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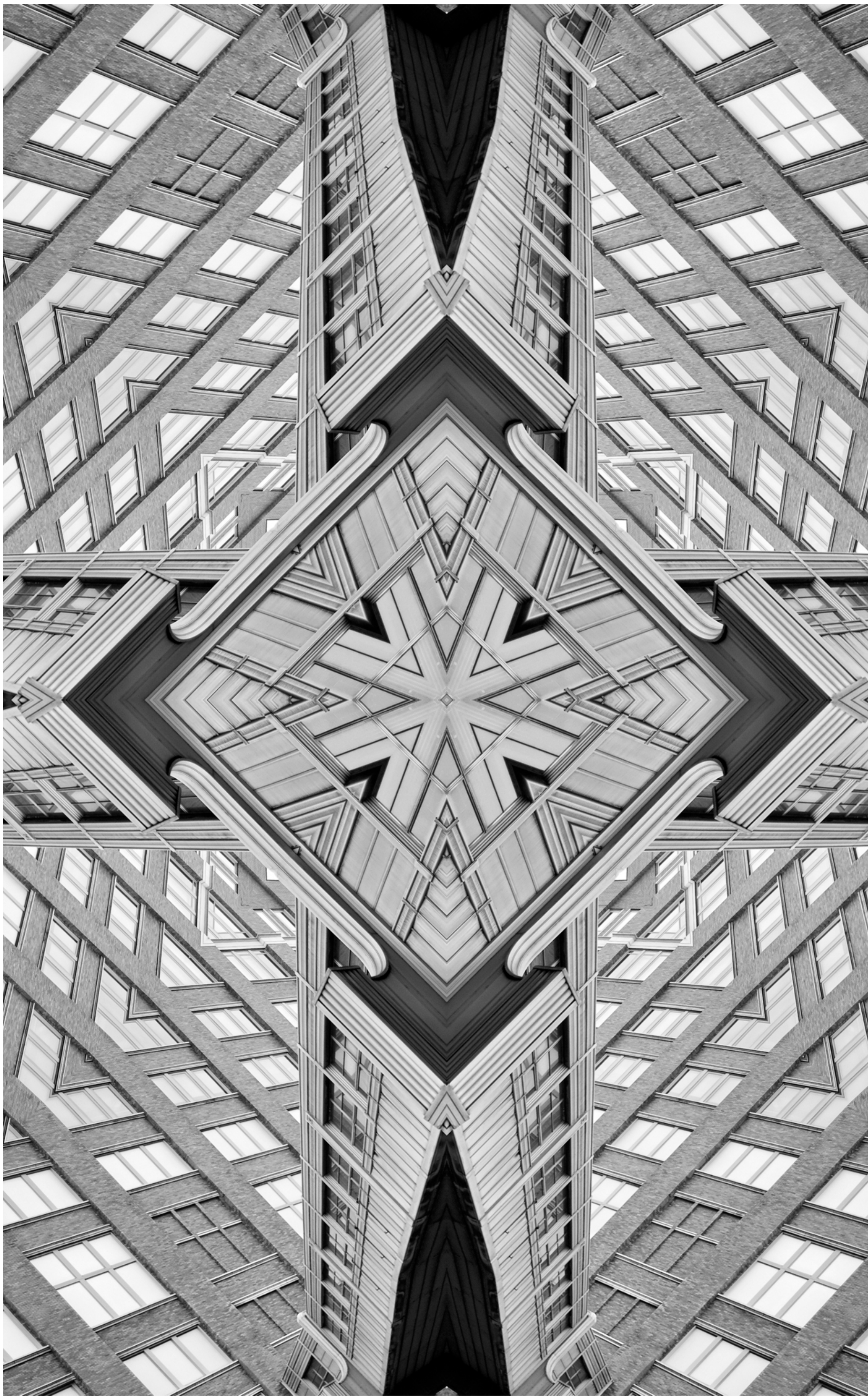

The Role of India's Private Sector in Economic Relations with Russia (1991-2024)

Rajoli Siddharth Jayaprakash

India and Russia are showing an appetite for continued economic engagement. Bilateral trade increased exponentially from US$12.34 billion in 2022 to US$65 billion in 2023; the target is US$100 billion by 2030. To achieve such a level of economic cooperation, the private sector in both countries will need to increase their participation. This brief assesses the presence of India's private sector in Russia and evaluates the potential for enhanced relations.

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Introduction

In 2023, India's trade with Russia was recorded at US$65 billion,[1] significantly higher than the US$12.34 billion in 2022, and more than double the target of US$30 billion set by both countries in 2019.[2] This growth in trade was mainly due to discounted energy imports from Russia amid its ongoing war in Ukraine and subsequent Western sanctions. Today, India is a major trading partner for Russia, with the bilateral trade dominated by Russian exports to India.[a] In recent years, two factors have influenced this growing economic relationship—first, Russian aggression in Ukraine since 2014 has resulted in a series of sanctions and trade restrictions, limiting its access to the European market; and second, economic growth in India has generated a higher demand for commodity goods such as metals, energy, and agricultural products.

Amid continued Western sanctions, Russia will increasingly turn towards its east, including India, to bolster its economic interests. India, for its part, is keen to play a bigger role in improving Eurasian trade and connectivity and boosting its ties with the Eurasian market, particularly by utilising the International North-South Trade Corridor (INSTC)[b] and the proposed Eastern Maritime Corridor.[c] In July 2024, India and Russia set a bilateral trade target of US$100 billion by 2030.[3] While some assessments view this target as achievable,[4] the private sector in both countries will need to increase their participation to achieve this level of economic cooperation.

Both countries have already established instruments (such as the Intergovernmental Commission on Military-Technical Cooperation, and the Joint Working Group under India's Ministry of Trade and Industry and Russia's Ministry of Economic Development) to encourage deeper cooperation in multiple areas.[5] In 2007, the Joint Forum on Trade and Investment and the India-Russia Business Council were launched. 'Invest India' has also set up a Russia desk as a platform for Russian businesses looking to invest in India. At the same time, several institutions in both countries are working to build connections between their business communities.[d,6] Additionally,

a Russian exports to India (of oil, bituminous substances, mineral fuels, mineral waxes, machinery, equipment, vehicles, precious metals and stones, mineral products, wood, pulp and paper products, metals, food, and raw agricultural materials) are worth around US$61 billion, while Indian exports to Russia (of chemical products, pharmaceuticals, smartphones, aeroplane components, fruits and vegetables, machinery, equipment, vehicles, clothing and knitwear, leather goods, coffee, tea, miscellaneous chemical products, ceramic products, iron and steel, electrical machinery, and surgical tools.) were valued at US$4.37 billion.

b A multimodal project that aims to connect the ports of Mumbai (India) and Astrakhan (Russia).

c A sea route between the ports of Chennai (India) and Vladivostok (Russia) that will reduce the transit time to 24 days from the current 40 days via the Mumbai-St Petersburg route.

d These include the Russian Exports Centre, Business Russia, the Skolkovo Foundation, the Roscongress Foundation, the Confederation of Indian Industry, and the Federation of Indian Chambers of Commerce and Industry.

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intergovernmental structures such as the India-Russia Intergovernmental Commission for Trade, Economic, Scientific, and Cultural Cooperation aim to facilitate regular meetings between businesses from both sides and to strengthen bilateral cooperation.

Notably, in 2023, the Reserve Bank of India (RBI) granted approval to banks from 18 countries, including Russia, to open Vostro accounts in India, allowing designated Indian banks to hold a foreign entity's deposits in Indian rupees.[7] Russian exporters opened 34 Vostro accounts in India in 2023,[8] with deposits totalling over US$8 billion, which were invested in Indian securities, machinery, and defence products.[9]

Still, there is significant scope for increased engagement by the Indian private sector in Russia. This brief assesses the Indian private sector's presence in India-Russia economic ties and evaluates the potential for growth.

Indian Private Sector's Presence in Russia: An Overview

The earliest trade between India and Russia can be traced to the 1400s.[e] In the modern era,[f] trade ties between India, a mixed economy,[g] and the erstwhile Soviet Union, a command economy,[h] were primarily at the public sector level. The post-Cold War period saw radical economic transformations in both countries: the Indian economy liberalised to allow greater private and foreign involvement, while Russia adopted 'shock therapy' to transform into a market economy. As both countries increasingly prioritised partnering with the West, the Indian private sector managed to establish only a limited presence in Russia.

In the early 1990s, for instance, Tata Tea attempted to set up a processing and packaging plant but failed.[i,10] Subsequently, Indian pharmaceutical companies established operations in Russia, with Dr Reddy Laboratories being the first after forming a joint venture with Biomed, Russia's largest pharmaceutical provider in 1992.[11] In 2000, consumer products firm Videocon set up a manufacturing unit for glass casings for television tubes in Voronezh in partnership with the state-owned Russia Electronic Corp. Videocon would later become a major television brand in the Commonwealth of Independent States (CIS)[j] market.[12] In 2004, Tata Motors and Russian automobile plant Ural Automobiles and Motors inked a deal to manufacture 15,000 trucks over a three-year period for the Russian market;[13] however, the plans did not materialise.[k,14]

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e This was when Russian merchant Afanasi Nikitin travelled from Tver in Russia to the port of Chaul in India. Following his visit, Indian merchants went to Russia through Iran, with the Russian city of Astrakhan becoming a trading hub. However, the presence of Indian merchants in Russia declined during the Napoleonic Wars. (Hari Vasudevan, *In The Footsteps of Afanasii Nikitin*, Manohar Publishers, 2014.)

f By buttressing sectors such as metals, mining, petrochemicals, steel, defence, and railways.

g In Industry policy resolution in 1948, India adopted the mixed economy system. This allowed the private sector to have a limited presence.

h Under this model, the private sector was banned. In June 1988, the country passed a law allowing the presence of private companies.

i In the 1990 and early 2000s, Tata tea made two attempts to enter the Russian market. It failed to do so as it could not capture more than 1% of market share. However, in later stages Tata tea was able to make inroads into the Russian market. In 2009, Tata global beverage acquired 51% of the Russian SuntyCo holding and purchased the remaining 49% stake in 2012, which owned 'grand tea'. This acquisition helped Tata make inroads into the lesser explored markets into Russia. With Tata Steel and Tata Motors' decision to exit from the Russian market following the invasion of Ukraine, Tata tea or Tata consumer products limited restructured its operations in Russia, and maintains a minor presence.

j Members include Russia, Belarus, Armenia, Uzbekistan, Tajikistan, Azerbaijan, Kazakhstan, and the Kyrgyz Republic. Moldova ceased participation in the group in November 2022 and plans to withdraw entirely by the end of 2024.

k As part of the deal, 400 trucks were produced in 2004 to ascertain the feasibility and effectiveness of participation. Production reduced in the subsequent years, and the JV was unable to produce more than 1,000 vehicles. In 2008, after producing small batches of five-ton trucks, production was suspended. Three years later, the Ural Automobiles and Motors declared bankruptcy.

Around the same period, in 2007, Carborundum Universal Ltd (CUMI) entered the Russian market by acquiring an 84-percent stake in Volzhsky Abrasive Works in a US$37-million deal.[15] In 2008, CUMI signed a memorandum of understanding with the Volgograd region to invest US$50 million to set up a silicon carbide fusion plant.[i]

Indian firm JV Gokal set up a US$40-million joint venture with Universal Food Technologies, Russia, to process, package, and supply tea.[16] In 2016, Sun group led JV along with Russian sovereign investment fund, China National Gold Group, and a few South African firms invested US$500 million in the development of Klyuchevskoy gold deposit in Siberia, Further, in 2017, jewellery firm KGK Group invested 2.8 billion rubles (approx.. US$29 million) to set up a diamond-cutting unit in Vladivostok.

As of October 2023, India's investments in Russia were estimated to be US$16 billion, up from US$6.5 billion in 2011 (see Table 1 for a list of Indian firms in Russia).[17]

Table 1: Indian Private Firms in Russia (1992-present)

COMPANY	SECTOR
Dr Reddy Laboratory	Pharmaceuticals
Future Group	Retail
Sun Pharma	Pharmaceuticals
Glenmark pharmaceutical	Pharmaceuticals
Jodas Expoim	Pharmaceuticals
Deep Engineering Industries	Engineering Services
Tata Consumer products	Tea,
Wockhardt	Pharmaceuticals
Emami	Pharmaceuticals

i CUMI is one of the most successful Indian private entities in Russia, and posted double-digit growth in Ruble terms last year. (FY2023-24, "Financials of subsidiaries: Volzhsky abrasive works," Carborundum Universal Limited, December 31, 2023. https://www.cumi-murugappa.com/wp-content/uploads/2024/07/Volzhsky-Abrasives-Works.pdf)

COMPANY	SECTOR
Aditya Birla	Agribusiness
Allied Blenders and Distillers	Alcohol and Tobacco
Bajaj Auto	Automotive
Airtel	Telecommunications
Carborundum Universal	Engineering
Cipla	Pharmaceuticals
CK Birla Group	Defence, Industrial Equipment
Dabur India	Consumer Goods and Clothing
Divis labs	Pharmaceuticals
Gatik Ship Management	Marine Transportation and Energy (Oil and Gas)
HCL	Information Technology
HDFC	Finance
Hindalco	Metals and Mining
Mittal Energy	Energy
Indian Institute of Spices Research	Agriculture
IndusInd Bank	Finance and Payments
JSW Steel	Metals and Mining
L&T	Construction and Architecture
Naraya (Rosneft 49%)	Energy (Oil and Gas)
Pidilite	Chemicals
Reliance	Energy (Oil and Gas)
Sasaa Electronics	Defence and Electronics

COMPANY	SECTOR
Sentro Group	Air Transportation, Finance and Payments, Leasing and Rental, and Logistics
Simplex Casting	Engineering and Manufacturing
Space Era Materials and Processes	Defence and Manufacturing
Stark Logistics	Logistics and Transport
Synmedic	Pharmaceuticals and Health care
Tata Consultancy Services	Technology
Tech Mahindra	Technology
Titan	Luxury consumer lifestyle
Ultra Tech Cement	Construction and Architecture
VA Tech Wabag	Industrial Equipment
Infosys (Suspended operations)	Information Technology
Mahindra Rise	Automotive
Air India	Air Transportation
Kotak Mahindra	Finance and Payments
PSK Biotech	Pharmaceuticals
Maruti Suzuki	Automotive
WIPRO	Information Technology

Source: Author's own, using various open sources.

Indian private firms are also involved as partners or eventual buyers of Russian investments in India. For instance, in 2007, Sistema, a major Russian firm, obtained a 10-percent stake in Shyam Telelink, and began mobile service operations in India under the MTS brand name, which was later acquired by Reliance Communications in 2016.[18] In 2017, Russian state-owned oil company Rosneft acquired a 49-percent stake in the private Essar Oil, with the new entity being renamed Nayara Energy. The deal included the sale of the Vadinar refinery in Gujarat, 3,500 retail outlets, a 1,000-MW power plant, and an oil terminal.[19]

The Ukraine War Impact

The Russian war in Ukraine has highlighted the fragility of the Indian private sector engaged in economic activities with Russia. Despite India not joining the sanctions regime against Russia, certain private firms, especially those integrated with the Western markets, were forced to suspend operations in Russia, even in sectors that had not attracted sanctions. For instance, Indian IT firm Infosys exited the Russian market soon after the war began as the firm had business interests in the West. To be sure, however, others continue to operate in Russia—tech company Wipro, for example, even posted a profit of 26 million rubles in March 2024 after a 22 million ruble loss during the previous year.[20]

In April 2022, Tata Steel announced it would leave Russia, while Tata Power sought to cancel a mining licence it had received in 2017 to operate a coal mine in the Far Eastern Kamchatka region.[21]

However, despite most of the Indian private sector being aligned with the Western markets, India emerged as a major buyer of Russian energy amid global sanctions (India has stated that its core national interest is ensuring its energy security[22]). In 2023, India's overall energy imports surged to US$54.5 billion, making up a significant share of the total bilateral trade (US$65 billion) that year.[23] In May 2024, Reliance Industries signed an agreement with Rosneft to buy three million barrels of oil each month in rubles.[24] Naraya Energy signed an agreement with a Russian trader to purchase between 8-10 billion barrels of crude every month at a discount of about US$3-3.50 per barrel in 2024.[25] Importantly, by making significant purchases of discounted crude oil, India has enabled the global oil markets to remain relatively stable.[26]

Similarly, India has also sought to buy an increased volume of liquefied natural gas (LNG) from Russia in a bid to increase the share of natural gas in its energy mix from the current 7 percent to 15 percent by 2030.[27] Modern Fuel Technologies, a leading Russian firm, entered into a joint venture with Hyderabad-based Spacenet Enterprises to execute LNG projects across India, with plans of establishing 200 LNG stations by 2027.[28] India's increasing LNG imports from Russia have cross-sectoral benefits for the private sector, as it creates domestic demand to build LNG tankers and regasification terminals at the ports. Further, an increase in the import of LNG can also reduce the cost of clean electricity in India and buttress the country's National Green Hydrogen Mission, as LNG is used to make blue hydrogen fuel.[29]

Table 2: Major Imports from Russia (2020 and 2021, Prior to the Ukraine War)

Product label	2020 (in million US$)	2021 (in million US$)	Growth (in %)
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	2,110.67	5,250.08	148
Fertiliser	595.98	773.54	31.50
Animal or vegetable fats and oils and their cleavage products; prepared edible fats, animal or vegetable waxex	293	494.13	68.65
Salt; sulphur; earth and stone; plastering materials, lime and cement	104.27	121.36	15.84
Paper and paperboard; articles of paper pulp, of paper or of paperboard	121.31	147	19.29
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	84.05	100.24	19.26
Iron and Steel	99.60	140.13	40.70
Rubber and articles thereof	102.52	145.84	42.26
Inorganic chemicals: organic or inorganic compounds of precious metals of rare-earth metals, or radioactive elements or of Isotopes	125.19	125.89	0.50
Total imports	**5,485.75**	**$9,890.99**	**79.92%**

Source: Ministry of Commerce and Industry, Government of India.[30]

Table 3: Major Imports from Russia in 2022 and 2023 (After the Start of the Ukraine War)[m]

Product label	2022 (in million US$)	2023 (in million US$)	Growth (in %)
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	38,814.85	54,507.58	40
Fertilisers	3,047.35	2,071.43	-32
Animal or vegetable fats and oils and their cleavage products; prepared edible fats, animal or vegetable waxex	1,004.11	1,309.00	30.36
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad	1,350.31	1,185.08	-12.24
Iron and steel	375.61	469.85	25
Paper and paperboard; articles of paper pulp, of paper or of paperboard	163.72	134.35	-17.94
Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	187.44	85.41	-54.53
Salt; sulphur; earth and stone; plastering materials, lime and cement	134.35	163.72	-17.94

m It is difficult to ascertain the participation of the Indian private sector within this dataset as there is a lack of data on private sector investment and trade.

Product label	2022 (in million US$)	2023 (in million US$)	Growth (in %)
Inorganic chemicals: organic or inorganic compounds of precious metals, of rare-earth metals, or radioactive elements or of Isotopes	73.20	100.53	37.34
Rubber and articles thereof	57.01	11.70	-78.48
Total Imports	**$46,212.71**	**$61,431.24**	**32.93**

Source: Ministry of Commerce and Industry, Government of India.[31]

Table 4: Major Exports to Russia (2020 and 2021, Prior to the Ukraine War)

Product label	2020 (in million US$)	2021 (in million US$)	Growth (in %)
Pharmaceuticals	470	479.51	2.03
Organic Chemicals	267.38	231	-13.61
Coffee, Tea, Matte, spices	103.02	94.19	-8.57
Fish and Crustaceans, Molluscs and other aquatic invertebrates	83.08	119.98	44.2
Iron and Steel	137.88	239.82	73.94
Nuclear reactors, boilers, machinery, and mechanical appliances; parts thereof	227	302.45	33.25
Electrical Machinery and equipment and parts thereof: Sound recorders and reproducers, television image and sound recorders and reproducers, and parts	301.77	518.62	71.86

Product label	2020 (in million US$)	2021 (in million US$)	Growth (in %)
Vehicles other than railway or tramway rolling stock and parts and accessories thereof	88.27	127.97	44.17
Cereals	63	50.64	-19.61
Rubber and articles thereof	37.64	55.08	46.33
Plastic articles and thereof	41.26	58.87	42.68
Total exports	**$2,655.52**	**$3,254**	**44.62%**

Source: Ministry of Commerce and Industry, Government of India.[32]

Table 5: Major Exports to Russia (2022 and 2023, After the Start of the Ukraine War)

Product label	2022 (in million US$)	2023 (in million US$)	Growth (in %)
Aircraft, spacecraft, and parts thereof	15.72	69.69	330.65
Pharmaceuticals	429.59	386.67	-9.99
Fish and Crustaceans, Molluscs and other aquatic invertebrates	138.74	149.42	7.70
Coffee, Tea, Matte, spices	117.90	100.70	-14.58
Inorganic chemicals: organic compounds of precious metals, of rare-earth metals, or radioactive elements or of isotopes	145.22	210.44	44.91

Product label	**2022 (in million US$)**	**2023 (in million US$)**	**Growth (in %)**
Organic chemicals	307.05	336.38	9.55
Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof;	75.44	146.56	86.31
Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, and parts.	121.09	347.79	187.21
nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	320.92	650.27	102.63
Iron and Steel	159.06	282.37	77.53
Ceramic products	63.11	134.19	112.62
Total exports	**$3,146.95**	**$4,261.31**	**5.41%**

Source: Ministry of Commerce and Industry, Government of India.[33]

Other notable sectors of increased Indian exports to Russia since the start of the war are smartphones[n] (up from US$10 million in 2022 to US$166 million in 2023[34]), computers (up from under US$1 million in 2022 to US$26 million in 2023[35]), electronic machinery and parts (an increase from US$121 million to US$347.79 million in 2023), appliances and equipment used in building nuclear reactors (increased from US$320.92 million in 2022 to US$650.27 million in 2023). Notably, despite an about 35-percent uptick in exports to Russia between 2022 and 2023, the country does not feature among India's top 25 export destinations[36] (Russia is ranked 28[th]), indicating the scope to enhance trade and investment ties.

n These goods are represented under Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, and parts.

At the same time, Indian private firms in certain sectors could have benefitted from favourable terms by Russia amid the Western sanctions, but instead have moved sluggishly, especially in the automobiles sector. They are missing out on the opportunity to take advantage of the exit of Japanese, South Korean, and European auto firms from the Russian market, with Chinese automobile makers capitalising on the situation.[37]

Additionally, certain Indian private firms have also been hit by sanctions. For instance, Gatik Ship Management became one of the largest transporters of Russian crude since the start of the war. At one point, Gatik is thought to have had over 60 petroleum tankers valued at about US$1.5 billion. However, amid what the firm termed as "media-induced controversies," Gatik withdrew most of its ships and moved operations to Dubai, with much of its fleet moving to companies based in Turkey.[38,39]

The Potential for Greater Participation from Indian Private Sector

The market vacuum left by Western firms since 2014 has created multiple avenues for Indian firms to trade and set up factories in Russia, particularly in sectors such as automobiles and consumer electronics. Russia also has significant reserves of rare earths; India and Russia have already held discussions on enhancing cooperation in the fields of geology, exploration, and the use of advanced technology.[40]

The business climate in Russia is lucrative as electricity and raw materials are relatively cheaper, with favourable tax regimes for investments in special economic zones and priority development territories.[41] Russia also grants subsidies for establishing small and medium enterprises and has introduced a 'single window service' to simplify the process.[42] To lure Indian investments, Russia introduced a 'golden visa' scheme in 2023, offering lifetime residency to the investor and their family. The investment amount ranges between US$215,000 for social projects and US$715,000 for real estate investments, but the investment capital varies according to the region. For instance, real estate investment is valued at US$360,000 in the Russian Far East.[43] While this particular scheme may not be enticing to the big Indian firms, medium and small enterprises may consider it a viable option for setting up operations in the country.

A resolution of the rupee-ruble currency exchange mechanism, talks for which collapsed in 2023[44] but are thought to be reviving, will also incentivise more Indian firms to invest in Russia.[45]

Additionally, the early conclusion of the proposed free trade agreement with the Eurasian Economic Union,[o] negotiations for which are yet to begin, will ensure symmetrical bilateral tariff liberalisation. This could increase Russian exports from India and further spur Indian investments in Russia.[46]

o Members include Armenia, Belarus, Kazakhstan, the Kyrgyz Republic, and Russia.

Persistent Challenges

Despite the Indian government's focus on prioritising trade through favourable mechanisms, increasing cooperation through platforms such as 'Invest India', and furthering the country's footprint in the Russian Far East, the private sector has barely budged to the policy outreach (notably, the US$1-billion credit line offered for the development of the Russian Far East largely remains unutilised).

A key reason why Indian private sector firms do not have significant production facilities in Russia is due to the configuration of the Indian markets, which are price-sensitive in nature[47] and do not allow companies to make long-term projections for staying in Russia.

Indian businesses have historically focused on the West and have largely ignored the Eurasian market.[48] Consider, for instance, the Indian information technology (IT)-enabled services sector that grew rapidly in the first decade of the twenty-first century and flourished in the Western markets, but there was a minimal presence of such enterprises in Russia as Indian IT entrepreneurs perceived the Russian market to be risky.[49]

Additionally, Indian operations in the Russian Far East are viewed as not profitable for various reasons: (1) the cost of rail freight in Russia is exorbitantly high to access the markets of European Russia and those to the country's East;[50] (2) Japan and South Korea have sanctioned Russia, meaning goods produced in Russia cannot easily cannot be sold in these countries;[51] and (3) the markets in northeastern China will be inaccessible as Indian goods produced in the Russia Far East will be costlier than those available locally. As such, Indian firms operating will likely only be able to trade domestically in Russia or with India. Thus, India's gains from trade will be minimal. Russia's Far Eastern regions also have huge labour shortages and higher wages,[52] and so India may not be able to secure a comparative advantage.[53]

For India to exert a comparative advantage, the domestic industry must grow; essentially, this means India's industrial capabilities must improve. India must address several challenges, such as improving the share of private non-financial corporations in gross fixed capital formation (which dipped from 36.3 percent in FY 2022 to 36.2 percent in FY 2023[54]) and the share of households in investments (which declined from 41.4 percent to 40.5 percent[55]), and buttressing its manufacturing sector by focusing on labour skill enhancement, revising archaic labour laws and tackling corruption and related issues.[56]

Furthermore, connectivity remains a problem, although the operationalisation of the proposed Eastern Maritime Corridor is expected to reduce transit time to 24 days from the existing 40 days through the St Petersburg-Mumbai route. Presently, using the multimodal INSTC requires cargo to be offloaded and reloaded several times at the ports of Chabahar and Bandar Abbas, then at Bandar-e-Anzali (where it is transported via road), and then at Astrakhan (where it arrives via the Caspian Sea). To add to the challenge of constant offloading and reloading, US sanctions on Iran have led several global shipping insurance companies to refuse to insure the ships passing through this route.[57] Given that the private sector is risk-averse and operates in a price-sensitive market, it will be a challenge to incentivise private sector companies to shoulder such a huge risk.

Other factors, such as lack of awareness among firms about opportunities in Russia and the language barrier, may also be a hindrance to increased Indian private sector involvement in Russia. However, the Russian business climate also presents certain challenges, including differing legislation at the federal and regional levels, and the complicated procedures of securing a work permit for migrant workers.[58]

In Russia, state-owned enterprises exert a significant influence in most sectors, and the government has a monopoly over most businesses and significant oversight in the operation of private firms in Russia. Furthermore, a lack of transparency, weak property rights, and corruption are other issues that complicate investing in Russia.[59]

Foreign firms interested in operating in Russia are required to establish a joint stock company to set up a representative office or a partnership firm.[60] Indian firms often work with local Russian firms as it reduces their overall risks. Still, the main challenge is in conducting larger-scale operations, where the transaction costs associated for cross-border transactions are high and in light of Bank of Russia imposing restraints on capital flight.[61] Further, acquiring loans is difficult in Russia and incurs a high interest rate, meaning Indian firms will need to secure capital from Indian banks and may lose revenue when converting it into rubles.

Recommendations

Given the interest in India and Russia to boost bilateral economic ties, the Indian government must consider establishing mechanisms for private firms to invest in and trade with Russian companies. In addition to the special Vostro account, the government can set up small-scale financial institutions that process currencies that have not been sanctioned and provide credit to small-scale firms and startups with a minimal presence in the Western markets to establish operations in Russia. Russia is keen for Indian businesses to fill the vacuum left by Western firms in the aftermath of the sanctions. As such, the Indian government should prepare a strategy to promote exports[62] and investments in promising sectors, such as electronics, consumer goods, and pharmaceuticals.[63,64,65]

India and Russia must also focus on improving people-to-people ties through interactions at multiple levels (students, young leaders, and businesses). The two sides can also consider running short introductory courses on conducting business with and in Russia.

Finally, India and Russia must capitalise on the tourism sector as this is unlikely to attract sanctions. India's tourism operators can consider promoting Russian cities as tourist destinations, as well as medical and educational tourism in that country. Increased tourism will also lead to deeper interactions and engagement among Indians and Russia, potentially encouraging further business ties.

Conclusion

India has reacted to the Ukraine war in a prudent manner, sustaining its relationship with Russia even as it condemned the violence and invasion. The vacuum in the Russian market due to sanctions and the exit of firms has presented Indian private firms with the prospect of capturing a largely untapped market. Capitalising on this opportunity could lead to India playing a major role in Eurasian trade and can complement other ambitions, such as improving its presence in the markets of Central Asia.

The Indian and Russian governments will need to create mechanisms and special-purpose vehicles to enable seamless private-sector trade and investments in Russia to address the domestic industrial challenges and build a stronger appetite for taking risks. Scaling up trade will help address other challenges, such as connectivity and the lack of markets for producing goods in a sanctioned region. India must also view the Russia opportunity as a way to further its ambitions in the Greater Eurasia region and buttress China's geoeconomic capabilities in Russia, and mobilise its private sector to achieve these aims.

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