



Indo-Russian Economic Engagement: Legacy Issues, Dynamic Shifts, and Possibilities for the Future

Abhijit Mukhopadhyay

Observer Research Foundation, India

Abstract: The economic relationship between India and Russia has been limited and faced various challenges historically. However, changing geopolitical and geo-economic situations have created new opportunities while also presenting challenges and risks. This paper aims to analyse the legacy issues and dynamic shifts in international trade and order that are currently taking place. The article explores the ongoing transformation of Indo-Russian economic engagement and proposes possible means for moving forward. The existing advantages of both countries in the areas of trade and investment are also outlined.

Assuming a resolution to the Russian Special Military Operation in Ukraine, the paper proposes an economic roadmap for continuing the recent momentum in the trade and economic relationship between Russia and India. The first step is to strengthen bilateral trade in existing priority export sectors of both countries. This can be followed by deeper cooperation in oil, civilian nuclear energy, and defence sectors. The introduction of rupee-ruble trade, even partially, could significantly boost these efforts. The paper also advocates for involving the private sector in these efforts by adopting a proactive approach by both governments.

By combining immediate efforts with long-term geopolitical maneuvers on both sides and an early resolution of the Russian Special Military Operation in Ukraine, it is possible to push bilateral trade and investment levels onto a sustainable growth path in the future. The paper argues strongly for this approach.

Keywords: Indo-Russian economic engagement, legacy issues, international trade, bilateral trade, investment, priority export sectors, oil, civilian nuclear energy, defence, rupee-ruble trade, private sector, sustainable growth path

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Despite the enduring bilateral relationship between India and Russia in the past (Joshi, Sharma 2017; Rekha 2017; Upadhyay 2015), the level of trade remains lower than desired. The recent imposition of Western sanctions on Russia presents fresh challenges to their economic engagements, and efforts to stimulate bilateral economic exchanges may be hindered by these developments (Warren, Ganguly 2022). Nevertheless, there are encouraging early trends in recent trade patterns. Assuming an early resolution to the Russian Special Military Operation in Ukraine, this article aims to address three key research questions. Firstly, it seeks to identify the legacy issues that have hindered robust Indo-Russia trade engagements until now. Secondly, it examines the existing advantages of Russia and India in bilateral trade and economic engagements. Thirdly, it proposes ways to boost trade and investment ties between the two countries given the current situation. Instead of focusing extensively on historical issues, the article takes a forward-looking approach and discusses broader policy measures under different possible scenarios to achieve this objective.

The literature review section of the paper focuses on addressing the first research question by examining the major obstacles that have impeded robust trade and investment engagement between India and Russia. The following three sections analyze the second research question by examining various dimensions of India-Russia trade, such as an overview of the trade, India's priority export sectors, and Russia's priority export sectors. The analysis assumes that the Russian Special Military Operation in Ukraine will be resolved by the first half of 2023 and that no further aggravation of current geopolitical and socioeconomic situations will occur. The base year for data analysis is 2018, as it represents a typical year of trade before the pandemic and subsequent military operation in Ukraine. The analysis also compares the data with the latest available trade data in 2021 to better understand the existing export baskets. Data sources used for the analysis include the Indian government's Ministry of Commerce and Industry website for overall trade data review, the UN Comtrade database¹ for export baskets of India and Russia in 2018 and 2021 to identify priority export sectors, and WTO Stats as the secondary database for comprehensive bilateral services trade data. Finally, based on the findings of the empirical analysis, the concluding section proposes potential ways to enhance trade and investment ties between India and Russia, addressing the third research question.

Throughout history, bilateral trade has been a weak aspect of the India-Russia relationship (Budhwar 2007; Gidadhubli 1999). Despite the emergence of both countries as major markets in the new millennium, they have failed to establish a significant intersection of interests in bilateral trade (Chenoy 2010). In the first decade of the new millennium, Russian energy and raw material companies raised capital through initial public offerings (IPOs) in the London market, while the consumer goods, au-

¹ UN Comtrade Database. 2022. Trade Data. URL: <https://comtrade.un.org/> (accessed 29.04.2023).

tomobile, real estate, and advertising sectors were booming. President Putin's focus was on consolidating the aviation, shipbuilding, defense, and civilian nuclear sectors to increase competitiveness and facilitate technological upgrading. In the new millennium, India's growth in the information technology (IT) and IT-enabled services (ITES) sectors was significant. However, these sectors flourished primarily in Western developed markets, as Indian IT entrepreneurs perceived the Russian market as risky (Gidadhubli 2009). India remains energy-deficient, while Russia is an energy-surplus country on paper. However, the possibility of a joint venture in energy diminished when the Russian government imposed state control over the country's energy sector (Sibal 2008).

The energy sector has emerged as a critical area of collaboration between India and Russia. During President Putin's visit to India in January 2007, an agreement was signed to build multiple units of a civilian nuclear power plant in Koodankulam. The first unit was successfully connected to the Southern Indian power grid in October 2013, signifying the pivotal role of energy in the partnership between the two nations.

Although the total volume of bilateral investments remains relatively low, a considerable proportion of such investments have been directed towards the energy sector. For instance, the acquisition of Essar Oil Ltd for almost US\$13 billion by a consortium led by Rosneft in August 2017 was the most significant foreign direct investment in India and the largest outbound investment from Russia. In contrast, India's investments in the Russian economy until 2017 amounted to a modest US\$8 billion, with a primary focus on the oil and gas and pharmaceutical industries².

The economic partnership between India and Russia has been hindered by logistical challenges, which have made it more convenient for Russia to import and export to Europe or China due to shorter transportation times of one to two weeks compared to 40 to 55 days by sea and land to and from India. As a result, the higher costs of imports to India have served as a deterrent. Furthermore, economic cooperation in energy, where Russia has a clear advantage, often relies on state-controlled companies in which the Russian government holds the majority stake. This dependence on bureaucratic procedures and government-controlled entities can lead to delays and obstacles that impede the advancement of economic relations (Foshko Tsan 2012). Although digitization could potentially reduce logistical delays, the lack of interest from Indian IT companies has prevented progress in this area.

To address the slow pace of private sector engagement in their bilateral economic relationship, the Indian and Russian governments have established various platforms, such as the India-Russian Investment and Trade Forum, the India-Russian Chamber of

² Zakharov A. 2017. Exploring new drivers in India-Russia cooperation. *ORF Occasional Papers*. No. 124. October 2017. URL: <https://www.orfonline.org/research/exploring-new-drivers-india-russia-cooperation/> (accessed 29.04.2023).

³ Ibid.

Commerce, the Indo-Russian Inter-Governmental Joint Economic Commission, and the Russia-India Business Council, with the aim of enhancing trade and investment. However, these initiatives have yet to achieve their full potential.

Recently, the imposition of sanctions on Russia has prompted discussions on using the rupee-rouble trade as an alternative means of conducting trade between India and Russia. Although such trade existed in the past between India and the former USSR, the current situation differs due to the prevalence of the US dollar and other currencies in Russia's trade, despite Russia's efforts to de-dollarize its economy. In order to create a conducive environment for trade with sanctioned countries, including Russia and Iran, the Reserve Bank of India announced measures on 11 July 2022 to settle trade in rupees without explicitly mentioning any country⁴.

The implementation of a rupee-rouble trade settlement mechanism between India and Russia may face several challenges. Firstly, the limited trading of the rouble and the capital control measures imposed by the Russian government make it difficult to determine the exchange rate. As the rupee has been under pressure against the dollar, the exchange rate will have to be negotiated bilaterally. Secondly, since Russia has a trade surplus with India, settling trades in rupees and roubles would result in the accumulation of rupees in Vostro accounts in Russia. This surplus balance could be a concern for Russia as it may not be able to utilize these funds in India due to its post-conflict economic scenario. Therefore, it remains uncertain how Russia will utilize this surplus balance, even though it is denominated in rupees⁵.

In light of the slow pace of private sector engagement between India and Russia, it may be unrealistic to expect frequent investments and projects from Russia in India. While there are plans to implement some defence and civilian nuclear power projects with Russian companies, a partial trade settlement using the rupee-rouble exchange may be a viable short-term solution. However, the success of such an approach would require ongoing real-time communication and negotiations between the two countries.

An overview of India-Russia trade

Despite the long-standing diplomatic relationship between India and Russia, the trade volume between the two nations has remained relatively modest. It is worth noting, however, that the current relationship with the Russian Federation differs significantly from the former USSR's relationship with India. This difference is evident in the trade figures between the two nations.

⁴ Zakharov A., Kapoor N. 2022. India-Russia trade settlement: A way forward. *Observer Research Foundation*. 08 August. URL: <https://www.orfonline.org/expert-speak/india-russia-trade-settlement-a-way-forward/> (accessed 29.04.2023).

⁵ Ibid.

In the fiscal year 2017-18, the total value of trade between India and Russia was estimated at US\$10.69 billion. However, due to the impact of the COVID-19 pandemic, trade between the two nations decreased to US\$8.14 billion in 2020-21 before increasing again to US\$13.12 billion in 2021-22. The total value of trade between India and Russia increased by 61.21% in 2021-22, following a decrease of 19.48% in the previous year, as shown in Table 1.

Table 1. Total India-Russia trade and growth rates.

	2017-18	2018-19	2019-20	2020-21	2021-22
Total trade volume (US\$ billion)	10.69	8.23	10.11	8.14	13.12
Growth (%)	-	-22.99	22.85	-19.48	61.21

Data Source: Ministry of Commerce and Industry 2022, Government of India

Although the trade volume between India and Russia has increased in 2021-22, it is still relatively low compared to India's trade volumes with China and the USA. For example, India's total trade volume with China in 2021-22 was US\$115.83 billion, while its total trade volume with the USA was US\$119.48 billion, indicating the significant disparity in trade volume between India and Russia⁶.

Based on recent trade data, it can be observed that India has a trade deficit with 78 countries, which constitutes approximately 82.1 percent of India's total import trade as reported by the United Nations Commodity Trade Statistics Database (UN Comtrade 2022). A similar trend is also observed in India's trade with Russia, where imports from Russia amounted to US\$ 8.6 billion in 2017-18, declined to US\$ 5.5 billion in 2020-21, and then increased to US\$ 9.9 billion in 2021-22 (Figure 1). On the other hand, the total value of India's exports to Russia has slightly increased over the past few years, reaching US\$ 2.1 billion in 2017-18, US\$ 2.7 billion in 2020-21, and US\$ 3.3 billion in 2021-22. However, despite this increase in exports, India's trade deficit with Russia has also increased, reaching US\$ 6.6 billion in 2020-21, slightly surpassing the trade deficit figure of US\$ 6.5 billion reported in 2017-18 (Table 1).

⁶ Ministry of Commerce and Industry. 2022. *Government of India. Export Import Data Bank*. URL: <https://commerce.gov.in/trade-statistics/> (accessed 29.04.2023)

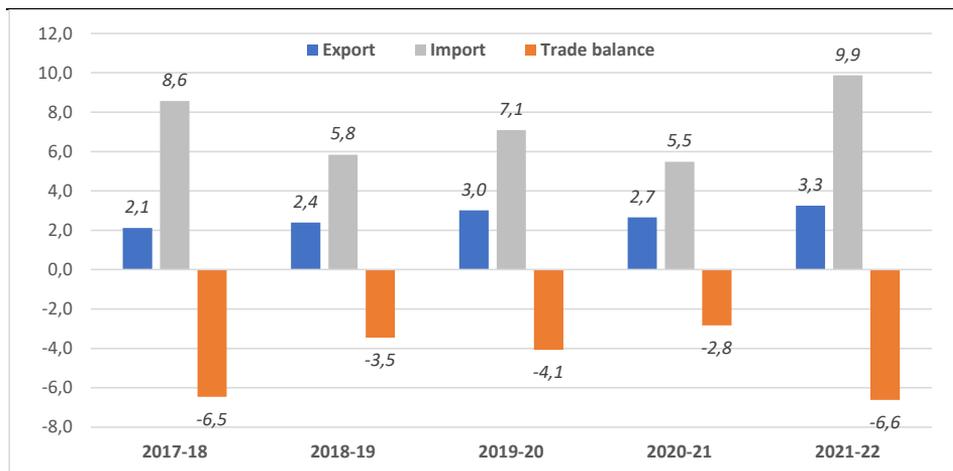


Figure 1. India-Russia trade at a glance, 2017-18 to 2021-22 (in US\$ billion).

Data Source: Ministry of Commerce and Industry 2022, Government of India

The recent trade data reveals two significant challenges for India. Firstly, the level of bilateral trade between India and Russia is relatively lower when compared to other major trade partners. Secondly, India is experiencing a persistent trade deficit in the context of a relatively low level of trade. Addressing the trade deficit and reducing it to a lower figure is crucial for India to enhance the bilateral economic partnership with Russia.

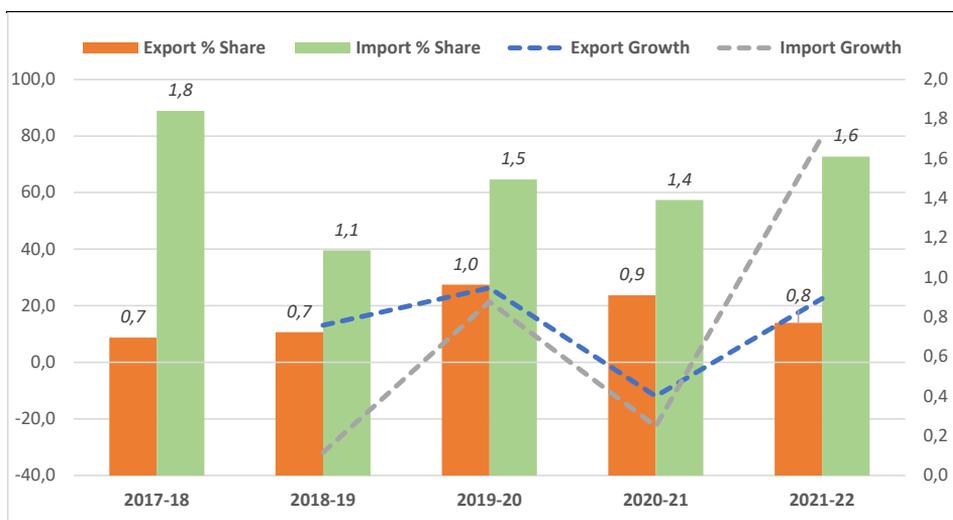


Figure 2. Recent trends in India's export and import growth and share (towards Russia) in total trade (in percentage).

Data Source: Ministry of Commerce and Industry 2022, Government of India

According to recent trade data, India's imports from Russia accounted for 1.8 per cent of total Indian imports in 2017-18, but decreased to 1.4 per cent in 2020-21 due to the pandemic disruptions. However, the share of imports from Russia rebounded to 1.6 per cent in 2021-22, despite the pandemic's severe impact on Indian exports and trade. In contrast, Indian exports to Russia only accounted for 0.8 per cent of total Indian exports in 2021-22. The share briefly increased to 1.0 per cent in 2019-20 before the pandemic but declined afterwards, as shown in Figure 2. The low share of Indian exports to Russia and the persistent trade deficit in the bilateral trade pose challenges to enhancing the economic partnership between the two countries.

India's priority export sectors

Table 2. India's top 20 commodity exports to Russia in 2018 by 2-digit HS code.

No.	HS Code	Description	Export value (US\$ million)	No.	HS Code	Description	Export value (US\$ million)
1	30	Pharmaceutical products	409.53	11	13	Lac; gums, resins, and other vegetable saps and extracts	47.83
2	85	Electrical machinery and equipment parts; sound recorders and speakers; image and sound recorders	238.33	12	21	Miscellaneous edible preparations	47.06
3	84	Nuclear reactors, boilers, machinery, and mechanical appliances	210.03	13	38	Chemical products n.e.c.	46.75
4	29	Organic chemicals	147.26	14	90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	42.02
5	9	Coffee, tea, mate, and spices	128.17	15	40	Rubber and articles thereof	38.97
6	87	Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof	119.83	16	61	Apparel and clothing accessories; knitted or crocheted	38.40
7	3	Fish and crustaceans, mollusks, and other aquatic invertebrates	84.38	17	62	Apparel and clothing accessories; not knitted or crocheted	37.96

No.	HS Code	Description	Export value (US\$ million)	No.	HS Code	Description	Export value (US\$ million)
8	72	Iron and steel	76.85	18	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds, and fruit, industrial or medicinal plants; straw and fodder	34.04
9	8	Fruit and nuts, edible; peel of citrus fruit or melons	54.77	19	39	Plastics and articles thereof	33.78
10	2	Meat and edible meat offal	54.08	20	10	Cereals	31.82

Export values are fob (freight on board/free on board) values, including all costs incurred in placing the goods in the ship for export.

n.e.c. = not elsewhere classified; HS Code = Harmonized System Code.

Data Source: UN Comtrade Database 2022

In 2018, before the onset of the pandemic, India's trade with Russia followed a typical trend. An analysis of India's top 20 export commodities in that year revealed that pharmaceutical products, electrical machinery and equipment, nuclear reactor parts, chemical products, and auto components were the most significant industrial exports. Among agricultural, animal husbandry, and fisheries products, coffee, tea and spices, fish and marine products, fruits and nuts, cereals, and oil seeds were the most prominent exports.

A comparison of the top 20 export commodity products between 2018 and 2021 reveals that ceramic products, iron and steel, and tanning and dyeing materials have been added to the list, while meat, apparel, and clothing have been dropped. Table 3 provides a compilation of all these products, offering a basket of the top broad commodity sector groups that India has exported to Russia in recent years. These sectors hold potential for future expansion in India's trade with Russia.

Table 3. Priority commodity export sectors for India.

Industrial exports	Agriculture, animal husbandry, and fisheries exports
Pharmaceuticals, Electrical machinery and equipment, Nuclear reactor and allied parts, Chemical products, Automobiles and auto components, Iron and steel, Medical and surgical instruments,	Coffee, tea, and spices, Fish and marine products, Fruits and nuts, Meat Rubber, gums, and resins, Cereals, Oil seeds.

Industrial exports	Agriculture, animal husbandry, and fisheries exports
Ceramic products, Plastic articles, Apparel and clothing, Tanning and dyeing materials.	

Data Source: Compiled by the author.

According to the most recent data, the total trade volume between Russia and India was over US\$11 billion in the first half of 2022, which is lower than the US\$13.6 billion recorded for the entire year of 2021. The Russian Ambassador to India has noted that India is exploring ways to enhance exports of various products to Russia, including medicines, agricultural products, electronics, and auto components, which aligns with the potential for expansion in these sectors. However, India's level of services trade engagement with Russia is currently low. In 2018, India's total services exports to Russia amounted to just US\$2.05 billion, accounting for only 1% of India's total services exports to the world that year.

There has been discussion about the potential for Indian software companies to operate in Russia, particularly after the imposition of Western sanctions. However, major Indian software companies, such as Infosys and Tata Consultancy Services (TCS), do not appear to be interested in expanding into Russia. Infosys had a small operation in Russia with fewer than 100 employees and no Russian clients, and it has since moved out of the country following the outbreak of the conflict. TCS, on the other hand, does not have a presence in Russia or Ukraine but instead wishes to explore opportunities for expansion in Eastern Europe, where it already has a moderate presence of 5000 employees. This approach seems to be the prevailing mood among major Indian IT players.

On the other hand, it has been reported that the President of Russoft, which is an association comprising of more than 250 IT companies in Russia, has suggested that a number of Russian software firms are currently exploring the possibility of forming joint ventures with Indian companies, as well as other members of the BRICS countries, in order to circumvent the sanctions that have been imposed on Russia.

However, there have been no updates or further developments on this matter. Apart from the potential for software exports, there are currently no other major service exports from India to Russia that can be expected to grow substantially in the near future. Therefore, it can be inferred that the possibility of substantial expansion in Indian services exports to Russia is limited at present.

Russia's priority export sectors

Table 4. Russia's top 20 commodity exports to India in 2018 by 2-digit HS code.

No.	HS Code	Description	Export value (US\$ million)	No.	HS Code	Description	Export value (US\$ million)
1	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1855.14	11	72	Iron and steel	144.00
2	99	Commodities not specified according to kind	1152.09	12	39	Plastics and articles thereof	140.29
3	84	Nuclear reactors, boilers, machinery, and mechanical appliances; parts thereof	1097.76	13	73	Iron or steel articles	127.74
4	71	Natural, cultured pearls; precious, semi-precious stones; precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	1075.74	14	49	Printed books, newspapers, pictures, and other products of the printing industry; manuscripts, typescripts, and plans	87.43
5	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers; parts and accessories of such articles	520.34	15	29	Organic chemicals	70.82
6	31	Fertilizers	310.00	16	25	Salt; sulphur; earths, stone; plastering materials, lime and cement	68.39
7	48	Paper and paperboard; articles of paper pulp, of paper or paperboard	274.02	17	7	Vegetables and certain roots and tubers; edible	40.45

No.	HS Code	Description	Export value (US\$ million)	No.	HS Code	Description	Export value (US\$ million)
8	90	Optical, photographic, cinematographic, measuring, checking, medical or surgical instruments and apparatus; parts and accessories	257.64	18	15	Animal or vegetable fats and oils and their cleavage products; prepared animal fats; animal or vegetable waxes	20.83
9	40	Rubber and articles thereof	174.80	19	47	Pulp of wood or other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	17.94
10	28	Inorganic chemicals; organic and inorganic compounds of precious metals; of rare earth metals, radioactive elements, and of isotopes	168.25	20	44	Wood and articles of wood; wood charcoal	17.32

Export values are fob (freight on board/free on board) values, including all costs incurred in placing the goods in the ship for export.

HS Code = Harmonized System Code.

Data Source: UN Comtrade Database 2022.

The top 20 commodities exported from Russia to India in 2018 included mineral fuels, pearls, semi-precious stones, imitation jewelry, fertilizers, and chemical products. Agricultural and animal husbandry products comprised animal and vegetable fats and oils, vegetables, rubber, and wood and related articles. On the other hand, the top 20 export commodity products from Russia to India in 2021 were aluminum, auto components, and pharmaceutical products, while wood, wood pulps, and related articles, and vegetables were replaced. A summary of these products is presented in Table 5, providing a comprehensive overview of the broad commodity sector groups exported by Russia to India in recent years.

Table 5. Priority commodity export sectors for Russia.

Industrial exports	Agriculture, animal husbandry and fisheries exports
Mineral fuel, Pearl, semi-precious stones, precious metals, imitation jewelry, Electrical machinery and equipment,	Animal and vegetable fat and oils, Rubber and articles, Edible vegetables, Wood, pulp, and articles.

Industrial exports	Agriculture, animal husbandry and fisheries exports
Nuclear reactor and allied parts, Fertilizers, Chemical products, Iron and steel, Paper and products, Pharmaceutical products, Plastic articles, Auto equipment, Printed books, newspapers, Salt, sulfur, earth, stone, lime, cement, Aluminum and articles.	

Data Source: Compiled by the author.

In 2018, the value of services exported by Russia to India was US\$ 439 million, with the largest export being a miscellaneous business, professional and technical services at US\$ 230 million. Personal travel was the second-largest export at US\$ 128 million, followed by air transport at US\$ 18.2 million, business travel at US\$ 16.2 million, and sea transport at US\$ 11.1 million. Russia's total services exports to the world in 2018 amounted to US\$ 64.63 billion, indicating that Russian services exports to India constituted only 0.7 percent of its total services exports. The outbreak of the Russia-Ukraine conflict has affected travel and air transport, and given the small percentage of services trade between the two countries, there is currently little scope for significant expansion in this area.

India has a notable reliance on Russia in the defense sector, having been importing weapons systems since the 1970s. Over the years, Russia has provided India with various critical and sensitive weapons platforms, such as nuclear submarines, aircraft carriers, tanks, guns, fighter jets, and missiles. This history of procuring weapons from Russia highlights India's dependence on Russia in the defense trade. It is estimated that up to 85 percent of weapons and platforms used by the Indian armed forces are of Russian origin, contrary to the commonly cited figure of 60 percent. From 2000 to 2020, Russia accounted for 66.5 percent of India's arms imports, valued at US\$35.82 billion. During the same period, the USA and Israel had respective arms import values of US\$4.4 billion and US\$4.1 billion⁷.

Russia is currently the second-largest arms exporter globally, with the USA being the largest. In contrast, India stands as the world's largest arms importer of Russian weapons. A comparison between the periods 2011-2015 and 2016-2020 indicates a 53 percent decline in Russia's arms exports to India in the latter period, although Russia still holds the position of the largest arms exporter to India⁸.

⁷ Kaushik K. 2022. Explained: How dependent is India on Russia's weapons? 03 March 2022. *The Indian Express*. URL: <https://indianexpress.com/article/explained/india-russia-military-weapons-defence-ties-7795804/> (accessed 29.04.2023).

⁸ Ibid.

India has been considering diversifying its arms suppliers and establishing a self-sufficient domestic defense supply chain for some time now. However, transitioning to a more diversified set of defense suppliers is a gradual process, particularly in India, where the acquisition process historically takes a long time. Although there are some pending defense deals and proposals between India and Russia, ongoing conflicts and potential new sanctions could negatively impact them. Despite this, the defense sector will remain an area of mutual benefit for both countries in the near future. In the long run, India's desire for diversified arms import partners and indigenous defense production capabilities will likely reduce its reliance on Russia for defense imports, although this transition may take longer than anticipated⁹.

Conclusion

Based on the latest trade data for the financial year 2022-23, India's bilateral trade with Russia has reached a record high of US\$ 18.23 billion in the first five months of the year (April-August). The increase in trade is primarily due to the import of Russian oil and fertilizers, resulting in Russia becoming India's seventh-largest trading partner, up from the 25th position in the previous year (2021-22). However, India's exports to Russia during this period amounted to only US\$ 992.73 million, while Russian exports to India accounted for US\$ 17.24 billion, resulting in a significant trade deficit of US\$ 16.24 billion for India.

This growth in trade is not surprising as Russian oil and fertilizers were previously exported to Europe and other markets. However, the imposition of sanctions on Russia has resulted in a shift towards other markets that can compensate for the loss of European markets. If this trend continues, Indo-Russia trade volume is expected to increase further, surpassing the historically low levels of bilateral trade. Despite the sanctions imposed on Russia, recent trade activities in the oil and fertilizer sectors are consistent with the priority sectors identified in the paper's data analysis, providing statistical validation.

India's potential for growth in the range of 6.5-7.0 percent in the current financial year makes it imperative for the country to seek new sources of energy and raw materials at reasonable prices. Continued exports of Russian fuel and fertilizer could prove beneficial for both nations. However, the fate of the Russian Special Military Operation in Ukraine will determine the trajectory of future bilateral developments (Warren, Ganguly 2022). An early resolution of the conflict can facilitate Indo-Russia trade expansion, while a prolonged conflict could result in secondary sanctions on countries like India. India's growth story will be pivotal in determining actual subsequent devel-

⁹ Ghoshal D., Ahmed A. 2022. India, the world's biggest buyer of Russian arms, looks to diversify suppliers. 18 May. *Reuters*. URL: <https://www.reuters.com/world/india/india-worlds-biggest-buyer-russian-arms-looks-diversify-suppliers-2022-05-18/> (accessed 29.04.2023).

opments. If India maintains a moderate to a healthy pace of growth in the next three to five years, other major economies may be inclined to participate in that growth story, positively lifting up global growth. However, suppose India experiences risks and challenges, such as inflation and trade slowdown, and clocks below-par growth rates in the next few years. In that case, the country may face some secondary sanctions.

The geographical proximity of Russia and China compels India to adopt a neutral position towards Russia, which has been accepted by major powers in the West thus far. While the Chinese economy has slowed down due to its strict COVID-19 containment policies, India is expected to be the next engine of global growth. However, if India fails to meet global growth expectations in the immediate future, it may face repercussions from the primary sanctions imposed on Russia. An early resolution of the conflict between Russia and Ukraine could ease these hindrances.

On the other hand, if the Russian Special Military Operation in Ukraine ends and the sanctions are gradually lifted in the next couple of years, Russia may return to its original export destinations in Europe and elsewhere. Economic logic suggests that lower cost advantage will drive this transition back to the previous status quo. This could result in a decline in bilateral trade engagement between India and Russia.

To prevent a return to sluggish trade momentum, India and Russia need to maintain the recent surge in trade flow actively. An analysis of this paper outlines the priority sectors for both countries with an expected increase in trade volume. Russia should continue engaging with India in sectors such as energy, fuel, civilian nuclear reactors, fertilizers, and metals such as aluminum. Meanwhile, India should aim to increase its exports to Russia in sectors such as pharmaceuticals, electronic equipment, auto components, medical and surgical instruments, tea, coffee, spices, oil seeds, cereals, rubber, meat, fish, and marine products.

Secondly, it is crucial to maintain investment collaborations in the civilian nuclear power and defense sectors between India and Russia, as Russia's expertise can aid India in building the necessary infrastructure in these areas. Furthermore, with the imposition of sanctions in other parts of the world, Indian investment may offer new opportunities for Russian capital in India. India has a long-standing interest in investing in Russia's energy sector, with state-owned companies such as ONGC Videsh Limited, Bharat Petroresources Limited, Indian Oil Corporation, and Oil India Limited has invested USD 16 billion in the sector to date. India's desire to expand its energy sector investments in Russia was discussed during the meeting between the Indian Foreign Minister and his Russian counterpart in November 2022¹⁰, and both countries should harness the potential for further investment collaboration.

¹⁰ Chaudhury D.R. 2022. Plans afoot to raise Russian energy sector investments. 10 November. *The Economic Times*. URL: <https://economictimes.indiatimes.com/news/india/plans-afoot-to-raise-russian-energy-sector-investments/article-show/95411642.cms> (accessed 29.04.2023).

Thirdly, given the current momentum in trade between the two nations, it is advisable to expedite interactions between the private sectors of both countries. This is necessary for Indian private sector participation in Russia, which is currently considered risky to conduct business. However, if a peaceful resolution to the conflict is reached in the near future, this may be an opportune moment for India to introduce its private sector to the potential of investing and doing business in Russia. It is essential to recognize that investment must not be a one-way street; just as India expects investment from Russia, it must also reciprocate by investing in Russia. The Russian economy desperately needs investment post-sanctions, and the country is expected to negotiate for Indian investment on Russian soil.

Fourth, as the volume of trade between India and Russia reaches a record high, it is suggested that serious discussions on trade settlement in the rupee-rouble exchange rate should be initiated. However, there are some possible challenges in implementing a full-fledged rupee-rouble trade settlement; a partial mechanism could be devised with deeper engagement from both sides. Given the current strength of the US dollar, establishing such a partial trade settlement mechanism would be mutually beneficial for India and Russia.

Furthermore, the positive outlook for future bilateral relations between India and Russia is currently contingent on the Russian Special Military Operation resolution in Ukraine. Any conflict escalation could lead to stricter sanctions and more restrictive actions from Western countries, creating additional barriers for future Indo-Russian bilateral endeavors.

In the context of a constantly evolving global order, with conflicts and unpredictable events influencing trade and investment trajectories in the long run, it is challenging to estimate future trends. Nevertheless, these broad-based efforts can potentially enhance trade and investment levels in the short term (over the next two to three years) and pave the way for sustainable growth in the future, benefiting both India and Russia.

About the author:

Abhijit Mukhopadhyay – M.Phil. & M.A. in Economics; Senior Fellow (Economy and Growth), Observer Research Foundation. 110 002 India, New Delhi, Rouse Avenue Institutional Area 20.
E-mail: abhijitmukhopadhyay@gmail.com.

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Экономические отношения между Индией и Россией исторически имели ограниченный характер, будучи связанными с различными проблемами. Однако изменение геополитической и геоэкономической ситуации открыло перед двумя странами новые возможности, одновременно актуализировав ряд вызовов и рисков. Целью настоящей статьи является обсуждение как «унаследованных» проблемных аспектов, так и происходящих в настоящее время динамических сдвигов в международной торговле и порядке. В статье рассматривается продолжающаяся трансформация индийско-российского экономического взаимодействия и предлагаются возможные пути его дальнейшего развития, а также обозначаются существующие преимущества обеих стран в сфере торговли и инвестиций.

Исходя из предположения о скором завершении специальной военной операции на Украине, автор предлагает экономическую дорожную карту для сохранения темпов развития торгово-экономических отношений России и Индии. Первым шагом является укрепление двусторонней торговли в существующих приоритетных экспортных секторах обеих стран. За этим может последовать более глубокое сотрудничество в нефтяной промышленности, гражданской атомной энергетике и оборонной сфере. Переход на расчёты в рупиях и рублях, хотя бы частичный, мог бы значительно усилить эффект упомянутых шагов. Также обсуждается необходимость активизации усилий правительств двух стран по привлечению частного сектора к реализации подобных мер.

В статье утверждается, что в случае реализации указанных мер, а также скорейшего завершения конфликта на Украине, существует потенциал выведения двусторонней торговли и уровня инвестиций на траекторию устойчивого роста.

Ключевые слова: Россия, Индия, российско-индийская торговля, атомная энергетика, оборонная промышленность, торговый баланс, частные инвестиции

Об авторе:

Абхиджит Мукхопадхьяй – старший научный сотрудник, Исследовательский фонд Observer (ORF). 110 002 India, New Delhi, Rouse Avenue Institutional Area 20.
E-mail: abhijitmukhopadhyay@gmail.com.

Конфликт интересов:

Автор заявляет об отсутствии конфликта интересов.

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