

CED POLICY BRIEF
Russia's Lifelines: India
Stuck in the Middle or Russia's Time-tested Friend?
April 11, 2022

"We perceive India as a great power, a friendly nation and a time-tested friend. The relations between our countries are growing and I am looking into the future,"
Russian President Putin during his visit to India, December 6, 2021.

As the US/NATO, its allies and partners continue to respond to Russia's brutality in Ukraine with escalating economic sanctions and more businesses withdraw or cease operations with Russia, the Kremlin is pursuing an aggressive policy to find pathways to circumvent the economic sanctions. In the short term the goal is to keep Russia economically afloat. Ultimately, in the longer term the goal is to create an alternative world order not dependent on the primacy of the US and the dollar.

Summary Insights:

- India is perched in a pivotal role in this battle to define the next world order that rises from the ashes of Russia's scorched earth policies in Ukraine. The two biggest countries not to join the sanctions regime and who have abstained on or voted against UN resolutions condemning Russia's invasion, are China and India. They are the second and fifth largest global economies on a nominal basis, who together make up approximately 36% of the world's population. If India provides, along with China, an economic and political lifeline for Russia, it can determine the success or failure of the economic sanctions, the outcome of the current crisis and the construct of the global economic and political order that follows.
- The flurry of high-level diplomatic visitors to New Delhi since the Russian invasion, including Russia's foreign minister Lavrov, UK foreign minister Truss, China's foreign minister Wang Yi, the prime minister of Japan Fumio Kishida and the US deputy national security advisor, Daleep Singh, indicate the heightened awareness of India's role and the high stakes involved in the competition to sway India.
- India's complex and conflicting security and economic requirements underpin its traditional non-aligned global positioning. But, India has deep, historic ties to Russia. The two main pillars of that relationship are: 1) its long-standing rivalry and economic and political competition with China, whose close ally is India's historic rival Pakistan; 2) combined with its estrangement from the US during the Cold War, mainly due to its pursuit of nuclear weapons.
- Today, India's trade with Russia is about \$8 billion, dwarfed by that of the US, which in 2021 was \$112.3 billion, followed by China at \$110.4 billion. But, Moscow continues to be India's largest arms supplier even though its share has dropped to 46% from 69% due to India's decision to diversify its portfolio and boost domestic defense manufacturing. Since 2010, India has accounted for nearly one-third (32%) of all Russian arms exports. India also has contracted with Russia the \$5.4 billion sale of S-400 surface-to-air missile systems –in progress since 2016.

- India's partnership with the US is much newer and equally important to India as a buffer to China's rise and to its own economic success. India is the linchpin of the US strategy for the Indo-Pacific region. But, if India accelerates its economic support for Russia, pressure will build within the US and among its allies and partners to strengthen the sanctions regime, including possibly imposing secondary sanctions on countries doing business with Russia. This decision would sharply escalate the economic battleground and set the stage for a fractured global economy and world order.
- In the current crisis, India is tipping towards Russia. India is not supporting the sanctions regime. Although Russian oil is still a small part of India's imports at 1-2%, it is upticking its purchase of Russian oil at a crucial time for Russia. Since Russia invaded Ukraine, India has bought at least 13 million barrels of Russian crude oil, compared to the 16 million barrels a day bought for the entirety of last year.
- India is also lending Russia credibility, as the oldest democracy in a struggle being defined as democracy against autocracy. If that continues, the probability of escalation of the crisis, both militarily and economically, heightens, as Russia becomes more emboldened.
- India and Russia would all by pass the dollar by using a rupee-ruble mechanism so they could continue their trade in oil and other goods despite Western sanctions against US dollar transactions with Moscow. Russia's foreign minister Lavrov also indicated during his April visit to New Delhi that Russia's nascent alternative to the SWIFT messaging system for financial information and transfers, SPFS, (System for Transfer of Financial Messages), could be linked to a system India is developing, stating, "It is absolutely clear that more and more transactions would be done through this system using national currencies, bypassing dollar, euro and other currencies."
- The one wild card that may be more important than the diplomatic entreaties to India in swaying its policy in this crisis, is Russia' brutal policies targeting innocent civilians in contravention to the Geneva Convention. Until the Bucha massacres, India had been diplomatically in line with China, not directly criticizing Russia and voting to abstain on UN resolutions. During the UN Security Council's meeting following the reporting of atrocities in Bucha, India's permanent representative to the United Nations, condemned the killings of civilians in Ukraine and called for an independent investigation, having earlier declined to explicitly criticize Russia's invasion of Ukraine. While India voted to abstain on the UN resolution that was approved to suspend Russia from its seat on the Human Rights Council, it broke diplomatic ranks with China, by abstaining while China voted against the resolution.

Deeper Dive Analysis

The deep roots of the India-Russia relationship

India's relationship with Russia in the wake of the Russian invasion is much more than a simple economic decision to find cheaper oil, which is 1% of Indian imports. It is deeply rooted in an historic

friendship, difficult relations with the US and complicated by the dangerous neighborhood where India resides between China and Pakistan.

Shortly after independence India embraced “neutrality” declaring that its best interests were served by a non-aligned policy which did not side with either bloc in the Cold War. But, as Soviet-Chinese relations began to splinter in the 1950s, India started to develop closer economic and security ties with Russia in order to counter the threat from China on one border, which is under contention, and Pakistan, its long-standing rival, on the other. India’s relationship with Russia, particularly its dependence on Russia for military hardware, deepened in the 1970s which opened with the two countries signing a peace and friendship treaty. As the US, which already had closer relations with Pakistan, began its opening to China, the relationship between India and Russia strengthened. Both countries felt outflanked. And then in 1974, India’s explosion of a nuclear device, started a period of estrangement from the US and the eventual imposition of sanctions that would last through the 20th century.

Perhaps, most importantly, Russia has been considered an ‘all weather’ friend, supporting India over the years through many crises including the Kashmir crisis and the Bangladesh War. Putin and Modi have met more than a dozen times since they have both been in power and Modi is one of four foreign leaders to have been awarded Russia’s top decoration, the Order of St. Andrew. Russia and India are also partners in several multinational forums --- BRICS (also involves Brazil, China, South Africa), the Shanghai Cooperation Organization (also involves China, Pakistan and Central Asian countries) and the RIC (Russia, India and China)—providing the opportunity to collaborate on global issues in coalitions that are counters to those dominated by the US, and its allies and partners.

While Putin’s deepening relationship with China’s Xi Jinping and Russia’s outreach to Pakistan, particularly as a coalition partner in addressing Afghanistan challenges, have strained the Putin-Modi relationship, it is in Russia’s interest to deepen its relationship with India. In the wake of the severe economic sanctions imposed by the US/NATO and allies and partners, India is a counterweight for Russia to its dependency on China.

Tipping towards Russia

While India has spoken of neutrality and self interest in the current crisis, rhetorically and comfortably adopting its Cold War positioning of unaligned, it has, in fact, been tipping towards Russia. India has not embraced sanctions and until the Bucha massacres—which may prove to be a turning point if Russia continues with the gross violations--India had refrained from criticism of Russia in the UN.

Of all of the many high level ministerial visits since Russia’s invasion of Ukraine, Prime Minister Modi only met with Russia’s foreign minister Lavrov on April 1st. As Lavrov indicated during his visit, Putin and Modi have been in touch frequently. While historic and geo-strategic issues underly Modi’s relationship with Putin, public opinion polls indicate that India’s public sentiment in the current crisis is aligned with the government’s positioning. According to a survey in India conducted by YouGov, in March, 40% of respondents approved of Russia’s invasion of Ukraine.

Modi and Putin had met in December when Putin, on his second trip outside of Russia since the pandemic, received a warm welcome from Modi in New Delhi as the US was warning the world that Russia was about to invade Ukraine. At that meeting, foreshadowing what was to happen in Putin's February China meeting, Russia and India issued a 99 point Joint Statement on Partnership for Peace, Progress and Prosperity and agreed to extend their military technical cooperation for ten years, which included the \$5.4 billion sale of S-400 surface-to-air missile systems—in progress since 2016 and a purchase the US had urged against—as well as a \$600 million contract for India to manufacture more than 600,000 Russian AK-203 assault rifles.

During the December meeting, the two countries also set the goal of tripling their bilateral trade to \$30 billion by 2035. India's Foreign Minister at the time also said that the two countries had signed 28 investment pacts, including deals on steel, shipbuilding, coal and energy. It was reported that as a result of the meeting, the Russian oil company Rosneft said it had signed a contract with Indian Oil to supply up to 2 million tons of oil to India by the end of 2022 and that the countries also signed a memorandum of understanding for Russia to send an uninterrupted supply of coal to India to support its steel production. Russia and India's oil-and-gas sectors are also interlinked. Videsh, the Indian government's overseas oil-and-gas exploration and production arm, is involved in three projects in Russia, and Rosneft, Russia's mega oil company, owns 49% of Nayara Energy, a Mumbai-based firm with 6,000 filling stations and a large refinery in Gujarat.

The primary focus of Lavrov's most recent April visit, off the tailwinds of his visit to Beijing, was expanding trade ties with India, as part of Russia's strategy to pursue trade with China and India in an effort to counter the impact of western sanctions supported by over 40 nations. The Russian foreign minister pledged that Russia "will be ready to supply India any goods that India wants to buy." While Russia's economy is still in deep stress from the sanctions and the retreat of companies from the country, it has partly rebounded from the initial shock better than expected. The Russian Central Bank has imposed strict currency controls, which have caused the ruble to partly make a comeback in value to a level of about 20 percent. But key to that rebound has been Russia's continuing oil and gas exports amidst high energy prices.

India's uptick in Russian oil imports

India's uptick in its purchases of Russian energy since the war in Ukraine, combined with their long-standing trade in defense materials, and their agreement to markedly increase trade by 2035, places India as an important political and economic lifeline for the Kremlin during this crisis as Russia's GDP is projected to shrink by 10-15%.

According to Reuters data, since Russia invaded Ukraine, India has bought at least 13 million barrels of Russian crude oil, a significant uptick compared to the 16 million barrels a day bought for the entirety of last year. According to Bloomberg, Russia is offering a discount of \$35 a barrel. Although the oil is, in fact, more expensive than the discounted price since transport costs and higher wartime prices for insurance need to be factored in, India has argued that purchasing the oil is in the nation's interest that cannot be ignored.

India is the third largest importer of oil, importing 80% of its energy needs. Its economy is particularly vulnerable to rising oil prices, since petroleum products made up more than a quarter of the country's overall spending on imports last year—more than for any other big economy. It has also been estimated that India had planned its budgets around the price of oil being around \$75 a barrel. The oil shock in the wake of the contraction the Indian economy during the pandemic, threatens to slow the Indian economy even further as it seeks to meet the demands of its large and growing population. Most of India's oil imports come from the Middle East, about 8% is purchased from the U.S and only about 1% is bought from Russia, mainly due to transportation cost. India's Foreign Minister Subrahmanyam Jaishankar has argued in response to pressure from western allies to not accelerate India's purchase of Russian oil, "When oil prices go up, I think it's natural for countries to go out into the market and look for what are good deals for their people."

While India is not violating sanctions since Russia's energy exports are not included, a significant increase in its purchases in the short term provides Russia some immediate relief.

Lending Credibility

But, perhaps even more importantly, India's "neutrality"—its engagement financially and diplomatically with Russia-- is providing an important geopolitical lifeline. Whether by default or design, the powerful alignment of China and India, the two most populous nations and the second and fifth largest economies, respectively, as non-participants in the sanctions regime is diminishing the impact of Russia's cascading economic and political isolation. Most importantly, it may be the determining factor in how the world divides in the wake of Russia's aggression. In the troika, while China's economic power is critical to Russia's economic stability and viability, India, as the world's oldest democracy and historic leader of the "non-aligned" nations during the Cold War, lends important credibility to Russia, as a counter point to the west's narrative that this conflict is one of democracy versus autocracy.

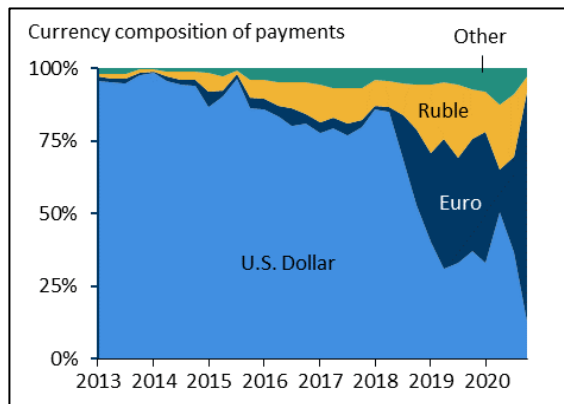
Arms Sales

While India has minimal reliance on Russian oil, the economic centerpiece of the Russian-Indian relationship is arms sales. Arms sales are a central element of Russia's foreign policy and are closely controlled by the government to advance economic and strategic objectives, especially given that they are an important source of hard currency. India is the world's largest arms importer of major arms in 2017-2021, accounting for about 11% of global defense trade, according to a report by the defense think-tank Sipri. Moscow continues to be India's largest arms supplier even though its share has dropped to 46% from 69% due to India's decision to diversify its portfolio and boost domestic defense manufacturing. Since 2010, India has accounted for nearly one-third (32%) of all Russian arms exports. The US was India's second-largest supplier between 2011 and 2015 after Russia, but it fell behind France and Israel in the period between 2016 and 2021. Nonetheless, Russia remains a key supplier of new weapons, such as the S400s and a vital source for maintenance and spares, which provides Russia important leverage in its relations with India. But, again, under the sanctions regime, Russia also needs India as an economic partner, which serves as an equalizer in the relationship.

Reducing Reliance on the Dollar

Reducing the use of the US dollar has been an objective of both Russia and China for over a decade, to help shield their currencies from US sanctions and assert global economic leadership. Even before the imposition of the economic sanctions in response to the invasion of Ukraine, Russia has been reducing its share of trade conducted in dollars. According to the Congressional Research Service, in Q42020, about 10% of Russia's exports to other BRICS countries (Brazil, India, China, and South Africa) were invoiced in U.S. dollars, down from about 95% in 2013 (**Figure 1**). Between 2014 and 2019, bilateral trade between India and Russia settled in rupee-ruble exchanges surged by five times during Prime Minister Modi's tenure, increasing from 6 percent of the total bilateral trade to 30 percent.

Figure 1. Russia's Exports to BRICS Countries



Source: Bank of Russia.

Russia's Foreign Minister Lavrov spoke openly during his visit to New Delhi that India and Russia would use a rupee-ruble mechanism so they could continue their trade in oil and other goods despite Western sanctions against U.S.-dollar transactions with Moscow. He also indicated that Russia's nascent alternative to the SWIFT messaging system for financial information and transfers, SPFS, (System for Transfer of Financial Messages), could be linked to a system India is developing, stating, "It is absolutely clear that more and more transactions would be done through this system using national currencies, bypassing dollar, euro and other currencies."

How far will India go to accommodate Russia's circumvention of the sanctions and contribute to a global economic structure that reduces the role of the dollar? How far can India stress its relations with the US and its democratic allies and undermine US leadership and the dollar's primacy?

The India-US relationship: The imperative of swaying India

India's security is not simply determined by its dance with the bear. China's rise has made its deepening ties with the US important for its national security. And, similarly, by the turn of the millennia, the United States, which historically maintained an important relationship with Pakistan, began to refocus and rebuild its relationship with the world's largest and longest democracy. The need to counter-

balance China's rise in Asia and globally, combined with the post 9/11 focus on the terrorism threat to the US and its allies, led to a number of breakthrough initiatives, including the lifting in 2001 of all remaining sanctions that were imposed after India's 1998 nuclear tests, a new framework for the U.S India Defense relationship and the eventual landmark 2008 India-US Civil Nuclear Agreement. The Civil Nuclear Agreement opened the pathway for deeper economic/trade relations, and security and military cooperation with India and those efforts included US support for India having a permanent seat on the UN Security Council.

The economic relationship has deepened so that today US trade with India dwarfs Russian trade. In 2021, the United States was India's top trading partner in with trade of \$112.3 billion, followed by China at \$110.4 billion. Russia's comparative figure stands at about \$8 billion and their stated December meeting goal of increasing trade to \$35 billion is still far behind the US. And, as mentioned above, India also began to diversify its military purchases and consequently, increased the role of the US in India's military purchases.

India is the linchpin of the US strategy for a "free and open Indo-Pacific region." Just days before the Russian invasion of Ukraine, the White House released its Indo-Pacific Strategy of the United States, which outlined a strategy to "more firmly anchor the United States in the Indo-Pacific and strengthen the region in the process. Its central focus is sustained and creative collaboration with allies, partners, and institutions, within the region and beyond it. Supporting India's continued rise and regional leadership is a key component of that strategy. Strengthening the Quad, "the Quadrilateral Security Dialogue", which informally brings together the United States and the Asian democracies, India, Australia, and Japan is also part of that effort. President Biden has made elevating the Quad a priority, hosting in September of 2021 the first ever in person "summit" of the group, after hosting a virtual session months earlier.

Significantly, India is the only member of the Quad not to participate in the sanctions regime and not to vote against Russia in the UN. The US has been very gingerly dealing with India, particularly on the issue of Russian energy imports since they are not sanctioned because of Europe's very large dependency. Speaking on a visit to New Delhi on Thursday, U.S. Deputy National Security Adviser for International Economics Daleep Singh said Washington would not set any "red line" for India on its energy imports from Russia but did not want to see a "rapid acceleration" in purchases. The US has also not invoked sanctions yet on India for the purchase of Russia's S-400 anti-aircraft missile system, which it has invoked against Turkey for the same purchase.

But time is running short. India's role is pivotal in determining the outcome of this crisis in Ukraine that will have an outsized impact on the world order that follows. It is far more difficult today for India to be "non-aligned" given the size of its economy than it was during the Cold War. It can provide a lifeline for Russia both economically and politically if it chooses to grow its relationship with Russia, which will only emboldened Russia to continue on its aggressive and destructive path. If India accelerates its economic support for Russia, pressure will be build within the US and among its allies and partners to strengthen the sanctions regime, including possibly impose secondary sanctions on countries doing business with Russia, sharply escalating the economic battleground and setting the stage for a fractured global world order.