

Valdai Discussion Club Report

Condensed version



# Russia-India: Formula for Economic Cooperation

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India and Russia are two of the most important powers in the modern world, with unprecedented experience in bilateral relations. After India gained independence, the Soviet Union consistently and reliably remained its political partner, while simultaneously developing close economic ties. After the collapse of the USSR, Russia managed to maintain a high level of cooperation with India, which later reached the level of a special, privileged strategic partnership. Traditionally, interaction between Russia and India has been dominated by intergovernmental ties, rooted in Soviet-Indian friendship and support. This cementing connection at the political level provides the necessary continuity and strength for the pursuit of large-scale, systemically important economic projects that would be impossible to implement otherwise – be it projects in the field of peaceful nuclear energy, space cooperation, or numerous military-technical contracts.

At the same time, for many years, the volume of bilateral trade between Russia and India (excluding military-technical cooperation) has remained at the level of 10-13 billion US dollars, failing to correspond to the high status of political relations between the two countries. The year 2022 became a turning point on this path, not only due to the abrupt change in geopolitical situation, but also due to the large-scale transformation that our countries have undergone over the past few years. We are talking about deep economic reforms in India, the digital transformation of both countries, the growth of the Indian middle class, and the strengthening and diversification of India's manufacturing base. All of this created the necessary preconditions for expanding business activity between the two countries. India's independent, consistent, neutral position on the Ukraine crisis, which has earned respect not only among Russia's political leadership, but also among its citizens, in academic and business circles, has played a major role in deepening economic cooperation.

In the 2023 calendar year, trade turnover between the countries reached a record high of \$65 billion, far exceeding the target previously set by their leaders (\$30 billion by 2025). Russia was among India's four largest trading partners. However, \$60.9 billion of this volume came from Russian exports to India, while India's exports to Russia only accounted for \$4.1 billion. India's trade deficit with Russia is the second largest after its trade deficit with China. Therefore, an urgent task for both countries is correction of the trade imbalance, increasing and diversifying Indian exports to Russia, and exploring opportunities and formats for bilateral economic partnership.

Despite bureaucratic red tape, regulators in the two countries are focused on eliminating numerous barriers and bottlenecks in the path of expanding bilateral trade, as well as economic and investment cooperation, which is in the mutual interests of both Russia and India. In just two years, a number of the most pressing issues have already been resolved: strengthening accessible financial mechanisms for settlements in national currencies, expanding logistics and insurance solutions for Russian-Indian trade, protecting bilateral financial and commodity flows from unfriendly interference, and making them more efficient. Creating more comfortable and predictable conditions for mutual investment activities and trade in both directions for Russian and Indian businesses is a pressing issue today.

India's large-scale plans to diversify the economy and strengthen the manufacturing sector under the Make in India, Make for India, Make for the World and AatmaNirbhar Bharat (Self-Reliant India) programmes are giving impetus to large-scale investments in Indian infrastructure and industry. Combining Russian know-how with expanding Indian manufacturing capabilities will benefit both countries. Russian companies are mastering localisation scenarios, and studying incentive programmes for production and exports, as well as the nuances of attracting Indian personnel to different projects. "We produce in India – we sell not only in India and in Russia, but all over the world" – these are new opportunities for Russian and Indian companies. Both countries will benefit from the more active use of free trade zones, preferential regimes and incentives that such platforms can offer both in Russia and India. Russian companies are currently actively exploring these opportunities.

It is well documented that the significant increase in bilateral trade volume has been primarily driven by direct Russian oil supplies. Russia has emerged as the leading supplier of crude oil to India, displacing both Iraq and Saudi Arabia from the top positions. (Meanwhile, Russian fertilizer supplies to India have increased several-fold in 2022-23. Russia now ranks among the top three suppliers of coking coal to India.) The Russia-India energy partnership encompasses not only direct energy resource supplies but also an important investment dimension. Its core components include traditional cooperation in nuclear power and investments in oil and gas assets. A flagship project of Rosatom and India's Nuclear Power Corporation (NPCIL), the Kudankulam Nuclear Power Plant (NPP), represents a comprehensive endeavour involving financing and personnel training. Deepening cooperation in the area of nuclear energy, including the allocation of a site for the construction of a new VVER-1200-type nuclear power plant and the development of small-scale nuclear power plants with a high level of localisation – are also on the bilateral agenda between Moscow and New Delhi.

The current statistics on bilateral trade for 2024 inspire cautious optimism. According to the Indian Ministry of Commerce and Industry, for the period from January to August 2024, the volume of mutual trade amounted to \$46.8 billion, an increase of 6.8% compared to the same period in 2023, while Russian exports reached \$43.4 billion (+5.4%), and supplies of Indian goods increased to \$3.4 billion (+30%). Russia retained fourth place among India's largest trading partners (after the United States, China and the UAE). Exports from Russia grew due to a further increase in oil supplies – to \$34.2 billion (+14.4%), sunflower oil to \$1.3 billion (+64.4%), legumes to \$404.2 million (36 times), and ferrous metals to \$297.3 million (+33.3%). In value terms, a decrease was noted in such commodity groups as coal (by 20.2% to \$2.4 billion), petroleum products (by 38.1% to \$1.8 billion), fertilizers (by 39.6% to \$998.7 million), and diamonds (by 37.3% to \$556.2 million). The increase in supplies from India was mainly due to mechanical engineering products – up to \$903.2 million (a 2.4-fold increase), pharmaceuticals to \$284.8 million (+13.5%), electrical goods up to \$272 million (2.2 times), organic chemical compounds up to \$248.8 million (+18.4%), inorganic chemical products up to \$141.1 million (+25.3%), ceramic products up to \$102.1 million (+24.9%), optical, measuring and medical equipment up to \$86.7 million (+12.7%), and coffee, tea and spices up to \$77.7 million (+27.3%). Within a short period, India has become the main supplier of medicine to Russia, displacing Western countries from the leading positions. Other Indian export items include steel and corundum. Russia is now one of the main markets for Indian shrimp producers. The share of engineering products and electronics is growing – India has become the main supplier of smartphones to the Russian market. Despite the significant growth in supplies, Russia is not yet even among the top 25 recipients of Indian exports. India's export positions on the Russian market can be significantly expanded through the sale of various types of modern industrial equipment, products of the oil refining, mining, chemical and food industries, printing, medical equipment, automotive and aviation components, tires, electronics, textiles, agricultural products, devices and tools.

The leaders of India and Russia have expressed their intention to maintain the special and privileged nature of their bilateral relations, which they consider among the most stable in the world. Given the increasing geopolitical uncertainties, both Moscow and New Delhi see the growing volume of trade as not only a factor contributing to domestic economic stability but also as a positive stabilizing influence on the global economy. At the Moscow summit in July 2024, Prime Minister Narendra Modi and President Vladimir Putin set a new target for mutual trade volumes: \$100 billion by 2030.

Over the past two years, Russia's pivot to the East has been evident in the increased coverage of modern India in the pages of Russian business media and think tank publications. The academic community of international relations experts and orientalists have joined forces with

Russian businesses to study the Indian economy and the specificities of doing business there, with the goal of facilitating the work of Russian companies in India. Russian businesses are actively increasing their knowledge of India. Similar, albeit to a lesser extent, trends are observed in India as well.

As recommendations for regulators and businesses of the two countries, we can suggest a number of measures and steps including both the main tasks already on the agenda of the two countries' governments and the nuances of bilateral work that businesses should be aware of. These include:

- Starting full-scale negotiations on the terms of a Free Trade Agreement between the EAEU and India as soon as possible.
- Working out a programme for the development of strategic areas for Russian-Indian economic cooperation until 2030. It could serve as the basis for a Comprehensive Economic Partnership between the two countries, with a focus on such priority areas as trade and access to markets, finance, transport and logistics, industry, energy, and agriculture.
- Concluding a new agreement on the mutual protection of investments between the two countries or its analogue in another mutually acceptable legal form as soon as possible.
- Further developing the Russian-Indian cooperation programme in the trade, economic and investment spheres in the Far East and the Arctic Zone of the Russian Federation as regards the implementation of roadmaps for specific projects.
- Moving away from a transactional to a long-term approach in all projects between our countries, regardless of their scale.
- Continuing to develop transport and logistics links between the two countries, which also requires a large amount of investment. It is necessary to develop incentive measures for Indian investors in transport corridors (the North-South International Transport Corridor, the Eastern Maritime Corridor, the Northern Sea Route).
- Actively pursuing the development and enhancement of the financial infrastructure for mutual trade, as well as addressing the issue of payment mechanisms for individuals. This will contribute to the growth of tourism, the expansion of people-to-people contacts, and the continuous strengthening of expert and humanitarian ties. These developments, in turn, often lead to the strengthening of business relations.

- Continuing to develop ties at the regional level between the two countries and more actively promoting and utilizing the special economic zones and territories of advanced development in both India and Russia. This approach will help optimize the operating environment for companies in both markets in the absence of free trade and investment protection arrangements.
- Enhancing efforts to improve labour migration mechanisms. The issue of recruiting staff from India should be approached in a balanced manner, taking into account all cultural aspects and nuances of such collaboration. Educational institutions of both countries and relevant government agencies should actively participate in this process to facilitate businesses establishing cooperation on terms that are mutually beneficial for both nations.
- Diversifying business contacts between the two countries. While state-owned companies are the foundation of the Russian-Indian partnership, a large part of the Russian and especially Indian economy consists of small and medium-sized businesses. It is necessary to expand ties in this area. On the other hand, private conglomerates are also a key element of the two countries' economies, which all other players focus on. It is necessary to offer such companies an acceptable format for interaction and participation in bilateral relations.
- Interaction between researchers, high-tech firms, as well as start-ups and young entrepreneurs from both countries. This is a priority area for both India and Russia, and several institutions are engaged in technological entrepreneurship. However, we cannot say that systematic bilateral work in this field has been established. Meanwhile, India is an important platform for Russian start-ups to find potential investors and expand their businesses. Russian firms provide a valuable pool of advanced technological solutions for Indian companies and the Indian market as a whole.
- Creating comfortable conditions for the growth of the Indian diaspora in Russia and Russian diaspora in India as a priority for both countries. Increasing the presence of Russian and Indian companies, government departments, academic institutions, and mass media in the respective markets of the two countries by opening representative offices and delegating employees more frequently. It is also essential to offer preferential terms to such offices on a mutual basis.



- Offering Indian businesses alternative avenues for engaging in large-scale business forums in Russia, because the high cost of participation often exceeds the financial means of most actors. Russian businesses must step up their efforts in this area by systematically planning and preparing their exhibition schedules in collaboration with Indian partners.
- Improving the process of certification of products in both countries. Currently, there is no standardized procedure between certification authorities that could expedite and streamline the process. As a consequence, companies may take up to one year to complete the certification process before their products can be fully marketed. This situation is untenable and must be addressed at the highest level between the two governments.
- Development of tourism. Russia should strengthen its efforts to adapt its infrastructure for tourists from India, who have their own specific needs. Work should also be conducted to attract Indian companies as investors in the Russian tourism industry.
- Working more actively with the media. Organizing press tours and roadshows with subsequent coverage of such trips in the media should become a permanent practice. Journalists from both countries are ready for such work, and it could become an important element in raising awareness of the public and business community about the capabilities of the two countries. Such focus trips should also be carried out more actively for industry delegations, business associations and individual companies/institutions.

Cooperation between the two countries has a strong foundation, and significant efforts have been made recently to ensure that interactions between them improve in quality and gain regulatory and institutional support. Nevertheless, more work remains to be done.

The economy has become a central focus in Russian-Indian relations, and the main challenge is to maintain momentum and strive to successfully complete assigned tasks. Governments of both countries listen to the business community, and businesses, in turn, are increasing their pace of work across all areas. The complementarity between the Russian and Indian economies is evident, but new circumstances and adjusted priorities have forced us to seek new areas of synergy and growth. These areas have been identified, are understood by businesses and regulators, and it is now time to create necessary conditions for their implementation.

India is a leader of the Global South, and its economy embodies all the opportunities, characteristics, and approaches to development that are typical of large, rapidly growing countries. For these countries, their vast, progressive domestic market is the main resource, access to which they strive to “sell” at the highest possible price, receiving much-needed investments, technology, job opportunities, improved quality of life, and, most significantly, respect in return.

It is safe to say that relations between Russia and India contain important elements that set them apart from other countries, such as long-term trust and respect for each other’s interests and spiritual closeness. Nevertheless, the Russian party needs to be aware of the intense competition for the Indian market among all major players, which has been ongoing for a long time. Each of these players expects certain preferences and offers India something in exchange. Russian business is learning how to operate in the face of such intense competition, and receives support from both the Indian and Russian governments. Nevertheless, a swift breakthrough is not feasible.

A number of mutually beneficial initiatives have been prepared today by Russia and are on India’s side. Russia is ready to move as fast as India is ready to implement them. The most significant lesson that Russian entrepreneurs can learn from the Indian experience is to maintain optimism and patience. These two qualities may be the key ingredients to the successful partnership between Russia and India.

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