

India Russia Bilateral Trade Relations

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Abstract

Bilateral trade between India and Russia has great potential to grow. This paper is an attempt to examine and compare bilateral trade between the two economies and to draw implications for trade and economies cooperation between India and Russia in future. The paper also deals with the major trends and changes in the India's balance of trade with Russia; in total import or export to Russia. The study analyse reasons behind the slow growth in trade and also mentions the way to overcome unbalanced trade. The findings are used to draw policy implications for future trade between the two Asian giant.

KEY WORDS : BIPA, CECA, EAEU, Bilateral Trade, Trade Balance

Introduction

Russia has been a longstanding and time-tested partner for India. Development of India-Russia relations is a key pillar of India's foreign policy. In 1960, India established strategic partnership with Russia – the first country. In October 2000, the two countries signed the “Declaration on the India-Russia Strategic Partnership. Both countries are celebrating 70th anniversary of the establishment of diplomatic bilateral relations throughout 2017 Development of India-Russia relations has been a key pillar of India's foreign policy. Since October 2000, India-Russia ties have acquired a qualitatively new character with enhanced levels of cooperation in almost all areas of the bilateral relationship including political, security, trade and economy, defence, science and technology, and culture. Under the Strategic Partnership, several institutionalized dialogue mechanisms operate at both political and official levels to ensure regular interaction and follow up on cooperation activities. During the visit of the Russian President to India in December 2010, the Strategic Partnership was elevated to the level of a “Special and Privileged Strategic Partnership.”

India and Russia have enhanced cooperation in almost all areas including political, security, trade, defence, science and technology and culture.

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A large number of institutionalised mechanisms at governmental and non-governmental levels contribute to the development of economic cooperation between the two countries. Annual Summit meeting between the Prime Minister of India and the President of the Russian Federation is the highest institutionalised dialogue mechanism since 2000. Russia is the only country with which India has annual summits. So far, eighteen annual summits have taken place alternatively in India and Russia. Investment cooperation is important for the furtherance of bilateral economic relations. India and Russia have undertaken various initiatives to promote bilateral investments, primarily through facilitating high-level Government to Business and Business to Business contacts apart from the on-going investment process in strategic sectors. The two countries have signed many agreements. These include Bilateral Investment Promotion and Protection Investments (BIPA) Agreement which was signed on December 23, 1994, and became effective on August 14, 1996. The main objective of BIPA is to promote and protect the interests of investors and create conditions favourable for fostering greater investment by investors of one country in the territory of the other country. Double Avoidance

Taxation Agreement (DTAA), which covers taxes on income imposed on behalf of each Contracting State, was also signed to promote smoother and greater movement of businessmen.

'Make in India' initiative taken by the Indian government in 2014 has encouraged more Russian investments in India. According to Department of Industrial Policy and Promotion (DIPP) Ministry of Commerce and Industry, Government of India, between April 2000 and March 2017, cumulative equity foreign direct investment (FDI) inflows from Russia were valued at \$1.19 billion, which accounted for about 0.36 per cent of Indian cumulative FDI inflows during this period. Today, a large number of Indian companies have presence in Russia in various sectors. These include oil and gas, manufacturing, wholesale and retail, pharmaceuticals and banking. In order to deepen the economic relations, India and Russia decided to sign a comprehensive free trade agreement (FTA) but non-membership of Russia in the World Trade Organization (WTO) posed a major obstacle for the two countries to sign a Comprehensive Economic Co-operation Agreement (CECA) to expand their trade and economic ties. Russia's membership in the WTO in 2012, again created hope for India and Russia to strengthen their bilateral relations through FTA.

The Russia-led EAEU is an important block for India. To step forward, in 2014, India and the EAEU countries agreed to formalise FTA between India and EAEU. In 2015, an agreement was signed for establishing a Joint Feasibility Study Group on India-EAEU FTA. In December 2016, the JSG submitted the feasibility report; and accepted by all countries. The JSG report recommended that the FTA is feasible and mutually beneficial; and there is a potential growth of bilateral trade between India and EAEU up to \$37-62 billion by 2025 from \$7 billion in 2016-17. The study also predicted that FTA between India and EAEU member countries would help increase India's exports to EAEU by \$14-24 billion by 2025 from \$1.9 billion in 2016-17. In other way, the FTA is expected to increase bilateral trade between India and Russia to \$30 billion by 2025 from \$6.43 billion in 2016-17. The negotiations on the proposed FTA are expected to begin by the end of this year. This would be comprehensive FTA between India and EAEU countries, which will include trade in goods, services and investment. India's FTA with EAEU region would not only boost economic engagements and bilateral trade and investments between India and other EAEU countries (Armenia, Belarus, Kazakhstan and Kyrgyzstan) but also Russia. Russia has been a long standing, significant partner of India and the relationship with Russia forms a cornerstone of India's foreign policy. India's engagement with Russia now extends to all areas of bilateral cooperation including defence, education, trade and economy, energy and science and technology.

Objectives of Study

- To find out which commodity is dominating in export and import with china.
- To judge India's Balance of trade from china.
- To find out India's share in export or import.

Methodology

The study is purely based on secondary data. The data is collected from the website of Department of Commerce, Govt. of India and various websites. The analysis was done from 2006 to 2016. The statistical tools applied were trend analysis (Yc), Annual Growth rate (AGR), and graphical analysis as per requirement of the study.

Bilateral trade between India and Russia is a key priority for both countries. In the past few years, total trade between the two countries have increased significantly as depicted in Table 1 below. In 2006, the total bilateral

trade valued at \$3.79 billion and in 2016, it increased to \$8.50 billion. So far as the merchandise trade is concerned, india's export growth was not good in comparison with increase in total volume of the trade therefore resulted into a rise in trade deficit. On the other hand trade in services have not shown any significant change in export and total trade. Between 2006 and 2016, bilateral merchandise trade grew at a compound annual growth rate (CAGR) of 6.9 per cent whereas trade in services grew at the rate of 13.3 per cent.

Table 1: Trend of Trade in Goods and Services between India and Russia
(Value in US \$Billion)

| Year | Merchandise Trade | | | | Services Trade | | | |
|------|-------------------|---------|-------------|---------------|----------------|---------|-------------|---------------|
| | Exports | Imports | Total Trade | Trade Balance | Exports | Imports | Total Trade | Trade Balance |
| 2006 | 0.90 | 2.41 | 3.31 | -1.51 | 0.13 | 0.34 | 0.48 | -0.21 |
| 2007 | 0.94 | 2.48 | 3.42 | -1.54 | 0.22 | 0.43 | 0.65 | -0.21 |
| 2008 | 1.10 | 4.33 | 5.42 | -3.23 | 0.50 | 0.68 | 1.18 | -0.18 |
| 2009 | 0.98 | 3.57 | 4.55 | -2.59 | 0.21 | 0.46 | 0.67 | -0.25 |
| 2010 | 1.69 | 3.60 | 5.29 | -1.91 | 0.22 | 0.45 | 0.68 | -0.23 |
| 2011 | 1.78 | 4.62 | 6.40 | -2.85 | 0.25 | 0.51 | 0.76 | -0.25 |
| 2012 | 2.29 | 4.07 | 6.36 | -1.78 | 0.34 | 0.87 | 1.20 | -0.53 |
| 2013 | 2.12 | 3.89 | 6.02 | -1.77 | 0.49 | 0.93 | 1.42 | -0.45 |
| 2014 | 2.10 | 4.25 | 6.35 | -2.15 | 0.44 | 0.64 | 1.08 | -0.21 |
| 2015 | 1.59 | 4.58 | 6.17 | -3.00 | 0.25 | 0.74 | 1.00 | -0.49 |
| 2016 | 1.94 | 5.55 | 7.49 | -3.62 | 0.30 | 0.71 | 1.01 | -0.41 |

Source: Compiled by author from Export Data Bank, Department of Commerce, Ministry of Commerce and Industry, GOI.

India-Russia Trade in Last Ten Years

Historically, India and Russia have been strong trading partners. However, over the last five years, India's total trade with Russia remained fairly constant. In 2016-17, total trade went up to US\$ 7.5 billion, registering an impressive growth rate of 22 per cent.

India's exports to Russia have increased from US\$ 0.94 billion in 2007-08 to US\$ 1.9 billion in 2016-17 (Figure 1). Indian exports peaked during 2012-13, with total value of exports at US\$ 2.3 billion. On the other hand, Indian imports from Russia increased from US\$ 2.5 billion in 2007-08 to US\$ 5.7 billion in 2016-17.

Figure 1: India's Trade with Russia (in US \$ million)



Source: Department of Commerce, Government of India

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Major Exports and Imports

Indian merchandise exports to Russia are traditionally consists of pharmaceutical products, agricultural products, edible preparations, etc. However, in the last few years, exports of some non-traditional items like nuclear reactors, boilers; and aircraft, spacecraft, etc. have also increased significantly. Between 2006 and 2016, Indian exports of nuclear reactors and boilers have increased more than five times. Indian tea, coffee, tobacco, spices are in high demand in the Russian market. Indian merchandise imports from Russia are largely comprised of gems and

jewellery and precious stones, iron and steel; fertilisers and nuclear machinery. In 2016, gems and jewellery accounted for largest share of around 45.4 per cent in India's imports from Russia.

India's exports of services to Russia are mostly comprised of tourism and construction services. India's imports of services from Russia primarily include business, professional, technical and transportation services. Other services such as communication, insurance, financial and informational services account for a very small part of the trade and economic activities between the two countries. On the other side, Indian investments in Russia have also increased overtime. According to RBI Database on Indian Overseas Investments, in 2012, Indian investments in Russia were valued at \$19.2 million and in 2016, investments increased to \$25.3 million. It is surprising to note that in three months of 2017 (from January to March), Indian investments reached to \$131 million.

India's trade basket with Russia is well diversified. In April-Feb 2016-17, among India's top imports from Russia, gems and jewellery (HS Code 71) occupied the leading position, accounting for 45.4 per cent of the total. The other major imports included petroleum products, fertilisers, iron and steel and paper products. The category wise percentage shares of key imports are given below (Figure 2).

Figure 2: India’s Major Imports from Russia as % of Total Indian Imports from Russia

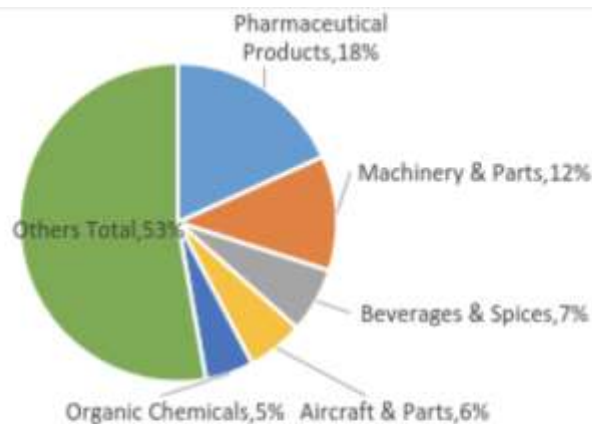


Note: HS Codes: 71: Gems & Jewellery; 27: Petroleum Products; 31: Fertilisers; 72: Iron & Steel; 48: Paper Products

Source: Export Import Data Bank, Ministry of Commerce and Industry, Government of India

In the same year, the top Indian export to Russia was pharmaceutical products (HS Code 30), accounting for 18 per cent of the total Indian exports to Russia. Other key exports included machinery and parts, beverages and spices, aircrafts and parts and organic chemicals. The category wise percentage shares of key exports are given below (Figure 3).

Figure 3: India’s Major Exports to Russia as % of Total Indian Exports to Russia



Note: HS Codes - 30: Pharmaceutical Products; 84: Machinery & Parts; 9: Beverages & Spices; 88: Aircraft & Parts; 29: Organic Chemicals

Source: Export Import Data Bank, Ministry of Commerce and Industry, Government of India

Conclusion

There is immense potential for the two countries to further enhance economic ties and move beyond a traditional buyer-seller relationship. It is important for India and Russia to significantly enhance the private sector engagement of their industry sectors, and also to establish partnerships for technology transfer and joint ventures in defense and nuclear energy components. In the energy sector, India is keen to secure long-term supplies of hydrocarbons from Russia. Thus in order to bridge the trade deficit with Russia, India has to diversify its export basket to establish sustainable trade with Russia. Moreover, both the countries should work to improve their trade relationship and build trust. This would help them to lead the world economy on their own way.

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