassy.in, 2010.
v) Building power units at the Kudankulam nuclear power plant in Tamil Nadu, contract signed in March, 2010.

vi) Russian companies participate in roads and gas pipelines construction projects. The consortia with Russian OJSC transitory are fighting for 12,000 crore rupees tender for construction of 71 kms. Metro line in Hyderabad.

vii) Russian companies Silovye Machinery (power machines) and Technopromexport provide technical assistance and supply equipment for the construction of the Sipatthermal Power plant (SPP) in Chhattisgarh.

viii) The Russian industry has been cooperating in many ways like airlines coming up in India fly state-of-the-art Russian Sukhoi Superjet 100 aircrafts, Indian railways equipped with latest Russian signaling systems, hospitals providing world-class services using x-ray machines and blood transfusion filters and so on. To compare even with developed manufacturers, many Russian technologies and equipment are highly inexpensive.

ix) 100% foreign investment is permitted in most areas of agricultural products processing in India. The Russian company RUSAGRO International Pvt. Ltd. has its subsidiary in India.

x) Investments into special Economic zones could also be of interest for Russian companies. It is a duty free enclave which is given the status of a foreign territory for the purposes of trade, duties and tax collection. Enterprises working in such zones are under special tax regime. Special economic zones might be of interest to companies engaged in IT, diamond processing and jewelry production, other high-tech and research-based sectors/industries which are important for Indian-Russian cooperation.

4.4.3: Foreign Direct Investment in Russia

The transition of Russian Economy from the centralized economy to a market oriented in 1991 resulted in a large number of state-owned firms becoming privately owned, which contributed to the increased in FDI supported by Government policies and

34: www.indiaembassy.ru 2010
regulations. The majority of FDI activities in Russia are concentrated in certain regions. Report of OECD 2008 stated that in 2006, Moscow was the largely concentrated area (38%) followed by Sakhalin (15%) and the Moscow region (10%). In 2008 inward FDI amounted to more than US$ 73 billion while approximately US$ 52.6 billion was invested by businesses abroad, including CIS countries. In the international arena, ranked among the largest FDI recipients, since 2006, OECD (2008) and the United Nations Conference on Trade and Development (2009) ranked Russian Federation among the most attractive locations for FDI in 2009-2011 after China, the United States, India and Brazil. Russia is an active outward investor.

Inward FDI exceeded outward FDI by US$ 20424 mn. in the year 2008. The main economic sectors of the total foreign investments include manufacturing, mining and quarrying and real estate. Russia’s key investment advantages as compared to other countries are significant market volume, the growing economy, high level of education, comparative economic and political stability, attract foreign companies to Russia.

Sector wise FDI - In the year 2005, the foreign investments were mainly focused in three key sectors: fuel and energy, food Industry and service Industry. In the year 2009, the major countries of origin of investments into Russia were member states of European Union. The key investing countries in Russia are Luxembourg (14.3%), the Netherlands (14.2%) and China (11.9%). The manufacturing industry received the largest amount of investment, followed by the mining sector and the wholesale and retail industry. FDI inflows in Russia are shown on the next page:

36: UN world Investment Prospects Survey (2009)
4.4.4: Major investments from India to Russia

According to the Russian Federal State Statistics Service, during the year 2009, Indian investment into the Russian economy amounted to 1172.1 million US$, including foreign direct investments in the Russian economy amounted about 800 million US$, including 20% participation of ‘ONGC Videsh Ltd’ in the Sakhalin-I oil and gas project. The Russian energy sector is also attracting major Russian Indian corporates like “Reliance Industries Ltd” and “Essar Group” of large scale energy projects. In fact, India expects Russia to play a pivotal role in enhancing India’s energy security in the near future with an intention of further growing bilateral relations and attracting investments in the domestic oil and gas sector. India has invited Russian companies to take part in the ninth round of New Exploration and Licensing Policy (NELP) which would allow exploration in 34 hydrocarbon blocks. The following are significant Indian investments in Russia:

i. ONGC Videsh Ltd. (OVL) investment in the project of oil and gas fields development (Sakhalin-I with declared investment of 2.7 billion dollars) with 20% share. OVL has acquired Imperial Energy Corporation Plc., an upstream oil

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Source: Federal State Statistics Service

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37: www.commerce.nic.in/tradestats/indiatrade.asp
exploration and production company at a cost of US$ 2.1 billion in 2009, in Tomsk region of Russia.

ii. ICICI Bank has opened its subsidiary i.e. ICICI Bank Eurasia.

iii. Tata Motors has organized Indian light trucks assembly at the plant “Automobiles and motors of the Urals” and buses at factories “Volzhaniri” and “Samatlor” plants.

iv. Tata Tea is implementing projects in the food Industry, Dr. Reddy’s Laboratories Ltd. (DRL) and Lupin Ltd. in the pharmaceutical sector. So has Berger Paints in paints production. Tata Tea has created a joint venture for tea and coffee packing, with the participation of the trading House “Grand” (49%), Tata Tea (33%) and the European Bank for Reconstruction and Development (18%).

v. The Sun Group-food processing industry and real estate has been a major Indian private player in the Russian market for the last 50 years and has been a pioneer in mobilizing investment into the Russian economy. It has invested $200 million in beer production in that country. It has acquired 25 % stake in Itera Energy Company.

vi. SBI and Canara Bank have invested in Russia for opening JV commercial Bank of India Ltd.

It could be stated that the increase of Indian investment in Russian economy is connected with investment projects development in Russia by companies as OVL, GAIL Ltd, Indian oil Ltd., Coal India Ltd., Reliance industries Ltd., Tata Motors, financial and banking services and information technologies.

4.4.5: Investment Climate in India and Russia

To provide a mechanism for the corporate vision to drive the investment climate between the two countries, a CEO’s council has been set up in 2008 which includes corporate leaders from both countries in all key sectors. It is a private sector driven mechanism that can accelerate the utilization of economic opportunities between the two countries.

According to UNCTAD’s World Investment Prospects Survey 2010-2012’, India is the second most attractive destination for FDI in the world after China. They are further
trailed by Brazil, US and the Russian federation respectively. The International Finance Corporation’s Business Rankings for 2011 provide objectives, measures of business regulations and enforcement across 183 economies of the world and underlines a high level snapshot of the business environment in the countries. According to the ranking, Russia offers greater ease of starting and doing business, enforcing contracts compared to India, whereas India offers greater protection and credits to investors and trading across borders. Ranking assigned to India and Russia on various business parameters is given in Table No.4.4.2.

Table 4.4.2: Ranking assigned to India and Russia:

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Ease of doing business</th>
<th>Getting credit</th>
<th>Protecting investors</th>
<th>Trading across borders</th>
<th>Enforcing contracts</th>
<th>Closing a business</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>134</td>
<td>32</td>
<td>44</td>
<td>100</td>
<td>182</td>
<td>134</td>
</tr>
<tr>
<td>Russia</td>
<td>123</td>
<td>89</td>
<td>93</td>
<td>162</td>
<td>18</td>
<td>103</td>
</tr>
</tbody>
</table>

Statement on Country-wise FDI inflows from April 2000 to August 2010 indicate that Russia ranks twenty first in the country-wise FDI inflows to India with US$ 463.5 million worth of FDI flowing from Russia to India as shown in Appendix 4.4.1. This comprises of about 0.39% of the total inflow received by India. Russia has a dynamic and optimistic attitude towards private investment. Russia is an attractive investment destination for high end software development and energy investment mainly due of low cost structure and high literacy rates. Indian interests in Russia have been mostly limited to defense, nuclear and heavy industry. On the other side, India offers huge opportunities in infrastructure, metallurgy, real estate, pharmaceuticals and other sectors. The leading sectors attracting FDI from Russia are chemicals, telecommunication and trading and consultancy services.

38: Data collected by Researcher during Indo-Russia summit ,December 21, 2010 at FICCI auditorium