

Friends in Need: Whither the Russia-India Strategic Partnership?



Aleksei ZAKHAROV

October 2019

The Institut français des relations internationales (Ifri) is a research center and a forum for debate on major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, Ifri is a non-governmental, non-profit organization.

As an independent think tank, Ifri sets its own research agenda, publishing its findings regularly for a global audience. Taking an interdisciplinary approach, Ifri brings together political and economic decision-makers, researchers and internationally renowned experts to animate its debate and research activities.

The opinions expressed in this text are the responsibility of the author alone.

*This text is published with the support of DGRIS
(Directorate General for International Relations and Strategy, Ministry of the Armed Forces), under “Russia, Caucasus and Eastern Europe Observatory”.*

ISBN: 979-10-373-0075-1

© All rights reserved, Ifri, 2019

Cover: © Kremlin.ru

How to quote this document:

Aleksei Zakharov, “Friends in Need: Whither the Russia-India Strategic Partnership?”, *Russie.Nei.Visions*, No. 116, Ifri, October 2019.

Ifri

27 rue de la Procession 75740 Paris Cedex 15—FRANCE

Tel.: +33 (0)1 40 61 60 00—Fax: +33 (0)1 40 61 60 60

Email: accueil@ifri.org

Website: ifri.org

Russie.Nei.Visions

Russie.Nei.Visions is an online collection dedicated to Russia and the other new independent states (Belarus, Ukraine, Moldova, Armenia, Georgia, Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan). Written by leading experts, these policy-oriented papers deal with strategic, political and economic issues.

Author

Dr. **Aleksei Zakharov** is a Research Fellow at the Institute of Oriental Studies of the Russian Academy of Sciences. He holds a PhD in History from Saratov State University. His area of research revolves around India's foreign policy, Russia-India and India-US relations as well as the overall geopolitics of South Asia. He is a regular contributor to the Valdai Discussion Club and Russian International Affairs Council (RIAC). In 2017-2018 Dr Zakharov was a Visiting Fellow at the Observer Research Foundation (ORF) and Institute for Defence Studies and Analyses (IDSA), two leading Indian think tanks based in New Delhi. His latest publications include:

- “India-Russia Summit: Reading Between the Lines”, *Extraordinary and Plenipotentiary Diplomatist*, Vol. 6, Issue 10, Oct-Nov 2018, pp. 40-42.
- “The Arithmetic of India-US Relations and the Russian Factor”, *IDSA Comment*, 17 September 2018.
- “Exploring New Drivers in India-Russia Cooperation”, *ORF Occasional Paper*, No. 124, October 2017.

Abstract

This paper explores the latest developments in key spheres of the Russia-India relationship in order to identify the state of bilateral ties at a time when South Asia has turned into an area of geopolitical contest of both global and regional powers. While preserving some elements of “old friendship”, current Russia-India cooperation lacks any significant engagement in trade and economy, scientific and cultural exchanges, while their political outlook toward the regional processes in South Asia is not in full congruence. The strategic partnership between the two countries boils down to their collaboration in two major spheres: defense and energy. Yet, despite resembling a purely sectoral cooperation, the bilateral ties have been quite resistant to an array of internal and external challenges: from the instability of the 1990s to the US sanctions against Russia that emerged as a problem for both Moscow and New Delhi in 2018.

Table of Contents

- INTRODUCTION 5**
- 4G CONNECTION: GEOPOLITICS, GLOBAL GOVERNANCE AND
GOODWILL 7**
 - Moscow-New Delhi cooperation in BRICS, RIC and SCO 10**
 - Soft power: the missing link 16**
- DEFENSE COOPERATION: THE NEW REALITIES 19**
- ECONOMIC TIES: NEXT TO NOTHING BUT ENERGY? 24**
 - Bilateral trade 24**
 - Energy cooperation 26**
 - The quest for switching to national currencies 28**
- CONCLUSION 32**

Introduction

The long-standing friendship between Russia and India has survived difficult times: from the Cold War and the collapse of the Soviet Union to the emerging of a new world where the nature of the bilateral relationship has significantly changed. In the past, it was India that desperately needed Soviet help, whether due to confrontation with China, war with Pakistan or the demand for crude oil. Today, India surpasses Russia in many ways, most notably economically. Contemporary India is a country with global ambitions striving to retain its leading position in Asia and obtain its rightful place in the world. The fact that Moscow has always supported New Delhi's global aspirations is an important driver of the relationship. Even though Russia's policy toward the region has yet to be elaborated, the bilateral relationship with India is based on sustainable interaction in such domains as global governance, defense cooperation, and energy.

This paper explores the current state of Russian-Indian political and economic cooperation at a crucial moment of their bilateral ties. In 2014, after the first round of sanctions had been introduced, Russia began to turn to the East in an attempt to enter new markets and build new partnerships. This "pivot to Asia" resulted in more engagement with regional powers, most notably a qualitatively new level of cooperation with China, an attempt to reinvigorate bilateral ties with Japan and South Korea, and outreach to ASEAN member states. Russia's relationship with Pakistan has also seen considerable change in the last five years. Meanwhile, Russia's foreign policy toward India was seemingly taken for granted. As before, India is regarded through the prism of a defense partnership and interaction in multilateral formats, and plans to extend bilateral ties beyond traditional spheres of collaboration have still not materialized. In its turn, India's foreign policy since 2014 has been expanding throughout different regions of the world. Although its immediate neighborhood has been, as usual, a top priority area for New Delhi, its cooperation with the United States, to Moscow's displeasure, has become of utmost significance at the global level. Furthermore, with the backdrop of relatively new pages in India's partnerships with the European Union, Japan, South Korea, Israel, Saudi Arabia, etc, the Russian track has lost momentum.

These days, the strategic partnership between Moscow and New Delhi is passing through a period of uncertainty. Now that both Russia and India have realized the necessity to preserve a healthy development of bilateral

cooperation, they find themselves in a complicated situation that requires both countries to maintain a neat balance in their foreign policies. In fact, the future dynamics of their relationship will be, to a great extent, defined by external factors: the state of Russia-US dialogue as well as the overall geopolitical environment in Eurasia, where China steps up to dominate the ongoing narrative. How will the two states overcome the global flux? Will the changing international context make Moscow and New Delhi team up or drift apart? With defense cooperation—the principal area of strategic partnership—under threat of decline, it is imperative to understand Moscow-New Delhi relations. Will the US sanctions further erode their defense cooperation or will the prospect of losing New Delhi as a traditional importer of Russian weaponry make Moscow pay greater attention to its approach to India? Will the long-lasting friendship between Russia and India prevail over the differences in regional approaches?

4G Connection: Geopolitics, Global Governance and Goodwill

Historically, the Soviet Union backed India on several sensitive issues, primarily on the status of Kashmir and India-Pakistan disputes. During the 1950s and 1960s, Moscow blocked United Nations Security Council resolutions on Kashmir sponsored by the Western bloc, which at that time was in favor of Pakistan. A consistent Soviet stance on this crucial issue for India laid the foundation for extended cooperation between the two countries. In 1971, Moscow and New Delhi signed the Treaty of Peace, Friendship and Cooperation, which practically implied an alliance between the two, and gave India confidence and freedom of action in response to the conflict in East Pakistan. While sharing a similar strategic outlook and, as a result, close positions on international issues during the Cold War period, the USSR and India had seriously differing views of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) and the Soviet intervention in Afghanistan in 1979. However, a distinctive feature of Indo-Soviet ties was keeping divergences out of the public domain and ironing them out at the highest political level.¹

At the beginning of the 1990s, Moscow and New Delhi lost their exclusive partnership, as Russia began to look westward and India was also forced to seek new partnerships. The new Treaty of Friendship and Cooperation signed in January 1993 lacked several significant security clauses, which reflected a drastic transformation of the geopolitical situation, in particular Moscow's tilt toward the US and intention to improve its relationship with China. The rise of anti-Indian sentiments among some representatives of the Russian elites, such as then Foreign Minister Andrey Kozyrev, and Russia's overture to Pakistan added to the anxiety of New Delhi.

Having survived the uneasy period of the 1990s, Russia-India relations became firmly established after the signing of the Declaration on Strategic Partnership in October 2000. The bilateral ties of the 21st century have

1. N. Unnikrishnan, "The Enduring Relevance of India-Russia Ties", *ORF Issue Brief*, No. 179, May 2017, p. 2, www.orfonline.org.

become more sustainable and predictable. A sufficiently high level of trust is exemplified in common positions on global and regional issues, and a lack of serious bilateral conflicts. India traditionally endorses Russian initiatives at the United Nations (UN) and abstains in cases where resolutions are against Moscow's interests. India has been supportive of Russia's policy regarding the Syrian crisis and, despite pressure from the US, New Delhi refused to criticize Russia for its actions in Ukraine. However, the situation is more nuanced when it comes to Russian and Indian interests in South Asia, particularly in the Afghan crisis.

As long as Moscow and New Delhi followed common approaches against the Taliban, they shared positions on the way the resolution of the Afghan crisis should be achieved. During the 1990s and 2000s, Russia and India converged, along with Iran, on at least two lines of development in Afghanistan. First, the three countries viewed the United States as an unwelcome actor in the region. Secondly, they regarded the Taliban as a threat to their domestic security.² However, since 2013, Russia's stance on the situation in Afghanistan began to change. If the relationship with the US has become even more hostile over time, Russia's view of the Taliban has seen a marked shift. Moscow reached out to Pakistan and later established "limited" contacts with the Taliban. It continues to view the developments in Afghanistan in the light of the security environment in Central Asia and its implications for its national territory. But the main force it opposes in Afghanistan is now the Islamic State, whose militants, according to Russian officials, are present on Afghan soil. New Delhi has been a consistent proponent of "zero tolerance" toward terrorist groups. India is mainly focused on the radicalization threat to South Asia, and Kashmir in particular. There is a fear, for example, that, if the Taliban returned to power, they might impose their Islamic caliphate ideology not only on Afghan territory, but well beyond its frontiers. In this regard, the Muslim population of Jammu and Kashmir might be susceptible to the influence of such an ideology.

Another important challenge for New Delhi is preventing Islamabad from playing a greater role in Kabul's domestic affairs. Given these concerns, Russia's outreach to Islamabad and the Taliban was unfavorable for India's interests, and raised hackles in New Delhi. Despite divergent views, both sides have maintained close interactions on the Afghan crisis. The issue is regularly discussed by the national leaders, national security advisers, foreign affairs ministers and other officials. India has been part of the Moscow format, a mechanism for all stakeholders to discuss the Afghan

2. A. Paliwal, "New Alignments, Old Battlefield", Carnegie India, June 2017, p. 2-3, <https://carnegieendowment.org>.

crisis that was initiated by Russia in April 2017. Notably though, the format derived from Russia-China-Pakistan trilateral consultations on the security situation in Afghanistan, held in December 2016. That meeting caused much indignation in both New Delhi and Kabul, and drew Indian experts' attention to the growing Russia-China-Pakistan axis.³ In November 2018, when the Taliban representatives participated for the first time in the Moscow format discussions, India sent a "non-official delegation" of retired diplomats to reiterate its firm stance toward terrorist groups, but continuing its engagement in the Russia-promoted mechanism. The Trump administration's direct talks with the Taliban and the US president's commitment to withdraw troops from Afghanistan added uncertainty to the crisis endgame and brought Moscow and New Delhi slightly closer on the Afghan track, though India still does not share Russia's approach of negotiating with the Taliban.

Since the confrontation with the West broke off, Moscow has increased its cooperation with Beijing. From a strategic perspective, this has been a worrisome signal for India, as China's rise is the main challenge to India's national security interests. Even though Russia has been trying to follow a balanced policy between China and India, its interactions with Beijing represent the main axis of its pivot to Asia. The growing military component of Sino-Russian cooperation, exemplified by Russia's supplies of sophisticated weapons to China and large-scale military drills, increases India's security concerns.

After Narendra Modi came to power in 2014, India's relations with the United States became a major part of his cabinet's foreign policy. The emphasis on India-US strategic cooperation on defense and security-related issues, notably leading to several foundational military agreements,⁴ has displeased Moscow. Washington is regarded in New Delhi as a balancer vis-à-vis Beijing, especially given the rise of the Chinese presence in South Asia. In addition, India increased its interaction with other Indo-Pacific nations and became part of the Quadrilateral Security Dialogue (Quad)⁵ and various

3. H. V. Pant, "Will Russia-China-Pakistan Axis Leave India Out of Afghanistan?", *The Quint*, 14 January 2017, www.thequint.com

4. In 2016, India and the US signed the Logistics Exchange Memorandum of Agreement (LEMOA). In 2018, they concluded the Communications Compatibility and Security Agreement (COMCASA). They are currently at an advanced stage of negotiations on the Basic Exchange and Cooperation Agreement (BECA). These agreements facilitate interoperability between the Indian and American armed forces. COMCASA and BECA pave the way for US supplies of India high-end military equipment.

5. Quadrilateral Security Dialogue, QSD or Quad is a format comprising India, US, Japan and Australia that emerged in 2007, following the initiative of Japanese Prime Minister Shinzo Abe. The dialogue gained new momentum in 2017 after the Indo-Pacific concept became an integral part of the US National Security Strategy, and the Quad members held a meeting in Manila, the Philippines, ahead of the ASEAN summit.

trilateral formats in the region with the US, Japan and Australia. On the other hand, India was reluctant to turn its relationship with the US and other partners into some form of alliance. New Delhi's resistance to elevating the level of cooperation with Quad members is a case in point.

The year 2018 saw a turnaround in India's foreign policy, which was vividly seen after Narendra Modi's summits with Xi Jinping in Wuhan and Vladimir Putin in Sochi, and his Shangri-La Dialogue speech. All three events demonstrated that India will retain its balanced foreign policy course in an attempt to gain benefits from cooperation with all major powers and avoid conflict with any of them. Together with establishing maritime connections in the Indo-Pacific, India seeks to bolster its presence in Eurasia; developing ties with both Russia and China is, therefore, indispensable, and serves well New Delhi's interests. In its turn, since 2016 Russia has been promoting the idea of "Greater Eurasia", so closer integration with India in the region is imperative for its successful fulfillment. Such formats as Brazil, Russia, India, China and South Africa (BRICS), the Shanghai Cooperation Organization (SCO) and Russia-India-China (RIC) provide a basis for framing shared positions on issues of global and regional significance.

Moscow-New Delhi cooperation in BRICS, RIC and SCO

At a time when Russia is facing considerable challenges in its global image, BRICS provides a necessary platform for delivering its world view and stance on the most immediate issues. Although BRICS' initial area of work is international economic order and the economic development of member states, Russia has heavily concentrated on the political side of the discussions. A number of Russian initiatives, which are reflected in the BRICS declarations, are clearly politically oriented. For instance, Moscow has been a proponent of agreements on cyber security and developing space cooperation between the BRICS participants. Among regional issues of high priority for Moscow, the Russian approach on Syria has been endorsed by other BRICS members. Hence, BRICS has been a valuable format for Russia to legitimize some of its foreign policy initiatives.⁶

Both Russia and India stand for a multipolar world, "an equitable, democratic and representative international order",⁷ and inclusive and

6. S. Saran, "From Cold War to Hot Peace: Why BRICS Matters", The Lowy Institute / *The Interpreter*, 13 July 2015, www.lowyinterpreter.org.

7. "10th BRICS Summit Johannesburg Declaration", Ministry of External Affairs, Government of India, 26 July 2018, www.mea.gov.in.

transparent global governance that takes into account “the interests of all members of the international community”.⁸ Their membership in BRICS, where the agenda of reshaping the global political and economic order has a special place, facilitates the process of crafting common approaches to the global governance principles. Nevertheless, there is an implicit difference, often overlooked by the observers, in Moscow’s and New Delhi’s perceptions of how the “multipolar world” should be organized and governed. Their views stem from different security concerns defining the two states’ foreign policy priorities. In Russia’s understanding, the “polycentric world” is a place without US supremacy, whereas India’s “multipolar world” is free from China’s hegemony in Asia and beyond. Even when India sides with the BRICS members’ commitment to create a new international system, it does not mean to oppose itself to the West. It is safe to say that India, to a wider extent, views BRICS as a geo-economic platform rather than a mechanism for political settlements. This does not preclude, though, BRICS and other multilateral formats from serving as tracks to strengthen cooperation with developing nations and to expand India’s global footprint. Apart from that, India has been using BRICS meetings for highlighting its terrorism concerns. For example, the 2017 summit in Xiamen was described as a success of Indian diplomacy, as the final declaration of member states mentioned a number of terrorist organizations, including the two Pakistan-based groups, Lashkar-e-Taiba and Jaish-e-Mohammad.⁹

Obviously, the meetings of five countries provide an opportunity for India to prop up its ties with Moscow and, despite geopolitical tensions, Beijing. The state of play between Russia, India and China, which remains at the core of the BRICS forum, has also been reflected in the separate trilateral forum referred to as Russia-India-China (RIC).

Since its very inception in 2003, when the ministers of foreign affairs of the three countries met for the first time on the sidelines of the UN General Assembly, RIC meetings implied consultations on regional and global matters. Even though initially seen by the former Russian prime minister Yevgeny Primakov as a “strategic triangle”, the trilateral failed to turn into a truly strategic format. First, both India and China have been wary of translating this forum into a bloc-like grouping. Secondly, the divergences in the New Delhi-Beijing relationship often overshadowed RIC interactions and thus prevented the three countries from deepening their engagement. Since the interests of the troika members have not been in absolute

8. “Saint Petersburg Declaration by the Russian Federation and the Republic of India: A Vision for the 21st Century”, President of Russia, 1 June 2017, <http://en.kremlin.ru>.

9. BRICS Leaders Xiamen Declaration, Ministry of External Affairs, 4 September 2017, <http://mea.gov.in>; S. Mukharji, “Getting China on Board in Naming Pak Terror Groups is a Diplomatic Triumph”, *DailyO*, 7 September 2017, www.dailyo.in.

congruence, any RIC gathering boils down to finding common ground and preserving a fine balance.

From a different angle, Moscow, Beijing and New Delhi have managed to maintain a striking regularity of meetings in the trilateral format. They have held 15 consecutive consultations since 2003. Russia has always been interested in bringing its Asian partners together. It was especially visible in 2017 against the backdrop of the Doklam standoff between India and China,¹⁰ eventually resolved a few days before the BRICS summit. Moscow's balancing act between the two partners was quite successful as it managed to keep the track in relationship with both of them. At the end of 2017, the three countries even held a ministerial meeting in New Delhi, where a gamut of issues was discussed. However, the remarks by Russian Foreign Minister Sergey Lavrov—in which he reiterated Russia's support for the Chinese Belt and Road Initiative (BRI) and expressed conviction that India, thanks to its smart diplomats and politicians, could also find a way to benefit from the project while not sacrificing positions of principle¹¹—were interpreted in India as backing Beijing's interests (especially as India is very uncomfortable with BRI).

In November 2018, the meeting of RIC was held, at leader level, on the sidelines of the G20 summit in Argentina. The trilateral summit was organized just for the second time in the format's history (the leaders of Russia, India and China previously had met in 2006 in St Petersburg). Even more notable is the fact that the initiative to organize Russia-India-China consultations was put forth by Russian President Vladimir Putin. It indicates the significance that Moscow attaches to the forum, even though trilateral meetings sometimes do not extend beyond *pro forma* statements. Speaking at the RIC meeting, the Russian president emphasized the importance of the three countries' joint work in Eurasia, primarily in the sphere of security.

Likewise at BRICS, Moscow's interest in pushing the RIC format forward should be examined through the prism of the tense relationship with the West. RIC holds a unique position in the Russian foreign policy paradigm as it unites three major Eurasian powers, and facilitates, in Moscow's calculations, an alternative, non-Western agenda on issues of global significance. Russia, albeit realizing RIC's limitations and modest deliverables, strives to maintain strong ties with both India and China, at

10. In the summer of 2017, India and Chinese troops were engaged in a 73-day standoff at the trijunction between India, Bhutan and China. The conflict flared up when a Chinese road-construction crew attempted to extend a road at the Doklam (Dong Lang according to the Chinese version) plateau, an area contested by Bhutan. Indian troops blocked the road-construction work, which resulted in a standoff between the Indian and Chinese armies.

11. "Foreign Minister Sergey Lavrov's Remarks at the Vivekananda International Foundation New Delhi", The Ministry of Foreign Affairs of the Russian Federation, 11 December 2017, www.mid.ru.

least for symbolic reasons. Being devoid of full-fledged allies, Moscow needs its Asian partners' support, even if it is not given much open expression, to give further impetus to its foreign policy.

Concerning the Shanghai Cooperation Organization (SCO), Russia actively backed India's joining of the forum and its security-related issues. In Moscow's calculation, the enlargement of SCO is an important step to invigorate its Eurasian policy, including the "Greater Eurasia Partnership" vision. By expanding the organization, Moscow is seeking to send a signal that it enjoys important partnerships in the region, and its pivot to Asia, developing against the backdrop of deteriorating relations with the West, has been gaining momentum. At the same time, the organization, in which Russia and China have undoubtedly had principal roles from the very beginning, is an arena for Moscow-Beijing competition for leadership. For instance, they have different views on SCO's further expansion. On the other hand, Russia is supportive of Chinese connectivity projects, allowing Beijing to exploit SCO as a stage for Belt and Road Initiative (BRI) promotion.

India is not at all enchanted by the BRI, as its flagship project, the China-Pakistan Economic Corridor (CPEC), is to pass through Pakistan-occupied Kashmir and is perceived in India as violating its sovereignty and territorial integrity. This was vividly noticeable in the latest SCO communiqué, when India was the only member country that did not express support for the BRI. This underlined a lack of consensus among participants that had not arisen previously. Given the India/Pakistan and India/China tensions, SCO has not only expanded in size, but also acquired new points of divergence. However, the organization might be used as a ground for diplomatic maneuvers giving more opportunities for interaction between the rival regional powers. There is a belief in Moscow that, with India and Pakistan being part of SCO, the organization will facilitate a smoother security environment in the region and help build bridges between India and Pakistan, leading even to the resolution of their bilateral issues.¹² Formally, by entering SCO, India and Pakistan agreed to act in accordance with the Shanghai Spirit and committed to strictly adhere to the SCO Charter. The First Article of the document,¹³ which all member states should abide by, speaks of the "good-neighborliness" spirit. In addition, both India and Pakistan have already increased their interaction, including in the defense sphere, as their military personnel for the first time participated in the SCO Peace Mission counter-terrorism drills conducted in Russia in August 2018.

12. N. Silaev, A. Sushentsov, "The Old World Revisited: Future of the International Order in Eurasia", Valdai Discussion Club, May 2018, <http://valdaiclub.com>.

13. "Charter of the Shanghai Cooperation Organization", art. 1, p. 2, <http://eng.sectsco.org>.

However, the crisis between India and Pakistan that occurred after the Pulwama terrorist attack on February 14, 2019 once again highlighted the fragility of the SCO construct with the two South Asian countries on board. Their affiliation with the organization, which promotes healthy relations between member states, including resolving any bilateral disputes, seems perfect on paper, but has not led to any tangible results on the ground. In reality, SCO could neither prevent nor influence the dynamics of the Indo-Pakistan conflict. And, no matter how successful the scenario of Eurasian integration might be portrayed, it is unlikely that the organization will ever achieve it in the future. The conflict was not even mentioned in the joint statement of RIC foreign ministers at the meeting held on the heels of the India-Pakistan confrontation and the exchange of airstrikes between them. The issue was discussed, apparently, during ministerial talks, but Russia and China chose not to express open support for the Indian position. The prospect of mediation between New Delhi and Islamabad explored by Russian officials as well as onlookers seems to be premature, if not irrelevant. For one thing, the SCO charter prohibits raising bilateral issues.¹⁴ Secondly, New Delhi does not recognize any possibility of third-party participation in resolving the dispute with Islamabad. When the military conflict between India and Pakistan erupted in February 2019, Sergey Lavrov did not exclude Moscow helping to mediate between the two countries and provide the venue for the talks. This “offer” was accepted by Pakistan’s Foreign Minister Shah Mahmood Qureshi, who expressed readiness to discuss the settlement, with Moscow’s assistance.¹⁵ India, in contrast, stated that the mediation issue was a “fiction” and the two sides would manage without any intermediaries.¹⁶

The recent tensions in the Indo-Pakistan relationship were not reflected in the schedule of SCO forums. Both Indian and Pakistani officials took part in the SCO Regional Anti-Terrorist Structure (RATS) council in Tashkent, Uzbekistan, in March 2019, and the Defense Ministers’ conclave in Bishkek, Kyrgyzstan, in April 2019. Moreover, both India and Pakistan are expected to participate in a SCO anti-terrorism exercise to be held in June 2019 in Kazakhstan.¹⁷ What seems important for India is to have political outreach to Central Asia and a voice in Eurasian affairs, thus increasing its regional role. In addition, an opportunity to balance both China and Pakistan by

14. P. Stobdan, “China and Russia See SCO as Pivot for India-Pakistan Entente”, *The Wire*, 9 June , 2018, <https://thewire.in>

15. “Telephone Call between Foreign Minister and the Foreign Minister of the Russian Federation”, Ministry of Foreign Affairs, Government of Pakistan, 1 March 2019, www.mofa.gov.pk.

16. “Interview of Ambassador of India to Russia D. B. Venkatesh Varma to *Kommersant*”, Embassy of India, Moscow, 3 March 2019, <https://indianembassy-moscow.gov.in>.

17. “India to take part in SCO joint anti-terrorism exercise in 2019”, *The Indian Express*, 16 March 2019, <https://indianexpress.com>.

expressing concerns about their actions—be it the construction of CPEC or terrorism emanating from Pakistan’s territory—is a requisite for New Delhi. From this perspective, membership in SCO gives a valuable space for Indian diplomacy.

Thus, in all three forums—BRICS, RIC and SCO—India is a distinctive member, for at least two reasons. First, unlike Russia and China, it does not oppose itself to the West; on the contrary, it seeks to maximize the benefits of being the member of seemingly opposing formats such as Russia-India-China (RIC) and US-India-Japan (JAI), for instance. Second, it clearly spells out its concerns about the China-Pakistan economic corridor and Pakistan’s support for terrorist groups. If Russian accommodation of the latter concerns seems fairly achievable, India’s position on CPEC, while understood, was not officially supported by Moscow.

If interaction in BRICS has brought some results, such as forming financial institutions—most noteworthy, the New Development Bank (NDB)—and allocation of funds for infrastructure development in member states, the whole notion of partnership in SCO remains controversial in nature, and obviously requires more time so that the enduring tensions can be reconsidered. Even though 2018 and the beginning of 2019 saw a thaw in Sino-Indian relations, mutual trust between the two countries has yet to be achieved. After all, before sensitive security issues are to be discussed between two states with territorial disputes, they need to begin with confidence-building measures. India-Pakistan relations present an even more complex case, as diplomatic dialogue between the two sides, especially at the bilateral level, is almost non-existent. These issues do not stall cooperation of the member states under the SCO umbrella, but ensure that practical gains in the forum’s work remain limited. As of now, the functioning of the expanded SCO seems to be more about optics than making actual progress on the forum’s agenda. Nonetheless, even symbolic diplomatic deliverables of regular meetings with regional partners are very important for Moscow at this stage.

A foundational basis of the Russia-India relationship is their history premised on friendship and goodwill. Memories about traditionally strong bilateral ties constitute an integral part of any official interaction between Moscow and New Delhi. With memories of the Cold War period, there is hope in both capitals that a friend will help in troubled times. Would Russia-India friendship and goodwill survive in the event of serious changes in the geopolitical landscape? So far, Moscow and New Delhi have maintained dialogue, despite global turbulence and regional divergences. The year 2018 showed that the geopolitical churn made both sides stick together, not drift apart. Various formal and informal consultations between Vladimir Putin

and Narendra Modi as well as other high-level officials vividly indicated enduring trust in the bilateral relationship.

At the same time, how sustainable and meaningful the sentiments expressed by the two states' politicians are remains questionable. Considering the emotional element of the Russia-India strategic partnership, one would expect to see deep linkages—political, economic and cultural—between the two countries. In reality, these days the bilateral ties are more vulnerable than they used to be in Cold War times. As Russia has little-to-no soft-power influence in India, the relationship with India has almost lost its people-to-people dimension.

Soft power: the missing link

In Soviet times, cultural ties between the two countries were one of the strongest sides of their relationship. Most of the population in both the USSR and India was aware of the friendship, which was reflected in numerous exhibitions, fairs and festivals. The slogan “Hindi Rusi bhai-bhai” (Indians and Russian are brothers) was familiar to anyone in India and the Soviet Union, even those having little knowledge about a distant friendly country.

Moscow's soft power was best demonstrated by the massive supplies of free Soviet literature translated not only into English and Hindi, but regional Indian languages as well. New Delhi in its turn exported Bollywood films, which were extremely popular among the Soviet audience and shaped its perception of India. The dissemination of knowledge was also facilitated through academic channels. Apart from regular exchanges between scholars, a large number of Indian students studied in the USSR.

Just as the 1990s were a difficult period for political and economic cooperation between Moscow and New Delhi, it also affected the scientific and cultural ties. Many Russian educational organizations stopped their work in India, and joint projects in science, medicine and art were halted. There were no more Russian book supplies as Moscow faced serious financial problems and could not afford non-earning cultural projects. The current situation in this domain stems from the losses of the 1990s. These days, there are exchanges of cultural festivals in each country and five Russian Centers for Science and Culture (built in the Soviet era) continue to promote the Russian language and several scholarship programs for Indian students, under the supervision of the federal agency Rossotrudnichestvo. On the surface, it looks as if cooperation in the academic and cultural domains is flourishing. In reality, people-to-people ties today do not match their scope and depth during Soviet times. The “admirers” of Russia in India

constitute a handful of students and scholars involved in Russian and Central Asian studies, or those with sentimental memories of their trips to the USSR. Russia is no longer a favored destination for Indian youth. Although about 11,000 Indian students are enrolled in Russian universities, mainly specializing in medicine, most young Indians tend to choose Western countries to pursue their studies. As India's soft power is quite strong globally, India's enthusiasts in Russia are represented not only by Indologists, but also by followers of Yoga, Ayurveda and Indian dances, but Bollywood has lost its attraction in the Russian film market.

In the past, the media played a crucial role in shaping positive images of India and the USSR among their population. Soviet and Indian media had offices operating on a permanent basis in both countries, and many journalists were working on both sides on a wide range of issues pertinent for bilateral ties. Currently, there are two Russian media outlets operating in India. RT (formerly Russia Today) is the most prominent one. According to a survey by Ipsos conducted in 2015, RT has got around 7 million English-language viewers per week in India.¹⁸ It seems to be a substantial number, but in terms of popularity and influence in India, RT yields positions to other global channels like BBC, CNN and France 24. RT has yet to gain the sympathies of Indian viewers, which proves to be difficult given its deteriorating image in the eyes of the global public. Another media is Sputnik which, unlike RT, has a bureau in New Delhi. If RT is aimed more at presenting a Russian perspective of global affairs, Sputnik deals with Indian news, though its expertise in Indian affairs and, thus, its coverage leaves much to be desired. In 2015, Sputnik, which derived from Voice of Russia, launched a channel, as well as a separate website, in Hindi. However, both were shut down soon as the result of low interest. On the Indian side, there are no offices of media outlets and even journalists permanently based in Russia. In contrast with their Russian counterparts, most Indian media are privately funded, and evidently do not consider it viable to run offices in Russia.

Thus, almost three decades after the collapse of the Soviet Union, Russia and India did not manage to build close scientific and cultural ties. The knowledge about each country and memory of their glorious friendship is alive with those who grew up from the 1960s to the 1980s. By contrast, the younger generations of Indians and Russians have considerably less interest in and, as a result, knowledge about each other. Moreover, there are few channels for knowledge dissemination as media outlets in both countries pay insufficient attention to a "strategic partner". To a great extent, the poor

18. "RT Watched by 70mn Viewers Weekly, Half of Them Daily—Ipsos Survey", RT, 10 March 2016, <https://www.rt.com>.

state of the people-to-people connections is a failure on the part of the two states. The USSR inspired Indian leaders as well as many ordinary Indians through its ideology and in light of its economic and cultural achievements. Today's Russia appears to have far less to offer India, with probably one exception: Russia-produced weaponry.

Defense Cooperation: The New Realities

The Soviet Union was a major provider of arms to India. Close political connections between Moscow and Delhi established in the 1950s-1960s, in conjunction with the US decision to suspend military supplies to India, paved the way for Soviet monopoly in the Indian defense market. There was an extraordinary depth of defense collaboration between the two states. Moscow's transfer of technology and rights for local assembly was an important distinction, which served well Indian interests, and gave USSR/Russia an edge over competitors. For instance, in 1961, the Soviet Union and India reached an agreement for MIG-21 to be constructed on Indian soil under license. These fighter jets have been used by India in every major conflict since 1963 and, despite the jet's mixed safety record in the recent past, are still operated by the Indian Air Force.¹⁹ The Indian Navy, particularly the submarine fleet, was also developed with Soviet support. The most notable exemplification of strategic ties between the two countries was the then-unprecedented lease of Soviet nuclear-powered submarine K-43 in the 1980s.

Even though Moscow is the traditional supplier of arms and technologies to India, and defense cooperation represents a core pillar of the bilateral relationship, the latest trend shows that Russia is losing its position in the Indian defense market. India—one of the largest importers of major weapons in the world—has been diversifying its defense partners. According to SIPRI, in 2014-2018 Russia accounted for 58 per cent of India's arms imports. Russian arms exports have considerably decreased compared to the beginning of the 2010s when Russia's share was over 70 per cent. Meanwhile, Israel, the United States and France increased their arms supplies to India in 2014-2018.²⁰ At the same time, there is an enduring interdependence between the Russian and Indian defense sectors: Russia remains the main arms exporter to India, while India is the chief recipient

19. K. Taneja, "The Trouble With India's MIG-21 Fighter Jets", *The New York Times*, 8 August 2013, <https://india.blogs.nytimes.com>.

20. P. D. Wezeman et al., "Trends in International Arms Transfers, 2018", *SIPRI Fact Sheet*, March 2019, p. 9, www.sipri.org.

of Russian weaponry, accounting for almost a third of all Russian arms sales.²¹

Apart from the essential need to reduce its dependence on a single supplier of weaponry, the rise of alternative sources of imports is caused by the activation of India's foreign policy. The strengthening cooperation with the US, the European nations (mainly France, UK and Germany), a greater outreach to the Middle East, and a new page in India-Israel relations in particular—all these trends have resulted in a shift in the Indian defense market. Another reason for India's diversification of military equipment sources is to acquire state-of-the-art defense items for all branches of its armed forces. The decline in Indian arms imports from Russia seems to be an irreversible process since it has been underway for several years and is now being affected by the US sanctions.

The Countering America's Adversaries Through Sanctions Act (CAATSA) has emerged, since 2017, as a serious impediment to Russia-India defense cooperation. The ultimate objective of the Act is to reduce Russia's stake in defense markets throughout the world, thus punishing Moscow for its actions in Ukraine and Syria. Apart from India, key Russian defense partners such as China, Vietnam, Indonesia and others found themselves affected by the CAATSA provisions. By the time this legislation was adopted by the US Congress and then signed into law by the US president on August 2, 2017, Moscow and New Delhi had approached the final stage of negotiations on several important deals. The threat of secondary sanctions put India in a situation of making strategic choices between Russia and the United States, the two crucial partners. Moreover, just two weeks before the India-Russia summit on October 4-5, 2018, the US State Department imposed sanctions on China's Equipment Development Department and its director "for engaging in significant transactions" with persons on the sanctions list, namely Russia's transfer to China of Su-35 combat aircraft and S-400 surface-to-air missile system-related equipment.²² The sanctions on China marked the first time that CAATSA was implemented against third parties for dealing with blacklisted Russian persons and entities. Despite being aware of the Chinese case, New Delhi decided to proceed with acquiring S-400 SAM—the largest Indian acquisition from Russia in recent years, and one that certainly qualifies as a "significant transaction" as per CAATSA's terms. The main Indian motive behind going ahead with the S-400 purchase was the lack of equivalent systems elsewhere in the world.

21. *Ibid*, p. 4.

22. CAATSA Section 231: "Addition of 33 Entities and Individuals to the List of Specified Persons and Imposition of Sanctions on the Equipment Development Department", US State Department, 20 September 2018, <https://www.state.gov>.

Having solid air protection would be extremely important for India in the event of military tensions with China or Pakistan. Apart from solely strategic reasons for acquiring Russian military equipment, the decision to finalize the S-400 deal—publicized during the Modi-Putin October 2018 summit in a very low-key manner—was made by India to demonstrate its independence and “strategic autonomy” in foreign policy.

Beyond S-400, India and Russia have proceeded with a contract on four Talwar/Krivak class frigates, and lease of a third nuclear submarine, and have been negotiating several other deals: supply of Ka-226T and Mi-17 helicopters and a license for manufacturing AK-103 rifles. New Delhi also decided to sign a contract worth nearly \$2 billion for the licensed production of 464 Russian T-90MS battle tanks.²³ However, the finalization of all these deals will not imply a smooth process of payment, which are doomed to be stalled if made in US dollars. The fact that the term “significant transaction” is vague and may be applied flexibly in accordance with US national interests will make India weigh each deal twice before the final decision. Each case will probably require consultations with and even explanation to Washington on why this or that weaponry is vital for the Indian armed forces.

The sanctions added up to a list of irritations on the Indian side concerning the Russian defense sector. Questions about the quality of Russian military equipment, long delays in getting spare parts, and divergences on joint projects have acted as irritants in the bilateral defense cooperation for a long time. One joint project that had been stuck for 11 years—the Fifth Generation Fighting Aircraft (FGFA)—was finally shelved due to the inability of the two sides to agree on the cost of the jet development, on the technologies to be used, and on a fixed number of aircraft.²⁴ Taking all these factors into account and given the changing contours of Indian foreign policy, there is growing suspicion in Russia that, in the long term, its positions on the Indian defense market may suffer further decline. It is true that India is still heavily dependent on Russian defense supplies, as all branches of its military are using Soviet and Russian weapons and equipment. In addition, Moscow has been India’s only partner so far to share sensitive technologies, which allowed Indian companies to be producers of Brahmos missiles, T-90 tanks and SU-30MKI airplanes. Yet, the latest trends in Indian engagement with other defense partners indicate that the trajectory of Russia-India defense cooperation may well change.

23. “Indian Army to Acquire 464 Russian-Origin Battle Tanks”, *Business Today*, 7 May 2019: www.businesstoday.in.

24. “India Tells Russia to Go ahead with FGFA Project and Says It May Join at a Later Stage”, *The Economic Times*, 13 July 2018: <https://economictimes.indiatimes.com>.

It must be noted, though, that the sanctions brought about not only problems in implementing agreements, but also prompted a degree of unity between Moscow and New Delhi, forcing the bureaucracies on both sides to coordinate efforts and work faster. The negotiations on S-400, apparently managed at the very top level, demonstrated that Russia and India can operate in a synchronized manner when they face external pressure.

An integral part of defense cooperation between Russia and India is military exercises conducted on a regular basis. Since 2017, the annual bilateral drills called “INDRA” have involved all three service branches. Notably, Russia became the first Indian military partner to hold a tri-services exercise.²⁵ The idea of such drills is in line with India’s Joint Armed Forces Doctrine emphasizing the high priority of jointness and integration of land, sea and air forces. Moreover, the doctrine calls for “complete and effective inter-operability” with other powers, “big and small”, while international defense cooperation is regarded as an “imperative” for increasing capabilities to deal with India’s “current and emerging role in the international arena”.²⁶ As part of its international engagements, India has intensified its defense diplomacy in recent years. Beyond importing foreign equipment, New Delhi holds multiple military drills. Interestingly, in 2018 India conducted exercises with all P5 nations (US, UK, France, Russia, China) along with other friendly countries such as Japan, Australia, Vietnam, ASEAN countries and others. Russia had fewer military partners to train with, but drills with two of them—China and Pakistan—caused great concern in New Delhi. The exercises with both were driven by geostrategic factors. There should be no doubt that the Vostok-2018 drills with China and Mongolia—the largest war games for Russia since the Cold War—were aimed at sending a signal to NATO. However, Moscow’s military engagements with Beijing have been closely observed in India as well. If Russia-China exercises have been held in various formats since 2003, the bilateral Russian-Pakistani military drills have turned into a tradition since 2016. Notably, their first joint military exercise, called “Friendship”, was held in September 2016, immediately following the Uri terror attack in India. Initially, as per the Russian Ministry of Defense statement,²⁷ the drills should have taken place at the military mountain training school in Rattu (the disputed territory of Gilgit-Baltistan province in Kashmir). Although later Moscow labelled the reports on the location as “not true” and clarified that the exercise would be held at the Cherat training ground in the Khyber

25. India-US tri-services exercise is scheduled for the end of 2019.

26. “Joint Doctrine Indian Armed Forces”, *Bharat Shakti*, April 2017, p. 22, <https://bharatshakti.in>.

27. “Russian-Pakistani Tactic Exercise Friendship-2016”, Ministry of Defense of the Russian Federation, 23 September 2016, <http://eng.mil.ru>.

Pakhtunkhwa province of Pakistan,²⁸ the very fact of the drills, their timing and uncertainty about the venue, injected an unpleasant strain in Russia-India relations. Judging by the never-ending Indo-Pakistan confrontation, the regular war games between the Russian and Pakistani armed forces will be an open sore, causing uneasiness in the Moscow-New Delhi ties.

Politico-military connections between Russia and India, albeit with some reservations, have traditionally remained a strong point in their relationship. However, for their strategic partnership to prosper, it should also include a vibrant economic element.

28. "Press Release on Deputy Director of the Information and Press Department Yury Materiyy's Reply to a Media Question on the Russia-Pakistan Anti-Terror Exercise", Ministry of Foreign Affairs of the Russian Federation, 23 September 2016, www.mid.ru.

Economic Ties: Next to Nothing but Energy?

In Cold War times, the two countries engaged in productive economic dialogue, with Moscow providing technical and financial assistance to India. More than a hundred industrial “giants” were built in the core sectors of the Indian economy—oil and gas, the steel industry and mining—with Soviet support. Until its collapse, the USSR was India’s largest trade partner and, among developing countries, India was the same for the USSR.²⁹ The Soviet breakup dealt a huge blow to the trade and economic relations of the two countries. Since then, the economic track has never been the driving force of the Russia-India relationship. Having revolved around defense and energy, their bilateral ties have hardly unleashed their potential. The picture of their trade and economic relationship is even bleaker when compared to India’s cooperation with other global powers. Certainly, there are problems in the India-US economic relationship, such as tariffs, WTO disputes, and intellectual property practices, among others, while the USD 115 billion volume of trade in goods and services seems insufficient to experts in both countries. Former US ambassador to India Richard Verma even said that the two countries had been “slightly underperforming” for decades as they had put too much emphasis on their defense relationship.³⁰ Although similarly hinged on military partnership, the situation regarding Russia-India ties is totally different. If India and the US, with their huge trade and multidimensional business engagements, have been underperforming, Moscow and New Delhi have not been performing at all.

Bilateral trade

In the last 20 years, Russia-India trade has scarcely topped USD 10 billion (Figure 1). Attempts to foster business cooperation, for instance by means of organizing special summits, have not yielded serious results so far. Despite gradually improving conditions for doing business in both countries,³¹

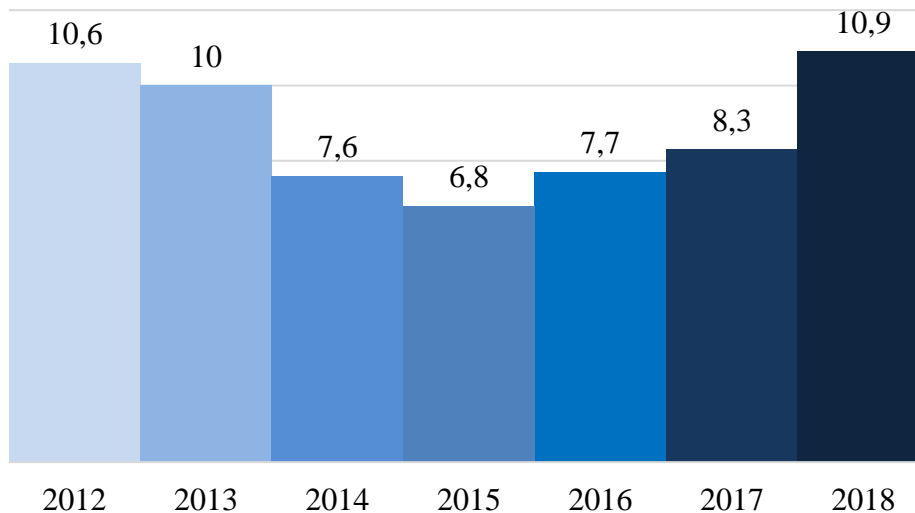
29. A. Mohanty, “Indo-Russian Relations: From Yeltsin to Putin (1991-2001)”, Moscow: India Centre, Publisher IKAR, 2001, p. 80.

30. A. Pande, “Natural Allies? The India-US Relations from the Clinton Administration to the Trump Era”, *Asie.Visions*, No. 104, Ifri, December 2018, pp. 29-30, www.ifri.org.

31. “Doing Business 2019”, The World Bank, 2019, www.worldbank.org.

companies are rather reluctant to enter their markets and, beyond several specific spheres, do not demonstrate much will to make investments.

Figure 1. Russia-India Bilateral Trade Volume Dynamics (2012-2018), billion USD



Source : Federal Customs Service of Russia, <http://eng.customs.ru>.

The relatively poor structure and low volume of the Russia-India trade relationship are explained by several objective reasons. First, the two countries have no connectivity, which makes goods flow long and costly, and results in businesses' reluctance to set up deliveries from one country to another. Secondly, the Russian companies that have been operating in the Indian market are mainly state-controlled, while most of the Indian firms belong to the private sector. This complicates the negotiations process, limiting opportunities for collaboration at the level of non-public companies.

Yet, even objective barriers in the path of closer economic ties cannot fully justify why Russia is only 23rd in the list of India's trade partners, while India holds a modest 17th position in Russia.³² Apart from little-to-no interest from both sides in embracing new areas of cooperation, the reasonable explanation could be that the two countries have nothing to offer each other. So far, the combination of the various impediments, a lack of

32. Trade Statistics, Department of Commerce: <http://commerce.gov.in>; Foreign Trade of the Russian Federation, Federal Customs Service, www.customs.ru.

business incentives and a shortage of “low-hanging fruit” has prevented Russia and India from expanding their trade.

An unfortunate development that also may affect the future relationship is the different trajectories in the growth of Russia’s and India’s economies. In 2014, the GDP of both was about USD 2 trillion. Since then, the Indian economy has continued to grow whereas the Russian has undergone a steep decline. In 2018, India’s GDP totaled around USD 2.6 trillion—a trillion dollars ahead of Russian GDP. Even though both economies are expected to grow in the coming years, India’s 7-8 per cent a year increase in GDP will further widen the gap between the two economies. In the long run, such a scenario may put Russia and India into different categories. Russia’s weak economy will have limited capacity to invest in India, while Indian private-sector companies will hardly be attracted to the over-regulated Russian market, with few promising areas to encourage their involvement.

The leaderships in both countries realize that the situation on the economic side does not correlate with the level their strategic partnership should imply. That is why President Putin and Prime Minister Modi pledged to increase Russia-India trade to USD 30bn by 2025. However, this looks difficult to achieve, as the trade figures have been moving forward incredibly slowly. A positive angle of the bilateral economic relationship is the growth in investments from both sides. Russia and India managed to cross the USD 30bn target of cumulative investments for the period 2000-2018, and now seek to increase this figure to USD 50bn by 2025. A closer look at the structure of two-way investments reveals that energy is almost the only field of mutual interest.

Energy cooperation

India is the third largest energy consumer in the world. Ensuring energy security is one of the challenges for the country’s sustainable development. Russia-India cooperation in the energy sphere is a traditional part of the bilateral strategic partnership that since Soviet times, along with defense, has been a key driver of friendship between the countries.

Cooperation in civil nuclear energy stands out, as Russia has been the only world power to construct nuclear plants in India. Although countries such as the US and France have shown interest and have reached agreements on a civil nuclear energy partnership with India, their respective companies, for various reasons, have not managed to get going in the Indian market. The Russian Rosatom has already completed the first two power units at Kudankulam Nuclear Power Plant in Tamil Nadu. In 2017 the

second stage of the project (the construction of the third and fourth units) was launched, and agreement to proceed with two more units was signed. Another milestone in this sphere reached in early 2018 was agreement to collaborate in third countries. The first such project is in Bangladesh, where Russia and India have begun to jointly develop the Rooppur Nuclear Power Project. Indian companies are expected to be involved in construction and installation works, and the supply of materials and equipment of “a non-critical category in the interests of the project”.³³ Apart from that, in October 2018 during the annual bilateral summit, the two sides worked out an action plan that acknowledges their intention “to develop a second project of six nuclear power units at a new site in India, enhance cooperation in third countries and bring in new perspective nuclear technologies”.³⁴ In accordance with the agreement, Russia committed to offering the VVER 3+ generation reactors and increasing the level of Indian industry’s involvement and localization of the project.³⁵

Meanwhile, the oil and gas industries successfully cooperate in terms of investments. Indian public-sector firms have invested USD 15 billion in Russian oil and gas projects since 2001. ONGC Videsh Ltd has a 20 per cent stake in the Sakhalin-1 Project in the Russian Far East and, since 2016 as part of a consortium with the Indian Oil Corporation (IOC), Oil India Ltd and Bharat PetroResources Ltd (BPRL), has invested in the Taas-Yuryakh and Vankor oilfields. In 2017, Russia’s Rosneft acquired the majority stake in the privately owned Essar Oil³⁶ for almost USD 13 billion. It turned out to be the single biggest foreign direct investment in India.³⁷ And there is mutual interest in continuing investments in the oil and gas sector in future. Indian hydrocarbon firms are expected to further invest in the Vankor cluster and other energy projects, including Far East LNG, Arctic LNG 2 and projects on natural resources development in Russia’s Siberia, Yamal and continental shelf.³⁸

Liquefied natural gas (LNG) imports from Russia emerged as a new dimension of bilateral energy ties. As per the 20-year contract originally signed between Gail India Ltd and Gazprom in October 2012 and reworked

33. “Russia, Bangladesh and India Sign Memorandum on Trilateral Cooperation in the Implementation of the Rooppur NPP Construction Project”, Rosatom, 1 March 2018, www.rosatom.ru.

34. D. Roy Chaudhury, “India, Russia Sign Civil Nuclear Action Plan for Second Plant; Third Country Project”, *The Economic Times*, 5 October 2018, <https://economictimes.indiatimes.com>.

35. *Ibid.*

36. In June 2018, Essar Oil Ltd was rebranded as Nayara Energy Ltd.

37. “Essar Oil Completes \$13 Billion Sale to Rosneft-Led Consortium in Largest FDI Deal”, *The Economic Times*, 22 August 2018, <https://economictimes.indiatimes.com>.

38. “Russia Ready to Consider Joint Work With India in Energy Projects—Putin”, Sputnik, 5 October 2018, <https://sputniknews.com>.

in January 2018, India will get 2.5 million tons of LNG a year. The first cargo of Russian natural gas was received in June 2018. Importantly, India managed to negotiate a cheap price for Russian supplies, which cost less than Indian imports from other sources—LNG from Qatar, Australia and the United States.³⁹

Drive to switch to national currencies

The idea of increasing the use of national currencies or of replacing the dollar as a medium is not a new one, but it gained momentum in Russian foreign policy as well as domestic discussions in 2018. What triggered this momentum was the adoption of tougher sanctions against Russia and, later, the US withdrawal from the Joint Comprehensive Plan of Action (JCPoA). The restrictions against Russia's defense and energy sectors was a reminder of Moscow's vulnerability to the US financial system and decisions made in Washington. The Trump administration's sanctions against Iran prompted Russia and other countries, as well as the European Union, to examine schemes to bypass the US sanctions. Referring to the "unilateral American actions", Moscow has visibly increased its rhetoric concerning the role of the US dollar in global trade, which has included some straightforward statements by high-level Russian officials. For instance, Deputy Foreign Minister Sergey Ryabkov said that "we need to go from words to actions and get rid of the dollar as a means of mutual settlements, and look for other alternatives".⁴⁰ President Putin stated in December 2018, "We do not aim at fleeing from the dollar, it is the dollar that is fleeing from us."⁴¹ Russia's push for dedollarization appears to combine geo-economics and geopolitics, as American sanctions hit Russia and its partners harder, leaving Moscow no other option than to opt for an alternative to USD settlements in its international engagements.

Collaboration on settlements in national currencies has been part of Russia-India dialogue since 2014. For a long time, however, the two governments have merely paid lip service rather than taken practical steps to switch their trade mechanisms away from the American dollar. In Moscow, developing discussions on this matter with New Delhi was politically motivated, and was driven on the lines of a standoff with the United States. India, in its turn, since the inception of the idea to trade more

39. "India Gets Cheapest LNG as Russia's Gazprom Begins Supplies", *The Times of India*, 4 June 2018, <https://timesofindia.indiatimes.com>.

40. "Time Has Come for Russia to Finally Ditch US Dollar—Foreign Ministry", RT, 24 August 2018, www.rt.com.

41. "Putin: u nas net celi uhodit' ot dollara, dollar uhodit ot nas" [Putin: we do not have aim to move away from the dollar, the dollar is moving away from us], *Kommersant*, 28 November 2018, www.kommersant.ru.

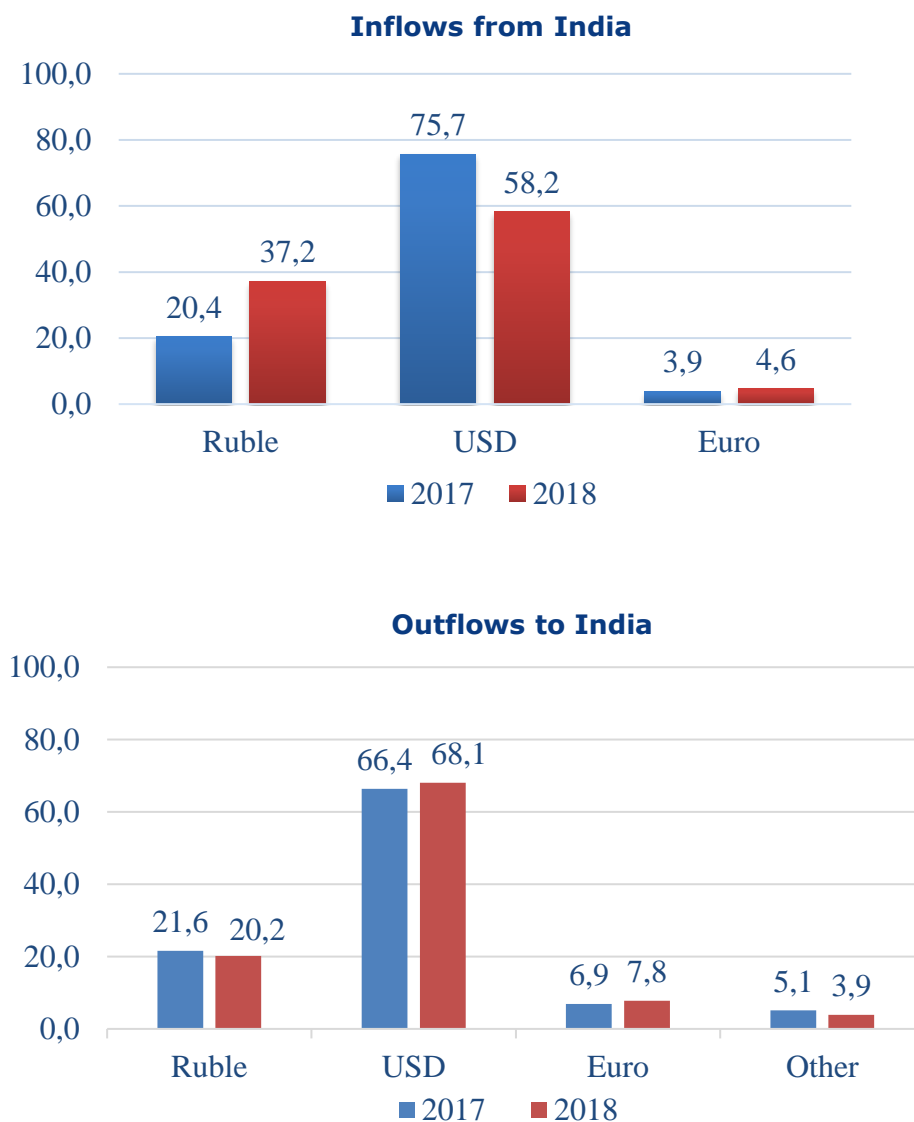
in rubles and rupees, for a number of reasons has been reluctant to follow through. For one thing, India had not had serious disputes with the United States. Similarly to its stance on BRICS, New Delhi was in favor of developing alternatives to the Western-led international economic order, but that did not imply its intention to replace it. Secondly, India's largest banks and public and private companies are much globalized and closely connected with the US banking institutions and financial system. Finally, another Indian concern, probably shared by Russian commercial structures, was instability of both national currencies, especially given the ruble's dramatic depreciation in the previous years.

The situation has changed since the adoption of the CAATSA legislation. It prompted both Moscow and New Delhi to desperately seek ways to preserve their transactions in the critical area of bilateral cooperation. As a result, the contract on the supply of five regimental sets of S-400 to India, estimated at around USD 5.4 billion, was reportedly signed in rubles.⁴² Nevertheless, increasing the share of settlements in rubles and rupees is a complicated process that is *inter alia* affected by the asymmetry of bilateral trade.

In 2017, Russia and India managed to transfer about 20 per cent of their turnover in rubles, while US dollars still constituted the major part of bilateral trade. Nearly 76 per cent of payments from India to Russia were made in the American currency (Figure 2). In 2018 the situation began to change as inflows in USD fell to 58.2 per cent. By contrast, in 2015 this figure amounted to 82 per cent. The share of the US dollar in Russian payments to India was slightly lower, totaling almost two-thirds of all outflows. The difference in the second indicator is explained by Russia's more active use of the euro and, apparently, Indian rupees. Yet again, in 2015 the dollar's share in Russian payments was 70 per cent, so infusing alternative currencies in the bilateral transactions was moving along at a snail's pace.

42. "Russia Inked S-400 Deal with India in Rubles, Says Deputy PM", TASS, 31 October 2018, <http://tass.com>.

Figure 2. Currency Composition of Settlements for Goods and Services in 2017-2018 (per cent of total)



Source: The Central Bank of the Russian Federation, www.cbr.ru.

As is seen from the graphs, whatever about the rhetoric, dedollarization has proven to be difficult and time-consuming in actual implementation. On the other hand, since the first set of S-400 is expected to be delivered to India by October 2020, the share of the ruble in bilateral trade is expected to rise. The dynamic of moving away from the US dollar could change considerably if Russia and India are able to complete other large defense contracts in

rubles or other currencies.⁴³ According to Russian Central Bank statistics, the share of ruble inflows from India in the second and third quarters of 2018 amounted to 35.8 and 41 per cent respectively, while in the fourth quarter ruble inflows, at 53.2 per cent, surpassed the dollar's share.⁴⁴ This indicates a substantial increase in India's use of the Russian currency. At the same time, it remains unclear if transactions in the Russian currency are viable, considering its high volatility and India's USD 6.5bn trade deficit with Russia.

The switch to national currencies in the Russia-India partnership is motivated by need rather than choice. When there was some space for maneuver, the two countries used this idea for mutually beneficial optics. With the US sanctions looming large and threatening their defense cooperation, Moscow and New Delhi, despite certain limitations, are forced to push forward the ruble-rupee and other mechanisms. It remains to be seen, however, how they will manage to overcome the limitations in making transactions in national currencies and whether such a scheme can turn into a long-term trend.

43. Apart from Russian rubles, the two sides were considering making transactions in the euro and the Singapore dollar.

44. Currency Composition of Settlements for Goods and Services, The Central Bank of the Russian Federation, www.cbr.ru.

Conclusion

Taking its relationship with India for granted has long been a feature of Russian foreign policy-making. India was seen as a partner on many multilateral platforms, while bilateral ties were, to a certain degree, undervalued. As a result, at some point Russian decision-makers overlooked India's potential as a rising power and failed to infuse sufficient energy to advance the bilateral relationship. Having enjoyed dominance in the defense sector, Russia did not succeed in solidifying its position and elevating its level of partnership with India. The economic ties between the two states have chronically remained weak, despite some gains in energy cooperation.

On the one hand, thanks to the rise in geopolitical uncertainty and the effects of the US sanctions, New Delhi and Moscow were forced to reimagine their relationship and intensify bilateral interactions. On the other hand, the sanctions will further prevent the two from developing closer economic ties. Even before the sanctions were introduced, Indian private business showed little interest in investing in the Russian economy. Now that numerous sanctions against Russia are in place and more severe punitive measures are put on hold, the Indian private sector has limited incentive to deal with blacklisted Russian counterparts. From a political angle, the sanctions did not undermine the bilateral ties, but rather pulled the two sides together. Obviously, the risk of losing a crucial defense market made Russia reconsider its approach to India. In its turn, India, beyond its dependence on Russian-origin military hardware, needs Moscow in the face of the Trump administration's unpredictable policies in South Asia, East Asia and the Middle East. In this regard, Indo-Russian political dialogue will be sustained in the near-term future.

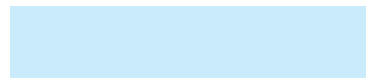
Seven-decade-old ties encompassing truly strategic areas are not sufficient for a comprehensive relationship between Moscow and New Delhi. Without establishing meaningful economic ties, Russia and India will likely remain sectoral partners whose relationship is centered on political and geopolitical aspects of their cooperation. If the asymmetry between the political and economic dimensions persists, the bilateral relations will probably further revolve around the same "heavyweight" pillars of defense and security. The critical issue is that the Russia-India relationship has been moving along the lines of government-to-government cooperation while the private sector, civil society and ordinary people are left aside. To achieve a comprehensive partnership, both states need to be strong economically.

Only the healthy state of the economy could spur bilateral business ties, trade, tourism and people-to-people connections at various levels. Russia, though powerful militarily, cannot boast stable economic performance. India, with its fast-growing economy, has not yet acquired a leading role in the bilateral dialogue. In the light of staggering economic ties, which are likely to be protracted further, only a surge in political will, infused in the relationship from both sides, could stimulate bilateral interaction in new spheres.

The Latest Publications of *Russie.Nei.Visions*

- ▶ [P. Baev, “Russian Nuclear Modernization and Putin’s Wonder-Missiles: Real Issues and False Posturing”](#), *Russie.Nei.Visions*, No. 115, Ifri, August 2019.
- ▶ [A. Kalika, “Russia’s ‘Great Return’ to Africa?”](#), *Russie.Nei.Visions*, No. 114, Ifri, April 2019.
- ▶ [M. Laruelle, “Russia’s Militia Groups and their Use at Home and Abroad”](#), *Russie.Nei.Visions*, No. 113, Ifri, April 2019.
- ▶ [N. Rolland, “China’s Ambitions in Eastern Europe and the South Caucasus”](#), *Russie.Nei.Visions*, No. 112, Ifri, December 2018.
- ▶ [B. Kunz, “Northern Europe’s Strategic Challenge from Russia: What Political and Military Responses?”](#), *Russie.Nei.Visions*, No. 111, Ifri, October 2018.
- ▶ [E. Vardanean, “Moldova between Russia and the West: Internal Divisions behind the Commitment to European Integration”](#), *Russie.Nei.Visions*, No. 110, Ifri, August 2018.
- ▶ [D. Adamsky, “Moscow’s Syria Campaign: Russian Lessons for the Art of Strategy”](#), *Russie.Nei.Visions*, No. 109, Ifri, July 2018.
- ▶ [B. Lo, “Chutzpah and Realism: Vladimir Putin and the Making of Russian Foreign Policy”](#), *Russie.Nei.Visions*, No. 108, Ifri, June 2018.
- ▶ [P. Baev, “From Chechnya to Syria: The Evolution of Russia’s Counter-Terrorist Policy”](#), *Russie.Nei.Visions*, No. 107, Ifri, April 2018.
- ▶ [J.-R. Raviot, “Putinism: A Praetorian System?”](#), *Russie.Nei.Visions*, No. 106, Ifri, March 2018.

If you wish to be notified of upcoming publications (or receive additional information), please e-mail: souin@ifri.org



Institut français
des relations
internationales

