

India-Russia Trade and Economic Partnership: A Comprehensive Analysis

Dr. Amaan Anjum

Assistant Professor, Department of Commerce, Shia P.G. College, Lucknow

Abstract

India and Russia share a robust and historic bilateral relationship characterized by extensive cooperation in trade, investment, defence, and energy. This paper explores the dynamics of India-Russia trade relations, their evolution, recent trends, and the economic prospects for the future. Utilizing comprehensive data from fiscal years 2017 to 2024, this study identifies key export and import categories, investment trends, and collaborative initiatives like the International North-South Transport Corridor (INSTC) and the Chennai-Vladivostok Eastern Maritime Corridor (EMC). With the bilateral trade target set at USD 100 billion by 2030 and investment goals of USD 50 billion, this research provides critical insights into the drivers and challenges of this partnership.

Introduction

The India-Russia partnership represents one of the most enduring and strategic bilateral relationships globally. Rooted in historical ties dating back to the Soviet era, the relationship has evolved to encompass a wide array of areas, including trade, investment, defence, energy, science and technology, and cultural exchange. The strategic significance of this partnership lies in its mutual recognition of each other's geopolitical and economic potential, making it a key pillar of both nations' foreign policies.

The partnership formally took shape with the signing of the Declaration on the India-Russia Strategic Partnership in October 2000. This agreement marked the beginning of a new era of collaboration, elevating the relationship to a level of strategic importance that emphasized long-term cooperation across critical domains. In 2010, the partnership was further upgraded to a "Special and Privileged Strategic Partnership," underscoring the unique trust and mutual respect that define the relationship.

Economic cooperation, particularly in trade and investment, has emerged as a cornerstone of this partnership. Over the years, both nations have undertaken significant efforts to expand their economic engagement, aiming to leverage each other's strengths. India's rapidly growing economy and Russia's vast natural resources and technological expertise present complementary opportunities that have been strategically harnessed through bilateral initiatives.

In this context, this paper aims to provide a comprehensive analysis of the India-Russia economic partnership, focusing on the evolution of trade and investment, key trends, and future prospects.

Research Methodology

This study adopts a mixed-methods approach to comprehensively analyse India-Russia trade and investment dynamics. Quantitative data was gathered from official sources such as the Department of Commerce, Ministry of External Affairs, and international trade databases, covering fiscal years 2017 to 2024. Historical trade figures were examined to identify trends and growth patterns, while policy

documents and agreements provided qualitative insights into strategic objectives. Comparative analyses with other major trading partners such as China and the United States contextualized the findings. Case studies of landmark projects, including the Kudankulam Nuclear Power Plant and the Chennai-Vladivostok Maritime Corridor, highlighted successful collaboration models. This integrated methodology delivers a nuanced understanding of the economic partnership, emphasizing actionable insights for enhancing bilateral trade and investment.

Bilateral Trade Overview

India and Russia's bilateral trade has evolved remarkably over the years, underpinned by strategic initiatives, infrastructural developments, and the complementary economic profiles of the two nations. Historically, trade between India and Russia has steadily increased, starting from USD 1.4 billion in 1995 to reaching a record-breaking USD 65.7 billion in FY 2023-24. This upward trajectory is a testament to the resilience and adaptability of their economic relationship, especially amid global disruptions like the COVID-19 pandemic and shifting geopolitical landscapes.

One of the significant milestones in bilateral trade is the diversification of traded commodities. Indian exports to Russia are no longer confined to traditional goods but now include high-value engineering products, pharmaceuticals, and IT services. Similarly, imports from Russia have expanded beyond oil to include fertilizers, metals, and advanced machinery.

Historical Trends

A notable trend in this timeline is the significant jump in trade volumes post-2021, which can be attributed to enhanced energy imports by India. Crude oil now constitutes approximately 80% of India's total imports from Russia, underscoring the strategic importance of this commodity in bilateral relations. Moreover, the trade balance, heavily tilted in Russia's favour, highlights an area for improvement through increased Indian exports.

Year	Total Trade (USD Billion)	Indian Exports (USD Billion)	Russian Imports (USD Billion)
2017-18	10.69	2.11	8.57
2018-19	8.23	2.39	5.84
2021-22	13.12	3.25	9.86
2023-24	65.7	4.26	61.44

Commodity Analysis

India's export portfolio to Russia is diverse, ranging from agricultural goods to cutting-edge engineering products. On the other hand, Russia's exports are dominated by raw materials and energy resources. The following tables provide a detailed breakdown of the key traded commodities:

Indian Export Commodities	Value (USD Million, 2023-24)
Engineering Goods	1,300
Pharmaceuticals	518
Organic Chemicals	467
Agricultural Products	392

Russian Import Commodities	Value (USD Billion, 2023-24)
Crude Oil	54.5
Fertilizers	2.07
Precious Metals	1.18
Mineral Waxes	0.8

Recent Developments

Recent years have seen significant transformations in India-Russia trade dynamics, driven by several key factors:

- Energy Dominance:** Russia has emerged as a crucial supplier of crude oil to India, with energy imports accounting for a substantial portion of the trade volume. This shift has been driven by India's strategic need to diversify its energy sources.
- Pharmaceutical and Agricultural Growth:** Indian pharmaceutical exports to Russia have grown steadily, with drug formulations being a key contributor. Agricultural products, including rice, tea, and spices, have also seen increased demand.
- Technological Collaboration:** Engineering goods, especially components for the defence and aviation sectors, have become a major export category for India. This aligns with broader defence collaborations and joint production initiatives.
- Trade in Services:** In addition to goods, trade in services remains a stable pillar, contributing USD 1.021 billion in 2021. IT and educational services have been key areas of focus.

Strategic Initiatives

To further enhance trade volumes, both nations have undertaken several strategic initiatives. Key among these is the development of infrastructure and connectivity projects, such as the International North-South Transport Corridor (INSTC) and the Chennai-Vladivostok Eastern Maritime Corridor (EMC). These initiatives aim to reduce logistics costs and transit times, making bilateral trade more efficient and competitive.

In addition, the introduction of local currency trade mechanisms, such as the Rupee-Ruble exchange, has simplified financial transactions and reduced dependency on third-party currencies. The establishment of Vostro accounts and agreements on trade liberalization has further streamlined operations.

Strategic Initiative	Description	Impact
<u>INSTC</u>	Connects Indian ports to Russian markets via Iran	Reduces transport costs and time
Chennai-Vladivostok <u>EMC</u>	Direct maritime route	Cuts transit time by 40%
Rupee-Ruble Trade Mechanism	Local currency transactions	Simplifies and reduces currency risks
Free Trade Agreement with <u>EEU</u>	Ongoing negotiations	Expected to boost bilateral trade

Despite significant progress, challenges persist in achieving a balanced trade relationship. The trade deficit, driven by high oil imports, remains a concern. Geopolitical tensions, including the Russia-Ukraine conflict, and Western sanctions pose additional risks.

However, these challenges also present opportunities. India can leverage its strengths in pharmaceuticals, IT, and agricultural exports to reduce the trade gap. Collaborative initiatives in technology and infrastructure development offer additional avenues for growth. With a shared commitment to achieving USD 100 billion in bilateral trade by 2030, the prospects for India-Russia trade relations remain optimistic.

Investment Dynamics

Trends in Bilateral Investment

The investment relationship between India and Russia is a critical component of their economic partnership, encompassing diverse sectors such as energy, pharmaceuticals, infrastructure, and technology. Over the past two decades, bilateral investments have witnessed substantial growth, with both countries aiming to deepen their financial commitments. As of October 2023, India's investments in Russia totaled USD 16 billion, while Russian investments in India stood at USD 20 billion. These figures reflect a robust and expanding economic partnership.

Year	Indian Investments in Russia (USD Billion)	Russian Investments in India (USD Billion)
2011	6.5	—
2018	12	10
2023	16	20

Key Investment Areas

- Energy Sector:** The energy sector remains the cornerstone of bilateral investments. Projects such as the Kudankulam Nuclear Power Plant and Indian participation in Russian oil fields like Sakhalin and Vankorneft have been pivotal. The acquisition of Essar Oil (now Nayara Energy) by a Rosneft-led consortium highlights the scale of collaboration.
- Pharmaceuticals and Healthcare:** Indian pharmaceutical companies have established a strong presence in Russia, with exports of formulations and bulk drugs growing steadily. Collaborations in healthcare R&D are also being explored.
- Infrastructure and Railways:** Russia's investment in India's railway sector includes high-speed train technology and modernization projects. Joint production of rolling stock under the 'Make in India' initiative is a significant milestone.

4. **Digital Economy and Technology:** Bilateral collaborations in IT, cybersecurity, and artificial intelligence are expanding. Indian IT firms are increasing their footprint in the Russian market, while Russian tech companies are investing in India's digital initiatives.

Strategic Projects

Project Name	Sector	Description
<u>Kudankulam Nuclear Power Plant</u>	Energy	India's largest nuclear plant, built in collaboration with <u>Rosatom</u>
Chennai-Vladivostok Maritime Corridor	Infrastructure	Direct sea route reducing logistics costs and time
<u>Essar Oil (Nayara Energy) Acquisition</u>	Energy	Majority stake acquired by <u>Rosneft-led consortium</u>
High-Speed Train Collaboration	Railways	Joint development of high-speed rail systems
IT and Cybersecurity Initiatives	Technology	Expanding bilateral cooperation in digital solutions and AI

While the bilateral investment landscape is promising, it is not without challenges. Regulatory hurdles, geopolitical risks, and the lack of an updated bilateral investment treaty (the 1994 agreement ended in 2017) present obstacles. However, ongoing negotiations for a modernized treaty aligned with India's 2015 Bilateral Investment Treaty model aim to address these issues.

Opportunities lie in emerging sectors such as renewable energy, biotechnology, and joint ventures in Arctic exploration. The establishment of dedicated industrial corridors and technology parks can further attract investments.

Connectivity Projects

International North-South Transport Corridor (INSTC)

The INSTC aims to connect Russian ports with Indian markets via Iran, reducing transportation costs and time. This project complements India's efforts to diversify trade routes.

Chennai-Vladivostok Eastern Maritime Corridor (EMC)

Operational since 2024, the EMC cuts transport time between India and Russia by 40%, significantly enhancing trade efficiency. The corridor aligns with India's Maritime Vision 2030, which aims to modernize the maritime sector.

Challenges

India and Russia's trade relations, while robust, face several challenges that could impede their continued growth. One significant issue is the **trade imbalance** between the two nations. In FY 2023-24, India imported \$61.44 billion worth of goods from Russia, while its exports amounted to just \$4.26 billion. This disparity highlights India's heavy reliance on Russian crude oil, which constitutes over 80% of its total imports from Russia. Addressing this imbalance is critical to fostering a more equitable trade partnership. Another major challenge lies in **geopolitical risks**. Russia's ongoing conflict with Ukraine and the resultant Western sanctions pose potential obstacles for India, especially in maintaining its energy imports. These sanctions could affect financial transactions and create uncertainties for Indian businesses investing in or importing from Russia.

Connectivity gaps further hinder the efficiency of trade between the two countries. While projects like the International North-South Transport Corridor (INSTC) and the Chennai-Vladivostok Eastern Maritime

Corridor (EMC) have been initiated, their full operational potential is yet to be realized. Infrastructure constraints, logistical inefficiencies, and delays in project implementation continue to slow trade expansion.

Additionally, **regulatory and financial barriers** impede seamless economic collaboration. The absence of an updated bilateral investment treaty since the expiration of the 1994 agreement has left certain investment mechanisms unaddressed. Banking systems also face challenges in facilitating smooth transactions, particularly due to restrictions on international financial systems stemming from sanctions on Russia.

Opportunities

Despite these challenges, the India-Russia trade relationship holds substantial opportunities for mutual growth. One of the most promising areas lies in **energy security**. Russia's vast reserves of crude oil and natural gas provide India with a reliable energy source, helping to meet its growing domestic demands. Long-term agreements in this sector can further stabilize trade and ensure uninterrupted energy supplies. The **digital economy** presents another avenue for collaboration. As India advances its IT and artificial intelligence sectors, there is significant potential for partnerships with Russian tech companies in areas like cybersecurity, smart city technologies, and joint research initiatives.

Local currency trade mechanisms, such as the **Rupee-Ruble exchange**, offer a unique opportunity to simplify financial transactions and reduce dependency on third-party currencies. This system not only mitigates exchange rate risks but also strengthens economic resilience in the face of global financial uncertainties.

India and Russia can also capitalize on **connectivity projects** like the INSTC and EMC to enhance logistical efficiency. These corridors promise to reduce transit times and transportation costs, enabling faster and more cost-effective trade routes. By investing in infrastructure development, both nations can unlock the full potential of these initiatives.

Emerging sectors such as **renewable energy, biotechnology, and Arctic exploration** offer new opportunities for joint ventures. India's expertise in pharmaceuticals and biotechnology aligns well with Russia's focus on scientific innovation, paving the way for collaborative research and development projects.

Lastly, the establishment of **industrial corridors and technology parks** could attract investments from both sides, fostering industrial growth and economic integration. Encouraging Russian firms to set up manufacturing units in India's industrial hubs, coupled with Indian participation in high-tech projects in Russia, can further deepen economic ties.

In conclusion, while challenges such as trade imbalances, geopolitical risks, and infrastructural constraints persist, the opportunities in energy, technology, and connectivity provide a strong foundation for enhancing India-Russia trade relations. By addressing these challenges strategically and leveraging emerging opportunities, both nations can achieve their ambitious trade and investment targets.

Conclusion

India-Russia economic relations, rooted in historical trust, are evolving into a dynamic partnership characterized by robust trade and investment. The focus on connectivity, energy, and innovative sectors positions both countries for mutual growth. Addressing challenges such as trade imbalance and infrastructure gaps will be critical to achieving their shared aspirations.

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