

India-Russia trade and financial flows

Discounted oil and fertilisers, increased engineering exports to reduce India's trade deficit with Russia

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Russia's share in Indian imports of petroleum products and fertilisers has increased in the past couple of years following the western sanctions on Russia.

For Russia, Indian trade is not significant, apart from imports of some agri and textile products.

The escalation of geopolitical tensions between Russia and Ukraine sparked global inflation, driving up energy and commodity costs. Although such prices moderated after a few months, they remain significantly higher than pre-war levels. On the positive side, India gained access to discounted Russian crude oil due to western sanctions on Russia.

As the conflict persists, it continues to impact various sectors of the Indian economy. This report explores the potential macroeconomic effects, as well as the disruptions in trade and financial interactions with Russia and Ukraine caused by the ongoing geopolitical turmoil.

Russia

Merchandise trade

- Russia's share in the total Indian merchandise imports and exports stood at 9% and 1%, respectively, in FY2024. The share of Russia in total Indian imports has increased significantly from a low 1% in FY2015 to 9% in FY2024. India has import dependency on Russia for oil, fertilisers, chemicals and newsprint; of this, imports of petroleum products and fertilisers have increased since FY2023 amidst discounted prices, following western sanctions on Russia. For newsprint, imports continued to account for a sizeable share (57%) of the total newsprint consumption in India in FY2024 – of these Russian imports have a major share of nearly 28%.
- Similarly, exports of engineering goods to Russia increased for the last couple of years as Russia experienced shortages of these products because of the western sanctions. Moreover, India exports ~15-19% of its tea production to other countries - Russia being the largest export destination.
- On the other hand, India's share stands at a low 2% in Russia's total imports and exports. However, Indian trade is significant for Russia for some agri and textile products.

With growing trade since FY2023, India and Russia's Central Banks are in discussion to establish a local currency trade mechanism, addressing payment challenges and reducing reliance on the US dollar.

Merchandise trade between India and Ukraine has declined due to the challenges posed by the Russia-Ukraine conflict. However, India does not have significant trade dependence on Ukraine.

Russia

Services trade

- Russia's share in bilateral services trade is a mild 0.3-0.4% during CY2017 to CY2021. It has remained stable during this period with the trade balance in Russia's favour.

Mechanism to boost trade in local currency

- As the trade between India and Russia has increased since FY2023, the central banks of India and Russia resumed discussions in August 2024 on creating a mechanism to boost trade in local currencies.
- This initiative aims to address payment challenges and decrease reliance on the US dollar, offering a more stable framework for bilateral trade amid global economic uncertainties.

Ukraine

Merchandise trade

- Merchandise trade between India and Ukraine has declined in the last two years due to the challenges posed by the Russia-Ukraine conflict, including logistical issues.
- Ukraine's share in the total Indian merchandise imports and exports stood at less than 1% in FY2024. Further, there is no export or import commodity, which has a significant dependence on Ukraine.
- However, Indian imports are significant for Ukraine for some agricultural, textile, pharma and chemical products. Indian exports too are significant for Ukraine for few items like aircraft, spacecraft, vegetable fat and oils and some metals.

Russia and Ukraine contribute marginally in the overall pie of FDI equity inflows, the FPI and remittances to India.

However, there are some major pharma and banking entities present in both Russia and Ukraine. Nevertheless, the share of revenue from these countries is not significant for these entities.



FDI, FPI and remittances

- Russia is the 30th largest country for Foreign Direct Investment (FDI) inflows into India, contributing ~0.18% to the total pie. Ukraine has negligible share in FDI equity inflows into India.
- Russia's share in the FPI is marginal as only 15 entities from Russia had invested in India as on Oct 2024. Ukraine does not have any investment in the FPI.
- Russia and Ukraine together account for ~0.05% of remittances to India and ~0.05% of India's migrant stock.



Bilateral agreements and Memorandum of Understanding (MoU)

- India has agreements and MoUs with both Russia and Ukraine to improve collaboration on infrastructure, Defence and investments.



Corporate presence

- Russian manufacturers are present in oil, power and nuclear sector in India helping with heavy equipment and technologies. Moreover, many Indian pharma, banking and gas sector entities have presence in Russia. However, Russian share of revenue is not significant for these entities.
- A number of Indian pharma companies have their representative offices in Ukraine. However, no major impact has been observed for Indian pharma companies.



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