

# Re-energising the India-Russia Relationship

Opportunities and Challenges  
for the 21<sup>st</sup> Century

**Katherine Foshko**  
**Russia Studies Fellow**  
**Geoeconomics Studies**

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*Mahindra Towers, Dr. GM Bhosale Marg, Worli, Mumbai 400 018, India*

*T: +91 22 24905063*

*E: info@gatewayhouse.in*

*W:*

*www.gatewayhouse.in*

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*Front Cover Image: Hindi -Rusi Bhai-Bhai by S. Zabaluev, 1956*

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## About the Author

Katherine Foshko is Fellow, Russia Studies at Gateway House: Indian Council on Global Relations. Prior to this she did U.S.-Russian foreign policy research at the East-West Institute in New York and the Strengthening Democratic Institutions Project at Harvard's Kennedy School of Government.

She has a Ph.D., M.A. and M.S. in European History from Yale University and taught undergraduates at Yale, Skidmore College and Connecticut College. Katherine has published articles on topics ranging from the Ukrainian election of 2010 to Russian émigré politics in France during the interwar era.

Katherine also holds degrees from Université de Paris I-Panthéon Sorbonne (M.A. equivalent) and Harvard University (B.A.) in History and Slavic Studies.

## Abbreviations

IEA	International Energy Agency
LNG	Liquefied Natural Gas
MoU	Memorandum of Understanding
SCO	Shanghai Cooperation Organization
SPIEF	St. Petersburg International Economic Forum
TAPI	Turkmenistan-Afghanistan-Pakistan-India pipeline

## Introduction

Contemporary scholarly publications on the Indian-Russian relationship almost invariably mention Raj Kapoor's films and Indian tea—both wildly popular in the Soviet Union decades ago—and, going further back in time, often recollect hoary anecdotes about Rabindranath Tagore's closeness with Leo Tolstoy. These images accurately reflect the historically close bonds between India and Russia, but also say little about what the relationship signifies for the two generations of Indians and Russians that were born or came of age after the collapse of the Soviet Union. Discussions of the India-Russia partnership in policy circles likewise are still too often shrouded in the mists of nostalgia for the close diplomatic, military, commercial, and cultural ties of the Cold War years with little reference to the new realities in both nations. Yet, much of the oratory rooted in the rich history between the Soviet Union and India does not translate into pragmatic prescriptions for re-energising a relationship that, while truly privileged, is showing multiple signs of structural challenges and inertial thinking. These bilateral ties need strengthening which should come from a more active involvement not just from scholars but also political, media, and, critically, corporate figures. The Indo-Russian marriage is long past its youthful bloom and must at this point be based on realistic assessments of mutual strengths and opportunities as opposed to idealized and impracticable mythologizing about the bright future of "*Hindustan-Russia Bhai Bhai*."

This Gateway House position paper intends to provide an overview of the historic background and key issues and to inform the policy dialogue by assessing the actual challenges and opportunities for the relationship in the context of today's Russia and India. Based on an in-depth overview of the existing literature and interviews with many diplomats and observers on both the Russian and Indian sides, the paper in

particular examines (1) whether dramatic improvements in the Indian-Russian relationship are possible in the current environment and (2) explores how such improvements can be catalyzed as we mark the symbolically important fortieth anniversary of the August 1971 Indo-Soviet Treaty of Peace, Friendship and Cooperation), a milestone that cemented the Russo-Indian friendship in the twentieth century. The article is part of a series of Gateway House publications on India's policies and relationships in the ex-Soviet space – a topic that will also be explored in forthcoming Gateway House conferences and policy seminars in 2011-2012.

There are still great stores of goodwill between Russia and India, not just because of their historic relationship, but also due to the enduring political trust linking the two countries: they almost always vote the same way at the United Nations, and Russia has shown support for India's inclusion in the UN General Council

There are still great stores of goodwill between Russia and India, not just because of their historic relationship, but also due to the enduring political trust linking the two countries: they almost always vote the same way at the United Nations, and Russia has shown support for India's inclusion in the UN General Council. Russia's Prime Minister, Vladimir Putin remains highly popular in India, credited with doing the most to normalize the bilateral relationship in recent years and respected for what the Indian media represents as a strong, dynamic leadership style. Much of this sympathy has to do with the fact that Russia has shown complete understanding



of India's position on cross-border terrorism in Kashmir; in response, India continually expresses support for what it sees as Russia's protection of its territorial integrity and constitutional order in Chechnya and other North Caucasus republics. While views on Russia have worsened dramatically across the world in recent years, India remains one of just three countries to demonstrate the opposite trend—the percentage of Indians viewing Russia positively rose to 39% in 2009, up from 25% in 2008, according to the World Public Opinion Project.<sup>i</sup> Recent surveys by Russian scholars find that a great share of this goodwill can be attributed to India's young.<sup>ii</sup>

To continue being relevant to the younger generations, both countries need to reconceive their ties for a globalized society where cooperation is based on the complementarities of resources and needs. The paradigm of the bilateral relationship thus has to be about India's and Russia's joint rise, modernization, and transformation as opposed to the outdated notion of Russia as India's "big brother" or as an alternative to India's relationship with China or the West. A more realistic assessment of where the two countries actually stand is also important because in correctly reflecting economic trends and power dynamics such an approach can help encourage Russian policymakers to orient Russia's modernization so as to hitch Russia's development to India's economic rise. These ties should not be measured by India's cooperation with the United States; any gain in this other relationship that many analysts believe is inevitable given many socioeconomic trends and trade patterns is not Russia's loss. India, like Russia, is committed to the vision of a multipolar world, where the goal is diversifying one's diplomatic, trade, and defence baskets. Therefore, neither India's relationship with the United States nor Russia's developing relationship with Central Asia or even Pakistan should be seen as a threat to the bilateral ties.

What Indians, and especially their political and business elite, do need to be convinced of is Russia's importance to their country and the potential for the bilateral relationship to serve India's interests. The rationale for sustaining a positive equation with Russia in fact involves considering the two countries' greatest needs and priorities over the next ten to twenty years. This approach necessitates taking a look at the future of India—a country striving to become a world power—and the future of Russia—a former superpower focused on asserting its status as a great nation.

Relations with Russia also have to be set against the broader strategic landscape of India's security issues and geopolitical priorities. Forming better ties to its Eurasian ally is crucial in the context of India's struggle to forge better relations with its neighbours and its quest for a firmer diplomatic foothold in the region. Russia can lobby for India's full membership in the SCO, which has eluded India so far largely due to the negative influence of founding member China. Furthermore, the Russia-India partnership is crucial in ensuring stability in the Afghanistan region as the war winds down. India's aims to prevent Islamic extremism and narco-trafficking there correspond to Russia's. Especially given its fraught relationship with Pakistan, India needs to work with Russia, whose Pakistan ties have been steadily improving, on making sure that Afghanistan does not become a sanctuary for the Taliban in the future. And, finally, a more constructive partnership with Russia based on mutual profit and gain can help India remove some of the mistrust that has been building between the two powers in the brewing "Great Game" in resource-rich Central Asia.

The vision of reenergising the Indian-Russian relationship has to be a reasonable one that acknowledges the problems that India faces, such as corruption, a laggard manufacturing sector, despite its quick growth and development. This vision should also recognize that Russia, while extremely important

because of its natural resources, human wealth, and historic ties with India, is even in the most optimistic scenario no longer a superpower, but a modernizing nation facing enormous challenges over the next fifteen to twenty years. As they push forward with a reset, Indian policy makers need to be realistic about the turmoil that the post-Soviet transition has caused in its strategic partner's economy and pragmatic about how the two countries can grow and develop together. It is in the interstices of these sometimes complementary and sometimes unrelated needs and priorities that a more meaningful Indian-Russian relationship must sit.

Among the biggest factors that will shape India's development and determine its top priorities as a state over the next couple of decades, the top one is the obtaining of energy security; as Bhupendra Kumar Singh writes in a lead article, "Energy consumption is both a necessary condition for economic growth and a consequence of it."<sup>iii</sup> Enlarging and diversifying India's supply of both hydrocarbons and nuclear energy, given its own limited resource supply, is a significant concern if India's economy is to maintain its current growth of 9% a year. It is expected that India's demand for nuclear fuel will increase tenfold by 2020, reaching up to 8000 tons of uranium a year as India more than doubles its twenty nuclear plant capacity. Its hydrocarbon consumption is also projected to rise at a rapid pace, with the International Energy Agency estimating growth from 3-3.5 million barrels per day today to over 5 million per day in 2020. The second factor crucial for India's future development is infrastructure modernization, also needed to sustain the current economic boom. Indian infrastructure has not kept pace with its economy, and it currently lacks national highways, international ports, tourist centres, and entertainment sectors—all drawing away top dollar in potential business development and foreign investment. Both funds and innovation are needed in order to build and repair India's land communication network. Thirdly, and no less significantly, greater inroads have to be

made in the country's education reform, including both general schooling and specific skill development programs. India is being held back by the woeful gaps in its educational system; the adult literacy rate is 74% and the mean years of schooling are estimated to be only 4.4.<sup>iv</sup> One of India's greatest needs right now is to educate its population, as more private and public actors, including the Ministry of Human Resource Development, have been proclaiming.

As we will see, all three areas are ones where Russia, with its well-educated workforce, specialists in high technology, and large supplies of hydrocarbons, can make a significant contribution, even in its present diminished post-imperial state. Meanwhile, Russia's imminent concerns, as constantly invoked by its leadership, present both a parallel and a contrast to India. The foremost among these is stopping or reversing the demographic crisis, or at the very least providing a large-scale solution to the impending labour shortages. In 2007 Carnegie Centre Moscow estimated that over the next twenty years, Russia would require 20 million immigrants to make up for its labour shortage; despite financial incentives and subsidies to encourage Russian women to have more children, the situation has not improved.<sup>v</sup> Secondly, as President Dmitry Medvedev has stated in what has become one of the mantras of his administration, there is an urgent need for modernizing the many sclerotic institutions of the Russian state, including the military complex, industry (outside of the energy sector), and the scientific establishment. The government's modernization agenda has included such initiatives as the construction of Russia's Bangalore-cum-Silicon Valley centre, Skolkovo, increased funding for nanotechnology research, and meetings with industry chiefs. Thirdly, like India, Russia is badly in need of infrastructure reform, a sector that the government currently under invests in, similar to the Indian case. Russia's economic development and its involvement in the international trading

network are jeopardized by a poor and decrepit transport and communication system beyond Moscow. All are problems where the great Indian labour force, with its growing technical talent, could come to the rescue.

This paper examines the current status of Indo-Russian ties on five dimensions: military, energy, trade, scientific, and cultural. The paper argues that there is sufficient alignment of strategic and economic interests and a strong foundation of trust developed over a multi-generational rapport between the two countries to enable new thinking and new energy in their relationship. Drawing on this foundation, better ties will require a shift from a defensive posture of measuring the bilateral relationship against India's relationships with China and the United States, to an ultimately more productive framework of joint modernization and development.

Currently, much of the Indo-Russian relationship's *raison d'être* appears to be already existing ties, especially in the defence industry where, according to most sources, approximately 70% of the installed base of Indian equipment is still Russian-made and in the hydrocarbon industry, where one country's needs, and the other's surplus, are complementary. Cooperation in other sectors is close and well-intentioned, but unenergetic. India and Russia have rarely broken new diplomatic ground in their interactions since the collapse of the Soviet Union in 1991, with the possible exception of a civil-nuclear agreement in 2009, itself following on the heels of a similar deal between India and the United States. The annual summits that have taken place since the two countries inaugurated their "strategic relationship" in 2000 have produced uneven results, with many of the MoUs signed during these meetings not leading to tangible results. The clearest proof of a relationship in need of a boost is the ongoing weakness of their bilateral trade, a linkage duly evoked in every governmental report yet still lingering at roughly USD 5.3 billion a year (USD 8.5 billion by Russian estimates), an order of magnitude vastly smaller than

the USD 42 billion India-China trade and the USD 36 billion India-U.S. trade.

As is increasingly recognized, the deficiencies of Indo-Russian trade, as well as most of the other pillars of the relationship, are linked to the overly heavy involvement of the state—and the absence of energetic engagement from the private sector, which accounts for 70% of the economy in both countries. The state sector alone cannot influence the development of trade, defence, energy, science and technology, or soft power in a globalizing, increasingly competitive market. Gone are the days of the state-controlled rupee-rouble exchange rate and business delegations being ordered to visit their India or Russia counterparts by their governments, of state-funded academic exchanges and cultural propaganda initiatives. This situation has been brought to the fore by the stalling of the Comprehensive Economic Cooperation Agreement (CECA) between the two governments, which would provide special economic zones and lower import/export tariffs. While the state can and should provide the necessary structure for bilateral interaction, it needs to first and foremost encourage greater vitality and cooperation in the corporate sphere. If there is a bright future for India-Russia ties, it has to be linked to the enhancement and greater coordination of the private sector in both countries.

We propose a new paradigm that would make private sector activity in the two countries the key to a reenergized bilateral relationship across all its major areas. First and foremost, India and Russia need to provide incentives and channel dynamism by reinforcing and building on existing state mechanisms. One possible new solution that can either be integrated into present structures or exist in parallel to them could be a Russia-India Innovation and Modernization Fund, jointly financed on a 50-50 basis by the two governments. This fund would provide seed capital for collaborative projects with a distinctive joint development, research, and

commercialization component. A potential source of the two countries' initial contribution to the fund could come from the USD 1.5 billion that currently stands to be paid back from India to Russia as the remainder of their rupee-rouble arrangement and is already being considered for a number of joint ventures. In the future, multiple potential models for driving corporate incentives are possible, including a venture fund that relies on matching contributions from the private sector. While the financial backing would come from the two governments, businesses would receive subsidies to help get their collaboration off the ground. The resultant increase in private sector initiatives and linkages may not lead to immediate results but will ensure greater cooperation in years to come.

The aforementioned fund is an example of the kind of creative measure needed to contribute to a revitalized exchange of goods, expertise, and cultural capital between India and Russia. Based on a realistic analysis of existing challenges and opportunities, the paper will discuss this and other short-to medium-term ideas around the main areas of bilateral cooperation that would help reenergize the private sector and lay the seeds for sustained close and important ties between the two countries in the twenty-first century. A summary of proposed initiatives follows:

**1. Military/Defence** – These ties should be transitioned from the traditional importer model into a more symbiotic relationship through joint defence R&D and manufacturing, e.g. with the Indian defence industry selectively outsourcing manufacturing or joint projects to bring down the costs of provision of India-made parts and accessories for the Russian military. More private sector cooperation should be encouraged by the government for defence materiel development under the new DPrP policy in India.

**2. Energy** – Russian and Indian private companies need to invest in joint nuclear projects beyond reactor construction in

India that can combine the engineering expertise of both nations, such as forming an Indo-Russian consortium to construct nuclear power plants in third nations, particularly in Africa, that are seeking inexpensive civilian nuclear power. There are also opportunities for India and Russia to jointly mine uranium and to produce low-cost renewable energy, both on Indian soil.

**3. Trade and Investment** – Bilateral trade would benefit from the introduction of new mechanisms such as the aforementioned Russia-India Innovation and Modernization Fund to promote private bilateral investments and businesses, in addition to the ones already in place. Finances partly seeded by the two governments would incent and reward collaboration initiatives. In addition, the Indian and Russian governments should jointly set up an Entrepreneurs' Council to encourage cooperation between medium-sized yet fast-growing businesses.

**4. Science and Technology** – The Indian and Russian governments should create a set of initiatives and a preferential environment aimed at the exchange of practices and driving of collaboration between mid-sized businesses in target sectors like IT, pharmaceutical research, and nano- and biotechnology. India's Ministry of Science and Technology should also devise more robust ways of scientific cooperation with Russia; one can be setting up a Skolkovo-Bangalore hub for joint research and technology development, followed by more hubs in India's other IT centres.

**5. Culture and Education** – The Indian government should encourage private sponsors, especially those already active in the Indian and Russian markets, to set up branches of Russian higher-learning institutions such as Moscow State University or provincial colleges specializing in the sciences in several major Indian cities. Additionally, sponsors should provide greater funding for Russian-language courses within



Indian institutions of higher learning, while the Russian government needs to be lobbied to substantially increase financial subsidies for Russian language and culture programs in top Indian metro cities.

While Russia and India may have too many needs and concerns right now to prioritize bilateral ties in the nearest future, the goal is to think of the changes to their relationship that will bear fruit twenty to fifty years from now and make the two countries truly strategic partners, joining forces to become key regional, and world, players.

## Historical Context

The Indian-Russian relationship has generally stayed positive for the last sixty years, with even the early nineteen-nineties, right after the break-up of the Soviet Union, mostly characterized by mutual goodwill and political trust. Nonetheless, given the qualitative change in the two countries' ties in 1991, it makes sense to briefly give an outline of the relationship along pre-Soviet and post-Soviet lines.<sup>vi</sup>

### India and USSR, 1947-1991: Non-Alignment with a Socialist Twist

Jawaharlal Nehru had visited the USSR in 1927, for the tenth anniversary of the October Revolution, and followed Soviet developments closely afterward, inspired by the new state's experiment with socialist industrialization. In 1947, the Stalin-led Soviet Union became one of the first countries to recognize India's independence in what was a logical extension of the anti-imperialist Soviet rhetoric. The Indian embassy in Moscow became "truly the first ever diplomatic mission of independent India," according to Arun Mohanty,<sup>vii</sup> although its establishment was delayed by the Partition and took place only on October 21, 1947. The exchange of ambassadors did not immediately lead to a warm relationship between the two states, with the Indian establishment facing competition from the Communist Party at home and fearful of Soviet saboteurs and the USSR's leader Joseph Stalin, in turn, critical of what he saw as the interim government's continuing thrall to British colonialists.<sup>viii</sup> The Soviet Union actually showed a greater interest in developing relations with Pakistan, seen as a more significant regional power, than with India—Prime

Minister Nehru's 1949 visit to the USA also served as an irritant for the Soviet leadership. However, the Pakistanis soon exhibited their preference for an alliance with the West when Prime Minister Liaquat Ali Khan withdrew his offer to visit the Soviet Union in late 1949 and accepted the United States' invitation instead. The Soviets then adopted a more pro-Indian rhetoric, offering to send 50,000 tons of wheat to India in 1951 and shifting away from their formerly neutral position on Kashmir (as well as Goa), prompted further by Pakistan joining U.S.-sponsored military pacts in the mid-1950s.

While Stalin had been deeply suspicious of all non-socialist states, Nikita Khrushchev, who brought Soviet power under his control following Stalin's death in 1953, was more open to giving developmental aid to countries with a mixed economy. An exchange of top state visits between Nehru and the duo of Khrushchev and the nominal Premier Mikhail Bulganin in 1955 solidified the budding relationship. For the first time, the USSR declared unequivocal support for the Indian claim on Kashmir, and also started a program of economic and technical assistance to India, helping it set up its core industries. The Indian Institute of Technology (IIT) Bombay, for instance, was established in 1958 with assistance from UNESCO and the Soviet Union and stocked with Soviet equipment. India soon became the closest Asian ally of the USSR, a power eager to spread its influence in Third World countries and increasingly on the outs with China. While the Indian leadership engineered and pursued a policy of non-alignment, pioneered by Nehru, its diplomatic as well as economic positions were increasingly in sync with the Soviet Union, which gave India substantial assistance during the Khrushchev period, with the first loan, USD 378 million for industrial projects, extended in 1959. The Soviets declared their neutrality during the 1959 India-China border dispute and the 1962 Sino-Indian War and helped broker a peace agreement during the 1965 India-Pakistani border war.

As the Nehru government adhered to the example of the USSR in conceiving the planned development of India, the latter encouraged this socialist-inspired system through material help. In 1962, two years after the first military delegation from India arranged for the purchase of aircrafts and helicopters, the Soviet Union agreed to transfer then-cutting edge technology to coproduce the MiG-21 jet fighter in India (earlier denied to China). This was followed by more advanced weaponry that other countries were unwilling to share.<sup>ix</sup> The military-technical assistance the USSR was providing to India reached \$130 million between 1962 and 1964, when a 10-year defence loan at 2% interest was signed. The army, the airforce, and especially the navy benefited greatly from Soviet help. For India, one of the great advantages of getting arms deliveries from the USSR was that it was allowed to pay for them in non-convertible rupees, thereby saving scarce foreign currency, through a rupee-rouble credit fund set up by the Soviets. This arrangement provided not just military equipment for what were often sub-market prices (40%-50% cheaper than Western ones), but also novel defence technology. In addition, assistance was provided in the sector of industrial technology, with the Soviets building dozens of factories throughout India for producing heavy machinery, manufacturing steel—then exported to the USSR, generating power, and extracting and refining oil. Trade-wise, arms, oil or oil products, and machinery had the overwhelming share in Soviet exports to India. Meanwhile, due to an agreement that Indian debts to the USSR be paid back in goods, traditional export commodities like tea, leather, textile goods, and agricultural products made India a presence in many a Soviet household. India was also the Soviet Union's only major Third World supplier of advanced technological equipment, such as computers and copiers, largely produced by Indian subsidiaries of Western multinational corporations.

Khrushchev's subsequent fall from power in 1964 did not change the Soviet attitude. As Santosh Mehrotra writes, "Almost every Five-Year Plan was preceded by or coincided with the extension of a new loan by the USSR... this is true of the Second, Third (1961-6), Fourth (1969-74), and even the Seventh Plan (1985-90)."<sup>x</sup> Between 1955 and 1970 Indian imports from the Soviet Union increased more than 100 times, and exports to the Soviet Union more than 50 times.<sup>xi</sup> In addition, 70,000 skilled workers were trained at joint Indo-Soviet centres in India.<sup>xii</sup> The culmination of this fruitful period of cooperation was the 1971 Treaty of Peace, Friendship and Cooperation that India signed with the USSR at the outbreak of the East Pakistan conflict. The treaty, which was formed to deter Pakistani aggression and prevent possible Chinese involvement on the side of West Pakistan, consisted of twelve articles affirming the two countries' mutual respect and cooperation, including this significant statement: "Each High Contracting Party undertakes to abstain from providing any assistance to any third country that engages in armed conflict with the other Party. In the event of either being subjected to an attack or a threat thereof, the High Contracting Parties shall immediately enter into mutual consultations in order to remove such threat and to take appropriate effective measures to ensure peace and the security of their countries." This pledge of military assistance was a significant departure from India's stance of non-alignment and stood the country in good stead during the subsequent conflict. The Soviet Union openly sympathized with the Bangladeshis, and the late days of the war even featured a standoff between the ships of the United States, which backed Pakistan, and the USSR. New Delhi also received accelerated shipments of Soviet military equipment in the last quarter of 1971, which likely contributed to India's victory.

The first state visit of Soviet leader Leonid Brezhnev to India in November 1973 was conducted with tremendous fanfare

and stressed the theme of economic ties. The Indo-Soviet Joint Commission on Economics, Scientific and Technical Cooperation took place the same year, its principal function being to coordinate the two countries' Five-Year plans (for instance, in steel production). As one scholar noted, "economic relations... reached a new level of intensity which ... [could] be gauged from the phenomenal increase in Indo-Soviet contacts"—despite the fact that the Indian government had not officially moved any closer to scientific socialism.<sup>xiii</sup> On an interpersonal level, relations were positive between the state leaders. Brezhnev harboured a fondness for Indira Gandhi, whom he affectionately called "Indirochka." While the Indian Emergency (1975-77) did not affect the overall tenor of the relationship, Gandhi's electoral defeat and the Janata Interlude (1977-80) actually brought in a government that was opposed to Indo-Soviet ties, putting a stop to cultural exchanges and contemplating the termination of the 1971 Treaty of Friendship. Gandhi's comeback in 1980 restored the relationship, unswayed by the Prime Minister's private opposition to the recent entry of Soviet troops in Afghanistan. A year after Indira Gandhi's assassination, a prominent square in the southwest area of Moscow was named after her, where one monument was built to the PM in 1987 and another to Mahatma Gandhi in 1988.

The Soviet Union and India continued to improve their relationship in the 1980s, with Rajiv Gandhi travelling to the Soviet Union in 1985 (his first state visit abroad), 1986, 1987, and 1989, and the new Soviet General Secretary Mikhail Gorbachev making visits to India in 1986 and 1988. Two long-term agreements for economic assistance were signed between India and the Soviet Union in 1985 and 1988, extending to India a total credit of USD 2.4 billion, allotted for the purchase of Soviet arms and goods. From the mid-70s to the late 80s, India and the Soviet Union were each other's top trading partners, with two-way trade to the tune of USD 5

billion, the commercial peak of their relationship. Cooperation proceeded along other venues as well: top-level summits produced agreements on joint projects in high technology and, beginning in the 1960s, space science research. The first Indian satellites took off on Soviet launchers and, in 1984, Rakesh Sharma became the first Indian to travel in space, joining the Soviet Intercosmos Research Team aboard Soyuz T-11 and being awarded the top honour of Hero of the Soviet Union upon his return.

In addition, cultural links between India and the USSR blossomed. In 1957, the first Soviet-Indian film, *A Journey Beyond Three Seas*, based on the writings of the fifteenth-century Russian explorer Afanasy Nikitin who became the first European to set foot in India and subsequently lived there for three years, gained popularity in the Soviet Union, though it met with little notice in India. The Indo-Soviet Cultural Society, founded in 1952 as a successor to the Friends of the Soviet Union society created by Nehru in 1941, promoted awareness of Russian and Indian cultures through regular “Months of Friendship.” More than a thousand branches of the Society existed in both countries in its heyday, leading to vigorous cultural exchanges. The journal *Soviet Land*, translated into eighteen Indian languages, was published continuously since 1951, provided illustrated coverage of the Soviet Union’s culture and society, while the film distribution company Sovexportfilm regularly screened Soviet-made films across India. Furthermore, numerous academic and student exchanges were agreed upon at the governmental level. These rich cultural links continued into the 1970s and 1980s.

Overall, by the turn of the 1990s, the bilateral relationship appeared to be stronger than ever. The first Indian satellites were launched on the Soviet rocket Vostok in the late 1980s. More than 16% of Indian exports went to the USSR and about 6% of Indian imports came from it. In 1991, 70% of India’s army armaments, 80% of its air force systems, and 85% of its

naval platforms were of Soviet origin.<sup>xiv</sup> The Indian establishment therefore heard rumblings of the impending breakup of the Soviet Union with shock and disbelief. Its members were unequivocally opposed to the Gorbachev-led reforms that threatened to remove the foundation from their once-stable partner while hoping that their ultimate outcome would be a loose confederation rather than a collapse of the entire system. As then Foreign Secretary J. N. Dixit wrote in his memoirs, “Our responses to the emerging power centres in Russia were uncertain and a little confused.”<sup>xv</sup> While the leader incumbent, Boris Yeltsin, pushed for India to become one of the first countries to give recognition to the Russian Federation, the Narasimha Rao government temporized and held off on inviting Yeltsin until December 1991.<sup>xvi</sup> In that month, the official breakup of the greatest contributor to India’s national development to date sounded the death knell for the secure Indian-Soviet relationship.

## **India and Russia, 1991-Present: Reformulating the Relationship**

While many sources disparage the early nineteen-nineties as a wrong-headed interlude of Russia’s flirtation with America to the detriment of the Indian ally, the relationship stayed generally positive at this time, albeit with a few hiccups. The Indo-Soviet Treaty of Peace, Friendship and Cooperation had been in existence for twenty years, with a provision for renewal. During his visit to the new Russia in January 1992, and dealings with its leadership, J. N. Dixit was unpleasantly surprised at Vice Foreign Minister Kunatze’s insistence on striking the word “peace” from the title because it “smacked of Soviet ideology.”<sup>xvii</sup> In general, the Indian delegation appears to have been bewildered at the economic chaos that had enveloped the new Russia and understandably anxious about



the state of its bilateral trade and armaments supplies. Indeed, both were largely stalled for the following few years: according to India's Ambassador to Russia at the time, Ranendra Sen, the armed forces suffered a cut of 68% in 1992 alone.<sup>xviii</sup> The situation was exacerbated by India's worsening economic crisis. Its recovery in 1991 stemmed from its new liberalization policies and integration into the global economy, decisions that would also have an impact on the developing Indo-Russian relationship.

One of the most important steps in reformulating the relationship was managing India's rupee-rouble debt that had accumulated over the years of the Soviet Union's favourable trade policy. To address the issue of the rupee-rouble exchange rate following the dissolution of the USSR, India and Russia entered into complex bilateral arrangements in 1993. The agreements provided for the principal amount of the rouble-denominated debt as of April 1, 1992 being converted from roubles to rupees, a major political as well as economic concession from India to Russia. Simultaneously the Indian side was granted an interest-free deferment of payments for 45 years covering 37% of its debt, the so-called rescheduled portion. This debt repayment agreement provided for an annual repayment of roughly USD 1 billion to Russia over a period of 12 years with smaller amounts thereafter for a further period of 33 years. The rupee debt funds have since been maintained in a central account with the Reserve Bank of India and are to be used by the Russian side for import of goods and trade-related services from India while Russian exports to India are set against freely convertible currencies.

Politically, the collapse of the Soviet Union was followed by two years of relative uncertainty in relations between India and Russia, with the former unable and unwilling to engage in privileged dealings with any state and the latter also undecided as to the part Russia would now play in its strategy. The literature on Indo-Russian ties makes much of the

Russians' reliance on American aid money in the early 1990s and the insistence of some of the top advisers on Westernization—famously called a “mistake” in 1995 by the new Prime Minister Yevgeny Primakov, who urged for a more Asia-centric policy. The new direction actually had less to do with turning away from India than with Russia lurching from one economic and political crisis to another and being badly in need of foreign aid. However, such an adverse interpretation is understandable, given the situation the Indians were in, forced to track down spare parts for their Soviet-purchased armaments across the former republics where they had been produced and getting little help from the Russian leadership. At the same time, an estimated 10,000-15,000 Indians who were in Russia on scholarships were stranded without financial support, most of them compelled to go into private business in order to survive.<sup>xix</sup> The relationship suffered another setback when, in 1992-3, the Russian government reneged on a deal to transfer key technology for the manufacture of cryogenic rocket engines to India under pressure from the United States—itsself eager to enter the market and threatening to withdraw aid money from Russia. Although, as J. N. Dixit points out, Russia made sure to supply the maximum engines and technology before changing its export laws, the “renegotiation” of the deal dealt a blow to the Indian Space Research Organization (ISRO) and soured relations between the countries for some years to come.<sup>xx</sup>

Yeltsin made his first, long-promised visit to India in 1993 when a new and more non-committal Treaty of Friendship and Cooperation was signed. Although it omitted the defence and security clauses of the 1971 Treaty, agreements on cooperation in the fields of science, military technology, culture, and trade were listed, and the Indian Ambassador to Russia, Ranendra Sen, has emphasized the “continuity of mutual commitments” that this document represented.<sup>xxi</sup>

Yeltsin's visit was followed by Prime Minister Rao's trip to Russia the next year, when the two countries signed the Moscow declaration on the "Protection of Interests of Pluralist States," pledging support for Russia's territorial integrity at a time when unrest was brewing in Chechnya. This step was the beginning of the rebirth of Indo-Russian relations following the breakdown of the Soviet Union. It ensured India's support for Russia in the Chechen conflict and, in return, Russia's continuing commitment to India on the issue of Kashmir despite a brief proclamation of neutrality in 1993, as was manifested in Russian support during the 1999 Kargil conflict.

For the rest of the decade, however, Yeltsin's health—and, undoubtedly, more pressing economic concerns, such as the 1998 default—was the motivation for ruling out any further top-level summits. Russia did send its Prime Minister Primakov to India in 1998—after expressing only mild concern about India's Pokhran-II nuclear test, in stark contrast to the United States. A number of long-term programs were signed, including a pledge to raise the level of bilateral trade from the existing pittance of USD 1.5 billion to long-term plans for scientific and technological ties. At this time, the two countries extended their long-term agreement on military-technical co-operation—which had declined by 90% between 1992 and 1997—up to the year 2010.<sup>xxii</sup> This was an optimistic move at a time when, according to then-Prime Minister Putin, only 20% of defence industry plants were functioning in Russia.<sup>xxiii</sup> Furthermore, a declaration of strategic partnership between the two countries was proposed in 1998 yet not concluded.

It was not until Vladimir Putin became Russia's President in 2000 that the bilateral ties were put on a solid foundation. In the millennium year, the Russian president made a trip to India. This summit was distinguished by the signing of the Declaration of Strategic Partnership that pledged cooperation in the spheres of politics, trade and economy, defence, science

and technology, and culture. While the two states guaranteed “non-participation in any military-political or other alliances or associations or armed conflict directed against the other Side, or in any treaties, agreements or understandings infringing upon the independence, sovereignty, territorial integrity or national security interests of the other Side,” the declaration fell short of pledging military cooperation in case of attack, as had the 1971 Treaty on Peace, Friendship, and Cooperation. In fact, as the document concluded, “The strategic partnership between the Sides is not directed against any other State or group of States, and does not seek to create a military-political alliance.” The basis of the relationship was now *realpolitik* rather than ideological or sentimental commitments. At the same time, Putin showed his willingness to add muscle to the bilateral ties: seventeen agreements were signed between the states, covering the economy, nuclear energy, and the traditional sector, defence, with major weapons deals to the tune of USD 3 billion. As the Russian leader noted in an interview to the *India Today* magazine: “It is in our interest to have a strong, developed, independent India that would be a major player on the world scene. We see this as one of the balancing factors in the world.” For the first time in almost a decade, the Indians had in Putin someone eager to acknowledge their country’s strategic importance and promise to help in its development—as before. While subsequent events have not entirely justified the optimistic rhetoric of the Strategic Declaration, Russia’s current Prime Minister had won a place in the hearts of the Indian establishment as a can-do leader who gave India the recognition it deserved after the foot-dragging of Yeltsin’s era.

Putin’s first visit to India inaugurated a practice of regular summits which have been held annually, alternating between the two countries, up to the present. Since then, the two states have reinforced traditional areas of agreement on issues such as cooperation on anti-terrorism—the two sides signed the

Moscow Declaration on Terrorism in 2001 and an MoU on cooperation in combating terrorism in 2002, and a Joint Working Group on Combating International Terrorism was subsequently set up. Among other highlights, in 2005 India became an observer in the Shanghai Cooperation Organization (SCO), which was originally formed for the purpose of fighting terrorism by China, Russia, and the Central Asian countries Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In the energy field, two nuclear plants are being built in southern India with Russian assistance, and more are on the way. India's and Russia's collaboration in defence has been reaffirmed with new deals for Russian-made as well as jointly constructed military hardware. The two countries' woefully low level of bilateral trade is constantly noted, and pledges are duly made every year to have a joint commission look into the challenges the private sectors of both countries are facing in setting up business.

Despite these pledges and few tangible gains, India and Russia still have much progress to make in their relationship before they can truly be considered strategic partners. Other players have entered the field—India's ties with both China and the United States are much more dynamic than those with Russia, while the Russian leadership often looks to Europe, its largest trading partner, as the destination for future exports. And, even as India plans to spend another USD 100 billion on nuclear energy development in the future and prepares lucrative defence contracts, it is unclear whether it will turn to its erstwhile “big brother.” However, as will be discussed, there are plenty of opportunities to reconceive the relationship on a more equitable and mutually beneficial footing and to reenergize it along several key parameters.

## The Current Relationship: Opportunities and Challenges

### The Military-Defence Complex

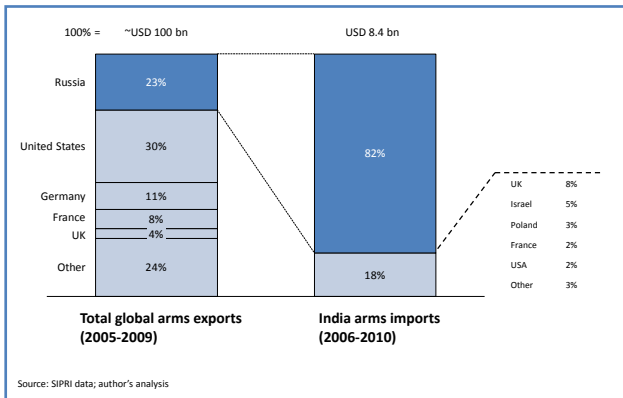
Russia is the dominant supplier of arms to India, with the historic military and defence ties between the two countries continuing to serve as one of the cornerstones of the India-Russia relationship. Strains are becoming apparent, however, as India moves further along the path of military indigenization and import diversification while Russia continues to struggle with a long-deferred military and defence complex modernization program. While frustrations in the defence sector may not be articulated loudly as they were over a recent incident involving the outfitting of the aircraft carrier *Admiral Gorshkov*, differing perceptions remain. Despite these challenges there is a clear opportunity for closer cooperation on joint military modernization. The success of the defence relationship depends critically on India's ability to continue to transition ties from the traditional importer model into a more symbiotic relationship that could potentially involve helping Russia with its military modernization challenges through joint defence R&D and manufacturing.

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With a USD 34.8 billion defence budget (2010), India imports more than 70% of its arms, an amount totalling over USD 2 billion annually. The budget is

expected to grow in line with India’s economy as defence spending has been relatively consistent over the past decade at 2.5-3% of the country’s GDP. Over the last five-year period for which data is available (2006-2010), India was the largest importer of conventional arms in the world, with a 9% share of all weapons imported globally according to the Stockholm International Peace Research Institute.<sup>xxiv</sup> During the same time, Russia—which together with the United States is a leading global supplier of conventional weapons—accounted for 82% of Indian arms imports<sup>xxv</sup> (Figure 1). Although a number of Russia’s military technologies have become outdated, many are still valuable, the legacy of Russian equipment in the Indian military is strong, and the appeal is further enhanced by Russia’s cut-rate prices, a third lower than those from Western suppliers.

**Figure 1 - Russia has a dominant position in India's arms imports**



Historically, since the 1970s the Indian military has been dominated by Russian equipment, with the share of Russian-origin hardware peaking at nearly 80% by the end of the Soviet period. After a drop in military imports from Russia during the chaos of the post-Soviet transition, Indian-Russian defence cooperation was again put on a firm footing with the landmark USD 1.46 billion deal signed in late 1996 with the Sukhoi Corporation for the delivery of 50 Su-30 combat aircraft. India has since signed contracts for the delivery of hundreds of more Sukhois with the latest, USD 3.33 billion deal announced in 2010 for the delivery of 42 aircraft by 2018; the aircraft will be the core technology of the Indian air forces for the foreseeable future. Other weapons that India has received from Russia in the last decade include various MiG fighter aircraft (MiG 21, 27 and 29), hundreds of T-90 Main Battle tanks, the most modern and best protected tank of the Russian army, AWACS (Airborne Early Warning and Control) planes, Medium-Lift (Mi-17-IV) Helicopters, R-77 air-to-air missiles, Kilo class/type 877E and Shchuka B-class nuclear attack submarines, and various radars for air and sea surveillance and combat. Most Indian navy vessels are of Soviet/Russian origin. Additionally, for over four decades, the mainstay of the Indian infantry has been the AK-47 (Kalashnikov) as well as the Russian Dragunov sniper rifle.<sup>xxvi</sup>

The most positive feature of the Indo-Russian defence cooperation is an increasing focus on long-term-basis transfer of technology, modernization of existing equipment, and access to the latest equipment and weaponry in the Russian arsenal. Most promisingly, the defence relationship has begun to move beyond the “buyer-seller” model to a more cooperative relationship involving joint research, design, and production. Russia is the only country, for instance, with whom India has an institutionalized mechanism at the level of defence ministers to monitor military-technical cooperation.



The shift has been slow, however, and many of the fruits of increased cooperation are still to be seen.

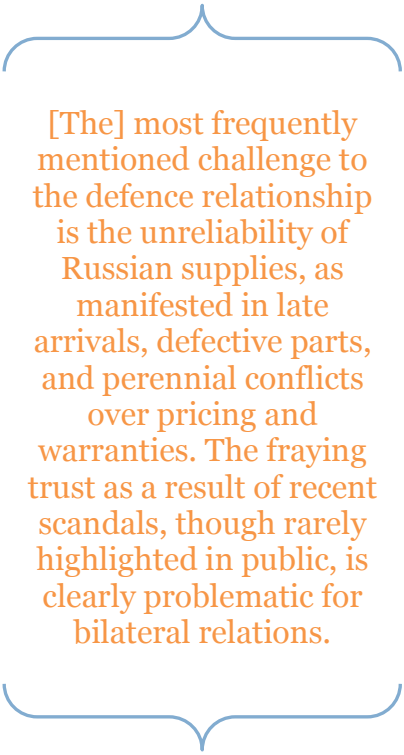
One important cooperative effort has been GLONASS, the Soviet-era global satellite navigation system that India had decided to cooperate on making fully functional in 2007, as an alternative to being dependent on the American GPS system. As of January 2011, India joined the Russian GPS network, having signed a formal agreement the previous year to get access to high precision signals while manufacturing GLONASS-based navigation devices jointly with Russia. Other promising joint ventures in the defence space have been the Medium Transport Aircraft Development Program, Sukhoi/HAL (Hindustan Aeronautics Ltd) Fifth-Generation Fighter Aircraft, and the Multi-Generation Fighter Aircraft that will be fitted with the BrahMos supersonic cruise missile system that the two countries have also been developing together, under a joint patent. Most of these arrangements were finalized during President Medvedev's visit to India in December 2010 during which three major deals on defence cooperation were signed. The importance of joint research and manufacturing was also a major topic of discussion during the visit of the Russian Chief of Defence Forces to India in November 2010 and the Russian Navy Chief's visit in January 2011.

Despite these historic strengths, the defence relationship also faces a number of notable challenges. On the level of defence strategy, the biggest issue in the bilateral ties is the implications of India's indigenization drive. Indigenization of aircraft and land systems—a policy aimed at reducing reliance on foreign equipment—has been a common point of rhetoric in Indian political and defence circles for over two decades, yet with only modest progress to date. Many analysts believe that greater traction on this front is now likely given India's increased wealth and recent changes at both the policy level and on-the-ground projects. The Defence Procurement Policy (DPP), redrawn several times since 2002 and culminating in

the latest version in early 2011, now requires foreign vendors to offset 30-50% of their orders through indigenization of production. The DPP has been reinforced with a new Defence Production Policy (DPrP) in 2011, focused on encouraging domestic design and manufacture independently of import orders.<sup>xxvii</sup> These policy changes follow on some successes of indigenization after years of limited results. In 2009, for instance, the Indian Navy took a major leap with the launch of the first domestically built nuclear-propelled strategic submarine named Arihant. In late 2009 and 2010 India also rolled out its first batch of indigenous, Russian-designed T-90 tanks, planned to be the country's main battle tank for the next three decades.

In the near term, indigenization is unlikely to affect Russia's share of the Indian market dramatically. The Military-Technical Cooperation agreement between India and Russia – signed in 2007 and in place until 2020 – continues to dictate much of India's military procurement policy. Russian technology still constitutes the absolute majority of Indian military equipment (estimated at slightly less than 70% of India's military hardware). Additionally, India accounts for 40% of Russia's annual defence exports and this share will likely increase to over 50% in the next few years given the current pipeline of contracts.<sup>xxviii</sup>

At the same time, indigenization is already having an impact on the defence relationship. India's Ministry of External Affairs has stated that Russian equipment is targeted to decline towards a 60% share. Another indicator is that although, in 2005, Defence Minister Pranab Mukherjee had stated that after 2010 the progress of Indo-Russian defence cooperation would be reviewed and the two may plan another 10-year program, this did not figure among the thirty agreements signed during President Medvedev's



[The] most frequently mentioned challenge to the defence relationship is the unreliability of Russian supplies, as manifested in late arrivals, defective parts, and perennial conflicts over pricing and warranties. The fraying trust as a result of recent scandals, though rarely highlighted in public, is clearly problematic for bilateral relations.

visit to India in December 2010 and would in all likelihood not be on the table for Prime Minister Manmohan Singh's trip to Moscow in late 2011. Additionally, analysts consulted for this report believe that as part of the indigenization drive India will increasingly look to diversify its procurement strategy by boosting high-tech imports from well-capitalized non-Russian suppliers. Given that Indian defence purchases are a core pillar of the funding for Russia's defence R&D and manufacturing industry, Russia's defence complex unsurprisingly views such moves as a strategic challenge and a threat.

Beyond indigenization, the most frequently mentioned challenge to the defence relationship is the unreliability of Russian supplies, as manifested in late arrivals, defective

parts, and perennial conflicts over pricing and warranties. The fraying trust as a result of recent scandals, though rarely highlighted in public, is clearly problematic for bilateral relations. Tales of new parts being ordered by India from Russia and old repainted ones being received instead, of late deliveries and unexpected price hikes, abound. In 2005, for instance, the relationship was marred by a scandal concerning T-90 tanks that came from Russia without a missile firing system and with overheating problems.<sup>xxix</sup> In 2009, Indian defence stakeholders publicly expressed their unhappiness with the delays in the delivery of Russian AWACS system and the concomitant disputes over pricing. Moreover, it was deemed necessary to reinforce these jets' airframes and install more powerful engines to fit the Israeli radars chosen for their superior quality to Russian ones. No more orders for the jets followed, and the incident was rumoured to cause India to reconsider its Russia procurement strategy.

The most notorious scandal of recent years in Indo-Russian defence cooperation has been the case of the 44,570-ton Soviet-era aircraft carrier *Admiral Gorshkov*,—ironically, named after the commander who had presided over many supplies of navy equipment to India in the 1960s. After a decade of negotiations, the Russian state defence arms firm Rosoboronexport signed a deal in 2004 to sell the carrier to India after refurbishing it and supplying it with 16 MiG-29K fighters, all for what was seen as a remarkably low price of USD 947 million. However, Russia soon realized that more work needed to be done to modernize the thirty-year-old vessel, including refurbishing its front deck, changing its boilers to run on diesel fuel, and replacing wiring to make *Gorshkov* a fully modern ship. The additional price demanded for these modifications was USD 1.2 billion. After many delays and negotiations, including a 2008 visit to Russia by V. K. Singh, a USD 2.35 billion deal for the refit of the aircraft carrier was finally reached during Putin's trip to India in

2010; it is slated to join the Indian navy, as *Vikramaditya*, in 2012. In another frustrating development for the Indian navy, the Russian *Nerpa* (Akula-II) nuclear submarine which had been leased to India for ten years in 2010 has encountered grave technical issues and now requires further investment.

Many of these challenges are not new and are surface symptoms of deeper maladies on the Russian side. As the Russian economy became de-militarized in the early 1990s, the chaotic transition in the post-Soviet period saw the fragmentation of manufacturing and design capabilities across multiple ex-Soviet states and a dramatic reduction in the level of resources for the military-defence complex, events with consequences that have lasted to this day. A separate issue has been bureaucratic inertia and growing corruption. Five years ago, complaints over the corruption and inefficiency involving Russian arms deliveries led to the creation of a joint agency in India called Rosoboron Service, a branch of Rosoboronexport, especially to oversee the timely supply of Russian spare parts to India and their maintenance. There has also been some demonopolization of the Russian defence sector in the last decade, with private arms supply firms entering the market and leading to somewhat improved logistics and prices. Yet, complaints from the Indian side about the life-cycle costs and performance-based logistics of Russia's arms have not subsided given the deeper systemic issues in Russia's military and defence establishment.

With Putin's support, President Medvedev has been a vocal advocate of addressing Russia's military woes, and in January 2011 announced a major army modernization program. As intended, it would cost Russia USD 20 trillion and involve the purchase of hundreds of new surface and underwater vessels and aircraft, thousands of helicopters, missile and air defence systems. Plans are also afoot to cut back on the size of the military and update procurement procedures. A special department is to be established in the defence industry that would determine the prices for defence products, which

should streamline future purchases by foreign countries. While the reform is awaiting approval in the Russian Parliament, sceptics have already been questioning whether Russia will indeed go through with its grandiose plans given pre-election distractions and how long this gigantic-scale refurbishment might take.

The latest source of tension in the relationship has been the April 2011 announcement that the Russian MiG-35 failed to make the short list for India's single largest defence procurement deal, a tender to purchase 126 fighter jets under the MMRCA (Medium Multi-Role Combat Aircraft) contract. This USD 11 billion deal, currently being decided between two European jets, is part of India's plan to spend USD 50 billion over the next five years on modernizing its armed forces; the American Boeing and Lockheed Martin have also been taken out of the running.<sup>xxx</sup>

The Russians themselves in an analysis of the losing bid highlighted that "the Indian delegation that studied the situation at the Russian enterprise working on the MiG-35 programme apparently had doubts as to whether the firm could fulfil the future contract on schedule."<sup>xxxi</sup> Other observers have noted that performance considerations were the key driver for the bid's failure. As Brigadier Arun Sahgal writes, "essentially for the first time [the] Indian Defence establishment has decided to give priority to technical parameters and state-of-the-art technology than [sic] purchasing old airframe albeit with modern and third-generation avionics."<sup>xxxii</sup> Carnegie Endowment's study also came to the conclusion that it was the superior fighting ability of the finalist aircrafts on offer that served as the deal breaker.<sup>xxxiii</sup>

The official Russian reaction to the bid loss demonstrated the insecurity felt among the country's leadership about Russia's formerly solid position as India's primary defence supplier.<sup>xxxiv</sup>

Although an anonymous Russian defence firm chief was recently quoted as saying that Russia “still considered India a good sales market,”<sup>xxxv</sup> on 30 May 2011, *The Times of India* reported that Russia had abruptly cancelled the joint military training that had been agreed upon earlier; these exercises’ importance should be seen in the context of Russia having had only three others with India in the past seven years.<sup>xxxvi</sup> The Russian navy turned the Indian ships away after they had reached Vladivostok, under the likely false excuse that the Russian ships were leaving for Fukushima (it turned out that the ships sailed out for navy war games on their own).<sup>xxxvii</sup> The Russian move caused substantial consternation in Indian defence circles where this incident was seen as a “blatant snub.”<sup>xxxviii</sup>

Russia’s recent disappointment related to India’s defence purchases brings back memories of equipment procurement-related scandals amidst pervasive concern about the viability of its much-needed military reform. These challenges are a warning sign, but can be as much an opportunity as they are a challenge. India will continue needing spare parts for its defence equipment of Soviet and Russian origin; further large-scale acquisitions from Russia, however, are at this point in question. Maintenance needs for the current stock of arms are not the only reason why India should not neglect a productive relationship with its most significant arms supplier. Despite problems of faulty or obsolete equipment, Russia still has relatively low-cost and cutting-edge technology—especially in aeronautics—and, often, the willingness to transfer it or engage in joint development with Indian engineers. The same cannot be said for Europe or the United States, with their more onerous export regulations and lack of historical ties to India’s defence industry.<sup>xxxix</sup> According to Brigadier Sahgal’s prediction, henceforth “India will upgrade and modernize current Russian equipment in service” while inducting “modern state-of-the-art technologies both Western and indigenously developed” and in the process trying to “create a

sustainable indigenous military-industrial base.”<sup>xl</sup> By this account, cheaper Russian-made defence equipment may be fitted out with cutting-edge Israeli, American or European parts, as India has already done with a recent batch of Su-30s. There will thus continue to be a substantial place—albeit a necessarily diminished one—for Russia in India’s defence acquisition plans.

### *Thought-starters on re-energising the relationship*

The India-Russia defence relationship should no longer be allowed to drift without a new and more realistic policy framework that (1) acknowledges India’s commitment to indigenization and import diversification with the inevitable consequence of reduced arms imports from Russia over time, but also (2) clearly commits to a long-term knowledge and production partnership with the Russian defence industry. Even if Russia’s loss of a share of the traditional Indian arms market is inevitable, the joint relationship has the potential to remain strong in the coming decades with appropriate framing and expectations management. In order for this to occur, India needs to have realistic expectations of the life cycle costs of Russian equipment and the limitations on Russia’s ability to follow through on its delivery and quality commitments. The Russian side, for its part, needs to invest more into developing competitive products and delivery procedures rather than relying on inertia, historic ties, and close relationships within the older generation of Indian military policymakers and defence procurement officials. The Indian government needs to lobby the Russian one to exercise better quality control over production and roll out storing facilities for weapons slated for export, while also taking into consideration the arms’ life cycle costs. Additionally, both sides should be interested in building more transparency and accountability into the relationship. An important step in



streamlining the defence acquisition procedure would involve giving more substance to the India-Russia Intergovernmental Commission on Military-Technical Cooperation so it could provide greater oversight.

A revamped defence relationship will also require greater coordination and cooperation between the two ministries of defence, more than the demonstrations of goodwill that have so far taken place. In particular, there is significant potential in setting up several centres of defence excellence in research and development in Russia and India, with India taking the lead on funding such centres under the new DPrP



While defence cooperation between the two countries is now almost exclusively a state-to-state affair, the Russian-made arms on offer to the Indian market are constantly in danger of being treated as political commodities, as Russia has recently shown in its reaction to losing out on the



policy. This scenario could also involve increasingly outsourcing the engineering and manufacturing of defence equipment and spare parts to India, rather than India simply buying the necessary parts, for top dollar, from the West. Such a development would lower prices, enable greater Indian control over deadlines and quality, and ultimately, grow native defence production capabilities with the goal of creating an independent, indigenous industry in the future. At the same time, this approach could create opportunities for Russia to outsource some of the military production for its own domestic purposes to India. For instance, the Indian defence ministry can help Russia with its modernization

challenges, e.g. by select outsourcing of manufacturing or joint projects to bring down the costs of provision of India-manufactured parts and accessories for the Russian military. Another promising direction is joint Indo-Russian production of armaments for other nations, such as the partners' recent plans for the sale of BrahMos missiles to "friendly" third countries, e.g. Indonesia, Malaysia, Brazil, and the UAE.

While defence cooperation between the two countries is now almost exclusively a state-to-state affair, the Russian-made arms on offer to the Indian market are constantly in danger of being treated as political commodities, as Russia has recently shown in its reaction to losing out on the MMRCA contract. Following the lead of Russian non-state firms getting into the military equipment business, more private sector cooperation should be encouraged in both countries for defence materiel production. The platforms of indigenization, joint development, and low-cost manufacturing in India should form the cornerstone of Indian negotiations with Russia's defence complex, on a free-market basis, in the future.

## Energy

### Oil and Gas

India's hydrocarbon consumption is projected to increase at a rapid pace. At present, India is the world's fifth largest oil importer, bringing in 65% of its oil from abroad and meeting 80% of its needs from overseas. The IEA estimates growth from 3-3.5 million barrels per day in 2010 to over 5 million per day in 2020.<sup>xli</sup> India also imports almost half of its gas requirements.<sup>xlii</sup>

Russia, with one of the world's largest supplies of oil and the largest supply of natural gas, has so far shown itself well positioned to meet those needs. At the time of his coming to power, Putin promised to give India broader access to Russia's vast hydrocarbon wealth, with some success over the past decade: Indian investments in Russia's hydrocarbon sector already total over USD 4.25 billion as of 2010.<sup>xliii</sup>

India's ONGC Videsh Limited (OVL), which operates petroleum assets abroad, is an investor and shareholder (20%) in the Sakhalin-1 offshore natural gas development project in Siberia, having already committed nearly USD 2.7 billion to the project. The conglomerate has also been seeking a stake in Sakhalin-3, a joint venture between ONGC and the main Russian hydrocarbon company Rosneft. Furthermore, ONGC has been keen to tap into Russia's oil market, in 2006 taking over Imperial Energy, a London-listed Russian oil producer, for USD 2.6 billion. In recent years, India has been cooperating in extracting hydrocarbons in Siberia, particularly in the giant oilfields of Trebs & Titov with Bashneft, the Kirinsky gas block with Gazprom, and Yurubcheno-Tokhoms koye oil field with Rosneft. According to the latest reports, India has also been pushing hard for the possibility of investing in the marketing of Liquefied Natural Gas in the Yamal region of the Arctic Ocean, with Russia's technology

concept company Novatek, and bringing the LNG back to India.<sup>xliv</sup>

Increased access for India to Russia's gas supplies is closely aligned with Russian priorities as Russia needs to diversify its gas exports away from existing European channels. Currently the major supplier of gas to Europe, Russia might lose a share of its European clientele once the U.S.-led Nabucco pipeline is built—this route is slated to carry Azerbaijani gas through Turkey and Eastern Europe to Austria, bypassing Russia and depriving it of valued Eastern and Western European consumers. In response, Russia has plans of increasing its natural gas exports to Asia to 25% from a current level of 5%.<sup>xlv</sup> In December 2010, President Medvedev said that Russia is considering participation in the TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline, the project to deliver gas along the ancient Silk Road being funded by the Asian Development Bank, per a framework agreement signed in December 2010. Gazprom, the world's largest extractor of natural gas, would serve as the key supplier for the project.<sup>xlvi</sup> India is reportedly hoping that Russia will provide expertise and stability to the project, be a guarantor for the connecting link between the South and Central Asian portions of the pipeline, and serve as a potential arbiter between India and Pakistan, with which Russia has a rapidly improving relationship.<sup>xlvii</sup> However, for now, TAPI appears to get less attention from Russia than alternate gas routes. For instance, President Medvedev met five times with President Hu Jintao in the course of 2010, the gas supplies to China being a major element on the agenda, while he had only one such meeting with PM Singh. While, due to the volatile regional situation, the completion of TAPI by its current target date of 2019 appears unrealistic, Russia's participation in this future project would be important if it is serious about wielding influence in Central Asia.

On the oil front, while ties between India and Russia have so far been very positive and there are tentative plans for broadening them further, plenty of uncaptured opportunities exist. India has been diversifying its strategic sources, recently concluding a long-negotiated Rs. 1,800 crore deal that gave India's ONGC Videsh Ltd. a 25% stake in the Satpayev oil field on the Caspian Sea, which would fill its needs for the next 1.5 years.<sup>xlviii</sup> In 2010, the Russian Energy Ministry and India's Ministry of Petroleum and Natural Gas concluded an inter-governmental agreement on cooperation in the oil and gas sector, yet this IGA has no power because of the two sides' failure to agree to an annexure. Such a document would have provided tax relief to ONGC, letting it pay taxes on the profit from the oil rather than on every barrel produced. Moscow would also have been contractually obligated to carry out all the projects, and the financial arrangements therein, in the agreed-upon time.<sup>xlix</sup> Without an annexure, there is more potential for disagreement, as well as a lost opportunity for India to engage in additional projects under the more favourable and secure terms.

Promisingly for Russia, Indian needs for oil and gas are great and ever-growing, while Russia's own economy shows no signs of moving away from its hydrocarbon dependency. Furthermore, there is today in India a strong push to make parts of the manufacturing process available to the private sector while research remains with government entities, a move which would open the field to more diverse projects than those headed by ONGC. Joint projects such as TAPI (slated to open in 2019 yet contingent on the regional situation) and swap arrangements—important given the insecurity of the current energy transport routes—hold the greatest promise in this regard, and the hope is that the various states involved will iron out their differences to enhance cooperation.

## Uranium and Nuclear Energy

Use of atomic energy reduces a nation's dependence on natural resources such as oil, gas, and coal, therefore the development of nuclear power has been a priority for independent India. India's current nuclear power program is expected to reach 20,000 MW in nuclear capacity by 2020, up from 22 billion KW today. The long-term ambition is reaching 63,000 MW by 2032, with the ultimate goal of supplying 25% of electricity from nuclear power by 2050 through a nuclear industry with high indigenous engineering content.<sup>i</sup> As a result of this expansion plan, it is expected that India's demand for nuclear fuel will increase tenfold by 2020, up to 8,000 tons of uranium a year, while doubling its 20 nuclear plant capacity.<sup>ii</sup>

Russian-Indian nuclear cooperation has a long history. Before the break-up of the Soviet Union, the two countries signed a nuclear cooperation deal in 1988, updated a decade later, and extended with other agreements, like the 2002 agreement for the construction of two nuclear reactors by Russia at Kudankulam, Tamil Nadu. The Kudankulam plants were seen as highly successful ventures that had opened the door to greater Russian involvement in India's nuclear energy field. Meanwhile, the 2008 Civil-Nuclear Agreement with the United States, following an agreement by the Nuclear Suppliers' Group amidst a dramatic change in American policy, ended India's nuclear isolation and presented the potential for greater cooperation with the West. In 2009, close on the footsteps of the U.S.-India deal and following up on their own history, India and Russia sealed a breakthrough long-term pact for expanding civil nuclear cooperation that is free from any restrictions on India and guarantees it against any curbs in the future. It was announced that this deal would "ensure transfer of technology and uninterrupted uranium fuel supplies to [India]'s nuclear reactors."<sup>iii</sup> Accordingly, Russia made its first Indian uranium delivery in April 2009.

Since 2008, Russia has also participated in a joint project with India to build four additional nuclear reactors at Kudankulam. The new reactors are being built by NPCIL (Nuclear Power Corporation of India Ltd.) and will be commissioned and operated by NPCIL under IAEA (International Atomic Energy Agency) safeguards, while the turbines are made by Leningrad Metal Works. Russia thus secured its place as India's top nuclear energy supplier, which it has held for the past two years. Unlike Russia's other nuclear reactor projects, such as in Iran where there were hundreds of Russian engineers and supervisors, there have been only about eighty Russian supervisors on the job, a promising approach to enable the development and training of India's own energy industry cadres.

During Prime Minister Putin's visit to India in March 2010, Russia expanded on its cooperation pact with India with a roadmap agreement providing for up to sixteen nuclear power units to be built in India over the next fifteen years. As Russia's Ambassador to India, Alexander Kadakin has pointed out, this agreement will be a core element of India's plan "to more than quadruple India's nuclear power capacity by 2020—a target outlined by the Indian government."<sup>liii</sup> Russia's state-owned nuclear company, Rosatom State Nuclear Energy Corporation, earlier said that six of these reactors, including one in Haripur and one in West Bengal, would be built by 2017. Continuing with the principle of joint manufacturing, Russia said it would share the enrichment and reprocessing (ENR) technology with India for the production of nuclear fuel for atomic power plants. Sergey Kiriyeenko, the chief of Rosatom, spoke of Russia's intent to set up joint facilities for enrichment and reprocessing of spent nuclear fuel in India and some European countries, in addition to the facility Russia already has in China. Furthermore, in 2009, Russia had offered India the option of participating in the International Uranium Enrichment Centre in Angarsk, Siberia, which would guarantee fuel supplies.<sup>liv</sup> Capping two

busy years in nuclear cooperation, India and Russia signed in December 2010 a Memorandum of understanding (MoU) for research and development in reactor technology and peaceful uses of atomic energy.<sup>lv</sup>

However, the challenge that Russia and India are facing in their bilateral energy relationship is competition from other countries. India was largely excluded from trade in nuclear materials for 33 years while it refused to sign the Nuclear Non-Proliferation Treaty so as not to jeopardize its weapons program. The 2008 deal has changed that, as Ambassador Kanwal Sibal has observed: “the underlying purpose [of the Indo-US nuclear deal] was to put the India-US relationship on a new footing, remove mutual distrust of the Cold War period, lift the obstacles to India’s greater integration with the international system, recognize the value of the long-term relationship with the next big Asian power to rise, exploit the market opportunities in a growing India, and tie up India within evolving global structures superintended by the West.”<sup>lvi</sup>

The largest consequence of the 2008 agreement is that for the past three years, India has significantly increased its acquisition of foreign nuclear technology and fuel to advance its energy strategy.<sup>lvii</sup> Beyond US and Russia, civil nuclear cooperation agreements have been signed between India and France, UK, South Korea, and Canada, as well as Argentina, Kazakhstan, Mongolia, and Namibia. Kazakhstan, for instance, which has the world’s second largest supply of recoverable uranium and by some estimates is poised to emerge as the number one supplier of uranium in the world across the extraction, enrichment, and fuel fabrication markets, has provided a comparable amount of deliveries to India. France is in third place as India’s energy supplier.<sup>lviii</sup> The quickly improving Indo-U.S., Indo-Kazakh, and Indo-European relationships, which have all been growing quickly



beyond the energy sphere, are all likely to present increased competition to Russian interests.

### *Thought-starters on re-energising the relationship*

The state-level hydrocarbon relationship between India and Russia should proceed as before, driven by India's energy needs and the Russian economy's dependence on oil and gas exports. Meanwhile, the nuclear energy cooperation, to come under increasing competition from India's other energy partners following the 2008 U.S.-India Civil-Nuclear deal, calls for greater effort and creativity, involving the private sectors of both countries. Indian companies need to invest more in joint nuclear projects beyond reactor construction in India that can combine the engineering expertise of both nations. The Indian government should borrow Russian know-how and technology transfer capacities to help develop its uranium deposits, which it has already begun to do.<sup>lix</sup> Another longer-term opportunity may be a Russo-Indian private consortium, set up on the initiative of the two governments, to construct nuclear power plants in nations, particularly in Africa, that are seeking civilian nuclear power but lack the means to procure costlier American or French technologies.<sup>lx</sup> Recent reports suggest, for instance, that India is currently exploring joint venture opportunities with the Canadian nuclear industry for the development of nuclear plants in third-world countries. A Russia partnership may be easier to build, given the lengthy history of

The Indian government should borrow Russian know-how and technology transfer capacities to help develop its uranium deposits, which it has already begun to do

cooperation at the technical level on plant development and senior policy level linkages between the Indian and Russian civilian nuclear power industries—and the advantage to Russia of having a cheaper labour force at its disposition.<sup>lxi</sup> The funding for these projects could come from the aforementioned Russia-India Innovation and Modernization Fund, which would be specifically focused on joint projects in the private sector.

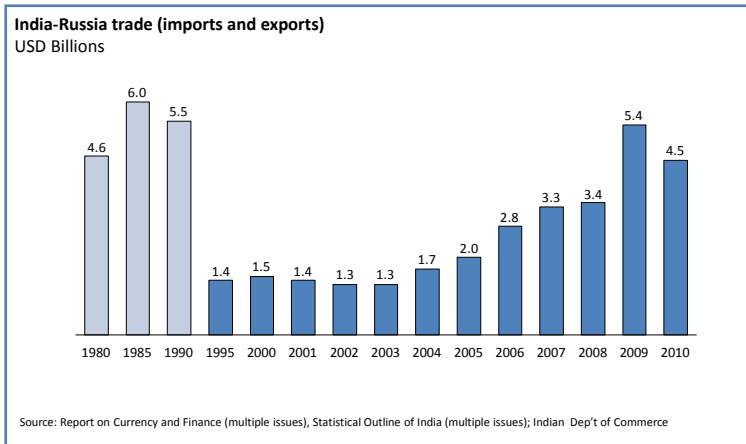
Finally, there are also opportunities for agreements to produce low-cost renewable energy—wind, hydro, and solar, all resources that both countries possess —such as the deal India has in place with the United States.<sup>lxii</sup> Both India's and Russia's clean tech industries are far behind world leaders like the U.S. and China, yet the two nations have substantial interest in innovation in this field. The way to approach this cooperation is for the two governments to establish a joint clean energy R&D centre, eventually funded by private capital that would leverage Russian know-how and Indian manufacturing capabilities and would later transition into production.

## Trade and Investment

The failure of Russia and India to quickly expand the volume of their trade, against the background of rapidly growing commercial relations with their other strategic partners—especially the influx of cheap, mass-produced goods from China into both—has been the leitmotif of every bilateral summit since the early 1990s. The latest official figures from the Russian Foreign Ministry show that Indo-Russian bilateral trade, including imports and exports, was around USD 8.53 billion in 2010.<sup>lxiii</sup> Meanwhile, Indian sources estimate it to be USD 5.3 billion—the discrepancy is attributed by some sources to Russia’s inclusion of Indian goods being traded through third countries, such as Singapore and the UAE.<sup>lxiv</sup> This level of trade, slightly down from a recent peak of USD 5.4 billion in 2008-2009, is actually a substantial improvement on the last two decades, approaching the level of trade between India and the Soviet Union in 1990 (Figure 2). According to the Federal State Statistics Service, as for the end of the first half of 2009, Russian investments in the Indian economy amounted to USD 762.2 million, including foreign direct investment (FDI) of USD 513.3 million. This is a far cry from the total FDI flow for India in 2009, USD 34.6 billion.<sup>lxv</sup> Out of all the investors in India, Russia ranked 21st from April 2010 to Jan 2011 with USD 466.98 million, predominantly in the telecommunications sector. Meanwhile, Indian investments into the Russian economy amounted to USD 1.172 billion for the first half of 2009, whereas Russia’s total FDI for that year added up to USD 36.5 billion.<sup>lxvi</sup> Both countries realize that there is vast potential for further increasing their volume of trade and investment given the sizes of the two economies, and, during President Medvedev’s visit to India in 2010, it was decided to set a target of USD 20 billion worth of bilateral trade by 2015. While this is still a small amount compared to projected trade figures with India’s

and Russia's largest partners in several years, it is widely perceived by analysts as aspirational rather than realistic.

**Figure 1 - India-Russia Trade Turnover (1980 - 2010)**



Indo-Russian trade has shown an overall modest increase over the past two decades, except for the years 2008-9, when the global financial crisis had severely affected the Russian economy. However, this increase, and the volumes of trade overall, place India and Russia nowhere near either country's most important commercial partners.<sup>lxvii</sup> India is Russia's 10<sup>th</sup> largest trading partner, accounting for 1.4% of Russia's total trade, while Russia is India's 29<sup>th</sup>, making up just 0.97% of India's total trade.<sup>lxviii</sup> India's export to Russia was approximately 0.55% of its total exports in 2009-10 while its imports from the country were approximately 1.24% of its total imports.

**Figure 3 – India-Russia Trade**

<b>India's Trade with Russia, Versus Other Major Trade Partners</b>						
USD Billions						
Country	2005-6	2006-7	2007-8	2008-9	2009-10	YoY Growth
<b>Russia</b>	2.8	3.3	3.4	5.4	4.5	13%
<b>China</b>	17.6	25.8	38.0	41.8	42.4	25%
<b>USA</b>	26.8	30.6	41.8	39.7	36.5	8%

Source: Indian Department of Commerce

**Figure 4- Russia-India trade volume (January-April 2010)**

<b>Russian Exports to India</b>			<b>Russian Imports from India</b>		
Product group name	In millions USD	% of total	Product group name	In millions USD	Percent of total
Fertilizers	411	20.4	Pharmaceutical production	167	28.5
Oil, natural gas, charred coal	232	11.5	Electrical machinery, equipment and parts	57	9.8
Diamonds	176	8.7	Coffee, tea, spices	50	8.5
Aircrafts and aviation parts	164	8.1	Tobacco	33	5.7
Power equipment	157	7.8	Various food products	28	4.8
Ferrous metals	138	6.8	Energy equipment and mechanical devices	26	4.4
Land transport vehicles/parts	131	6.5	Clothes, excluding knitted	25	4.3
Electrical machinery, equipment and parts	123	6.1	Knitted clothes	19	3.3
Optical and measuring instruments and apparatus	102	5.0	Organic chemical compounds	18	3.0
Paper and paperboard, articles thereof	46	2.3	Ferrous metals	17	2.9
<b>Total</b>	<b>2019</b>	<b>100</b>		<b>589</b>	<b>100.00</b>

Source: Russian-Indian Forum on Trade and Investments, 20 December 2010, New Delhi, India, <http://en.restec-international.com/projects/india/>

In the days of Indo-Soviet friendship and very favourable rupee-rouble rates, India exported large quantities of its products to Russia, including tea, rice, fruit, textiles, and various household and luxury items, in return for Russian imports of arms and machinery. The boon to trade had been so favourable that the two countries even briefly considered returning to rupee-rouble exchange in 2009. Now, in the absence of state-managed economic incentives and given Russia's anti-dumping laws, traditional commodities between the two countries have been traded with only intermittent success. Tea, the emblematic Indian export to the Soviet Union, is a case in point. Though Russia is still the largest importer of Indian tea, the turnover is far from what it used to be. In the mid-2000s, amidst accusations of low-quality tea imports from India, Sri Lanka cornered 40% of the Russian tea market, while India had only 20%. Recently, however, the fortunes of Indian tea have been looking up, mostly due to a decline in production among leading tea producers, reduced crop levels, and rising Sri Lankan tea prices, which have all worked to India's advantage. In 2009, the Sri Lankan tea market's share in Russia was at 29%, while Indian tea made up 25.3%. Still, Russian imports accounted for only 35,000 out of 200,000 tons of tea that India exports annually.<sup>lxix</sup> A similar decline has been seen in the Indian export of coffee and spices to Russia.

There is likewise much scope for improvement in other Indian agricultural exports to Russia, including fresh fruits and vegetables. Promisingly, in February 2011 it was reported that Punjabi potato growers were on the brink of concluding an agreement for large-scale export to Russia.<sup>lxx</sup> In 2006, a draft inter-governmental agreement was signed which stated that Russia would increase its import of Indian tobacco and its by-products through joint ventures set up in Russia by an Indian company which would bring in tobacco from India; tobacco is now the fourth largest Indian import item. In addition, the

formerly robust Indian wheat export market to Russia (around 30 to 35 million metric tons a year from the mid-1990s to the mid-2000s) has folded due to the wheat export ban that India has not lifted since 2007, out of concern for unstable food prices. This is despite the rising world wheat price and India's expected record wheat output of 84.27 million tons for the first half of 2011, a portion of it now said to be rotting in inadequate storehouses.<sup>lxxi</sup> The Indian rice market, another formerly reliable export commodity to Russia, had been under a similar ban since 2008, now partially lifted.<sup>lxxii</sup> Meanwhile, Russia, whose top exports to India, besides oil, are fertilizer and rough diamonds, has also not been proactive enough in advertising or selling its other commodity products in India. For instance, no household goods identifiable with Russia are available in India.<sup>lxxiii</sup>

Some modest progress has been recently achieved in a few sectors of the Indo-Russian commodities trade. The first Indo-Russian summit of the Indian Gems and Jewellery Export Promotion Council (GJEPC) took place in Mumbai in June 2011. One of its areas of focus, in addition to Russian rough diamond export to India, was India's potential export of polished diamonds to Russia.<sup>lxxiv</sup> In the same month, the Apparel Export Promotion Council of India (AEPC) and the Russian Union of Entrepreneurs of Textiles and Light Industry signed a pact to increase investment and trade in the textile sector. Although the Indian textile industry exports USD 11 billion worth of items across the world, it accounts for only 3% of Russian imports.<sup>lxxv</sup> Given that quality inexpensive apparel is scarce in Russia, an influx of Indian goods will be more than welcome by consumers. These latest initiatives set an example of the kind of dynamic dialogue that needs to happen across other sluggish export-import industries, including agriculture, tea and spices, and chemicals.

Russia still relies on India for the pharmaceutical exports that were one of the mainstays of Indo-Soviet trade, access to cheap medicine being a persistent problem for the Russian

population. In 2010, the Russian government sought to protect its domestic pharmaceutical industry by lowering the price of local drugs and imposing regulations on foreign manufacturers, a plan which pushed a number of Indian pharma companies out of Russia. However, even now 80% of the Disclosed Limited Order (DLO) of Russia's pharmaceutical market is spent on imported products,<sup>lxxvi</sup> a trend said to persist for the next several years. Moscow recently extended an invitation to Indian businessmen to supply pharmaceuticals "at moderate prices under direct contracts."<sup>lxxvii</sup> Furthermore, four agreements and memoranda of understanding related to the production of pharmaceuticals that have been concluded by the two sides during President Medvedev's visit to India in December 2010 (after the aforementioned reform) points to the ongoing primacy of this industry in the bilateral trade.

The trade in pharmaceuticals appears bound to continue due to Russia's needs; it is currently India's third largest market after the European Union and the United States.<sup>lxxviii</sup> However, the expansion of other abovementioned traded commodities that cannot be transported by air, as drugs can, is stalled by the oft-cited price factor. Since the collapse of the Soviet Union made the port of Odessa, now in Ukraine, off limits to Russia, most goods between it and India travel by a long sea route from the Arabian sea to the Gulf of Finland, incurring heightened freight costs as a result. Trade can be accelerated through a North-South Transport Corridor connecting St. Petersburg with Mumbai, a route that is expected to reduce the cost of movement of goods between India and Russia and, for Russia, to displace many goods from Europe with those from India. The corridor, a combination of sea, rail, and road routes, was planned in 2000 with Russia, Iran, and India agreeing to the ambitious project. Initial progress on the Corridor was promising: Russia constructed a container terminal on the Caspian Sea, and Kazakhstan also joined,



building one branch to Aktau on the Kazakh side of the Caspian. Meetings were held in New Delhi in 2005 and Aktau in 2007 to discuss further streamlining the operation of the route. However, although the North-South Transport Corridor is ready on paper, it is, for all intents and purposes, currently not functioning.

How can the transport of goods be made easier, given that the North-South Corridor appears stalled for the foreseeable future? According to several experts, the answer lies not in trying to devise another trade route but in changing the kind of commodities that are currently being exchanged between Russia and India. Products resulting from joint cooperation and manufacturing seem to hold greater promise than those that have to travel by sea, incurring delays and price mark-ups. Russian news services announced in April 2011 that Moscow was inviting Indian entrepreneurs to come and explore the Russian market, and that they were particularly interested in IT companies and major infrastructure companies that built roads, tunnels, and bridges.<sup>lxix</sup> Furthermore, cooperation on infrastructure development and the construction of machinery could make up a large share of the trade basket between the two countries.

Recently, both sides have also been leaning away from a focus on all conventional commodity trade to stress development in the banking sector and business-to-business ties. Three out of the thirty agreements (an MoU between Central Board of Excise and Customs and Russia's Federal Customs service on exchange of information on foreign trade, an MoU between the State Bank of India and Russia's Vnesheconombank on banking sector cooperation, and an MoU between Exim bank and Russia's Vnesheconombank to operate USD 100 million line of credit signed in 2009) concluded at the 2010 Indo-Russian summit dealt with expanding bilateral trade by facilitating the banking between the two countries. Russia has only one bank, Vnesheconombank, in India. Its largest financial institution, Sberbank, has still not set up its

operations there, despite having launched the process several years ago, and another, Gazprombank, is still establishing a representative office. Meanwhile, the Indian banking sector in Russia has a somewhat more diverse presence, with the State Bank of India, Canara Bank, ICICI Bank, and IDBI Bank all registered there, the first two in a joint venture with the Commercial Bank of Moscow; however, only one or two branches of each bank have been opened.

Three hundred Indian companies are registered in Russia, many of them dealing in pharmaceuticals: Dr. Reddy's Laboratories, IPCA Laboratories, Elena Impex, Cadila Pharmaceuticals, Microlabs Ltd, Ranbaxy Laboratories, Sharan Pharma, Shreya Corporation and Shreya Life Services, Torrent Pharmaceuticals, Unique Pharmaceuticals, and Zydus IntRus Limited. A number of textile companies, such as Amba Tex, Angelika Fashion, Mona Tex, and Oriana, are also represented, as is one firm specializing in medical equipment, Varthamana International Traders, and a few purveyors of tea and spices.<sup>lxxx</sup> Meanwhile, there are only thirty-three Russian companies that Russia's Chamber of Commerce lists as operating in India. Almost all of these are Indian branches of Russian state-owned conglomerates involved in hydrocarbons (Gazprom, Stroytransgaz), machine-building and construction (Technopromexport, Transstroy, Tyazhpromexport, Russian Railways, Power Machines), and arms (MIG, Rosoboronexport) rather than private companies.<sup>lxxxi</sup> One exception to this rule has been the recent success story of bilateral cooperation in the telecommunications sector, spearheaded by Russian corporate initiative. A deal was concluded under the Russian telecom brand MTS, now a frequent presence on billboards across India. MTS is owned by the midsize company Sistema Shyam Telelink Ltd (SSTL), which combines Sistema—the only privately owned Russian multinational to have entered India thus far, holding 73% of the stock, and Shyam Telelink, the smallest Indian mobile


provider. MTS has already committed up to USD 7 billion to building a pan-Indian telecom network in the next several years.<sup>lxxxii</sup> In 2009, Sistema registered another Indian subsidiary, Sitronics India. The contract amount for SSSL during that year was approximately USD 3 million, and a system contract with the operator worth USD 64.2 million was also concluded. Another development proposed when telecommunications minister A Raja visited Moscow in 2010 was for Russia and India to set up a joint venture for producing telecommunication hardware in India, with Russia making silicon chips for 3G and Wimax technology; however, there has been no follow-up as of yet.<sup>lxxxiii</sup>

One of the challenges often cited by the Indian side is the difficulty of doing business in Russia outside of the big cities—Moscow and St. Petersburg—due to the lack of roads, as well as the language barrier for Indian businessmen, with all communication in most companies taking place in Russian. More generally, persistent fears of corruption, lack of transparency, and inadequate insurance facilities abound. Meanwhile, the Russian side cites the hardship of setting up in India where they are bound by stringent labour laws, as well as the Export Credit Guarantee Corporation of India (ECGC)’s grade of B for Russia, which translates to a higher premium for Russia-bound Indian goods.<sup>lxxxiv</sup>

Much of the blame coming from the two countries centres on the other’s bureaucratic practices and foot-dragging. Both sides have valid reasons to complain because of their similarly mediocre records in the private business sector, rife with obstructionism and corruption. In the World Bank’s Ease of Doing Business Index, India ranks 134<sup>th</sup> out of 183 countries; Russia is a comparable 123<sup>rd</sup>. Russia scores 108<sup>th</sup> on ease of starting a business, with India doing even worse (165<sup>th</sup>). The two countries are even more alike according to the rankings of the Economist Intelligence Unit table of the riskiness of starting a business, with India getting a grade of C (53), same as Russia (54), with 100 being the most risky. Breaking it

down, in “foreign trade and payments risk,” Russia is a C (43) and so is India (54); Russia is a C (50) in “infrastructure risk,” as is India (56); Russia is a C (54) in “security risk,” like India (46), and Russia is a C (55) in “political stability risk” while India earns a B (25). Clearly, whatever finger-pointing the two countries may do when analyzing the reasons behind their private sector trade should be replaced by an honest analysis of the failings in their own commercial dealings.

Although the investment track records of the two countries reveal similar difficulties, the small amount of investments from Russia to India show that much of the onus of private sector cooperation appears to be on Russia, which could be more enterprising in setting up its businesses in India, e.g. by actively lobbying their interests. The Russian government should also work to remove the restrictions and roadblocks that curtail Indian investment opportunities and businesses ventures in Russia. In particular, legislation can be passed for Russian companies to provide more English-speaking liaisons, thereby removing the language barrier with foreign businessmen. While the Russian government’s monthly inserts in *The Times of India* and *The Economic Times* with their optimistic reports on



The Russia-India  
Innovation and  
Modernization Fund,  
jointly financed by the  
two governments,  
would provide seed  
funding (of  
approximately USD 2-3  
million) for  
collaborative projects  
with a distinctive joint  
development, research,  
and commercialization  
component

Russia's growing economy are a step in the right direction, this measure is not sufficient.

The two countries' governments have repeatedly spoken about the sluggishness of their private sectors and, in the past few years, set up several tools of cooperation to address this problem, with variable levels of effectiveness. The India-Russian Investment and Trade Forum has been held annually since 2007, most recently in December 2010, in Delhi. The India-Russian Chamber of Commerce, created in the same year, makes introductions between companies from both countries; some sixty-five firms are now members, mostly from the Indian side. The achievements of these bodies, as well as those of the India-Russian CEOs Council, led by Mukesh Ambani of Reliance on the Indian side and Mikhail Shamolin of Sistema on the Russian side, which has met only once since its creation in 2009, the Indo-Russian Inter-Governmental Joint Economic Commission, and the Russia-India Business Council have so far been modest. The aforementioned organizations usually discuss the overall trade environment and act as preliminary coordination mechanisms, yet lack the framework to forcefully engage in promoting interaction or creating trust on both sides. The Strategic Business Dialogue that has been held twice so far at the annual St. Petersburg International Economic Forum (SPIEF) appears to be a more effective forum, due to its focus on discussing specific deals; the long-term benefit of this new format is not clear as of yet.<sup>lxxxv</sup>

### *Thought-starters on re-energising the relationship*

When it comes to engaging the private sector in trade, several Indo-Russian coordination bodies with varying levels of effectiveness already exist; however, they have largely led to the creation and exchange of information and served as networking forums geared to the largest corporate and para-

state companies. While this is a good focus, with tremendous opportunity involved, it means that by their very nature these organizations will move relatively slowly. The bilateral trade would benefit from the introduction of a new mechanism that would work alongside, or in cooperation with, the ones already in place. The Russia-India Innovation and Modernization Fund, jointly financed by the two governments, would provide seed funding (of approximately USD 2-3 million) for collaborative projects with a distinctive joint development, research, and commercialization component.

Multiple potential models for driving such incentives, including a venture fund that relies on matching financing from the private sector, exist. While the financial investment put into the fund upfront would come from the two governments, private businesses would receive subsidies that will help get their cooperation off the ground. The goal is to ensure that grant recipients have access to the political resources needed to minimize bureaucratic hurdles for high-priority joint research initiatives. The Fund would also coordinate with bodies like the India-Russia Chamber of Commerce and a reconceived CEOs Council which should follow the example of more successful and established counterparts like the U.S.-India CEO Forum (also headed by Mukesh Ambani). For instance, at its 2010 meeting, the U.S.-India CEO Forum identified the following priorities: launching a private equity fund for clean energy, convening a U.S.-India higher education summit, development of long-term financing in infrastructure, and removing export restrictions for high technology from U.S. to India.<sup>lxxxvi</sup> All these proposals could be co-opted by Indian and Russian heads of business.

Furthermore, given that the few multinational corporations in both countries have shown reluctance to take risks in a new climate, the two governments should set up a bilateral

Entrepreneurs' Council to target medium-sized businesses. This can be an initiative supported by the Russian Business Council and the India-Russia Chamber of Commerce with a focus on recruiting thirty to fifty CEOs of mid-sized businesses in sectors with high potential for collaboration and exchange. The Entrepreneurs' Council should also fund a highly visible entrepreneurship conference and trade delegation visitation and exchange program. This initiative may receive additional interest and financing from industry bodies like the Confederation of Indian Industry (CII) and its Russian counterparts to incent greater Indian-Russian linkages for medium-sized yet fast-growing businesses. If correctly executed, this will be the type of transformative group needed to add incentives to existing bilateral mechanisms like the CEOs Council.

On the state level, both countries would clearly gain much from a Comprehensive Economic Cooperation Agreement (CECA), which India already has with Japan, Singapore, Malaysia, and Australia. Such an agreement enshrined at the governmental level will draw the economies of Russia and India closer together and work to increase their trade turnover, if not in the immediate future, then some years down the line. State guarantees should be provided to Indian businessmen in Russia and Russian businessmen in India by eliminating investment regulations and instituting measures such as lower tariffs on exports and imports. A CECA clause reportedly on the table is "a zero customs duty regime within a fixed time frame on items covering substantial trade and a relatively small negative list of sensitive items on which no or limited duty concessions are available."<sup>lxxxvii</sup> Although both sides have pledged to cooperate on signing this promising deal, most recently at the 2011 SPIEF, a sticking point for the time being is that Russia has not yet been admitted to the World Trade Organization, which provides oversight for all major trade agreements. Its accession, which has been anticipated for the last few years, would help Russia achieve

freer trade and greater economic growth and, in the long run,  
curtail corruption.<sup>lxxxviii</sup>



## Scientific and Technological Cooperation

The inroads being made by Russia and India in their scientific and technological cooperation are already significant. The Integrated Long-Term Program (ILTP) that the two countries signed in 1987 and renewed in 1994 and once again in 2010 is the largest bilateral scientific and technological cooperation program that India has with any country. By 2003 it was credited with “about 3000 exchange visits from both countries [and] 300 completed joint research projects.”<sup>lxxxix</sup> Eight joint research centres have been reportedly set up. The ILTP is coordinated by the Department of Science and Technology on the Indian side and by the Russian Academy of Sciences and the Russian Ministry of Industry & Science and Technology. Development of semiconductor products, super computers, poly-vaccines, laser science and technology, seismology, high-purity materials, and software and information technology have been some of the major areas of cooperation under the ILTP. The major achievements<sup>xc</sup> of the joint efforts, as outlined by the Indian government, include: the design of Light Transport Aircraft (LTA) “SARAS\_DUET,” development of lasers for industrial and medical purposes and of a 10 MeV Linear Accelerator (LINAC) for industrial radiation, and the integration of Russian seismic sensors with Indian digital recorders.<sup>xcii</sup> As of 2010, 146 joint scientific and technological projects have been officially designated as top priority by both countries.

The Kremlin has been recently making substantial investments in high technology, insisting that Russia diversify its economy and shed its dependence on hydrocarbons, and its status as primarily a source of raw materials for certain nations—perhaps including India. The Skolkovo Innovation Centre, a planned high-technology business area and the emblem of this new focus of the Russian government, has been under construction outside of Moscow since 2009. The

state leaders have also been pursuing advances in nanotechnology, a pioneering science of manipulation of matter on an atomic and molecular level which has various practical applications in commerce, medicine, and industry. Rusnano, the Russian Corporation of Nanotechnologies, has received a USD 11 billion boost, earmarked for the development and commercialization of nanotechnologies by 2015.<sup>xcii</sup> The state spent as much as USD 3.25 billion on this sector from 2008 to 2010, making it the fourth-largest investor in nanotechnology after the United States, Germany and Japan.<sup>xciii</sup> Meanwhile, India has been attracting foreign investors in IT and networking, given its robust market growth. Also, similarly to Russia, India invests in nanotechnology, a field where it already holds a large number of patents but has difficulty in the actual production of goods and services, despite having set up nanotech parks in Bangalore and Hyderabad starting in 2007. As of February 2011, the Indian Department of Science and Technology has been pushing for a USD 200 million joint venture with Rusnano to source nano-materials for its solar power project, and the search is on for other Indian partners to collaborate with the Russian organization.<sup>xciv</sup> Promisingly, although the Indian manufacturing sector continues to be sluggish, there is today a strong push to open parts of the industrial process to the private sector while research remains with government bodies, a development which should spur on the production of goods and services.

India and Russia have been active in pushing their scientific and technological cooperation forward in the last several years, signing an Agreement on Cooperation in Solar Physics and Solar Terrestrial Relationships in 2005, an MoU between the Department of Science and Technology and the Russian Foundation of Basic Research, Moscow to pursue scientific cooperation in 2007, and a slew of agreements in 2010, dealing with information technology and IT-enabled services,

setting up joint ventures and exchange of technology in pharmaceuticals and bio-pharmaceuticals, capacity building in disaster forecasting and emergency management, joint production of oncological medicine, and other agreements on joint research and development in high-tech innovation, tying specific firms in both countries.

Furthermore, the domain of space has been a fruitful one for Indo-Russian cooperation. The Soviet Union was the traditional source of high technology for India's space program. Building on this historic cooperation, the Russian Federal Space Agency (RFSA, or Roskosmos) and the Indian Space Research Organization (ISRO) cooperated on Chandrayaan-1, India's first unmanned lunar probe launched in 2008. They have since been working jointly on the follow-up Chandrayaan-2 project that will place an orbiter and surface rover-craft on the Moon, although several failures of Indian Geosynchronous Satellite Launch Vehicle (GSLV) rockets in the past year have forced the ISRO to scale it down. In addition, since 2008, Russia has been participating in India's Human Space Flight Project (HSP), considered to be key among India's strategic priorities; it is to carry a crew to Low Earth Orbit by 2016. Furthermore, since 2007, the two countries have been cooperating on the development of "Youthsat," a participatory scientific mission to involve the youth of both countries in space-related activities that has already launched satellites into orbit. And, in the domain of pure science, India is a partner in the Roskosmos solar-terrestrial science mission for the study of the Sun's electromagnetic radiation and, specifically, the kinetics of solar flares. Russian expertise and willingness to share technology has been invaluable in stimulating the development of India's indigenous space program.

The two countries appear likely to continue pursuing their aforementioned plans and objectives in the domain of space. As noted by a European scholar, these efforts at collaboration are not essential from a practical point of view as far as

Russia, a world leader in the field of space, is concerned: “Russia does not really need to cooperate on these programmes to achieve its own objectives: the reasons for cooperation would therefore be of a political and strategic nature.”<sup>xcv</sup> Indeed, Russia’s recent public embrace of a multi-polar world and its, as well as India’s, desire to surpass the intensifying space program of China, which plans to launch its first lunar lander and rover, Chang’e 3 in 2012, should keep the existing projects on the forefront of their countries’ strategic cooperation.

In addition to projects related to their space industries, Indo-Russian scientific and technological cooperation goes on in long-standing and productive research centres, the primary vehicle for their cooperation. The first milestone under the ILTP was the Advanced Research Centre for Powder Metallurgy and New Materials at Hyderabad, conceived under the ILTP in the 1980s and seen as its it has been operational since 1995. ARCI, this autonomous research and development Centre of India’s Department of Science and Technology, has been set up for “the creation of unique and commercially viable technologies in the area of advanced materials and their subsequent transfer to Indian industries.”<sup>xcvi</sup> Another is the Russian-Indian Centre for Advanced Computing Research in Moscow, which was created in 2001 for joint research in programming, particularly in relation to seismology and weather economics.<sup>xcvii</sup> The RICCR is said to participate in some programs of the Russian Academy of Sciences and carry out research within the framework of agreements on scientific and applied software. Its major achievement is seen to be the development of the parallel computing system PARAM 10000, with its next generation, as well as product development, now in the works.

Another ambitious joint venture is the Indo-Russian Centre for Biotechnology, set up at the IIT Allahabad campus. Inaugurated in 2001, it coordinates research and other

collaborative activities in biotechnology—a field of biology with applications in engineering, technology, informatics, and medicine. The Centre has conducted bilateral research in areas of mutual interest, especially plant and medical biotechnology with special reference to potato, sunflower, and wheat for abiotic/biotic stresses. These discoveries can be used to galvanize production in agriculture—one of India’s top strategic objectives—as well as pharmaceuticals, Russia’s most significant import from India. In 2010, the two countries signed the Russia-India biotech network agreement, an online system that offers such facilities as database support, online seminars, placements, exchange programs, and facility visits. For the time being, however, both India and Russia are minor players on the world biotech stage—together, they hold a mere 1% of all biotechnology patents.<sup>xcviii</sup> Indian firms lack the expertise to partner with Russian ones to create an innovation-driven sector, which is what Russia’s government requires to pursue a high-tech agenda. However, there are many opportunities for the transfer of research and technology between both countries, if not yet for making commercially viable technologies.

Deeper prodding reveals a number of other joint scientific and technological initiatives that have either not realized their full potential or never actually taken off, despite their presence in official documentation. Many years after it was first mooted, the Indo-Russian Technology Centre is still “being conceived” in Moscow, as per the official website of the Indian Embassy in Russia. The projected Russian-Indian Centre for Ayurvedic Research and the Indian-Russian Centre for Geophysical Instrument-Making in Chandigarh likewise do not yet appear to exist, despite a number of MoUs having been signed for their establishment.


### *Thought-starters on re-energising the relationship*

While the ILTP clearly needs to be held more accountable for the viability of the projects and centres set up under its umbrella, Russia and India should continue powering forth in their research cooperation and concluding new technological agreements. The collaboration to aim for involves the exchange of high technology for peaceful purposes that is not affected by lack of trade routes and involves greater financial—and intellectual—capital. There is much potential for growth here—technological goods constitute only one-quarter of Indian exports to Russia.<sup>xcix</sup> Given the proven challenges of enhancing Indo-Russian commodity trade and the scientific inroads the two countries have been making, India's Ministry of Science and Technology should also be working in this direction with the Russian government to improve the bilateral trade deficit and gain a valued strategic partner in an increasingly high-tech world.

Joint medical research is one such unexplored area. India, the world's highest-burden country for tuberculosis, and Russia, the world's eleventh, with a large number of prison TB cases, could conduct collaborative research on eradicating the disease at their DOTS. In the future, the joint development of products through nano-technology has the potential to revolutionize biotechnology and medical science as well. Combined Russian and Indian engineering prowess, together with large-scale Russian investments, can result in the building of thriving nanotechnology, biotechnology, and medical, including pharmaceutical, research institutions. The exchange of IT software is another promising sector, although its development is predicated on Russia expending more of its GDP on IT development (currently, it makes up only 3.4% of the Russian GDP, as opposed to 6% in India). The two countries can also add to their one existing joint IT centre by

creating teams of Russian and Indian database analysts that would work together develop their products not just for local consumption but for sale in third countries as well. Furthermore, Russia and India should take advantage of each other's resource strengths in alternative energy (hydro- and geothermal power in Russia, potentially solar power in India, wind power in both) to develop joint research centres with a manufacturing component in the appropriate country.

Given that the joint high-tech centres that have been created thus far tend to be slow in executing truly bilateral projects, India should devise more robust ways of scientific cooperation with Russia. The Russian-Indian Innovation and Modernization Fund, with its specific focus on



A priority in the coming years will be setting up a Skolkovo-Bangalore hub for joint research and technology development, followed by more hubs in India's other IT centres

joint research collaboration with the ultimate goal of commercializing new technology, would be the appropriate vehicle for providing funding for such undertakings. A priority in the coming years will be setting up a Skolkovo-Bangalore hub for joint research and technology development, followed by more hubs in India's other IT centres, such as Chennai, Hyderabad, Pune, Coimbatore, Mumbai, Kolkata, Trivandrum, Jaipur, and Bhubaneshwar. The Indian government should create a preferential environment for these high-tech, high-priority sectors that are less encumbered by infrastructure and manufacturing weaknesses, and the absence of low-cost transport links, in both countries.

## Cultural and Educational Ties and “Soft Power”

Cultural and educational ties between India and Russia are the most woefully neglected aspect of their relationship, suffering on both sides from lack of funding and, no less important, a shortage of political will. Major efforts have to be undertaken by the two governments to revive their once vibrant academic and cultural exchanges. This is an important adjustment that needs to happen because, while “soft power” by itself does not stand as a deal breaker in a bilateral relationship, it is a critical enabler for creating scientific, trade, and military ties. Without significant academic exchange, joint scientific and technological research cannot go on. Without wide-ranging and systematic language study, especially the study of Russian in India, an area of great neglect, all aspects of the relationship involving the exchange of human capital—military, energy, trade, and scientific—are jeopardized. Lastly, without the exchange of peoples and cultures through tourism and entertainment, the importance of the two countries to each other as key strategic partners cannot be communicated to a younger generation raised after the collapse of Indo-Soviet ties.

India and Russia historically enjoyed solid ties in the cultural sphere, the pre-1991 era being abundant in long-term scholarly and student exchanges, culture festivals, and art exhibits in both countries, as well as many new academic works touching on the bilateral relationship. Russian-based academia was particularly robust in Indian studies: five chairs relating to Indology still exist in Moscow (since 1851), Saint Petersburg (since 1855), Kazan and Vladivostok, and Moscow State University offers such specializations as Indology and Buddhism and South Asian Studies. The Institute of Oriental Studies at the USSR (now Russian) Academy of Sciences was



home to prominent Indologists, including Grigory Bongard-Levin, a noted specialist in ancient Indian civilizations, and Academician Yevgeny Chelyshev, who has written fifteen books and over 500 articles on Indian literature and culture. Moscow's Progress Publishers brought out Russian literary classics and academic books, translated into Hindi and other Indian languages, for consumption in India. At the height of the relationship, Russia also helped inculcate the study of its language and culture in India—instructors of Russian, armed with the most up-to-date textbooks and other educational material, were sent to teach at the University of Mumbai until the mid-1970s, when a cadre of native Indian teachers took over.

At present, however, there is only limited funding earmarked for academic exchanges in both countries. The University Grants Scholarship, the Indian Council of Social Science Research, and the Indian Cultural Relations Council, all in Delhi, have exchange programs with Russia's Academy of Sciences that involve bringing in scholars in the social sciences, with agreements concluded on the ministerial level in India. Plans also exist to involve the Indian Council of Historical Research, but these have stalled due to funding issues. All in all, only ten academics per year are sent each way under the provisions of these exchange programs.<sup>c</sup> At the same time, no regular exchange of either undergraduate or graduate students exist between Indian and Russian universities. The International Foundation of Studies and Culture, based in Mumbai, Kolkata, and Chennai, with a partner office in Russia, strives to fill part of this gap by providing consulting services and acting as liaisons for Indian students wishing to get a medical education in Russia—by far the majority of orientation of Indians studying in the country. The IFSC estimates a base of 250-275 applicants a year, the majority attending medical schools that offer instruction in English (individual cases of students pursuing IT and engineering in Russia have also been reported).<sup>ci</sup> These

numbers might increase when India's Department of Education passes long-awaited legislation to recognize medical diplomas received in Russia, obviating the necessity to pass a screening exam to be qualified for India. There is much greater potential for exchanges not just in this field, but in many others, both in the sciences and the humanities.

The Russian language study situation in India is deplorable, especially given the importance of such programs for sustaining the interest of the rising generation of Indians in Russia, its culture and society. The Russian Embassy in India estimates that 40 colleges teach Russian across India (remarkably, only one in Mumbai); many others have closed down their programs, and the remaining ones face the problem of lack of native speakers and new educational material. Courses generally attract only a few dozen students (from 20 at the University of Madras to 150 at Jawaharlal Nehru University in Delhi)<sup>cii</sup> and all have a high rate of attrition. While there are some more opportunities to study Russian through a few independent language institutes, especially in Delhi, these, too, are few.

Mutual cultural awareness in both countries has suffered as well in recent decades. On an everyday level, while Bollywood films and yoga are popular in Russia and some Indian restaurants exist in major Russian cities, no parallel exposure to any aspect of Russian popular culture exists among Indians. A former driver of the latter, the Indo-Soviet Cultural Society, now the Indo-Russian Cultural and Friendship Society, has devolved into a small chapter based in Bangalore; its sister organization, the Indo-Russian Friendship Society, is similarly inactive. The Russian Centres for Science and Culture that exist in five cities (Mumbai, New Delhi, Chennai, Kolkata, and Thiruvananthapuram) organize some cultural activities, such as film screenings and performances of touring music and dance companies, yet their initiatives are not nearly sufficient.

Since the declaration of the strategic partnership between the two countries, there have been some new initiatives in the cultural relationship, although they have not done enough to raise the awareness of the younger generations of either country about the other. “Days of Russian Culture in India” (2003) and “Days of Indian Culture in Russia” (2005), the “Year of Russia in India” (2008), and the “Year of India in Russia” (2009) featured entertainment shows, exhibitions, and displays of decorative arts. Currently, a late-night Indian FM radio show, *With Love from Russia*, put on by the Voice of Russia, the Russian government’s global broadcasting service, transmits various educational tidbits about the country. The international English-language TV channel RT (formerly Russia Today) has been running on the Airtel and D2H cable services since 2009, yet it is only available in several major Indian cities and its viewership is limited by access to satellite television. The *Russia & India Report*, published by *Rossiyskaya gazeta*, the Russian government’s official newspaper, as a *Times of India* monthly insert, paints a rosy picture of Russia and its markets, yet lacks entertainment value and often appears scripted. Furthermore, some projects to spur the cultural memory of Indo-Russian cooperation have been undertaken. A monument to the first Russian to explore India, Afanasy Nikitin, has been established in the village of Revdanda outside Mumbai in 2002. And, the foundation stone of the new Roerichs’ International Academy of Arts in Kullu Valley, Himachal Pradesh has been laid in May 2011, at the site of the famed Russian artist’s home, although it remains to be seen how long it will take this institution, in the works for ten years, to rise up.<sup>ciii</sup>

Another aspect of “soft power,” tourism, could be much more vigorous between the two countries. 44,000 Russians visited Goa, one of the country’s most popular beach destinations and the most popular Indian tourist spot among Russian travellers, in the 2010-11 season. Some sources predict that this number will double, making the Russian share of foreign

tourists the largest in the state.<sup>civ</sup> However, the latter's international reputation is also suffering from recent negative publicity concerning the pervasive role of the Russian and Israeli mafias, said to trade in drugs, prostitution, and real estate.<sup>cv</sup> According to a specialist in Russian VIP tours, the region has become an unsavoury vacation choice, with few repeat visitors, because it is seen as an unsafe, drug-infested destination which is unfit for families. Goan tourism in Russia thus could substantially diminish in the coming years.<sup>cvi</sup> Likewise, Indian tourists now visit Russia only in small numbers, largely due to the country's reputation for difficulty of travel, lack of safety, and occasional incidents of racism. The lack of information about Russian culture and travel that exists in India contributes to making this a little-known and little-popular vacation choice.

Private sponsors in both countries should help Russian higher-learning institutions establish a presence in India, once the law that allows foreign institutions to open campuses in the country makes its way through its parliament, a development projected for early 2012

### ***Thought-starters on re-energising the relationship***

The fundamental problem to be addressed in revitalizing Indo-Russian cultural relations is the lack of funding that has resulted from the collapse of the Soviet system, the past principal sponsor of bilateral initiatives in education and culture. The solution, therefore, must lie in both governments engaging their private sectors—especially companies that are already active and cooperating in the Russian and Indian

markets—to finance similar activities. Any new scheme undertaken, such as educational exchanges, cultural programs, and language study, has to involve the younger generation in India and Russia. This age group that will take the bilateral relationship forward needs to understand its importance without the framework of Cold War-era sentimental ties.

Private sponsors in both countries should help Russian higher-learning institutions establish a presence in India, once the law that allows foreign institutions to open campuses in the country makes its way through its parliament, a development projected for early 2012.<sup>c.vii</sup> India's Ministry of Human Resource Development can partner with private actors to set up outlets of Russian universities such as Moscow State University and provincial colleges with a science or engineering specialty in several major Indian cities, offering instruction in English. Once established, these institutions should be the recipients of state subsidies and preferential enabling regulations, e.g. lower taxes. Based on the popularity of the Russian medical—and, to a lesser extent, IT and engineering—education among Indian students, this measure cannot fail to gain its adherents. The Indian government also needs to lobby Russia to establish programs akin to the Fulbright in India that would provide an exchange of qualified scholars—and more scholarly literature—between both countries. This initiative would not only create more people-to-people exchanges but also stimulate cooperation in the scientific and technological fields, thus reenergising the Russia-India relationship on other levels. One could even envision a Russian-funded university focused on technical/hard science or medicine in India where top-notch Russian professors would come on rotation – a revival of the early IIT model supported by Russian academics.

The humanities aspect of Russian soft power in India is likewise important to cultivate, and the Indian leadership should lobby the Russian one to become more active on the

cultural front so that a connection can be formed to its strategic partner among the younger generation. First and foremost, building a thriving environment for cultural exchange should also be a joint and active endeavour between the Indian Council of Cultural Relations (ICCR)—possibly aided by private sponsors—and Russia’s Ministry of Culture. In the last few years, the ICCR has organized the Festival of China in India, the Africa Festival, and the International Dance Festival, but nothing related to Russia. There needs to be a major cultural exchange program, like the one being planned for India and China for next year. Meanwhile, planning is underway to hold an India Cultural Festival in Russia in September 2011 and a Russian Cultural Festival in India during 2012. There should be oversight on the ministerial level to make sure that these initiatives have a wide range, involving museum exhibits, talks, documentary screenings, and news coverage. India should lobby Russia to flex its cultural diplomacy drive with more publicity transmitted via the Indian media, especially television—this can include Russian music, entertainment and informational programs, as well as feature films.<sup>civiii</sup> Furthermore, a Russian food or crafts festival would elicit interest among the Indian public—especially given the fact that there are currently no Russian specialty restaurants or stores in the country. All of these initiatives can become the domain of the *Russkiy mir* fund, an organization for spreading Russian culture abroad founded by Putin in 2007 and amply funded by the government.<sup>cix</sup> It is important for the Indian leadership to point out the fact that *Russkiy mir* has its centres in thirty-eight countries (as many as six in China), yet none in India.

In addition to the currently existing linguistic departments, corporate sponsors should provide financial subsidies to create or develop Russian language and culture programs in top Indian metro cities. Again, *Russkiy mir*, which funds internships and provides grants for foreign students to

undergo language instruction in Russia, should be applied to in order to extend this program to India. The Russian government, as well as Russian and Indian private initiative can also help the Russian Centres for Science and Culture in India play an important role in raising awareness of their country's heritage, as they have in the past. This can be done by organizing and publicizing regular activities such as exhibitions, lectures, and city tours discussing the Russian legacy in India, as well as popularizing Russia's culture and literature through attractive book-and gift-shops.

More untapped opportunities for bilateral interaction and soft-power influence exist in sports, especially for Russian coaches to train Indian athletes. Foreign coaches, including Russians as well as former citizens of the Soviet Union now living in Russia's Near Abroad, have already helped prominent Indian athletes win at international tournaments, including the recently concluded Asian and Commonwealth Games, in sports such as men's gymnastics, archery, and wrestling.<sup>cx</sup> The legendary prowess of the heavily state-funded Soviet sports industry has produced a generation of coaches and athletes-turned-coaches that can help with the development of India's own fledgling sports scene. This is a promising area of focus given India's predominantly young—and rapidly globalizing—population, with potential of reaping commercial benefits for tickets and sports-arena advertisements. In the last twenty years, the Indian government, the principal source of funding for the country's athletic industry, has increased spending on the latter from Rs 270 million (USD 5.58 million) in the Sixth Five-Year Plan (1980–1985) to over Rs 46 billion (USD 950.82 million) in the Eleventh Five-Year Plan (2007–2012).<sup>cxii</sup> A recent government report states that India's sports industry needs to “build heroes and create champions who would be role models of the Indian youth” and envisions India's vastly increased participation in international events, including the Olympic Games.<sup>cxii</sup> Much more can be done in this direction, given

India's new private business involvement in promoting its sports, especially in new sports at which Russians historically excel, such as women's gymnastics, figure skating, and tennis. The principal corporate athletic sponsor that has emerged in India so far is IMG Reliance, a joint venture between the Ambani-led Reliance and the U.S.-based sports company IMG Worldwide.<sup>cxiii</sup> Public-private partnerships have also been proposed as a viable alternative. These initiatives are becoming increasingly important, especially since, as has been reported, the Ministry of Youth Affairs and Sports has been allocated Rs 1,121 crores (USD 27.2 million) in the 2011-12 Union Budget, almost one third of what it got in the last budget, after the conclusion of the 2010 Commonwealth



Private business investors should be stepping in to fill the budget gap and approaching Russia's Ministry of Sport, Tourism and Youth Policy to exchange athletic talent and attract top-level coaches to India



Games in Delhi.<sup>cxiv</sup> Private business investors should be stepping in to fill the budget gap and approaching Russia's Ministry of Sport, Tourism and Youth Policy to exchange athletic talent and attract top-level coaches to India. As the 2014 Winter Olympics in Sochi approach, one initiative announced at these games could be the formation of a joint Indian-Russian Olympic sports committee for athletic exchanges, joint training facilities, and a more robust program for importing Russian coaching talent into India.

In addition, India's tourism industry, both on the level of the Ministry of Tourism and private operators, needs to engage in a much more vigorous promotion campaign aimed at Russia. Russian travel to India should be encouraged here, spreading



greater awareness of Indian regions beyond the Golden Triangle (Delhi-Agra-Jaipur) and Goa. Other tourist hubs, such as Kerala, Himachal Pradesh, and Ladakh, already popular with local and foreign visitors, would benefit from an influx of a middle-class Russian clientele; advertisement campaigns showcasing these states should thus be created for a Russian public. Significantly, no memorandum of understanding or agreement regarding tourism has been signed as of yet between the two countries, making this a priority for upcoming annual summits.

## **Conclusion: Getting to the next level – what will it take?**

As this paper has shown, a number of measures along several key parameters are needed to improve the bilateral relationship between India and Russia. Any efforts should involve significant political will and the involvement of key private sector sponsors on both sides, with the understanding that, based on where they are in their development and the complementary nature of their needs, Russia and India both stand to benefit from a vigorous strategic partnership.

First and foremost, judging from a track record of multiple agreements and memoranda of understanding that have not led to tangible results, there needs to be a new format for the annual summits, with greater emphasis on accountability. The recent comprehensive U.S.-India Strategic Dialogue is a model to follow. There should be more meetings at the highest state level, regular annual reports on the progress of the working groups, and reinvigorated interactions among academic, business, and policy makers in both countries. The active and persistent lobbying from the Indian side that led to the end to restrictions on business and tourist visa requirements from both sides—and will hopefully lead to more private business ventures—is one example to follow.

On a more specific level, given the opportunities for cooperation listed above, what can a reenergized relationship between Russia and India look like in the next twenty to fifty years? One could imagine the following several scenarios:

- (1) Russia and India would have substantially increased bilateral trade volumes and a generally positive investment environment, benefiting from joint economic projects aided by an Entrepreneurs Council and a reorganized, ambitious

India-Russia CEOs Council. They would collaborate in the engineering and construction industries; third-country projects could also be involved. Russia can help India modernize its infrastructure, such as roads and airports, with the two creating joint select modernization projects that would benefit both countries.

(2) Russia should continue being India's top partner on nuclear energy development, a role currently challenged by the United States and, increasingly, Kazakhstan. A privately funded Russian-Indian consortium could develop civilian nuclear power in a number Asian and African countries.

(3) There is a strong joint space development program between India and Russia that is one of the world's leading consortiums.

(4) There would be two to three high-technology industries beyond space where Russia and India would jointly lead, most likely information technology, nanotechnology, and biotechnology. Getting scientific and technological cooperation off the ground would be easier thanks to the Russia-India Innovation and Modernization Fund that would put up the seed money for these projects.

(5) There would be a reorientation of the Russian military-defence complex with centres of excellence in research and development in Russia and India but with manufacturing increasingly outsourced to India and privately funded.

(6) Culturally, there would be a high volume of educational exchanges between the two countries, including programs for Russian specialists in hard sciences to teach in India. There would also be Russian-led programs of the Fulbright type and a Russian university in India, funded by private initiative, where top-notch professors would come on rotation. This institution could be focused on medical education or technical/hard science education.

The aforementioned scenarios represent a relationship where India and Russia would build on the complementary nature of their needs and the stores of goodwill inherited from their historic ties to grow together into major power players. The cooperation of the political and, vitally, corporate sectors in both countries is needed to make this appealing picture a reality. To this end, the relationships of the private players in India and Russia to each other should be significantly reenergized with the aid of new mechanisms (the proposed Russia-India Modernization and Innovation Fund and Entrepreneurs Council) or reorganized old ones (the India-Russia CEOs Council and the India-Russia Chamber of Commerce), all working in concert. The stimulation of the private sector—furthermore given ample incentives and privileges by both governments such as tax breaks, state subsidies, and enabling regulations—is an essential part of revitalizing a strategic relationship that, while positive, shows great scope for improvement along its every parameter. The Indian government needs to actively and publicly invest the time and initiative to make ties with Russia applicable to the younger generations of their citizens, making them aware of the importance of their countries to each other in a new age.

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## Appendix A: Chronology

- 1947 The Soviet Union becomes one of the first states to give diplomatic recognition to independent India, one week ahead of its declaration of independence; the Moscow embassy becomes the first-ever diplomatic mission of independent India
- 1955 First summits exchanged between the USSR and India
- 1971 Indo-Soviet Treaty of Peace, Friendship and Cooperation signed
- 1973 General Secretary Leonid Brezhnev's first official visit to India inaugurates the most auspicious time in the Indo-Soviet relationship, to last for over fifteen years
- 1986 Prime Minister Rajiv Gandhi and General Secretary Mikhail Gorbachev sign the Delhi Declaration on the Principles of a Nuclear Weapon Free and Non-Violent World
- 1987—India becomes the Soviet Union's largest trading partner (the Soviet Union being India's largest trading partner since the early 1980s). Integrated Long-Term Program (ILTP) on Science and Technology signed between Russia and India—India's most comprehensive program of scientific and technological cooperation with any country
- 1988 Agreement on Russia's supply of two 1000 MW nuclear power reactors at Kudankulam, Tamil Nadu reached with India
- 1991 The USSR breaks up, with Russia becoming its diplomatic and political successor.  
India's economic liberalization policies lead to its integration into the global economy
- 1993 India and Russia renegotiate the Soviet-era rupee-rouble debt
- 1998 The Kudankulam project is stalled after the Nuclear Suppliers' Group's sanctions on India following the Pokhran-II nuclear test
- 2000 India and Russia announce their "strategic partnership" (first proposal for it announced in 1998)
- 2001 The Shanghai Cooperation Organization (SCO) is formed in Shanghai as an intergovernmental mutual security organization. The original member-states are China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. India becomes an observer state in 2005 and later considers full membership.  
Russia and India sign the Moscow Declaration on International Terrorism
- 2008 U.S.-India Civil-Nuclear Agreement opens up the Indian nuclear industry to the world; Russia goes ahead with its stalled agreement to build two nuclear reactors in Kudankulam.
- 2009 India-Russia Civil-Nuclear Agreement



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<sup>ix</sup> For a useful discussion on what motivated the two countries in their defense relationship, see *ibid*, p. 57.

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