

Indo-Russian Economic Cooperation

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Abstract:

The disintegration of the Soviet Union has brought major changes in Indo-Russian relations. The world to some critics became bipolar or multipolar world. Hence in the changed international world order, the relations between the two countries was not cordiale. But as soon as political and economic situation improved in Russia, the relations too improved with India whether it was in defence, science and technology and economic field. The article discusses in detail the pros and cons of Indo-Russian economic relations. In future their strategic partnership would have to move in a more positive direction if both the countries allow public and private players to enhance the bilateral trade and economic cooperation.

Key words: market economic, globalization, liberalisation, modernization, Shock therapy, strategic partnership, GLONASS, buyer –seller meet, military-industrial complex, Joint Study Group, private economic players.

INTRODUCTION:

After the disintegration of the Soviet Union, India and Russia had to pass through tough economic transformations. The trade agreements play a major role for decreasing the strain on the industrial relations between the two countries after the Ukraine crisis. The Indian Prime Minister, Narendra Modi's visit to Russia has promoted India's effort of becoming a

manufacturing destination and not just a market. In the past, the Soviet Union played an important role in India's industrialization. The economic relations with Russia is seen as a state within Soviet Union but now Russia was then emerged as an independent country.

INDO-SOVIET ECONOMIC RELATIONS:

Earlier, India's economic relations with Soviet Union were based on the mutual interests. After independence, India's public sector was largely a Soviet creation and the Soviet military assistance began even before the India-China conflict of 1962. Before the death of Nehru, Indo-Soviet cooperation had already expanded to heavy engineering items, oil refining, oil exploration, coal, iron ore, electric power generation power equipment production, antibiotics and pharmaceuticals precisions instruments and aluminum production, antibiotics and pharmaceuticals, precision instruments and aluminum production.¹

Indo-Soviet Union relationship was described as one of the exemplary models of unique and rancor free ties. The 'great silk route' was the life line for traders in the two countries since then. Close trade linkages have been forged and subsequently have been expanded to cultural and academic linkages between the peoples of two countries. This has now transformed into "Strategic Partnership" of the twenty first country.²

Trade and economic relations constituted a vital dimension in the Indo-Soviet Union relations. The first bilateral trade agreement between India and USSR was signed in December 1953 and Jawahar Lal Nehru Lal first visited USSR as the Prime Minister of India in 1955. The turnover was mere Rs. 2 crores. The signing of Indo-Soviet agreement in February 1955 for the construction of Bhilai Steel Plant marked the first major step on our long term economic relations. The success story of the Bhilal Plant lead us to set up new industrial ventures in other core sectors as well. In 1959, the USSR

offered the largest credit of Rs. 2,800 cr. It was a significant boost in the Indo – Soviet trade and economic relations. A number of credit lines were opened by way of exporting Soviet – made engineering equipments, machinery and capital goods to assist India in industrialisation. By mid 1960s, the Soviet Union became the second largest contributor to India's development.

It was an undisputed fact that the Soviet Union, by early, 1970 acclaimed for the quantum range of economic and technical assistance to India compared to any other country in the world. By the late 1970s, the Soviet Union became India's largest trading partner and India too figured as the top priority partner in the USSR's foreign trade and economic activity outside the COMECON³ in East Europe. A number of agreements were signed by the President Gorbachev and Prime Minister Rajiv Gandhi in late 1980s, which were directed to boost bilateral trade and provide Soviet investments and technical assistance approximately to the tune of \$ 2.4 billion to the Indian telecommunication and transport sector.

The entire trade was conducted in rupees under a system of annual trade protocols and profits were calculated in non-convertible currency.

DISINTEGRATION OF THE SOVIET UNION:

In August 1991 USSR disintegrated into 15 independent countries and Russia became the main successor state of the Soviet Union. After disintegration Russia relied on financial and technical support from the West to transform its shattered economy from state controlled to market economy. There are several reasons behind the disintegration of USSR:- i- the foreign exchange crisis; ii- the fall in the production of raw materials; iii- the fall in the supply of labor; iv- decline in fixed capital assets and v- budget crisis.⁴

The new government of Russia introduced price liberalization and large scale privatization of state enterprises

and other economic objects except the key industrial units of strategic importance. India is also embarked on the path of economic liberalization around the same time but without 'shock therapy'.⁵

DECLINE IN INDO-RUSSIAN BILATERAL TRADE:

That period was very difficult for both countries as both the countries were suffering from economic crisis and there was further decline in projects in the bilateral trade. There are several reason that affected Indo – Russia economic relations. These are as follows –

- I. Foreign trade was the monopoly of the state during the Soviet Union. After the collapse of the Soviet Union, the state lost dominations over foreign trade.
- II. India embarked on the path of economic liberalization in 1991, for gaining projects many trade operators were active in trading activities. They were motivated for short term perspective for Indian goods. They were not paying attention on the quality of the products which were being exported to Russia. They failed to make impressive gains in the rapidly changing market situation in Russia, faced tough quality and price competition.
- III. Non payment ability on the part of the Russian importing agencies. This situation discouraged many exporters who were involved interacting from Soviet Union.
- IV. After the disintegration of rupees trade was terminated and India's debt to USSR amounted Rs. 36,000 crores which was converted into debt repayment funds payable to Russia in Indian merchandise.
- V. The multiplicity of payment method in trade has prevailed in the form of – DFR, hard currency. Escrow and barter created some elements of misunderstanding and confusion in bilateral trade. Lack of stable

mechanism for imports from India started with the allocation of rupee funds changing over to auction of rupee funds at discounted rates. The lack of consistency and transparency in payment had also added to the complexity of India's trade with Russia.

- VI. In the process of liberalization of the economy, both India and Russia declared economic reforms to open up their economies. Russia had changed its priority in favor of USA and the West to establish good economic relations with the capitalist world and also the transportation route because the traditional trade route through Odissa port was not accessible as it had become a part of Ukraine. So finding a new route was more time and cost consuming.⁶ As a result the trade between both countries reached a low of less than one billion dollars.

NEW BEGINNING IN INDO-RUSSIAN ECONOMIC RELATIONS:

In May 1992, a fresh Indo – Russian Trade and Economic Agreement was signed during the official visit of Russian Secretary of the State, Gennady Burbulis. It was agreed that the bilateral trade would henceforth be carried out only through hard currency transactions and would repay its debt to Russia being the successor state of the USSR.⁷ It was also decided to accord MFN status to each other and to set up an inter – governmental commission on trade, economic, scientific and technical cooperation (IRIGC). Russia renewed its export of oil, newsprint and military equipments to India. In response, India opened \$ 285 million technical credit line to Russia for importing traditional items like tea, tobacco and spices. The trade had slightly gone to \$ 1.32 billion including India's export of \$ 750 million and imports \$ 569 million 1993.⁸ A treaty of friendship and cooperation was signed in 1991. The Indo-Russian Economic relations has been examined under the following regimes.

YELTSIN ERA

During the Russian President Yeltsin visit to India in January 1993 both countries, having recognized the deep – rooted national traditions and a tangible mutuality of substantive interests, redefined their relationship according to post – cold war realities.⁹

Yeltsin period can be classified into two phases. The Russian foreign policy in the first phase was guided by an overarching sense of ‘enlightened pragmatism’ that was neither enlightened nor pragmatic but a mistake.¹⁰ As a result, short lived first phase had to enter the second phase wherein Russia started considering itself a ‘Eurasian Country’ since more of its part lies in Asia than in Europe. These new developments took place because of the “shift in Russian domestic and foreign policy that became evident in the second half of the 1992.”¹¹ Thus, the Indo – Russian relations revived in the second phase. Both countries reoriented their relations in the changed world order. The bilateral relations then were on a stable and positive course and the visit of Yeltsin in 1992 was considered as a first step in that direction.¹²

In 1991, four letters were exchanged in the settlement of India’s debt to erstwhile Soviet Union. According to the debt repayment agreement 67% of the debt would be paid in 12 years i.e. Rs. 3,000 crores annually at the conversion rate of Rs 19.90 to 1 Rouble with 2.4 percent interest starting from 1993 till the years 2005. The remaining 37 percent without be paid over 33 years without any interest @ Rs. 31.57 to 1 Rouble.¹³

Both countries projected ambitious trade turnover of US \$ 2.5 billion by 1993 and \$ 3.5 billion in 1994 because of the vast economic and technological potential in Russia and the liberalisation and modernisation of India’s economy. But it remained unfulfilled. However, the bilateral trade almost touched \$2 billion mark in 1995-96, when the “3-year perspective plan” was introduced for purchase of certain commodities/goods with a part of the rupee debt funds allocated

for import of tea, tobacco, soyabean and pharmaceuticals by designated Russian agencies.¹⁴ According to government sources trade between India and Russia declined from \$ 2,368 million in 1991 – 92 to \$ 1569 millions in almost seven years.

The 90s represented one of the most difficult decades in Indo – Russian relations. After the disintegration of USSR, before 1993 the relations of both the countries were not good but the relations gathered some momentum and strategic relations strengthened during the post 1993 phase but was not much enthusiastic from the point of view of economic cooperation. According to government sources, trade between India and Russia declined from \$ 2,368 million in 1991-92 to \$ 1,569 millions on 1997-98, i.e. a drop of over 30 percent in about seven years. Trade between the two countries declined sharply in the first half of the 1990s which was a crisis period immediately after the Soviet break-up. This indicated the severe impact of the Soviet break up on India-Russia economic trade.

An important aspect of bilateral trade was high inflections in trade over the years, which indicated lack of stability in trade relations between the two countries. So far overall trade turnover was concerned India's exports to Russia went down from \$ 1,640 million in the 1991-92 to \$ 650 millions in 1997-98 and imports also declined from \$728 to \$500 million in the same period.¹⁵

After the disintegration, India was not able to sustain exports to Russia, while relatively Russia was able to sustain its exports performance to India including defence sells. Indian exporters failed to make impressive gain in the rapidly changing market situation in Russia and had to face tough quality and price competition from other competitors.¹⁶ Without knowing ground realities like consumer preferences, quality of the goods/services traded with often supply did not match demand. In other words, they never faced a real market competition. As a result, they were not prepared to adjust to the market realities. Political uncertainty, inflation and

cumbersome custom procedures and tax law, deteriorating security system, criminal mafia and unreliable banking system during the 1990s further complicated their efforts. Moreover, the 1998 fiscal crisis in Russia led to total bankruptcy of thousand of foreign companies including many Indian firms and their confidence to do business in Russia was low. But, the trade had started picking up only 1999-2000 and crossed \$ 1 billion.

PUTIN ERA : -

The new millennium saw a change in Russian leadership when President Vladimir Putin, assumed power in May 2000. He had the herculean task in handling inherited problems from his predecessor. The vast state was diseased with vices like massive corruption, organized crime, depleted industry, high inflation, bankrupt factories, unemployed youth, and a society where majority were robbed of their savings by the state and derived of basic needs.¹⁷

During the Yeltsin regime huge state funds were being illegally transferred from Russia to European banks. Putin went about carefully with the process of strengthening the Indo – Russian relations including trade and economic ties have acquired a new status with President Putin as the helm of the Russian affairs. Putin first visited India in October 2000. It was soon followed by the declaration on “Strategic Partnership” between the two countries. Both the countries also signed the Integrated Long – Term Programme of Scientific and Technical Cooperation (ILTP) during this visit.¹⁸

The visit of Indian Petroleum Minister Ram Naik visit to Moscow in February, 2011 also saw the signing of an agreement between the Indian Oil Company, ONGC Videsh Ltd. and the Russian Rosneft for the joint exploration of hydrocarbon resources in the Russian Far – Eastern Island of Sakhalin.¹⁹

During the visit of President Putin to India in December, 2002 both sides signed the joint Declaration on

Strengthening and developing economic scientific and technological cooperation. A document on economic cooperation between Indian state of Karnataka and Samara region of Russia and another document on telecommunication were signed during the visit.²⁰ During Indian Prime Minister Vajpayee visit to Moscow in November 2003, 85 Indian businessman accompanied him to study the prospects of investment and joint collaborations with Russian companies.²¹

Mani Shankar Aiyar, India's Petroleum Minister, visited Moscow in October 2005 to discuss India's energy requirements with Russia. In May, 2005 Prime Minister Manmohan Singh's visit to Moscow both countries decided to set up a Joint Study Group (JSG) on economic cooperation to look into the feasibility of the Comprehensive Economic Cooperation Agreement (CECA).²² In 2005, Indian Prime Minister Manmohan Singh visited Russia and an agreement was signed on technology safeguards which implemented the long-term cooperation in the area of joint development operation and use of the Russian global navigation satellite system GLONASS. This was done between G. Madhavan Nair, Secretary, Development of Space technology and A. Preminov, Director, Russian Federal Space Agency. This agreement envisages launching of GLONASS satellite using GSLV launch. This agreement opens the road for the implementation of a 2004 agreement on joint design and launching of GLONASS Communication satellites which will be used by both countries for civilian and military purposes.

India recognizes Russia as a market economy hence supports its entry to WTO. A substantial and new emphasis on economy including the field of energy and banking has been made. While giving the Nehru Memorial Lecture in New Delhi, President Putin stated, 'I believe that the future of Indo-Russian economic ties lies in the spheres of investment cooperation and the implementation of major strategic projects. In 2005 summit both countries set the target to move away from a declaratory stage to a constructive phase of action. Both

sides jointly embarked on a goal to expand trade in hi-tech products, to bolster scientific and technological partnership in priority areas such as space exploration, its software parks, communication and advanced alternative technologies. A joint study group was formed in 2006 to enhance Indo-Russian trade relations to understand that now Russia and India can engage with each other in order to achieve the \$10 billion target. The Joint Study Group²³ submitted its findings in February, 2007 at the time of the Indo-Russian trade and investment forum meeting was held.

Viktar Khristenka, Russia's Energy and Industry Minister, invited India to invest in Russia's energy sector and join Russian Companies in exploration and extraction activities in third countries, particularly in Central Asia. Indian companies like ONGC and other showed interest for oil exploration through joint ventures and equity partnership. The Russian Minister specifically welcomed India's interest in participating in the Sakhalin – 3 oil project in Siberia. India already invested \$ 2.7 billion in Sakhalin- 1, but is expected to have to bargain hard for a share in the even more lucrative Shakhalin – 3 venture where Russian and international energy majors companies such as Lukoil, Gazprom, Resheft and Exxon Mobil are all jockeying for position.

During the meeting with the Indian Prime Minister Singh and Russian businessman agreed to develop a long term energy partnership and decided that India and Russia would explore oil and gas assets both in production and explorations in third world countries like the Central Asian region.²⁴

In 2006 leaders of the both countries met in St. Petersburg during G-8 summit. Bilateral energy cooperation was highlighted in their talks. The Prime Minister, speaking about energy security had emphasized that, “extreme volatility and instability in hydrocarbon markets can affect the global economy's chances of sustained growth. Therefore, we would like to see arrangements worked out at the goal of energy security become a reality.” From the Indian perspective

diversification of energy supplies and moving away from dependent on fossil fuels is important.²⁵

FICCI, CII have intensified their contracts with their Russian counterparts by holding Indo-Russian buyer – seller meets, JBCs and exhibition in engineering sectors in February, 2005 at IETF, New Delhi, with the participation by medium and large Russian companies. The first ever IT Round Table seminar with the participation of about 20 major IT companies of Russia was held in Bangalore in December, 2004. The first ever Indo – Russian Energy Forum was held in January, 2005²⁶ at New Delhi. India-Russia also need to look any other relevant issues including the expansion of inter-banking co-operation and easing of visa regulations for Indian professionals for short as well as longer periods, including business travel.

Despite economic policy changes in both countries, the Indo-Russian economic relationship is still dominated by defence/public sector transactions. The Military Industrial Complex (MIC) still stands at the core of strong Indo-Russian economic linkage.

Macro – economic stability and growth in the two economies continued mainly because of there intensive expansion of internal consumer and investment demand. Overall, the economic policies of both countries aimed at supporting macroeconomic equilibrium and simulating growth.²⁷

Russian's Economic Report of December, 2006 states that it has been experiencing severe shortages of skilled labour due to demographic decline. This had an adverse effect on its economic growth in this context. It could be of mutual interest if professional from India were to be hired to meet the Russian requirements. This idea was discussed during Putin's January, 2007 visit as well as during the recent the visit of Russian's Minister of Economic Development and Trade.

Under the Putin administration, Russia's economy saw the nominal Gross Domestic Product (GDP) double climbing from 22nd to 11th largest in the world. During Putin's eight

years in office, industry grew by 75%, investment increased by 125% and agricultural production and construction increased as well. The Putin era has been termed as the transformable period for Russia as well as for the India – Russia Strategic partnership.²⁸

MEDVEDEV ERA :

In May 2008 Medvedev became the third President of Russian Federation. His emphasis was on modernization of the economy. There was several visits by President Medvedev to India for enhancing the cooperation in defence and economic areas. Indo - Russian bilateral trade increased then, at a good pace. Indian and Russian trade statistics in 2009 was estimated as \$ 7.5 billions with Indian imports given as \$ 5936 million and India exports \$1524 million. The trade was restricted to a narrow range of goods satisfaction of the trade basket was clearly indicated. An notable aspect of that is that the trade imbalance in favour of Russia grew from 2:1 in 2001 to almost 4:1 in 2009. If Indo – Russian defence deals are taken into account the actual imbalance in favour of Russia is significantly higher²⁹ in December, 2010. The Russian President Medvedev visited India to enhance strategic partnership in changing world scenario.

The global financial crisis of 2008 in Russia has resulted in three major shocks to Russia's long – term economic growth through oil prices dropping from \$ 140 per barrel to \$ 40 per barrel a decrease in access to financing with an increase in sovereign and corporate bond spreads and the reversal flows from \$80 billion inflows to \$ 130 billion in out flows which have resulted in bringing down the Russian economic growth.

The rubal stabilized in January, 2009 and the reserve began to steadily grow again in 2009 and reached \$452 billion by the end of the year 2009. On the other hand, India's GDP growth had started decelerating in the first quarter of 2007-2008, nearly six months before the outbreak of the US financial

turbulence with increasing relaxation of capital account transaction and the close integration of the domestic economic with international financial market. There was a steady fall in the value of the rupee despite substantial running down of foreign currency by the Reserve Bank of India.³⁰

In 2010, the official figure from the Russian foreign Ministry show that Indo – Russians trade including imports and exports were around \$ 8.53 billion. Russian President Medvedev's visit to India in 2010 decided to increase the volume of trade and investment and set a target of \$ 20 billion by 2015.³¹

RETURN OF PUTIN

In 2012 Putin again became the President of Russia. While holding the office of the President he started to sort out the problems in the trade between India and Russia.

The trade in goods between India and Russia is major Indian exports to Russia. These are drugs, pharmaceuticals and five chemicals, coffee, tea, tobacco unmanufactured, processed fruits and juices, transport equipments, cotton yarn fabric and madeups, machinery and instruments, plastics and linoleum products and the Russian export to India in mineral products, natural pearls, chemical and rubber, fuel energy goods, machinery and transport equipment, miscellaneous manufactured articles, metals and its products, textile products and footwear and tanning raw materials, furs and its products. These are the major trade goods between both countries. Fertilizer is the recent export good of Russian to India. Now India is one of the most important destinations for Russian fertilizers. Statistics in the given chart show that there is much need for Indo-Russian economic relations.

Chart

Year	India's Import from Russia	India's Export from Russia	Total Trade	Percentage Increase YOY
2004	1.55	0.63	2.18	(-) 34.17
2005	2.31	078	3.09	41.78
2006	2.98	0.96	3.95	27.66
2007	4.01	1.30	5.32	34.51
2008	5.23	1.71	6.94	30.56
2009	5.93	1.52	7.46	7.4
2010	6.39	2.14	8.53	14.4
2011	6.09	2.79	8.89	4.19
2012	7.91	3.04	10.95	23.8
2013	7.01	3.10	10.11	-7.34
2014	6.34	3.17	9.51	-5.6

Source: [http:// Indiaembassy.ru/index.php/en/economic-cooperation/overview](http://Indiaembassy.ru/index.php/en/economic-cooperation/overview)

CONCLUSION:

Structural reforms coupled with application of full scale market mechanism in trade proved to be a negative feature of Indo-Russian economic cooperation. The signing of several dozen bilateral agreements have done not much to promote trade relations between them. Their economic ties constitute the weakest link in their growing strategic partnership. Despite repeated calls to double the trade turnover target over the last decade, bilateral trade volume does not show sign of significant growth. Unfortunately, in 2013 Indo-Russian trade has gone down by 14.4%. This reason for this was drop in energy prices and lower demand for machine building produce due to unfavorable external market building.

In order to improve the economic relations, Modi's visit to Russia in December, 2015 was an effort to expand economic cooperation between the two countries. The aim was to take the current bilateral annual trade of \$ 10 billion to \$30 billion in the next 10 years. The time has come for both countries to draft a bilateral Comprehensive Economic Cooperation or think of some kind of free trade agreement in order to infuse new blood into the stagnating bilateral economic cooperation. Thus, sustained efforts will have to be made to bring the private

economic players of both countries in order to bolster bilateral trade and economic relations. If India and Russia are strategic partners, state intervention in promoting economic ties is essential and should not be left entirely to the market forces.

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