

Report
of the India-Russia
Joint Study Group

Moscow – New-Delhi

2007

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Chapter I Introduction

- 1.1. India and Russia have considerable linkages in trade and economic cooperation. Friendly relations between the two countries have existed from the foundation of the Russian Federation as an independent state in December 1991, and much before that. However, trade between the two countries has not improved substantially between 1992 and 2006.
- 1.2. On this foundation, following the signing of the Memorandum on Co-operation between the Ministry of Economic Development and Trade of the Russian Federation and the Ministry of Commerce and Industry of India, by H.E. Mr. Kamal Nath, Minister of Commerce and Industry of India and H.E Mr. G. O. Gref, Minister of Economic Development and Trade of the Russian Federation, a Joint Study Group (JSG) was set up between India and Russia to work out a programme for enhancing the bilateral trade to USD 10 billion by 2010 and to explore the possibilities of a Comprehensive Economic Cooperation Agreement (CECA) between both the countries.

India and Russia as emerging economies

- 1.3. The GDP of the Indian and the Russian economies has increased substantially in the recent past, indicating growing activity in various spheres. In both the countries, levels of international trade have also increased substantially, pointing to a range of opportunities for commerce between them.
- 1.4. India is currently the fourth largest economy in the world in terms of PPP. AT Kearney FDI Confidence Index 2005 has ranked India as the most favoured democracy. BRIC economies are likely to grow at a higher rate than G-6 countries and India is poised to record the highest growth among BRIC countries with an average year on year growth rate of economy exceeding 8% during the last three years. India is a vibrant capital market with increasing number of registered FIIs and FII investment.
- 1.5. Foreign exchange reserves of India are over USD 200 billion and inflation little over 4%. India's industrial production grew in 2006 at 12.3% -the fastest pace in a decade. Riding on a major rise in manufacturing output – almost all sectors, including mining and electricity, have witnessed substantial growth. Socio-economic indicators for India indicate a continuous improvement in income and savings. (Annex 1.1)
- 1.6. In terms of GDP, the Russian Federation ranks in the world (2005) behind the USA, China, Japan, India, Germany, France, Italy and the UK. The value of GDP is USD 1.6 trillion(PPP) and the population is 143 million. Growth of GDP has been substantial and sustained.
- 1.7. Following the financial melt-down in 1998, the Russian economy has come to see a fast-paced development. After 2003, substantial growth in prices for oil, natural gas, and many other commodities as exportable from the Russian Federation, has lent a fresh impetus to induce further economic growth. The positive tendencies as associated with the GDP growth, investor-propelled activism, budgetary surpluses, and reduced poverty rates, have continued all the way through the years 2004-2006,

too. On the strength of higher oil prices and owing to the responsible macro-economic policies as pursued by the Russian government, Russia's attractiveness for foreign investors and creditors has improved with the Russian enterprises witnessing greater access to investment and credit resources.

- 1.8. Thus, over the period starting in late 1998 and all the way until 2006, the Russian GDP, in real terms, rose by 62%, whilst the real income of the population grew by 54%. Welfare of the population has reached the highest level in modern history, with the gap discernible in the levels of development between the various regions also shrinking.
- 1.9. Russian macroeconomic policy was quite rigorous, and contributed to decreased inflation rate from 20.2% in 2000 to 9% in 2006, despite high oil prices and huge capital inflows. The country's macro-economic stability is, for instance, characterized by such a factor like the continuous growth of the foreign-exchange reserves (FER), which amounted to USD 250.6 billion as on January 1, 2007.

Trends in Indian and Russian economies as trading economies

- 1.10. India's exports increased from USD 53 billion in 2002-03 to about USD 125 billion in 2006 recording Compound Annual Average Growth Rate (CAAGR) of 24% during the last four years. India's share of world trade merchandise and services together has moved up from 0.9% in 2003 to 1.5% in 2006.
- 1.11. The significant growth of exports was driven by a record growth in the manufacturing sector, and sustained demand from the major trading partners. Export of goods and services now accounts for around 20% of GDP. India's competitive strength lies in engineering, textiles, chemicals and pharmaceuticals and automobiles which have shown impressive export growth in recent years.
- 1.12. In India, various sections of industry have become the targets of foreign direct investment and revamping. This has led to an export orientation of these industries. These industries include food processing (where companies such as Pepsifoods have made an inroad), textiles (where the entry of large units has been permitted almost without reservation in the recent past), automobiles and machinery. Services accounted for 54% of GDP in 2005-2006 and Services exports from India accounted for 40% of total exports in the same year.
- 1.13. Imports into India have increased about USD 61 billion in 2002-03 to about USD 149 billion in 2005-06. Up to the first half of current financial year 2006-07 (April-September 2006), the imports were valued at USD 84 billion recording a growth of 32% (provisional). Out of this, the oil imports were valued at USD 29 billion and non oil imports at USD 55 billion. India trades mainly with the countries of the European Union, the United States and China.
- 1.14. The Foreign Trade Policy of India (2004-09) aims at simplifying procedures, bringing down transaction costs, facilitating technological and infrastructural upgradation, etc.

- 1.15. The Indian economy, during the period of reforms has focused on imports of energy products in order to sustain a growing production capacity and domestic consumption. Machinery imports have also been oriented to the same ends.
- 1.16. Russian exports and imports have risen steadily during 2001 and 2006. The value of exports has risen by over 25% per annum, with high increases during 2003-04 and 2004-05 (of the order of 35.9% and 32.9% respectively). The value of imports has risen more modestly – registering a maximum of increase of 31.8% during the period.
- 1.17. In 2005, the Russian share in world merchandise exports was 2.4% and in imports - 1.2%. Thus, Russia ranked 9th in the list of the leading exporters in merchandise trade and 12th in the list of the leading importers in world merchandise trade. In the same year the Russian share in world exports of commercial services was about 1% and in imports – about 2%. Correspondingly, it ranked 12th as exporter and 11th as importer in the world trade in commercial services in 2005 (World Trade 2006).
- 1.18. Russia's major trade partner is the enlarged EU and other European countries (60% of foreign trade in 2006). In 2006, the countries of APEC became Russia's second-large trade partner – 16.7%. CIS countries which for a the long time remained in the 2nd place are now in the 3rd (14.8%). Recently, the share of China in Russian trade volume has increased to 6%.
- 1.19. Major Russian exports are (as in 2006): fuels and energy products (about 65%), metals and products made thereof (14%), chemical products (6%), timber and pulp-and-paper products (3,5%), machinery and equipment (3,2%).
- 1.20. In Russia, the services sector has grown in recent years and so has services trade. The services sector contributed about 60% of its GDP in 2005. Russia's services exports grew by 25 % in 2004 from USD 16 billion to USD 20 billion, of which business services grew by 15%.
- 1.21. Russian financial sector, although still small and weak by the developed countries standards, has experienced a spectacular growth in the last 2-3 years. Russian stock market has grown by 67.5% in 2006, which makes Russia the 4th country (after China, Indonesia and Venezuela) in the world by the stock market growth rate. Deposits in the commercial banks have grown by 32%, and credits of the banking sector to the real economy grew to 12% of GDP. Consumer credits and mortgages experience a real boom in 2005-2006.
- 1.22. Currently, growth in Russia is largely investment-based. Not only domestic, but foreign direct investments have grown: from USD 3.46 billion in 2002 to about USD 18 billion in 2006. In recent times, an even more important role in the economic development is being played by modernization and the growth in labour productivity outside the realm of the oil and gas sector.
- 1.23. According to world trends in international trade, the Russian share both in exports and imports has grown constantly, but it should be noted that the Russian trade balance improved primarily due to high world prices for the main groups of the Russian exports and to a less extent due to other factors. The Russian government is currently working on the International Economic Policy Strategy, which is aimed at

changing this situation, and stimulating growth of non-commodity exports and creating the base for a more-balanced growth.

The Russian Reforms and the Indian Reforms

- 1.24. In India, a number of reforms have been undertaken concerning finance and trade. The country's decision to join the World Trade Organization (India became a member in January 1995), led to India's commitment to establish "binding" tariffs, moderation of existing tariffs and legislation to protect Trade related Intellectual Property Rights (IPR). Import licensing was abolished effectively. Together, these changes allowed a liberalized regime of imports. At other levels, restrictions on foreign direct investment and large-scale entrepreneurial initiative in certain sectors (power and textiles for example) were lifted. Second Generation reforms have been initiated including establishment of credible regulatory mechanisms, further liberalization of financial sector, improvement of investment climate, particularly for strengthening infrastructure. A program of disinvestment was initiated, although, unlike the Russian case, since the Indian public sector worked within a regime of private enterprise, this meant a sale of equity rather than a restructuring of the enterprise. Greater freedom has been given to public corporations (public sector units) – especially the Navaratnas (Steel Authority of India, National Thermal Power Corporation, Bharat Heavy Electricals, Indian Oil Corporation, Bharat Petroleum Corporation Ltd., Hindustan Petroleum Corporation Ltd., Gas Authority of India Ltd., Videsh Sanchar Nigam Ltd., Bharat Sanchar Nigam Ltd.)– to seek opportunities and investments. For infrastructure development, steps like National Highway Development for expanding the road network; upgradation of major ports; modernisation of airports; and reforms in the power sector to provide uninterrupted power to industry; have been taken. A revolution has been brought about in the Telecom sector. Overall, there is an emphasis on improving governance and bringing transparency to the Government functions.
- 1.25. Between 1992 and 2000, a number of financial and institutional reforms have been undertaken that have transformed the Russian business environment. The main thrust of the reforms was designed to (a) deregulate the Russian economy and stimulate private enterprise, reducing the role of the State as manager and entrepreneur (b) open the country to international trade and foreign direct investment. The reforms were carried out through the following steps: liquidation of the Planning structure in the Russian Federation (1992); permission to enterprises to set their own pricing levels (in January 1992); "floating" the rouble while permitting full convertibility only internally, restricting exports of hard currency the state abandonment of the monopoly on foreign trade and the reform of the country's customs' regime. Enterprise restructuring was worked through: privatization of distribution outlets in January-June 1992 on a large and intense scale; privatization of producer units, outside a list of exceptions by the voucher method after December 1992, following Parliamentary approval on June 11 1992 – most of the privatization being completed by 1996.
- 1.26. The new scale of reforms in Russia started in 2000. The most important reforms, such as the taxation reform and the administrative reform, as well as the reduction in administrative barriers faced by private entrepreneurs, have all contributed to a quick-paced development of market institutions in the very many areas.

1.27. As in most other former planned economies, at the beginning of the reforms in the early 1990s, Russia faced the problems of severe budget deficit and high inflation. Macroeconomic stabilization has been achieved only after the 1998 financial crisis. In order to sterilize high revenues from the oil and gas sector, Stabilization Fund was established, which now amounts to USD 90 billion. Prepayment of foreign debt was another instrument, which allowed Russia to control macroeconomic situation. Russia paid back its debt to the IMF. The debt to Paris Club was paid in advance (the overall debt sum was USD 21.6 billion, in 2005 Russia paid USD 15 billion, in 2006 the rest). The debt to London Club was restructured and is paid by the bond emissions. The inflation rate in Russia experienced a decline during 2001-2005 and fell below 10% in 2006. Back in January 2005, the Standard and Poor's international ratings agency, following the Fitch and Moody's agencies, assigned an investment-grade rating to Russia. Currently, the ratings are standing at the level of BBB/Baa2/AAA- (S&P/Moody's/Fitch).

India and RTAs (Regional Trading Arrangements)

1.28. Global economy today is becoming highly integrated at various levels including goods, services, investment, flow of professionals across the border, environment, civil society activism, standards etc. India has always stood for an open, equitable, predictable, non-discriminatory and rule based international trading system. India views Regional Trading Arrangements (RTAs) as 'building blocks' towards the overall objective of trade liberalization. RTAs should complement the multilateral trading system.

1.29. In the past, India had adopted a very cautious and guarded approach to regionalism and was initially engaged in only a few bilateral/regional initiatives, mainly through PTAs like the Bangkok Agreement (signed in 1975) to exchange tariff concessions in the ESCAP region, the Global System of Trade Preferences (GSTP - signed in 1988) to exchange tariff concessions among G-77 member countries, and the SAARC Preferential Trading Arrangement (SAPTA - signed in 1993) to liberalise trade in South Asia. However, these engagements achieved limited results in terms of increasing trade volumes with the member countries. With smaller neighbours like Bhutan and Nepal, India has free trade arrangements on a non-reciprocal basis mainly with a view to ensuing social, economic and political stability across the border. India's first FTA was signed with Sri Lanka in 1998 and is in operation since March 2000. Here also Sri Lanka, being a small island neighbour, was given more flexibility in terms of the size of the negative list and the period of tariff liberalisation.

1.30. India gives primacy to engagements in multilateral negotiations at the World Trade Organization. However, recognising that RTAs would continue to feature permanently in world trade, India got engaged with its trading partners/blocs with the intention of expanding its export market and began concluding, in principle agreements for moving in some cases towards a Comprehensive Economic Cooperation Agreement (CECA) which covers FTA in goods (i.e. having 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), services, investment and identified areas of economic cooperation. Framework Agreements have already been entered into with a number of trading partners with specific road maps to be followed and specified time frames by which the negotiations are to be completed.

1.31. India has already concluded a Comprehensive Economic Cooperation Agreement (CECA) with Singapore, which has been implemented from 1st August, 2005. The Agreement on South Asia Free Trade Area was signed by member countries of SAARC in January, 2004. The negotiations on all aspects of this Agreement have been concluded and the tariff liberalization programme has been implemented from 1st July, 2006. Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India, Framework Agreement for BIMSTEC FTA, India-Thailand Framework Agreement etc. have also been signed and FTA on Goods, Services and Investment is under negotiation. Framework Agreements on economic cooperation followed by PTA have also been entered into with MERCOSUR and Chile. India is also engaged with Gulf Cooperation Council and Mauritius for FTA/Comprehensive Economic Cooperation Partnership Agreement. Separate Joint Task Forces have been set up to negotiate on Comprehensive Economic Partnership Agreement between India and Korea and between India and China to explore the feasibility of a possible RTA. Joint Study Group Report of India-Israel has been submitted and the negotiations are to begin soon.

Russia and RTAs

- 1.32. Russian activities in the sphere of regional integration are mostly limited to the CIS besides bilateral treaties with certain CIS countries with whom there are several RTAs. Some of them are mentioned below.
- 1.33. Russia-Belarus relations are developing in the framework of a Union State. The Treaty of its establishment and the Programme of Measures to implement the Treaty as of December 1999 identify the main directions and stages of the integration, including the completion of creation of the united economic sphere, the merger of energy, transport systems, oil and gas infrastructure, the intensification of cooperation in the humanitarian and social spheres and in the sphere of foreign policy, defence and security.
- 1.34. In October 2000 the Treaty for Establishment of Euro-Asian Economic Community was signed by the Presidents of Belorussia, Kazakhstan, Kirghizia, Russia and Tajikistan, which was ratified by all member countries and came into effect in May 2001.
- 1.35. In September 2003 the Presidents of Russia, Belarus, Kazakhstan and Ukraine have signed the Agreement to establish Common Economic Space (CES). The CES will combine custom areas of member-states, free float of goods, services, capital and labor force, and also the common foreign trade and coordinated tax, monetary and finance policies. The creation of a regional integration organization is based on the principle of integration at different levels and different speeds, which is fixed in the basic Treaty.
- 1.36. Russia and the EU are building strategic partnership, which is now reflected in the PCA agreement and road maps towards building Common Economic Space. In 2007-2008 negotiations of the new PCA should start.

Key Economic Indicators of India

Indicator		Unit	2003-04	2004-05	2005-06	2006-07
GDP at Factor Cost						
at Current Prices		Rs. Billion	25494	28559	32509*	37175**
at 1999-2000 prices		Rs. Billion	22226	23897	26045*	28440**
GDP in Agcultural & Allied Sectors						
at Current Prices		Rs. Billion	5336	5366	5951*	6524**
at 1999-2000 prices		Rs. Billion	4833	4831	5121*	5261**
Population (as on 1st October)						
		Million Number	1073	1090	1107	1124
Per Capita National Income (Net National Product at Factor Cost)						
at 1999-2000 prices		Rs.	18263	19297	20734*	22379**
Foodgains Production						
		Million Tonnes	213.19	198.36	208.60	211.78#
Inflation Rate						
WPI based (1993-94=100)						
	Average	%	5.5	6.5	4.4	5.2^^
CPI-IW based (2001=100)						
	Average	%	3.8	3.7	4.5	6.8
WPI for Agricultural commodities						
			182.9	186.7	190.7	202.9^^
WPI for Non-Agricultural commodities						
			174.0	187.5	196.9	206.3^^
Foreign Trade						
Export		USD billion	63.8	83.5	103.1	89.5@@
Import		USD billion	78.2	111.5	149.2	131.2@@
Balance		USD billion	-14.4	-28.0	-46.1	-41.7
Total Agricultural Imports		Rs. Crore	21972.7	22811.8	21025.5	16164.8@
% to National Imports			6.1	4.6	3.3	3.0
Total Agricultural Exports		Rs. Crore	37266.5	41602.7	49802.9	37346@
% to National Exports			12.7	11.1	11.0	10.1
External Debt Outstanding (End March)						
		USD billion	111.65	123.20	126.41	142.66***
Forex Reserves (End March)						
		USD billion	107.4	135.6	145.11	173.08^
ExchangeRate						
		Rs/USD	45.95	44.93	44.27	45.48##

* Quick Estimates ** Advance Estimates # Third Advance Estimates ## Average April 2006-January 2007
 @ April-November 2006 @@ April-December 2006 ^ End January 2007 *** End December 2006
 ^^ Upto January 2007

Sources:

1. Central Statistical Organisation.
2. Directorate of Economics & Statistics, Ministry of Agriculture .
3. Economic Survey 2006-07
4. Websites of Reserve Bank of India; Office of the Economic Adviser, Ministry of Commerce & Industry.

Key Social and Economic Indicators of the Russian Development in 2005

Indicator	Russia
GDP, current prices, billion. US dollars	763.29
GDP, constant prices, annual approach, %	6.4
GDP according to PPP, share in the world, %	2.6
GDP per capita, current prices, US dollars	5348.9
Quantum index of fixed capital expenditures (in comparable prices), in %, compared to the previous year	110.7
Foreign direct investments, million. US dollars	13072 ¹
Inflation, %	10.9
Gold and currency reserves (as of the end of the period), billion. US dollars	182.24
Official exchange rate	28.3
Surplus, deficit of the consolidated budget, million. US dollars	59017.7
Surplus, deficit of the consolidated budget, % to GDP	7.7
Official debt (foreign and internal), billion. US dollars	111.4
Official debt (foreign and internal), % to GDP	14.8
Exports ² , FOB, billion. US dollars	243.6
Imports ² , CIF, billion. US dollars	137.8
Average per capita income across the population, US dollars per month	280.49
Population with money income below the poverty level, % of the total population	17.6 ³
Funds index (income differences index), times	14.7
Ratio of the total number of unemployed to the economically active population, %	7.7

Sources: IMF, CB RF, Rosstat, Federal Treasury, Ministry of Economic Development and Trade of the RF.

¹ According to the Rosstat data. According to the CB RF data, foreign direct investments in the RF economy in 2005 amounted to USD 15151 million.

² According to the IMF data. According to the CB RF Foreign Balance data, exports in commodities amounted to 243569 million. US dollars, imports in commodities – USD 125303 million. According to the SCC of Russia, exports amounted to USD 240998 million, imports – USD 98687 million.

³ 2004.

Chapter II Bilateral trade between India and Russia.

Basic outline of the nature of bilateral trade between India and Russia

2.1 Historically, India and Russia have been close trading partners. Bilateral Trade in 2005-2006 stood at about USD 2.72 billion which was 39.5% higher than the USD 1.95 billion in 2004-2005. Currently, bilateral trade with India amounts to only 1.1% in average of overall Russian trade volume. Similarly in case of India, bilateral trade with Russia amounts to only 1.1% of the total volume of foreign trade of India. The details of Indo-Russian bilateral trade during the last few years are as under:

Indian statistics

Table2.1

(In million USD)

Year	Exports	Imports	Total
1999-2000	947.92	623.18	1571.10
2000-2001	889.01	517.66	1406.67
2001-2002	798.18	535.71	1333.89
2002-2003	704.00	592.61	1296.61
2003-2004	713.76	959.63	1673.39
2004-2005	631.26	1322.74	1954.00
2005-2006	729.89	1992.01	2721.90

Source: DGCI & S, Kolkata

Russian Statistics

Table2.2

(In million USD)

	2003	2004	2005	2006 (9 months)
TRADE VOLUME	3320.0	3153.2	3098.7	2495.1
in % on the same period		95.0	98.3	121.8
EXPORT	2735.3	2502.0	2314.1	1798
in % on the same period		91.5	92.5	121.1
IMPORT	584.7	651.2	784.6	697.1
in % on the same period		111.4	120.5	123.6

Source: Rosstat

- 2.2 There are apparent differences in the Indian statistics and the Russian statistics. However, they conform to the similar trend indicating that the total bilateral trade volume had fallen from 1999 till 2002.
- 2.3 As per Indian statistics, Indian exports to Russia had declined from a level of USD 947.92 million in 1999-2000 to USD 631.26 million in 2004-2005. In the year 2005-2006 there was a slight recovery as Indian exports registered a growth of 15.62 % reaching a level of USD 729.89 million. According to the Russian statistics during the last ten years, Indian exports to Russia had declined from a level of USD 667 million in 1999 to USD almost 513 million in 2002. In the year 2003 there was a slight recovery as Indian exports registered a growth of about 14% reaching a level of USD 583.5 million.
- 2.4 Similarly, according to the Russian statistics, Russian exports declined from USD 1177 million in 1999 to USD 704 million in 2001. Since the year 2002 they have shown stable growth from USD 731 million to USD 1798 million for the first 9 months in 2006.
- 2.5 The decline in trade up to 2002-03, perhaps reflects the political and economic situation in Russia after the collapse of the Soviet Union and the transition by both countries to more market oriented economic policies in the early 1990s. Another factor is the end of Rupee-Rouble arrangement. Both countries are now trying to expand economic ties based on accelerated economic growth to create economically more meaningful trade.

An evaluation of Indo-Russian trade- post 1991

- 2.6 In 1992, the financial foundation of Soviet-era cooperation ceased to exist. This was the “rupee-rouble” exchange scheme. Under this scheme, prices and payments were designated in roubles and rupees according to a mutually agreed rate of exchange, but accounts were settled in a staggered manner, in goods. The goods traded were specified and restricted, and purchases and transactions were conducted under the supervision of the Reserve Bank of India. The end of this arrangement transformed the nature of Indo-Russian trade – which was based on convertible currencies since 1992.
- 2.7 As a consequence of earlier pre-1991 cooperation, links existed between India and Russia in: steel production, coal production, production of machinery for heavy electrical purposes, steel and coal manufacture, production of pharmaceuticals, oil and natural gas exploration and refining. The connections were sustained by common acquaintance with Russian equipment and personal links that were forged by visits by groups of Russian consultants who were employed in India to service and maintain such equipment.
- 2.8 Indo-Russian trade has been based on enterprise-to-enterprise contacts and mutual assessments of the other country’s market and its requirements. Certain large enterprises have been involved, such as the consultancy Giprometz, and the manufacturing units Uralsmash and Elektrosila. Some of these companies on the Indian and Russian sides have been driven by the public sector. But equally, much of the trade has been driven by the private sector that have worked in Russia for a very long time (e.g. the Sun Group, which was earlier concerned with machinery primarily, J.V. Gokal in tea etc.).
- 2.9 An important element in the Indo-Russian trade is the purchase of defence equipment, especially naval and air force equipment. However, this has not been considered in the context of this study.

Limited impact of debt repayment as a stimulus to bilateral trade during 1990s

- 2.10 The debt repayment, together with a credit line extended by the Government of India to Russian business was an encouragement to commerce, immediately after 1993 (when the repayment agreement was formally approved).
- 2.11 The sums concerned in debt repayment stimulated bilateral trade during the ups and downs of the inflation of 1992-97, when there was confusion in business; the value of the rouble fluctuated severely and when the value of an LC ceased to be effective by the time the goods had reached the port in Russia after shipment from India.
- 2.12 The method of repayment was reworked during 1996-97, when the Russian Government (the Ministry of Finance) auctioned the debt payments at the foreign exchange tenders, conducted by Vnesheconombank of Russia. Initially, only Russian private banks took part in the tenders and Russian firms and organizations bought debt payments from them for purchase of goods in India. Further, all Russian firms and organizations, mainly importers of tea and other traditional goods of Indian exports, acquired the right to purchase these payments on tenders .

The WTO factor

- 2.13 Being a member of the WTO, India has to adhere to WTO guidelines. Russia though not a member of the WTO as yet, is a candidate for WTO membership. In general terms, therefore, the two countries have to adhere to WTO norms in developing bilateral trade.

Institutional mechanism for promoting bilateral trade

- 2.14 Wide-ranging cooperation in strategic areas such as defence, atomic energy space, high-technology, trade and economy form the basis of our bilateral relationship.
- 2.15 After the break-up of the Soviet Union friendship with Russia was reaffirmed by the conclusion of a Treaty of Friendship and Cooperation in January 1993. A declaration on Strategic Partnership was signed in Delhi in October 2000 during President Putin's first visit to India.
- 2.16 There have been institutionalized annual summit level visits since 2000, alternately, in Delhi and Moscow. There are intensive bilateral high level contacts, including institutionalized annual consultations at the level of Foreign Secretary between the foreign offices and the security councils of the two countries on a regular basis. The National Security Advisor of India and the Secretary of the Russian Security Council meet on a regular basis. ISRO and the Russian Federal Space Agency [ROSCOSMOS] as well as the Department of Atomic Energy of India and the Federal Agency for Atomic Energy of the Russian Federation are in regular touch on programmes and projects at various stages of implementation.
- 2.17 The Minister of Commerce and Industry of India and the Minister of Economic Development and Trade of Russia have taken an initiative to form a Joint Forum on Trade and Investment which held its first meeting on 12-13 February 2007 in Delhi. The meeting of the Forum provided a platform for promoting business to business interaction between the two countries by finding common ground between the trade and industry from both the sides.

- 2.18 The Joint Council for Integrated Long Term Programme [ILTP] consists of prominent scientists from each side, which plans and oversees all science and technology related joint research and exchange programmes between the two countries. The Ministries of Culture of the two countries have adopted Cultural Exchange Programme [CEP] on a biennial basis, which outlines cultural programmes and academic exchanges that are not covered by other mechanisms.
- 2.19 The bilateral trade relationships are regulated by the Agreement between the Government of the Russian Federation and the Government of the Republic of India on trade and economic cooperation signed on May 4, 1992.
- 2.20 There are two Indo-Russian Inter-Governmental Commissions [IRIGC] – (i) IRIGC on Trade, Economic, Scientific, Technological and Cultural Cooperation headed by India's External Affairs Minister and the Russian Deputy Prime Minister; (ii) IRIGC on Military-Technical Cooperation headed by the Indian Defence Minister and the Russian Defence Minister [who at present also holds the position of Deputy Prime Minister]. The two IRIGCs meet annually, alternately, in the two capitals.
- 2.21 The first IRIGC was set up through an agreement signed on May 4, 1992. The Commission derives its continuity from the earlier Indo-USSR Joint Commission, set up on 19th September 1972, which had held 12 sessions, the last being in New Delhi in March, 1989. Eleven Working Groups were set up under the IGC. These working groups operated under the IGC till the 10th Session of IRIGC held in November 2004. Presently, IRIGC has 5 Working Groups respectively on trade and economy; science and technology, including IT; metallurgy and mining; energy, including power and petroleum sector; tourism and culture. In addition there is a Joint Task Force on the Settlement of Mutual Financial Obligations headed by Finance Secretaries of the two countries and a number of supplementary mechanisms e.g., regular civil aviation talks, sub-group on banking etc.
- 2.22 The Indo-Russian Joint Business Council was set up by an Agreement signed in 1992 in New Delhi. The Council has been meeting regularly and the last meeting was held in Russia in December 2005.
- 2.23 Besides, an important component in the development of Indian trade with Russia has been a community of Indian students and businessmen who have had dealings with Russia over a long term and who have chosen to promote Indian business in Russia and Russian business in India. Members of the community have occasionally had connections with enterprises directly linked to Indo-Soviet trade (the Sun Group, J.V. Gokal, Torrent, Cadilla, Ranbaxy, Dr. Reddys), but it is also composed of those educated in Russia and the CIS who have personal connections in the country and have moved into business. On occasions, businessmen who entered the country since 1991, developed a skill in the region and have come to stay on in different capacities. All these are loosely represented in the Indian Business Alliance – an organization today primarily representative of small and medium sized business.

Image of Russia and Russian companies in India and image of Indian companies in Russia

- 2.24 Indian businessmen and consumers do not have adequate information about the current situation in Russian economy. Russia is still considered a shaky economy with high criminal activities as it was in the early 1990s. Most of Indian businessmen are not aware of the fact that Russia is one of the fastest growing markets in the world, and an active international investor. Many Russian companies, including large ones, which were formed after the beginning of reforms, are not known in India. This results in problems when they express their interests in investing in India or trading with Indian partners.
- 2.25 Similarly, despite the fact that India ranks among the top 4 countries of the world in terms of GDP on PPP basis with a high economic growth rate, Russians often consider India as a poor and underdeveloped country, and, therefore, do not view it as an interesting market for their products or investments. There is a lack of information about Indian suppliers and Indian products in Russia and false prejudices prevail against Indian products on account of poor information. India is fast emerging as a supplier of high quality products in the international market and Indian diaspora has established itself successfully in the international community. However, Indian businessmen in Russia are treated as non-reliable partners. Additionally, those Russian companies, which have not been operating in India since the Soviet times, are not adequately aware about business environment in India.
- 2.26 Thus, the negative image of the partner countries vis a vis each other and lack of information about each other's strengths and comparative advantages can be considered as the most important factors hampering bilateral trade. Business community of both the countries can play a big role in forming positive image about each other's country thus enhancing bilateral trade and economic cooperation.

North-South Transport Corridor

- 2.27 An important initiative has been the formation of the North-South Corridor. Transport of goods between India and the Russian Federation mostly takes place through the sea route via Kotka/Rotterdam and St.Petersburg. The above sea route is long, expensive and time consuming. In order to develop shorter transit route between India and Russia, the possibility of developing a transit route between India and Russia via Iran, Caspian Sea, Astrakhan (Russia) and then onwards to Moscow was explored and the International Agreement on Transit along the "North-South Corridor" between India, Iran, and the Russian Federation was signed by the Ministers for Transport of India, Iran and Russian Federation on 12.9.2000 at St. Petersburg, Russia.
- 2.28 The corridor stretches from ports in India to Bandar Abbas (Iran). Goods then proceed to the Caspian Sea and Russia for further distribution. The Corridor is expected to recreate the trade via Iran. An agency looks after the work of the corridor, and a number of sponsors have expressed their support for the project. However, small shipments of tea and tobacco make their way to Russia, although, shipment by container takes 10-20 days less time through this corridor and is meant to be substantially cheaper.

Chapter III Trade in Goods

Analysis of the Nature and Composition of the bilateral trade in goods between India and Russia

- 3.1 India -Russia bilateral trade is concentrated in a narrow range of products. According to the Indian statistics more than 50% of India's exports to Russia comprise 4 product categories viz: Drugs, Pharmaceuticals & Fine Chemicals(32.53%); Coffee(9.23%); Tea(6.83%); Tobacco unmanufactured(5.38%). Other exports include RMG Cotton including accessories (2.56%); Processed Fruits&Juices (4.25%); Transport Equipment (4.07%); Cotton Yarn, Fabrics & madeups (4.05%), Plastic & Linoleum Products, Machinery and Instruments, , Electronic Goods. Similarly, more than 60% of Russia's exports to India according to Indian statistics are dominated by 4 product categories viz. Iron & Steel (25.59%); Fertilizers manufactured (17.5%); Non-Ferrous Metals(11.72%), Coal, Coke & Briquettes etc.(10.05%). Other imports include Newsprint (6.88%); Silver (5.42%), Synthetic & Reclaimed Rubber (4.98%). According to Russian statistics, 43% of Russian exports comprise machinery and equipment and another 22% by metals.
- 3.2 Major variations are visible in all areas of trade during the 2001-06 period. However, almost steady increases have been noticeable in Drugs and Pharmaceuticals; Transport equipment; machine tools and manufactures of metals; and processed fruits and juices (Table 3.1).
- 3.3 Fertilizer continues to be a standard import from Russia (Table 3.2).

Major Indian exports to Russia

The Details of top ten Indian exports to Russia as per Indian statistics are as follows:

Table 3.1

		Values in Million USD				
S.No	Commodity	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
1	Drugs,Pharmaceuticals & Fine Chemicals	100.87	106.96	139.95	172.22	237.41
2	Coffee	66.79	46.21	46.02	40.47	67.39
3	Tea	84.5	59.33	56.59	52.09	49.85
4	Tobacco unmanufactured	21.54	24.09	20.87	31.62	39.27
5	Processed Fruits & Juices	1.2	3.11	5.73	11.62	31
6	Transport Equipment	5.67	14.27	5.7	13.92	29.72
7	Cotton Yarn, Fabrics & madeups	26.62	15.57	17.89	13.72	29.56

8	Machinery and Instruments	16.9	12.53	14.83	21.29	28.82
9	Plastic & Linoleum Products	16.4	13.5	22.36	24.32	28.79
10	RMG Cotton including accessories	216.06	219.15	164.47	79.13	18.65

- 3.4 Drugs and pharmaceuticals and fine chemicals have been the flagship items of India's exports to Russia. The exports of these items increased between 2002 and 2005 by over \$7.5 million and their contribution to exports increased from 27.28% to over 32.5%. For fifteen years, against the collapse of local production of drugs for various income groups in Russia, and poor reach of foreign producers, Indian products have become essential to the health sector in Russia, especially in far-flung areas. The main advantage of the Indian drugs comes from assiduous work by Russia-based Indian distributors and local networks established by Indian drug companies.
- 3.5 In the case of RMG (cotton, silk, wool and manmade fibre), and exports of yarn and fabrics of various types, until recently, there has been a substantial demand in Russia. However, RMG exports from India to Russia have declined sharply between 2002 to 2005.
- 3.6 In the case of tea and coffee exports, major changes have taken place over the last five years. A steady weakening of the presence of Indian tea on the Russian market has continued unabated. During 2005-06, tea exports fell in absolute value (albeit marginally – from USD 52 million to USD 49.85 million) and from 8.2% of exports to 6.8% of Indian exports. Luxury teas from India (e.g. Darjeeling) find a niche market in Russia. The declining trend of Indian Tea Exports to Russia is a matter of concern to India. At the moment, some local blenders use a range of low quality non Indian teas in the blend and sell it in the Russian Market as Indian tea. On the other hand, coffee exports have risen - from 6.4% of exports to 9.2% of exports. Though coffee exports in general had declined from USD 66.79 million in 2001-2002 to USD 40.47 million in 2004-2005, during 2005-2006 coffee exports to Russia have increased by 66.52% and have reached a level of USD 67.39 million. India continues to have high market share (28%) vis-à-vis other exporters such as Brazil, Vietnam, Germany etc. in the Russian coffee market.
- 3.7 Russia is the leading tobacco importer in the world accounting for 15% of total leaf imports. It consumes about 300000 MT of Tobacco every year. Russian imports comprise of oriental, semi-oriental, FCV, Burley and Dark Cigarette tobaccos. Russian tobacco imports have increased significantly, however, India's share in Russian market has dwindled over last 7-8 years to 8-9%.
- 3.8 India's machine exports to Russia, though increasing over past few years, form a small fraction of Russia's world imports of machinery. A major development has been the entry of Indian automobiles into the Russian market.

Major Russian exports to India

Table 3.2

The details of major Russian exports to India during the last few years are as follows:

	Values in million USD				
	2001	2002	2003	2004	2005
ARTICLES OF FOOD AND AGRICULTURAL RAW MATERIALS	2.5	6.7	4.0	2.6	1.1
MINERAL PRODUCTS	12.3	13.8	61.8	121.5	58.8
PEARLS NATURAL	3.4	20.2	1.9	10.9	22.1
PRODUCTION OF THE CHEMICAL INDUSTRY, RUBBER	165.2	109.6	112.4	100.8	234.9
FUEL ENERGY GOODS	5.5	2.9	50.6	93.6	33.5
MACHINERY AND TRANSPORT EQUIPMENT	549.7	861.6	1525	1654	1008
MISCELLANEOUS MANUFACTURED ARTICLES	165.1	304.2	367.8	149.1	292.3
METALS AND ITS PRODUCTS	92.8	143.2	248.6	307	525.8
WOOD, PULP AND PAPER PRODUCTS	148.1	193.7	182.7	192.4	169.5
TEXTILES, TEXTILE PRODUCTS AND FOOTWEAR	1.1	0.7	1.4	1.8	1.1
TANNING RAW MATERIALS, FURS AND ITS PRODUCTS	0.1	0.0	0.3	0.6	0.5

- 3.9 Apart from defence products, the highest Russian export to India has been that of steel. At the moment, demand for steel in the Indian market is high as there is a gap between demand and availability of steel in India. Imports of Russian steel satisfy a demand for basic steel products. However, the share of steel imports from Russia currently contributes to only a small percentage of overall Indian steel imports.
- 3.10 Indian fertilizer imports from Russia have increased systematically. India's most recent imports of fertilizers from Russia have been USD 460 million – 10% of Russian exports of fertilizers. Together with China, India is one of the most important destinations for Russian fertilizers. In the future, a greater off take of Russian production of fertilizers could be envisaged as Russia has a comparative advantage in production of fertilizers and the resources for production are readily available.
- 3.11 Machinery is traditionally one of the major export item from Russia to India. However, the exports of Russian machinery to India were stagnating till 2003 and are unstable up till now. Share of machinery export in the total Russian export to India has been declining.
- 3.12 Over the past decade, according to the data from the Russian Customs statistics, there have been witnessed sustainable exports into India of the products made of reprocessed timber - paper, cardboard; articles made of paper mass, paper, or cardboard' – from USD 21.5 million in 1994 up to USD 94.5 million in the year 2004 (Russian statistics). Also quite comparable is the share accounted for by Newsprint.

Potential for expansion of trade in goods

- 3.13 JSG noted that to enhance the trade between India and Russia to USD 10 billion by 2010, the two countries need to diversify their export baskets. In this regard, certain

sectors have been identified that may be instrumental in achieving the objectives of increasing the bilateral trade volume.

Overall estimates of the potential increase in trade in goods: results of the model analysis

- 3.14 An assessment of the trade flows between India and Russia has been done with the help of models which feature an evaluation of the implications that may arise from future economic growth and the conclusion of a CECA (Comprehensive Economic Cooperation Agreement) between the two countries. The research presented herewith offers two different approaches-
- a) The analysis of trade flows based upon the **Gravity model**, which allows for assessments of the trade volumes between India and Russia in the context of global bilateral external trade flows has been done. The UN COMTRADE data has been used for the estimation as elaborated in (Appendix 3.1 a). According to the outcomes from the model, the volume of trade between the two countries is consistent with the overall global patterns of country-to-country commodity trade.
 - b) The obtained model was used to make predictions of the trade volume between Russia and India in 2010 (Appendix 3.1 b). The prediction is based on the **Global Insight forecast of GDP**. The results suggest that Russian-Indian trade in goods will increase to 7 billion USD in 2010. Therefore, additional measures to stimulate trade in goods, and trade in services are needed to reach the required level of USD 10 billion.
- 3.15 It needs to be noted that the assessment thus obtained as a result of the analysis which set out to gauge the potential sizes of trade flows between India and Russia, are predicated upon the prevalent global tendencies governing the developments of bilateral ties, as identified within the framework of the evaluation of the gravity model, whose predictive power, however, might not be sufficiently enduring in relation to unstable economies.

Potential Sectors for Expansion of trade

- 3.16 The traditional tool for identifying the sectors, where increase in trade volume can be possible, is the index of Revealed Comparative Advantage(RCA). Overall figures for RCA/RCD for Russia and India are given in Appendix 3.8, indicating a range of goods in which India has advantage in Russia and vice versa. However, RCA analysis cannot be helpful except in a limited manner in establishing a perspective for the future of Indo-Russian Trade. This is because the tendency to match RCA in a specific product and in a specific market with global RCA tends to understate specific advantages. Therefore, commodity categories of potential export from India to Russia and Russia to India have been identified based on RCA analysis combined with the list of commodities, which are already imported by the two countries from other countries and specific market situations (Appendix 3.1 c)

Potential Sectors for Expansion of Exports from India to Russia

- 3.17 Indian side notes that the current level of exports from India to Russia is far below potential. Major areas, where Indian exports to Russia can be improved are: agriculture and allied products - edible fruits & nuts, products of animal origin, Beverages(Tea and Coffee etc.) and Tobacco; animal and vegetable fats and oils; material based manufactures like metal and metal articles thereof (e.g. iron and steel and articles thereof); cotton and textiles including Ready Made Garments, manmade staple fibres and filaments; chemicals and plastics- organic and inorganic chemicals; machinery and transport equipment, etc. Indian exporters could also export certain niche products such as Tea, “processed fruit” products, dairy—including processed dairy products, meat products etc. In the case of pharmaceutical products and diagnostic equipment, for unusual reasons (linked to cost and the value of the distribution network used by Indian products) there are specific advantages in case of exports to Russia. Further considering India’s strength globally, Leather exports and exports of colored precious and semi-precious stones, precious metal jewellery, have vast potential in Russian market. Details regarding some of the specific potential sectors are as follows:

Pharmaceuticals

- 3.18 In the case of pharmaceuticals, Indian strengths include good reputation of drugs in various groups, drugs prepared from herbs, substantial market share, value for money and the ramified network of representative offices and distributors in Russia.
- 3.19 The Indian side expressed that at present, every batch of medicines exported to Russia from India is certified by a certifying laboratory, which takes more than a month. Pending grant of certificate by Russian authorities, the companies have to pay demurrage charges, thereby increasing the cost of medical supplies. Indian side suggested that to prevent demurrage at the ports, the consignments may be cleared by the Customs in Russia without any delay, on an undertaking by the importer that the medicines would be sold in the market only after certification. Russian side informs that since January 1, 2007 certification has been replaced by declaration. It was further stated that the declaration process is regulated by the Ministry of Industry and Energy and details can be found on the web-site of the Ministry. Indian side also proposed that the technical organizations of both countries may enter into Mutual Recognition Agreements (MRA) for conformity assessment(CA) and Equivalence to facilitate certification of the products in India itself. Technical teams from Russia may visit the manufacturing facilities of Indian companies to certify the Indian companies/ products for quality in India itself.
- 3.20 Indian side expressed that the registration process for products is also very long and fee for registration of products in Russia is very high as compared to other countries. It is about US \$10,000 per molecule per strength. Indian side proposes that it needs to be brought down to a reasonable level and efforts may be taken up by Russian authorities to reduce the time required for registration.
- 3.21 The Indian side pointed out that the supplies to the public health system constitute a substantial portion of the Russian pharmaceuticals market. The Indian side suggested that the Indian companies should be treated at par with the domestic companies in case of Government sponsored procurement of medicines.

Tea

- 3.22 India is one of the largest producers and exporters of Tea. 'Darjeeling' tea from India finds a niche market. However, Indian tea suffers from negative image in Russian market, which is explained by the fact that large amounts of poor quality teas from third countries are blended and sold as India tea and also teas with low real Indian tea content are named and sold as Indian tea, in Russia. Promotion of Indian tea among Russian customers along with greater business to business interaction and provision in Russian legislation on when and how the term "Indian tea", can be used can lead to increase in the presence of good quality Indian tea in the Russian market. Introduction of an effective Russian legislation to accord protection to "Darjeeling tea" as a GI and recognition of "Assam", "Nilgiri" "India Tea Logo" as labels/well known brands is likely to improve the situation. The implementation of the bilateral agreement between India and Russia on this issue and rationalization of import duty on Packaged tea vis a vis Bulk Tea in Russia may solve this problem .

Coffee

- 3.23 Russia has great potential to source green coffee as well as roasted coffee from India. This is evident from the fact that imports of green coffee have shown steady increase over the years from 2347 MT in 2001-2002 to 5449 MT in 2005-2006. Regular buyer-seller meets of both the countries and focused promotional activities are required. Indian side suggests that Russia may also consider granting GSP concession to India in Soluble coffee.

Agriculture products and processed food

- 3.24 Russia is a major importer of potatoes, mangoes, fresh and dried grapes and groundnuts. India has a potential to export these crops as well as food grains, fruits and vegetables like papaya, pineapples, grapes, barley, maize, rice, fresh tomatoes, cucumber, green chillies, dry onions, carrots, cabbage, banana, lemon, lime, apple, pears, green cardamom, pepper and gherkins to Russia. Russia is the biggest importer of gherkins from India and EU is no longer the major supplier of frozen gherkins to Russia. Indian side suggested that granting GSP status to gherkin exports from India and reduction of import duty by 25% to 11% would promote exports of gherkins from India.
- 3.25 India is a regular exporter of bovine meat and egg powder to 55 countries since last 37 years i.e. from 1969, mainly to the Middle-east, Malaysia, Iran, Philippines and many CIS countries. Indian side expresses concerns that despite high potential the exports of products of animal origin from India to Russia are not significant. Russian side has sanitary concerns regarding these imports. Russian side believes that Russian sanitary standards comply with international standards. However, Indian side feels that Russian side follows higher standards as compared to the international standards. Therefore, Mutual Recognition Agreements (MRA) on Conformity Assessment and Equivalence on Health and Safety standards between India and Russia on imports of bovine meat and poultry products and other products of Animal origin in conformity with the relevant international standards, guidelines and recommendations may improve the situation in mutual trade in products of Animal origin.
- 3.26 Russia is a premium high quality and high price market for flowers. Most of the year it depends upon imports, largely from Holland. Flowers are trucked down from Holland in 4-5 days period, losing quality, yet resulting in rewarding prices. India has good air connections. However Indian exports of flowers into Russia have not taken off. Information exchange relating to major buyers of flowers in Russia and quality

specifications required for Russian market would facilitate exports of flowers from India to Russia.

Spices

3.27 During 1991, India had been exporting a sizeable quantity of pepper and other spices amounting to over 20,000 Tonnes to Russia. However India's spices exports have reduced drastically over the last few years. The Russian market offers opportunity for the exports of value added spices and spice products, focusing on spice oleoresins and curry powder/spice blends from India, Mint oil and its products, Green cardamom and pepper etc. The Russian population is moving towards better quality life and safe food. Therefore, considering the massive consumption of meat and poultry products, large volume of spice powder/blends particularly used by the processing and catering industries may be substituted by spice oleoresins. Teams of businessmen from India, who are well-versed with the manufacture of various leading blends based on spice oleoresins for processed meat and other food products may visit the leading food processing industries in Russia for demonstration and standardization on the use of oleoresins including providing sample products. Similarly, food processing industries in Russia may visit India to witness the processing and supply capability of the Indian oleoresin industry and familiarize with the technological advancements of the Indian spice oils and oleoresin industry.

Tobacco

3.28 Traditionally, India has been one of the leading exporters of Tobacco to Russia. Russian imports of tobacco have increased manifold to 300 million. Kg. However, India's share in Russian imports which was 25 – 30% in the 1980s has been declining due to several reasons over last 7-8 years, and is at present 9%. In 2005/06, India has emerged as the second largest flue cured exporter of Tobacco, surpassing China due to stable, large crop sizes, low prices and good quality filler tobacco resulting in attractive price/quality relationship. Tobacco production in India has increased manifold during the last five years and reached about 240 million kg. Especially, India is now in a position to supply bulk quantities of tobaccos suitable to Russian manufacturers at right price and there is scope for increasing the share of India in the Russian imports of un-manufactured tobacco to around 15% from the present share of 9%. Assessment of possibilities of cooperation in this area is required.

Ready Made Garments(RMG)

3.29 India's strengths include the image of Indian goods as low cost, good quality and reliable. However, the major obstacle to increase in trade volume is transportation cost. The latter provides great advantages to Turkish, Chinese and European textile and clothing manufacture. However, as the Russian demand is expanding for good quality clothing and apparel, there are good opportunities for Indian RMG exports due to wide range and pallette of Indian production in textiles and clothing, limited local availability of textiles in Russia, the limited colour range offered by competitors and the Indian design expertise.

3.30 Indian side notes that greater business to business interaction and the rationalization of tariffs on RMG in Russia along with determination of import duty on an ad valorem basis by Russian Customs may facilitate imports of good quality RMG to Russia from India. Russian side notes that Indian producers should make a study of Russian consumer preferences and change the range and quality of its supplies accordingly.

Leather

- 3.31 India's strengths in this area include availability of good quality fashion gloves, premium quality leather footwear and high end finished leather. However, high import duties along with competition from China and Turkey and leather substitutes from Japan are a threat. Growth of the market provides steady opportunity. Better knowledge about the Russian market and greater awareness of Russian buyers regarding leather products from India are required.

Machinery

- 3.32 Exports of engineering goods and services from India have reached to USD 19.18 billion in 2005-2006 and registered a robust growth of 24.68%. Similarly, Russian imports are led by machinery (41% in 2005). The main thrust products for Russia from India are: Compression ignition and electrical ignition type IC Engines; Refrigeration in air-conditioning; parts for excavating machinery; Seamless pipes and tubes of iron and steel; Welded pipes and tubes of iron and steel; Tube or pipe fittings of iron and steel; Handsaws and blades for saws; grinding stones and grinding wheels etc..
- 3.33 Indian goods have established good reputation in packaging machinery also, for pharmaceuticals and food processing. The interest of the Indian producer in the Russian market is evident in sales. However, these are traders' sales in small lots. The potential of large companies that could take on large scale supplies of the Indian product needs to be tapped. Indian side suggested that reduction of import duty on machinery and better information exchange about buyer's requirements in Russia and suppliers available in India would help.

Automobiles

- 3.34 There is a large potential for supplying automobile parts from India to Russia, and assembling Indian cars in Russia. Major Indian companies, such as Mahindra and Tata Motors have recently demonstrated their interests in the Russian market. Intensification of cooperation in this area for mutual advantage would help.

Potential Sectors for Expansion of Exports from Russia to India

- 3.35 Russian side notes that the current structure of the Russian exports to India doesn't match the potential of the Russian economy. Russian side believes there are certain opportunities in sectors such as agriculture products, mining, machinery etc., that are listed below. However, in order to give a new impetus to the bilateral trade relations, the structure of trade must embrace new industries and innovative products.

Agriculture products and processed food

- 3.36 Russia with its huge land resources has competitive advantages in the sphere of agriculture. Several agricultural items can be exported to India, mainly grains and vegetable oils. First steps into establishing agricultural export from Russia to India have already been made: Russian companies have made trial shipments to India, - the Russian side suggests that more efforts are needed on both sides to realize the potential.
- 3.37 Russian side expressed that the cooperation in agricultural sector should not be limited only to product shipments. Russian side proposed its technologies in this sphere for example, a sparkling wine plant operating based on the Russian technology can be

constructed in India. Another segment is fermented milk products - where Russia has its own technologies - could be proposed to India.

Machinery

- 3.38 Russian side expresses its interest in increase of exports of a wide-range of machine-building products to India as traditionally, Russian heavy machinery has been one of the major exporting item to India, and further possibilities exist to increase such export.
- 3.39 Russian side notes that Russian producers of agricultural machines are known for their cheap, but safe products. Thus, the Russian side suggests that participation of Russian companies in supply of agricultural machines to India may be profitable for both sides.
- 3.40 The Russian side indicated that Indian and Russian transport machine-building companies may explore possibilities to cooperate in the development of a new generation of locomotives, local electric trains and subway trains as Russian railway industry is undergoing a time of reforms and in cooperation with major Western companies new types of trains have been developed. Besides, Russia has a wide experience of building of subway trains.

Aircrafts

- 3.41 Russian side feels that after signing in 2006, of an MoU on carriage of passengers and cargo by civil aviation between the Government of the Russian Federation and the Government of the Republic of India for enhancing flights safety, there is a potential for matching the growing demand of air carriages in India by supplying/leasing of new types of Russian civil jets and helicopters.
- 3.42 Russian side also suggests to consider the possibility of work on joint projects in the sphere of aircraft engineering, embracing the full-cycle production and market promotion, including the markets of other countries.

Chemicals industry and fertilizers

- 3.43 There is a great deal of complementarity between the resources in Russia and the growing demand for fertilizers in India. The JSG noted the possibility of joint investments based on the inputs available in Russia viz. Natural gas and other resources, in the fertilizer sector (especially, ammonia-urea, potash, phosphatic fertilizers) between India and Russia, along with the possibility of having long-term buy-back arrangements by India from the manufacturing facilities in Russia. Consequently, Export of fertilizers is already a substantial part of the Russian export to India and further potential exists in this area.

Medicine and biotechnology

- 3.44 Russian science and research organizations and enterprises are interested in co-operation with Indian partners in such promising fields as biotechnologies, aimed at antibiotics, hormonal medicine, ferments, albumen, peptides and vitamins development. Russian side is interested in development of joint programme for production of substances and ready dosage forms of antibiotics of the new generation.
- 3.45 Russian side also expresses its interest in complex supplies to India of medical products for medical and preventive treatment facilities, mobile medical complexes for

express evaluation of epidemiological situation and population's health in distant regions, and for rendering services of special medical units

- 3.46 In the sphere of pharmaceuticals, the Russian side proposes the development, production, and delivery of immunity-biological medicines, such as vaccines against poliomyelitis, roseola, etc. Russia has a lot of experience of producing veterinary pharmaceutical products, which can be supplied to the Indian market.

Metallurgy

- 3.47 Both sides are interested in modern technologies that can be used in building and modernization of Indian metallurgy. Russian side is interested in enhancement of cooperation with Indian public sector and private enterprises in the sphere of ferrous and non-ferrous metallurgy and also in joint projects in metallurgy.

Mining

- 3.48 There is a considerable demand for coking coal in India, in which Russia offers the opportunities. Moreover, Russian investors are ready to take part in the coal mining sector in India. Production of titanium di-oxide and titanium sponge is another area in which Russian companies play important role in the world market and India is a good source of ores. Possibilities of joint work in this area may be explored. Information exchange between Russian and Indian companies in the field of mining equipment production is also needed.

Cooperation in Gem and Jewellery Sector

- 3.49 Statistics for 2006 show that there is a potential for enhancement of bilateral trade in gem and jewellery. India and Russia have natural complementarity in diamond sector. India is the largest processor of rough diamonds. India imports about USD 6 billion value of rough diamonds per annum, while Russia produces about USD 2.5 billion value of rough diamonds per annum. Indian diamond processing industry requires direct and regular supply of rough diamonds for processing and value addition thereon. The main Russian diamond mining and exporting agency (Alrosa) has to find alternative agencies to polish rough – and India has clearly taken a share that is likely to increase. The Indian side feels that, cooperation between MMTC Limited in coordination with Diamond India Limited, sponsored by the Gem and Jewellery Export Promotion Council of India(GJEPC), and “Alrosa” can become a viable option for enhancing the trade between the two countries.

Cooperation in the Energy sector

- 3.50 Today Russia is one of the major exporters of the hydrocarbons in the world. Thus leading Russian companies have both resources and technologies to participate in big projects such as construction of the pipeline. The signing of Memorandum for Cooperation between Russian "Rosneft" and ONGC is an important step to develop Russian-Indian cooperation in this sphere. Indian side notes that future increase in supply of oil and LNG from Russian reserves in Sakhalin and Eastern Siberia is possible.
- 3.51 Further, considering long-term ties between the two countries in this sphere, cooperation in reconstruction of the existing and construction of new power supply

facilities in India (nuclear, heating and hydro power plants) by Russian companies may be considered.

Barriers to trade and steps to overcome these barriers

- 3.52 Various problems have been held responsible for the poor level of bilateral trade between India and Russia. Some of these general barriers to bilateral trade and the suggested steps to overcome them are as follows:

Transportation and logistics

- 3.53 After 1991, India's trade with Russia had been taking place through Novorossiisk and St. Petersburg. Throughout the 1990s, Novorossiisk registered long queues and excessive demand on limited facilities – the result of diversion of Russia-bound traffic from Ukrainian ports. St. Petersburg became the preferred port of entry – however, it was extremely expensive and Customs' procedures were difficult to deal with. Although ice-cutters and convoys ensure that both ports were accessible all year round, the problem of winter freezing added a further complication to commerce. The heavy costs of demurrage at Russian ports and expensive and unreliable warehousing has been a problem that has encouraged trade through third countries. As a result, goods bound for Russia pass through alternative routes – undermining bilateral trade. Such routes also include agents in Dubai and Hamburg – who act as importers who re-export the goods to Russia as part of a general trade in goods with a number of countries. Goods also pass through Tallinn and Riga.
- 3.54 The Russian side expressed that Russian companies are also facing problems in terms of handling facilities and turn-around time at some Indian ports. Indian side expressed that major steps have been taken to upgrade the facilities and required infrastructure at the Indian ports to modernize them.
- 3.55 As far as both Russian and Indian companies prefer to transport cargo through the ports of the third countries, Russia and India should examine this practice more carefully in order to understand the reasons of this.
- 3.56 Russian side informed that this year Russian Government will consider a bill on the Special Economic Zones (SEZ) in Ports. It is expected that in 2007, the related legislation will come into force. This type of SEZ will help to upgrade the infrastructure of the main Russian ports due to the investment of residents of this zones. Hence the problems connected with the queues and limited facilities in Novorossiisk and St. Petersburg will be gradually surmounted.
- 3.57 This also highlights the importance of the role to be played by the measures to establish a reliable international transport corridor (ITC) between Russia and India. The establishment and subsequent effective functioning of North- South ITC will be an additional step toward solving the transportation problem. Establishing of North-South ITC to a great extent depends on the concerted efforts of the Caspian-based regions of the Russian Federation to implement the project and on the coordination of efforts by Russia, India, Iran and other stakeholders in setting up required structures, in particular, in putting together a Task force, coordinating the transit procedures. The North-South ITC is based on container shipments, which are sent via the Caspian Sea, Iran and the Arabian Sea.

- 3.58 Therefore, it may be regarded as a long-term objective to remove barriers to the use of this corridor by continuing the development of containerization, ensuring a required level of services and security for shipments of cargoes through the North- South ITC etc.
- 3.59 Several measures geared towards the improvement of the North- South ITC are listed in recommendations.
- 3.60 It is necessary to look into the possibilities of enhancing the air links for shipping of expensive and perishable cargoes.

Language and Information barriers

- 3.61 Poor information exchange between Indian and Russian businessmen has affected bilateral trade. Exhibitions and conferences have been arranged by FICCI, CII and the Indo-CIS Chamber of Commerce in association with the Government agencies and Chambers of Commerce in Russia. To promote more active involvement of private business representatives in the trade fairs held in India and Russia, steps should be taken to increase the number of such events by including a greater number of major Russian and Indian cities and cover all potential areas for the development of intensive trade between Russia and India. To help identify "bottlenecks", it is necessary to facilitate regular surveys of trade fair participants so that problems can be brought to light which impede establishment of contacts. Language has also been a regular impediment to knowledge of opportunities in the other country.
- 3.62 JSG recommends that it is essential to establish exchange of information on a regular basis about projects having potential in priority areas of cooperation and to set up information channels to circulate on a continuous basis, information about business opportunities in Russia and India. This may be done through regular exchange of information between identified reputed Trade Bodies and major buyers and suppliers from both the sides.
- 3.63 In particular, JSG notes that there is lack of information on the State-sponsored tenders held in India and Russia. Moreover, it is necessary to draw deeper upon the potential of Commercial wings of the Missions of the two countries. Transparency through mutual sharing of information is the key to success of bilateral commercial and economic relations. The JSG recommends that the process of sharing information on market, legal environment, trade policies, investment opportunities between the relevant Government Departments and Trade Bodies may –be institutionalized. Website providing information on the legal environment for business activities in each of the countries, the terms for establishing trade and investment ties, market information, administrative procedures and guidelines, Customs regulation etc. may be made fully functional .

Technical Barriers to Trade (TBT) -Certification, Standards and Regulations

- 3.64 The differences in technical product requirements, first of all in mandatory requirements, and the nation-specific conformity-rating rules and procedures may impose significant barriers in international trade, which are regarded as a special area

of trade restrictions, the so-called "Technical Barriers to Trade(TBT)" or "Sanitary and Phytosanitary measures(SPS)", and are governed by special-purpose WTO agreements, such as Agreements on Technical Barriers and Trade and Agreements on Sanitary and Phytosanitary Measures.

- 3.65 The JSG notes that the health and safety standards should be based on the relevant international standards, guidelines and recommendations to improve the compatibility of technical regulations and standards between both countries. India expressed its view that the Russian Authorities may recognize and technically collaborate with the official export inspection agency of India or any other certifying agency in India for issuing the health and safety certificates for Indian exports to Russia. It was also noted that India and Russia should make available relevant information and documents on laws, rules and regulations affecting trade, in particular, including for registration. Indian side suggests that the possibility of India and Russia entering into MRA on Conformity Assessment(CA) and Equivalence on health and safety standards relating to various categories of products like Pharmaceuticals, Meat and poultry products, dairy products, other products of Animal origin and other relevant food and other products needs to be explored. The JSG noted that there should be greater technical cooperation and exchange of information between the relevant agencies on both the sides for this purpose.
- 3.66 In India, there are over 100 specific commodities (including food preservatives and additives, milk powder, infant milk foods, certain types of cement, household and similar electrical appliances, gascylinders, tires, and multi-purpose dry cell batteries) that the Bureau of Indian Standards (BIS) must certify before the products are allowed to enter the country. A system now exists by which foreign companies can receive automatic certification for products made outside India, provided BIS has first inspected and licensed the production facility (at the manufacturer's expense). Licensing fees include the cost of the initial inspector's visit and tests, an annual fee of approximately \$2,000 and a marking fee that ranges from 0.2 percent to 1 percent of the value of certified goods imported into or produced in India. Potential Russian exporters could be made aware of this requirements.

Other Non Tariff barriers to trade

- 3.67 All trade from Russia, outside the debt repayment depends on the opening of a letter of credit (LC) on a Russian bank. Traditionally, the Central Bank of Russia does not guarantee the status of any of its banks to evoke trust in India. At the same time, Indian banks refuse to accept letters of credit and open correspondent accounts to the Russian commercial banks without such guarantees. Many companies, both Indian and Russian, complain that such situation creates barriers to increase trade between the two countries by increasing costs and time of provision of financial services. It was noted that the two central banks have facilitated the process of acceptance of guarantees of Russian banks and a list of top 10 Russian banks has been circulated to Indian banks. RBI has also proposed to Indian Banks Association (IBA) to send a delegation of Indian banks to Russia to have discussions with Russian banks. However, acceptance of guarantees will depend upon the correspondent relationship and on the commercial judgment of each member bank.
- 3.68 Indian side expressed the view that major changes have taken place in the rules on visas for Indian businessmen wishing to visit Russia. Nowadays, full accommodation guarantee and medical insurance are required for a visa – difficult for businessmen,

who find it hard to pay the high charges for boarding and services at standard Russian hotels. Also required, is an invitation sent through the relevant Russian Ministry. Work and employment visas requires a two stage process where the employee has to be present in Russia, find accommodation, be vetted by Home Ministry officials and then return to his/her home country for issue of a work visa. For speeding-up of visa formalities for entrepreneurs, Indian side feels that therefore, clear-cut criteria need to be provided by Russia to be used to identify the category of persons who could qualify for the fast-track visa regime.

- 3.69 Russian side expressed the view that India has not yet agreed to sign the Agreement on Readmission with Russia, which Russian side is considering as a pre-requisite toward simplifying visa procedures and they feel that negotiations should be started on this as soon as possible. Indian side proposes that special procedures should be developed to speed-up visa formalities for entrepreneurs and businessmen. Recommendation of the Trade Bodies or Export promotion Councils in India may be considered sufficient for issuing Russian Visa to Indian businessmen visiting Russia.

Tariff related Barriers

Problems in the Russian regime, identified by the Indian side:

- 3.70 The standard Tariff in Russia is available in published form, with an accompanying set of notes. The latter are an indication of the problem. For, though reasonably comprehensive, they cannot and do not cover a range of products that are innovative (in textiles and spices for instance, or bio-engineered goods, but ultimately for most goods). The system of appeal is difficult to understand and confusing – even when problems are anticipated and issues taken up at Customs' Administration Office in Moscow or St. Petersburg.
- 3.71 Higher tariffs exist in certain categories in Russia (as in the case of some textiles and machinery, 20% or more). For countries like India, which have no advantages of proximity, this increases the inaccessibility of the market. These categories interalia include:
- Comparatively high tariffs (25%) on automobiles which are rendering the gradual initiative taken by the Indian automobile industry in Russia difficult.
 - Higher import duty on packaged tea (20%) vis-a-vis bulk tea (5%) which discourages the exports of Good quality packaged Indian tea to Russia.
 - Import duty for Cut & Polished Diamonds, Gold Jewellery, Coloured Gemstones and Pearls is 20% in Russia, which is high. In India, it is either Zero (for Rough Diamonds & Stones) and 5% (for Cut & Polished Diamonds & Coloured Gemstones). In case of precious Metal Jewellery, it is 13.88% and 16.24% is for the Branded Jewellery.

Problems in the Indian regime, identified by the Russian side:

- 3.72 The Indian government publishes tariffs and additional tax rates that apply to imports, but there is no single official publication that includes all information on tariffs, fees and tax rates on imports. Importers must consult separate tariff and excise tax schedules, as well as any applicable additional public notifications and notices, to determine current tariff and tax rates. The rate at which the customs duty is imposed on the goods depends on the classification of the goods determined under the Customs Tariff. The Customs Tariff is generally aligned with the Harmonized System of Nomenclature (HSN). The rate at which the excise duty is imposed on the goods also

depends on the classification of goods under the Excise Tariff, which is primarily based on the HSN.

- 3.73 The import duty on agricultural and articles of food import duties are from 9.3 % up to 110.1 %, -on syrups and concentrates for manufactured-soft drinks (code 2106 90) - from 206.4 % up to 264.5 %, on separate tobacco mixes (code 2403 10 20) they reach 471.9 %. Import duties on the chemical goods (codes 28-29, 38) make 36.7 %, on fertilizers (a code 31) which are some of the basic goods of the Russian export, they do not exceed 17.3 %, which is still high. The sizes of rates of import duties on such perspective goods of the Russian export to India as diamonds (code 7102) and gold (code 7108), make accordingly 17.3 % and 36.7 %, on coal (codes 4401 - 4402) - 9.3 %. The range of rates on ferrous metals (code 72) makes from 27.5 % up to 30.6 %, on nonferrous metals - from 27.5 % (on nickel and lead (codes 75 and 78) up to 36.7 % (on copper, aluminium and zinc (code 74, 76 and 79).
- 3.74 The rates of import duty on machines, equipment, vehicles, and also production of instrument basically are from 17.3 % up to 36.7 %. Exception are cargo and passenger (more than 10 passengers) motor transport (codes 8702, 8704, 8706), automobile and special cars (a code 8703), and also motorcycles and motor scooters (a code 8711). Rates of import duty on these goods are 46.5 %, 162.0 % and 144.7 % . Therefore, import duties on the Indian side can serve as a barrier to diversification of Russian exports to India.
- 3.75 In response to the tariff problems indicated by the Russian side the Indian side states that tariffs for both agricultural as well as non-agricultural goods are well within the WTO Bound Rates. The duties for certain items as indicated above are not correct and are inclusive of Countervailing(CV) Duties. The CV Duties (which are not the anti-subsidy CV duties as in WTO terminology) are imposed on imported goods at the same rate as the central excise duty levied on domestically manufactured goods . These duties are WTO compatible and are not within the purview of any RTA. Further, the Indian side highlighted that:
- India's tax regime is fairly simple and transparent. It is the stated objective of the Government to bring down import duties so as to align them with our South-East Asian neighbours.
 - In line with this policy customs duty rates have been reduced over a period of time from peak rate of more than 300% in 1990-91 to 10% in 2007-08. The number of major Customs duty rates has come down from 22 in 1990-91 to 3 in 2007-08.
 - As regards tariffs, most of the non-agricultural goods have a peak uniform tariff rate of 10%. Certain types of basic raw materials/intermediates such as polymers, ferro alloys and non-ferrous metals, organic chemicals have a much lesser tariff of 7.5% /5%.
 - Most of the agricultural goods have a uniform rate of 30%. Certain agricultural tariff lines have a higher duty rate so as to provide protection to our domestic farmers for whom it is a livelihood issue.
 - With this year's changes in the duty structure, India's simple average tariff (arithmetic average of effective rates for all 8-digit lines) for non-agricultural goods is 9.4%.
 - Indian website (www.cbec.gov.in) provides complete details of the Customs and Central Excise duty rates, tariff classification and the exemption/ concession

notification in force as well as those issued from time to time. Further, circulars and clarifications issued are also posted on the website immediately.

Trade facilitation and Customs cooperation

- 3.76 There are lots of similarities in the challenges faced by the Customs administration in both the countries. Both are striving to meet the international standards demanded by the competitive global trade. From IT perspective, both the Customs have significantly modernized their operations and thus have requisite resources and technology to venture into electronic data exchange and both countries are looking for developing international experience and expertise in modern forms and methods of Customs control. In view of this, Indian and Russian Customs partnership would provide requisite opportunity to strengthen a) trade facilitation measures, b) enforcement apparatus, c) risk management systems.
- 3.77 India has made efforts over the past years to bring its Customs procedures on par with the best international practices backed by the Electronic Data Interchange (EDI) system under which a fast track scheme for qualified importers has been started and they have been allowed to pay duty and clear the imported goods on the self duty assessment basis. A green channel facility for waiver of inspection of the imported cargo belonging to the qualified importers identified on the basis of past performance has also been started. Interactive Voice Response System (IVRS) and Touch Screen Kiosks have been installed to facilitate traders to ascertain the status of their documents. Better exchange of information between both the countries, regarding existing Customs procedures relating to origin verification, transshipment, cooperation in dispute settlement is essential for promotion of trade. More efficient and simple Customs procedures would also result in lower demurrage at ports. Indian Customs have developed the Indian Customs and Central Excise Electronic Commerce/Electronic Data interchange (EC/EDI) Gateway (ICEGATE). ICEGATE is a portal that provides e-filing services to the importers, exporters, Customs house agents and cargo carriers and other clients of Customs & Central Excise.
- 3.78 In Russia , in order to improve the performance of licensing, amendments have been drafted to the relevant federal law designed to reduce the number of types of activities subject to licensing. The law was signed by the President of the Russian Federation on 7 July 2005. With a view to implementing the provisions of the Federal Law "On Fundamentals of Public Control of Export/Import Activities" of 9 December 2003 No 164-FZ, efforts are under way to develop a Concept of a single State automatic information system for accounting and verification of compliance with restrictions regarding the movement across the Customs frontier of the Russian Federation of licensable and monitored goods. Russian side expressed that these measures have considerably simplified the process of both acquiring licenses in Russia and exporting the production subject to licensing

Anti Dumping and Safeguard measures

- 3.79 Both Russia and India believe in the need to contribute towards the WTO's objective of promoting freer trade. In this regard, the JSG notes that both countries affirm the rights and obligations of the countries under the WTO agreements on Anti-dumping, Subsidies and Safeguards.

Conclusion and the way forward

- 3.80 Currently, Indo-Russian trade is of marginal importance to the trade profile of the two countries (1% or less on average). In specific cases of Indian exports to Russia, despite potential, a stagnation in trade, or a drastic reduction in trade is visible in a large number of items, while, in the case of Indian imports from Russia, there is an all-round improvement over time in many commodities, the major ones being ferrous and non-ferrous metals imports.
- 3.81 In the case of traditional items, considerable potential for improvement exists despite logistics and transport disadvantages vis a vis competitors from the EU and China. However, development in trade in goods faces important challenges in the form of barriers to trade in these sectors. Removal of barriers and greater business to business interaction and information exchange would facilitate further enhancement of bilateral trade.
- 3.82 Quality Standards, certification requirements etc. in line with the WTO requirements may be mutually agreed through MRAs on Conformity Assessment and Equivalence etc. so that technical barriers may not hamper bilateral trade.
- 3.83 There is considerable potential for improvement of trade in areas which have not been exploited hitherto. This primarily, lies in machinery exports; automobiles ; gem and jewellery; and agricultural and food products. Rationalization of the tariff lines, setting up of joint ventures and information exchange may yield mutual benefit in these areas.
- 3.84 Backed by the recent initiatives, further cooperation between the two countries in the area of Oil and Natural Gas is expected.

Recommendations for enhancing the Indo Russian Trade in Goods

- 3.85 The JSG has evolved a set of measures to enhance the India Russia bilateral trade to USD 10 billion by 2010. The relevant recommendations relating to Trade in Goods are as follows:

General Measures

- 3.86 ***Measures aimed at improving information exchange :***

- Organization of industry specific fairs and exhibitions and holding of conferences, to be attended by business communities of both the Sides.
- Facilitating exchange of information in English language so as to overcome the barriers of language between both the countries.
- Development of an internet website featuring information both in English and Russian relating to
 - opportunities for the bilateral trade and investment in Russia and India;
 - statutory framework, procedures, certification procedures, standards, etc.;
 - dates and venues for fairs and exhibitions;
 - projects and tenders of the federal and regional governments both in India and Russia;

- lists of buyers and sellers of specific products in India and Russia.
- Organizing visits of Indian journalists to Russia and Russian journalists to India for familiarization and facilitating information dissemination regarding the economic climate in both the countries so as to create more trust in each other's countries.
- Holding of Indo-Russian seminars to exchange information regarding business practices in both countries.
- Identifying Trade Bodies and agencies for circulating information on business opportunities in Russia and India on a regular basis. It was agreed that trade related information especially, that related to tenders may be sent regularly to these organizations in English. From the Indian side these agencies are Embassy of India Moscow FICCI, CII, ASSOCHAM, India CIS Chamber of Commerce, Export promotion Councils etc. From the Russian side these agencies are Russian Trade Representative Office in India, Russian-Indian Business Counsel, Russian Union of Industrialists and Entrepreneurs, Russian Chamber of Commerce and Industries, etc.
- To pursue organization of regular meetings of the Russian and the Indian businesses, as per specific industries as part of the activities Indo-Russian Business Council.
- Establishing Russian trade houses in India and India trade house in Russia.

3.87 *Visa Procedures*

- To pursue discussions on a mutually acceptable solution to simplify the visa regime between India and Russia particularly business and work visas.

3.88 *Customs and Statistics Cooperation:*

- Regular information exchange between Customs authorities of both the countries under the existing Customs Cooperation Agreement between the two countries.
- To implement the Protocol for exchange of information prior to arrival of cargo between the two countries.
- To invigorate an exchange of statistics about socio-economic development between the Statistical authorities of both countries

3.89 *Removal of informal barriers to trade:*

- Identifying a list of banks in consultation with the Reserve Bank of India and the Central Bank of Russia for opening of Letter of Credit (LoC).
- Consider the possibility of Mutual Recognition Agreements on Conformity Assessment and Equivalence, and Agreement on Health and Safety Standards for various categories of goods, in line with the WTO norms.
- Collaboration between the concerned technical Bodies of the Indian and Russian side to consider identification and mutual recognition of certificates issued by the certification agencies.
- Simplification and shortening of procedures for certification.
- Providing incentives for the development of reliable warehousing at major ports.

3.90 *Tariff Related issues:*

- Rationalization of Tariffs and consideration of bilateral tariff liberalization at the time of negotiations on Comprehensive Economic Cooperation Agreement

(CECA) in required categories of Goods, in line with the WTO norms. This would be accompanied by clear, unambiguous, consistent and transparent Rules Of Origin (ROO).

- Harmonization of system of Tariff classification of Russia with the international norms and removal of Tariff classification related difficulties in various categories of goods.

Sector specific measures

3.91 Agriculture and Food Products:

- As a general measure, joint ventures (in specific cases with the help of Russian technology) for the manufacture of various types of processed food including fruit juices, dairy products etc. may be set up in India along with a buy-back arrangement for exports to Russia from India and export to the third countries.

3.91.1 Tea & Coffee

- Introduction of an effective Russian legislation to accord protection to “Darjeeling” Tea as a Geographical Indication (GI) and recognized “Assam”, “Niligiri” and the “Indian Tea Logo” as labels of well-known brands.
- Making provisions in the Russian legislation that for any blend to be called “Indian Tea”, the weight of Indian tea in the blend should not be less than 75%.
- The Indian side requested for reduction of the import duty on packaged tea to bridge the gulf between the present import duty of 5% on bulk tea and 20% on packaged tea.
- To consider developing and implementing a promotion campaign for Indian tea in the Russian market.
- To consider the setting up of Joint Ventures for packaging and blending of tea for sale in Russian market.
- Buyer-Seller Meets and focused promotional activities aimed at increasing Indian Coffee exports to Russia may be taken up.
- The Indian side requested for granting of GSP preference of 25% on Soluble Coffee by Russia.

3.91.2 Meat, Poultry products and other products of animal origin

- Indian side requests a review of current Health and safety measures in Russia on imports of Bovine meat and Poultry products as well as other products of Animal origin.
- Early completion of Agreement on the standards for import of Bovine meat and products of animal origin from India. Mutually agreed Health and Safety standards in line with the WTO norms may be agreed between both the Sides.

3.91.3 Fruits & Flowers

- Russia is a major importer of fruits like Papaya, Pineapple, grapes and Gherkins. Indian side requested the Russian side for granting of a tariff margin of preference of 25% under GSP.
- Information about quality specifications and buyers of fruits, potatoes, dates (fresh and dried), groundnuts and fresh flowers, in Russia may be disseminated to Indian suppliers.

3.91.4 *Beverages and Spirits*

- To Consider setting up Joint Ventures for exports to other countries and Russia for promoting trade in alcoholic beverages through Russian technology.
- Exploring the possibility of cooperation in fermented milk products and selling them in India and Russia.

3.91.5 *Spices*

- To take measures for the possible increase in supplies of pepper and other spices to the Russian Federation by promoting better exchange of information.
- Visits of technical teams from India to the leading food processing industries in Russia, for demonstration and standardization of the use of spice oleoresins including providing samples of the products.
- Visit of food processing industries of Russia to India to witness the processing and supply capabilities in Indian spices and oils and oleoresins industry.

3.91.6 *Others*

- To exchange information relating to ethanol, confectionery, sunflower oil, and grain exports from Russia
- To take measures for possible increase of supply of grains and sunflower oil from Russia to India.

3.91.7 *Tobacco*

- Setting up joint ventures for manufacture of cigarettes in Russia using Indian Tobacco
- Indian side requests for Tariff preference for exports of Indian tobacco to Russia
- Russian side requests that collaboration of Tobacco Board of India with “Rostabac” for promotion of Indian Tobacco in Russia may be considered .

3.92 **Chemicals, Petrochemicals and Pharmaceuticals;**

3.92.1 *Pharmaceuticals*

- Cooperation in the field of Research & Development (R&D), training of drug regulators and bio- studies with National Institute of Pharmaceuticals education and Research (NIPER) of India.
- Participation of Russian pharma enterprises in exhibitions held in India and Indian pharma companies in exhibitions in Russia (for example, Pharma World Expo and in similar exhibitions of that kind) with possible arrangement of national exposition halls.
- Considering development, production and delivery by Russian companies to India of immuno-biological medicines such as vaccines against Poliomyelitis, Roseola, etc.
- Technical cooperation for recognition of Indian Pharmacopeias in the field of herbal medicines.
- Explore the possibility of providing access to Indian suppliers for Government sponsored medicine supply to the Public Health System of Russia.
- Considering the possibility of cooperation in development and supplies of veterinary medicines by Russian companies to India.

- Bilateral data exchange on the Indian pharmaceutical medicines registered in the Russian Federation, as well as the pharmaceutical medicines produced at the Indian enterprises upon orders placed by Russian companies.
- Explore the possibility of co-operation of Russian Science and Research Organizations with Indian partners in biotechnology, primarily, in antibiotics and vaccine development.
- **Requests of Indian side**
 - Fast track registration for Indian medicines in Russia.
 - Exempting Indian companies from batch-by-batch registration in Russia/ Exemption from Demurrage Charges by allowing clearance of goods on the basis of an undertaking given by the importer.
 - Evolving a mutually acceptable system of testing the medicines meant for Russian imports in India itself/ Accreditation of reputed testing labs in India by Russian authorities for testing and certification of medicines exported to Russia from India.
- **Requests of Russian side**
 - Complex supplies to India of medical products for medical and preventive treatment facilities, mobile medical complexes for express evaluation of epidemiological situation and population's health in distant regions, and for rendering services of special medical units.

3.92.2 *Chemicals & Petrochemicals*

- Promotion of Indian-Russian Joint Ventures in chemicals and petrochemicals sector and promotion of the Russian and Indian capital investments into chemical and petrochemical industries.

3.93 *Fertilizers*

- Consider the possibility of:
 - setting up of a joint venture Ammonia-Urea Fertilizer Complex in Russia with long term buy back arrangement for imports to India.
 - Joint investment in the field of mining of Potash and long term supply agreement for import of Potash from Russia to India.
 - Setting up of a joint venture Phosphoric Acid/DAP manufacturing plant in Russia to cater to the demand of Phosphatic fertilizers in India.
- Consider the possibility of Russian participation in revival of eight closed urea plants in Eastern India based on modern, energy-efficient and gas based technology.

3.94 **Equipment and Machinery**

3.94.1 *Machinery:*

- Holding of exhibitions, showcasing Indian machinery manufactures in Russia and Russian machinery manufactures in India.
- Greater business to business interaction between the enterprises of both the Sides to promote machinery exports as per the specific needs of both the sides.

- Information dissemination in English language about the requirements of machinery, tenders, etc. from the Russian side.
- Rationalization of Tariffs on machinery imports by Russia and India at the time of negotiation of Comprehensive Economic Cooperation Agreement.
- Information dissemination about the specific needs of the Russian buyers and the Government tenders for machinery in Russia to promote exports of machinery and equipment from India to Russia.
- Exploring the possibility of participation of Russian companies in supply of agricultural machines to India.
- Information exchange in the field of mining equipment production.

3.94.2 *Automobiles*

- Joint Ventures for promotion of Indian automobiles and automobile components in the Russian market and Russian automobiles to the Indian markets.
- Increased business to business interaction and organizing Buyer Seller Meets.
- Participation of Russian automotive manufacturers in the relevant exhibitions in India with possible arrangement of a national exposition halls.
- Rationalization of Duty Structure on Automobile and parts in both countries at the time of negotiating CECA.
- The Russian side requested for consideration of issues related to co-operation of Indian and Russian transport equipment building companies, particularly, in development of a new generation of locomotives, local electric trains and subway trains

3.94.3 *Civil Aviation*

- ***Requests of the Russian side***
 - Consideration of the possibility of supply or leasing to India of the new types of Russian airplanes
 - Overhaul and rehabilitation repairs and modernization of the Russian-made aircraft equipment in operation, as well as participation in modernization of Indian airports, while taking in to consideration of the current and future ICAO norms.
 - Consideration of the possibility of having joint airplane-building projects, which would include design, production, and supply to the market, including markets of the third countries.
 - Cooperation in commercialization of research results, including results of research, available as a result of conversion of the Russian military research institutes. Cooperation in commercialization of research results, including results of research, available as a result of conversion of the Russian military research institutes.
- Participation by Aircraft manufacturing companies in aircraft exhibitions, organized both in India and in Russia.

3.95 Gem & Jewellery

- *Requests of Indian side*
 - Direct & regular supply of rough diamonds for processing and value addition in India through cooperation between MMTC Limited in coordination with Diamond India Limited, sponsored by the Gem and Jewellery Export Promotion Council of India(GJEPC) and 'Alrosa' from Russia and also sourcing of rough diamonds from Russia for the Indian diamond processing industry directly and regularly through Letter of Credit route.
 - Participation into Joint Ventures with MMTC for processing of rough diamonds in India.
 - Investment in Joint Ventures in India and Russia for assortment, grading/auctioning and processing of rough diamonds.
 - Reduction of Import duty on Cut & Polished Diamonds, Gold Jewellery, Coloured Gemstones and Pearls in Russia.
- Opening up of a representative office of 'Alrosa' in India.

3.96 Oil and Natural Gas

- Expansion of co-operation in joint development of hydrocarbon deposits in Russia and India, as well as in other countries. Considering increased supplies of Oil and Natural Gas to India to cater to the energy requirements of India.
- Consider possibilities of co-operation in reconstruction of the existing and construction of new power supply facilities in India (nuclear, heating and hydro power plants).
- Russian side requested that the possibilities of Consultations on possible participation of Russian companies in construction of the pipeline Iran-Pakistan-India, Myanmar-Bangladesh-India may be explored.
- Joint development of projects in the sphere of non-conventional power sources.

3.97 Metals and Minerals

- Considering the Possibilities of Russian investors taking part in the coal mining sector in India and further interaction of Russian and Indian companies in the coal industry
- Information exchange regarding availability, supply and requirement of Ferrous and non ferrous metals, precious metals, precious and semi precious stones and products made thereof, between Russian and Indian companies.
- Facilitate purchases of Non-Ferrous Metals, Coal and Fertilizers directly from Russian producers on spot as well as on long term contract basis.

3.98 Leather and leather goods

- Participation in Fairs and Exhibitions on Leather Industry.
- Information dissemination about Indian goods and producers of leather products to Russian buyers.
- Indian side requested for consideration of reduction of import duties on Leather and Leather products in Russia at the time of negotiation of CECA.

3.99 Textiles, Readymade Garments(RMG)

- Greater awareness about Indian textile and RMG capabilities. Promoting industry contacts through regular exchange of business delegations, partnerships between apex Industry Associations, regular participation in Fairs/Exhibitions, regular exchange of trade related information.
- To facilitate detailed market study of the Russian textiles and clothing, market and practical guide on exports to Russia including the marketing channels, major importers, established trade practices, Government regulations/procedures, and market intelligence.
- To set up ware-housing facility for stocking items in major commercial centre of Russia for stock, sale and promotion.
- ***Requests of Indian side***
 - Considering harmonization of Tariff classification in Russia with the international norms and their application on ad-valorem terms.
 - Reduction in tariffs on textiles in Russia
 - Confidence building measures by having an institutional mechanism by Russian Customs to redress the exporters' grievances in regard to complaints of non payment and delayed payments.

3.100 International North-South Transport Corridor

- Joint elaboration of institutional and investment projects required for development of the North-South international transportation corridor.
- Acceleration of activities of the North-South international transportation corridor Coordination Council Expert Groups for business and operational issues (EG 1) and for documentation, customs, and other issues (EG 2).
- Putting proposals for improvement of the ITC transportation activity regulatory base for consideration of the North-South ITC Coordination Council.
- Consideration of establishment, within the North-South ITC area, of the logistic facilities (possibly, as part of the free economic zones and with PPP scheme application).
- Study of the existing and prospective freight facilities in the Russian, Iranian and Indian parts of the North-South ITC, including the scope and range of exported, imported, and, especially, transit freights with indication of the state of origin of the transported goods and directions of their transportation with further open data exchange among the parties.
- Examination of North-South ITC sections to identify the bottle-necks to be pursued in parallel by the Russian, and the Indian parties.

The description of modeling estimation and forecasting procedures

a) Assessment of the Prospects for Trade and Economic Relationships between India and Russia as Assisted with the Application of the Gravity Models

Assessment of the prospect for the increase of the volumes of Indo-Russian trade and evolution of its structure

To take a measurement of the volume of trade between India and Russia within the context of global bilateral external trade-flows, there has been undertaken an analysis based upon the gravity model.

The following regression equation was estimated on all world bilateral trade flows dataset and on subset that includes only Russia and India trade partners:

$$Export_{i,j} = \alpha + \beta_1 * GDP_i + \beta_2 * GDP_j + \delta * Dist_{ij} + \delta_1 * Land_i + \delta_2 * Land_j + \sum_k \rho_k * D^k_{ij} + D_{ij}^{FSU} + \varepsilon_{ij} \quad (1)$$

whereas:

$Export_{i,j}$ — stands for the volume of bilateral trade observable between the two countries i and j respectively,

GDP_i — stands for the GDP of the country i ,

$Dist_{ij}$ — stands for the distance between the capitals of the countries i and j ,

$Land_i$ — stands for the square area of the country i ,

D^k_{ij} — stands for dummy variables, as reflecting specifically -

- the availability of a shared border-line between the counties i and j ,
- the commonality of a shared language of the countries i and j ,
- the shared colonial historical record of the countries i and j ,
- the availability of a customs union, where the countries i and j are members thereof,
- the membership by the countries i and j of a preferential trade agreement,

D_{ij}^{FSU} — stands for a dummy variable reflecting the fact that both of the partner-countries are former Soviet Union republics.

Equation (1) was estimated on the data from United Nations Commodity Trade Statistics Database. For sector desegregation 1-digit standard international trade classification SITC was employed. Description of sectors is reported in table 1.

Table 1

SITC	Description
0	food and live animals
1	beverages and tobacco
2	crude materials, inedible, except fuels

3	mineral fuels, lubricants and related materials
4	animal and vegetable oils, fats and waxes
5	chemicals and related products, n.e.s.
6	manufactured goods classified chiefly by material
7	machinery and transport equipment
8	miscellaneous manufactured articles
9	commodities and transactions not classified elsewhere in the SITC

Table 2 reports estimation results for data of 2004 for overall export flows and for sectors separately.

Since, further the estimated coefficients of equation (1) for the forecast of growth of the volumes of bilateral trade between India and Russia have been used, prompted by the growing GDPs of those countries, it is important to understand how stable are the estimates of the coefficients from the regression equation (1) over time, in the first place, as regards the estimated coefficients of the size of the GDPs of the partner-countries β_1 and β_2 .

Table 3 reports the values of the corresponding coefficients, as estimated on the data compiled over the various years. It can be seen from the table 3 that estimation results are quite stable over time so we can rely in our further forecasts on the coefficients estimated for 2004.

Table 2. Estimation of equation (1) on dataset for 2004

Dependent variable: export of 2004	Total export	Export of sector (SITC)										
		0	1	2	3	4	5	6	7	8	9	
All variables in logarithms												
Exporter 2004												
GDP	1.295	0.71	0.652	0.656	0.41	0.507	1.271	1.231	1.553	1.301	1.149	
	(123.99)**	(62.02)**	(41.14)**	(58.02)**	(16.60)**	(22.13)**	(110.75)*	(116.53)**		(129.46)*		(61.67)**
Area	-0.078	0.109	0.005	0.202	0.3	0.024	-0.172	-0.079	-0.369	-0.278	-0.189	
	(7.69)*	(9.73)*	-0.34	(17.27)**	(13.79)**	-1.2	(16.86)**	(8.01)*	(38.27)**	(29.61)**	(11.06)**	
Partner, 2004												
GDP	0.951	0.709	0.525	0.974	0.838	0.366	0.737	0.839	0.796	0.892	0.823	
	(92.65)**	(63.98)**	(36.71)**	(84.11)**	(39.49)**	(18.90)**	(73.07)**	(84.67)**	(81.64)**	(93.58)**	(47.91)**	
Area	-0.077	-0.099	0.071	-0.088	-0.124	0.045	0.039	-0.073	-0.033	-0.12	-0.068	
	(7.65)*	(9.18)*	(5.00)**	(7.93)*	(5.82)*	(2.25)*	(3.87)**	(7.57)*	(3.46)*	(12.91)**	(4.01)**	
Bilateral variables												
Distance	-1.271	-0.848	0.853	-0.947	-1.139	-0.528	-1.275	-1.287	-1.075	-1.102	-0.676	

	(46.73) **	(29.95) **	(24.09) **	(33.14) **	(21.57) **	(11.16) **	(49.33) **	(50.20) **	(42.40) **	(44.88) **	(15.59) **
Common border	0.935	1.214	0.822	1.116	1.448	1.261	0.896	1.13	1.069	1.142	0.232
	(6.93) *	(8.98) *	(5.37) **	(8.55) *	(7.10) *	(6.96) *	(7.28) **	(9.08) *	(8.54) *	(9.42) **	-1.12
Common colonial history	0.733	1.315	1.453	0.755	0.834	0.513	0.153	0.335	0.57	0.834	1.098
	(4.28) *	(8.12) *	(8.20) **	(4.83) *	(3.26) *	(2.38) *	-1.05	(2.22) *	(3.81) *	(5.81) **	(5.17) **
Common language	0.987	0.786	0.548	0.484	0.449	0.151	0.963	0.708	0.607	0.743	0.908
	(17.85) **	(13.46) **	(7.24) **	(8.24) *	(3.98) *	-1.51	(17.87) **	(13.46) **	(11.63) **	(14.81) **	(10.04) **
Membership in custom union	0.92	0.603	1.089	0.701	1.436	0.666	0.954	0.887	1.036	1.222	2.255
	(4.08) *	(2.10) *	(3.02) **	(2.46) *	(2.87) *	-1.39	(3.73) **	(3.50) *	(4.12) *	(5.00) **	(3.82) **
Membership in PTA	0.311	0.272	0.283	0.25	0.205	0.255	0.264	0.25	0.266	0.258	0.314
	(12.59) **	(11.28) **	(10.59) **	(10.66) **	(5.47) *	(8.14) *	(11.94) **	(10.97) **	(11.86) **	(12.02) **	(9.35) **
Both countries – FSU republics	1.768	1.008	1.673	1.459	1.36	0.886	1.162	1.606	2.332	1.139	0.627
	(9.25) *	(5.23) *	(7.29) **	(7.69) *	(4.39) *	(2.82) *	(6.61) **	(9.09) *	(13.31) **	(6.50) **	-1.55
Constant	-41.794	-14.973	-10.001	-21.453	-11.234	-6.948	-24.794	-25.41	-30.992	-27.703	-29.219
	(103.43) **	(34.07) **	(17.65) **	(47.80) **	(13.59) **	(8.81) *	(60.56) **	(63.51) **	(78.21) **	(72.08) **	(40.09) **
Number of observations	16856	12591	7929	11304	6335	5123	11940	13794	14080	13897	7349
R-squared	0.61	0.43	0.33	0.51	0.31	0.19	0.62	0.61	0.67	0.64	0.43

Absolute values of t-statistics in parenthesis
* significant at 5%;
** significant at 1%

Table 3. Stability of estimated coefficients of gravity model over time

Coefficient	Total export	Export by sector (SITC)									
		0	1	2	3	4	5	6	7	8	9
2004											
GDP of exporter	1.295	0.71	0.652	0.656	0.41	0.507	1.271	1.231	1.553	1.301	1.149
	(123.99)**	(62.02)**	(41.14)**	(58.02)**	(16.60)**	(22.13)**	(110.75)*	(116.53)**	(149.60)**	(129.46)*	(61.67)**
GDP of importer	0.951	0.709	0.525	0.974	0.838	0.366	0.737	0.839	0.796	0.892	0.823
	(92.65)**	(63.98)**	(36.71)**	(84.11)**	(39.49)**	(18.90)**	(73.07)**	(84.67)**	(81.64)**	(93.58)**	(47.91)**
2003											
GDP of exporter	1.264	0.707	0.666	0.641	0.386	0.482	1.221	1.174	1.492	1.266	1.052
	(132.97)**	(63.68)**	(42.71)**	(59.07)**	(16.59)**	(21.88)**	(109.35)*	(115.23)**	(144.80)**	(128.02)*	(65.59)**
GDP of importer	0.934	0.707	0.545	0.941	0.761	0.336	0.72	0.799	0.795	0.867	0.805
	(100.39)**	(65.73)**	(39.36)**	(84.27)**	(37.53)**	(18.00)**	(72.51)**	(83.82)**	(82.71)**	(92.91)**	(53.68)**
2002											
GDP of exporter	1.243	0.703	0.624	0.627	0.309	0.476	1.194	1.185	1.461	1.258	0.966
	(134.65)**	(64.49)**	(39.92)**	(57.50)**	(13.27)**	(22.13)**	(107.83)*	(118.18)**	(143.50)**	(129.99)*	(59.97)**
GDP of importer	0.935	0.695	0.511	0.925	0.755	0.341	0.701	0.799	0.764	0.865	0.722
	(104.40)**	(65.34)**	(36.79)**	(82.78)**	(37.53)**	(18.63)**	(71.42)**	(85.30)**	(80.36)**	(95.35)**	(48.00)**
2001											
GDP of exporter	1.23	0.707	0.627	0.624	0.334	0.477	1.188	1.177	1.451	1.255	0.946
	(132.90)**	(65.21)**	(39.73)**	(56.30)**	(14.58)**	(22.62)**	(107.54)*	(118.70)**	(142.73)**	(127.61)*	(63.58)**
GDP of importer	0.933	0.707	0.519	0.936	0.75	0.376	0.712	0.795	0.756	0.868	0.728
	(104.64)**	(67.48)**	(37.04)**	(82.31)**	(37.90)**	(21.09)**	(73.00)**	(86.35)**	(79.12)**	(94.14)**	(51.81)**
2000											
GDP of exporter	1.211	0.709	0.619	0.62	0.364	0.498	1.186	1.16	1.431	1.235	0.943
	(132.17)**	(65.34)**	(39.46)**	(56.11)**	(15.55)**	(23.81)**	(107.36)*	(116.16)**	(140.94)**	(126.72)*	(59.68)**
GDP of importer	0.932	0.716	0.501	0.938	0.747	0.37	0.713	0.813	0.764	0.854	0.735
	(105.00)**	(67.71)**	(36.10)**	(82.43)**	(36.72)**	(20.95)**	(73.28)**	(87.24)**	(80.58)**	(92.97)**	(49.98)**

Absolute values of t-statistics in parenthesis
 All coefficients are significant at 1%

b) To make a forecast for development of Russia-India trade relations forecast of countries GDP growth provided by Global Foresight has been used . This forecast projects countries GDP up to 2025 in 2000 constant prices. Table 5 reports the corresponding projections for India and Russia.

Table 5. GDP forecast, Global Insight

	2010	2015	2020	2025
India	1.91	2.56	3.38	4.41
Russia	1.69	2.10	2.46	2.86

By putting the relevant GDPs of Russia, India and all their partners into gravity equation (1) with estimated coefficients from Table 2, a forecast for the overall exports from Russia to India and from India to Russia has been made.

This projection indicates that the economic growth of both countries by its own could lead to increase in trade flows up to USD 7 billion in 2010. Therefore to reach the targeted level of trade turnover above USD 10 billion in 2010 both countries should also implement special measures to facilitate trade relations.

C)The Findings from the Assessments of the Competitive Advantages Identified

Relative Comparative Advantage (RCA) and Relative Comparative Disadvantage Analysis (RCDA)

A comprehensive survey for 2005 of RCA and RCDA for India and Russia, using United Nations Commodity Trade Database (Comtrade) figures (HS code 2 digit level), develops the gravity model findings further. As is well known, the assessments are meant to indicate, in the case of RCA, the advantage of a country's exports in the case of individual commodities/manufactures, when compared with the exporting capacity of the world economy in that area. RCDA indicates the level of compulsion of a country to import when compared with such necessity elsewhere in the world – its importance as a consumer.

The data that is used here for the analysis takes into consideration the performance of the two economies following the most recent changes in trade policy. Comtrade data is also meant to redress some of the limitations of information gathering by national agencies. But Comtrade practice of repeated revision in subsequent years indicates that the organization itself finds the material unreliable, and this must be borne in mind in evaluating its value.

In this note, comprehensive statistics indicating RCA and RCDA are arranged in Tables 6-9

Inferences

The following conclusions may be drawn from the data.

1. India has RCA in 40 categories of HS groupings (2 digit level), as indicated in Table 6. These include various types of merchandise:
 - those relating primarily to textiles (silk, various coverings, made ups of textiles, cotton, vegetable and other fibres, articles of apparel, man made staple fibres, man made filaments, woven fabrics etc.
 - those relating to leather and leather products
 - gems and jewelry
 - foodstuffs(edible vegetables)
 - tea and coffee
 - some metal goods (copper, iron and steel)
 - chemicals
2. Russia has RCA in comparatively fewer areas, primarily
 - metal and metal products (nickel, aluminium, copper, iron and steel)
 - fertilizers
 - fuels
 - wood products
 - chemicals
3. As indicated in Table 7, there is little overlap in areas of India's RCA and Russia's RCA. Therefore, it may be concluded that except in cases of HS Code 27, 72, 10 and 28, there is no likely competition between India and Russia and, provided there is demand, trade in major areas of export strength is possible between the two countries and can be encouraged. This implies that:
 - in the case of Russia's exports to India, opportunities exist in metals, fertilizers and wood products

- in the case of India's exports to Russia, opportunities exist in textiles, leather goods and food products. This amounts to a substantial figure of just under USD 40 billion of Russia's current imports as indicated in the following Table. The data is taken from Russian customs sources, which by and large tend to understate the extent of imports in certain areas.

HS Code	Value of Russian imports (2005) [USD million]
50	1.9
13	43.9
57	52.8
71	223.8
63	227.6
26	1020.9
52	373.6
14	3.4
9	408.9
53	20.1
62	448.4
10	245.4
24	890.4
23	471.8
67	7.5
42	146.3.
97	14.6.
55	245.3
61	353.6
3	954.8
41	35.3
54	153.0
68	494.9
74	136.1
8	2132.4
29	741.1
7	722.9
64	574.2
73	2702.6
32	935.2
58	56.3
89	772.7
72	2546.0
36	17.8
82	397.2
25	322.7
28	1973.9
38	1020.7
27	1600.2
40	958.0

Important reservations must be made here on the basis for the figures for RCDA for Russia and India (which indicates the extent to which the necessity to import is significant in each country, using the global standard as the reference). Current RCDA for Russia is indicated in Table 8, for India in Table 9. In the following areas where India possesses RCA, Russia displays a palpable inclination to import substantially.

- HS code 89 (Ships, boats and floating structures)
- HS code 82 (Tools and their parts of base metal)
- HS code 73 (Articles of Iron and Steel)
- HS code 68 (Articles of stone, plaster, cement, asbestos, mica or similar materials)
- HS code 38 (Miscellaneous chemical products)
- HS code 28 (Inorganic chemical products)
- HS code 25 (Salt Sulphur earths and stone, plastering materials, lime etc.)
- HS code 24 (Tobacco and manufactured tobacco substitutes)
- HS code 23 (Residues and waste from food industries, prepared animal fodder etc.)
- HS code 13 (Lac, resins etc.)
- HS code 9 (Coffee, Tea etc.)
- HS code 8 (edible fruit, nuts etc.)
- HS code 7 (edible vegetables etc.)

This amounts to a niche of under USD 17 billion in the Russian import basket for 2005.

Reservations. The limits of RCA/RCDA analysis

Significantly, major aspects of Indo-Russian trade are not easily adapted to RCA/RCDA analysis. Hence:

- in the case of gems and jewelry, Russia has poor RCA vis a vis other suppliers in the world market, whereas, India which is a major consumer and exporter. On the other hand, it operates within a monopoly environment and usually operates through single customers. Unlike producers in Africa, therefore, it offers major scope to a consumer since decisions account for substantial supplies.
- RCA analysis does not reflect on the unusual nature of the long term reputation that India has established in the Russian market in case of pharmaceuticals.

Table 6

RCA INDIA 2005

HS Code	Name of Commodity	RCA
50	SILK	13.53508
13	LAC, GUMS, RESINS & OTHER VEGETABLES SAPS & EXTRACTS	11.24867
57	CARPETS AND OTHER TEXTILE FLOOR COVERINGS	10.20855
71	PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES/METALS AND ARTICLES THEREOF,	8.521796

63	OTHER MADE UP TEXTILE ARTICLES, SETS, WORN TEXTILE ARTICLES, RAGS	7.001565
26	ORES, SLAG AND ASH	6.502329
52	COTTON	6.366615
14	VEGETABLE PLAINTING MATERIALS, VEGETABLE PRODUCTS NOT ELSEWHERE	6.344863
9	COFFEE, TEA, MATE & SPICES	5.396858
53	OTHER VEGETABLE TEXTILE FIBRES, PAPER YARN AND FABRICS	4.124431
62	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES NOT KNITTED OR CROCHETED	3.862616
10	CEREALS	3.768623
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES	3.689193
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES, PREPARED ANIMAL FODDER	3.662586
67	PREPARED FEATHERS & DOWN WITH ARTICLES, ARTIFICIAL FLOWERS, ARTICLES OF HUMAN HAIR	3.516478
42	ARTICLES OF LEATHER, SADDLERY HARNESS AND ANIMAL GUTS	3.320722
97	WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	3.015411
55	MAN-MADE STAPLE FIBRES	2.905636
61	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED	2.725356
3	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES	2.626254
41	RAW HIDES AND SKINS (OTHER THEN FURSKINS) AND LEATHER	2.442046
54	MAN-MADE FILAMENTS	2.328353
68	ARTICLES OF STONE , PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS	2.225955
74	COPPER & ARTICLES THEREOF	1.978893
8	EDIBLE FRUIT & NUTS, PEEL OF CITRUS FRUIT OR MELONS	1.754611
29	ORGANIC CHEMICALS	1.713294
7	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	1.711903
64	FOOTWEAR, GAITERS AND THE LIKE, PARTS OF SUCH ARTICLES	1.604295
73	ARTICLES OF IRON & STEEL	1.587423
32	DYEING, TANNING COLOURING MATTER	1.554376
58	SPECIAL WOVEN FABRICS, TUFTED	1.384889

	TEXTILE FABRICS, LACE, TAPESTRIES, TRIMINGS, EMBROIDERY	
89	SHIP, BOAT & FLOATING STRUCTURE	1.319758
72	IRON & STEEL	1.318436
36	EXPLOSIVES' MATCHES CERTAIN COMBUSTIBLES PREPARATIONS	1.258391
82	TOOLS AND THEIR' PARTS OF BASE METAL	1.23928
25	SALT, SULPHUR, EARTHS AND STONE, PLASTERING MATERIALS, LIME AND	1.175382
28	INORGANIC CHEMICALS, COMPOUNDS OF PRECIOUS METALS, OR RARE-EARTH METALS, OF	1.126631
38	MISCELLANEOUS CHEMICAL PRODUCTS	1.112315
27	MINERAL FUELS, MINERAL OILS & PRODUCTS, BITUMINOUS SUBSTANCES, MINERAL WAXES	1.053448
40	RUBBER & ARTICLES THEREOF	1.003513

Table 7

RCA -RUSSIA AND INDIA 2005 compared

Name of the Commodity	HS Code	RCA Russia	RCA India
MISCELLANEOUS GOODS	99	8.573033	0.407426
NICKEL & ARTICLES THEREOF	75	8.151864	0.111777
FERTILIZERS	31	5.812309	0.040278
MINERAL FUELS, MINERAL OILS & PRODUCTS, BITUMINOUS SUBSTANCES, MINERAL WAXES	27	4.469309	1.053448
IRON & STEEL	72	2.631315	1.318436
WOOD & ARTICLES OF WOODS; WOOD CHARCOAL	44	2.393958	0.099625
OTHER BASE METALS; CEMENTS; ARTICLES THEREOF	81	2.321745	0.210961
ALUMINIUM & ARTICLES THEREOF	76	2.295637	0.569766
COPPER & ARTICLES THEREOF	74	1.405408	1.978893
CEREALS	10	1.3266	3.768623
PULP OF WOOD OR OF OTHER MATERIALS, WASTE AND SCRAP OF PAPER OR PAPERBOARD	47	1.257503	0.004478
INORGANIC CHEMICALS, COMPOUNDS OF PRECIOUS METALS, OR RARE-EARTH METALS, OF	28	1.143367	1.126631

Table 8

RCDA RUSSIA 2005

Name of the Commodity	HS Code	RCDA
RAILWAY/TRAMWAY LOCOMOTIVES, TRUCKS ETC., EQUIPMENT AND PARTS THEREOF	86	5.233576
SUGARS AND SUGAR		4.374921

CONFECTIONERY		
EDIBLE FRUIT & NUTS, PEEL OF CITRUS FRUIT OR MELONS		4.144187
TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES		3.513532
MISCELLANEOUS GOODS		3.073709
COCOA AND COCOA PREPARATIONS		2.745418
ESSENTIAL OILS RESINOIDS, COSMETIC AND OTHER SIMILAR PREPARATIONS	33	2.687501
BEVERAGES, SPIRITS AND VENEGAR		2.676255
MISCELLANEOUS EDIBLE PREPARATIONS		2.674498
INORGANIC CHEMICALS, COMPOUNDS OF PRECIOUS METALS, OR RARE-EARTH METALS, OF	28	2.657454
PREPARATIONS OF VEGETABLES, FRUITS, NUTS OR OTHER PARTS OF PLANTS	20	2.642657
COFFEE, TEA, MATE & SPICES		2.297949
SHIP, BOAT & FLOATING STRUCTURE		2.275753
EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS		2.260467
PRODUCTS OF THE MILLING INDUSTRY, MALT, STARCHES, INSULIN, WHEAT		2.121097
ANIMAL OR VEGETABLE FATS & OIL & THEIR CLEAVAGE PRODUCTS, ANIMAL	15	2.043906
DYEING, TANNING COLOURING MATTER		1.93179
SOAP & OTHER SIMILAR PREPARATIONS, POLISHES & CREAMS, CANDLES AND THE LIKE,	34	1.861865
ARTICLES OF STONE , PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS	68	1.858032
ARTICLES OF IRON & STEEL		1.742647
PHARMACEUTICAL PRODUCTS		1.739195
PRINTED BOOKS & OTHER PRODUCTS OF PRINTING INDUSTRY		1.640022
PAPER AND PAPERBOARD, ARTICLES OF PAPER PULP, OF PAPER AND PAPERBOARD	48	1.620035
RESIDUES AND WASTE FROM THE FOOD INDUSTRIES, PREPARED ANIMAL FODDER	23	1.601506
CERAMIC PRODUCTS		1.575701

ALBUMINOIDAL SUBSTANCES, MODIFIED STARCHES, GLUES, ENZYMES		1.497224
WADDING, FELT AND NONWOVENS, SPECIAL YARNS, TWINE, CORDAGE, ROPES AND CABLES	56	1.422812
ROAD VEHICLES AND PARTS		1.33731
FURSKINS AND ARTIFICIAL FUR, MANUFACTURES THEREOF		1.304574
LAC, GUMS, RESINS & OTHER VEGETABLE SAPS & EXTRACTS		1.245474
GLASS & GLASSWARE		1.228944
ORES, SLAG, ASH		1.215951
NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	84	1.196504
IMPREGNATED, COATED & LAMINATED TEXTILE FABRICS, TEXTILE ARTICLES FOR INDUSTRIAL USE	59	1.144627
MISCELLANEOUS CHEMICAL PRODUCTS		1.13597
PLASTICS AND ARTICLES THEREOF		1.109832
TOOLS AND THEIR' PARTS OF BASE METAL		1.095056
SALT, SULPHUR, EARTHS AND STONE, PLASTERING MATERIALS, LIME AND		1.088171
MAN-MADE STAPLE FIBRES		1.019768

Table 9

RCDA INDIA 2005

Name of the Commodity	HS Code	RCDA
SILK	50	10.3755
PEARLS, PRECIOUS OR SEMI-PRECIOUS STONES/METALS AND ARTICLES THEREOF,	71	7.66525
SHIP, BOAT & FLOATING STRUCTURE	89	5.33841
ANIMAL OR VEGETABLE FATS & OIL & THEIR CLEAVAGE PRODUCTS, ANIMAL	15	4.40298
LEAD & ARTICLES THEREOF	78	3.83064
FERTILIZERS	31	3.7144
AIRCRAFT, SPACECRAFT AND PARTS THEREOF	88	2.79797
ZINC & ARTICLES THEREOF	79	2.58442

MINERAL FUELS, MINERAL OILS & PRODUCTS, BITUMINOUS SUBSTANCES, MINERAL WAXES	27	2.38945
INORGANIC CHEMICALS, COMPOUNDS OF PRECIOUS METALS, OR RARE-EARTH METALS, OF	28	2.18504
OTHER VEGETABLE TEXTILE FIBRES, PAPER YARN AND FABRICS	53	2.05244
IMPREGNATED, COATED & LAMINATED TEXTILE FABRICS, TEXTILE ARTICLES FOR INDUSTRIAL USE	59	1.76562
SALT, SULPHUR, EARTHS AND STONE, PLASTERING MATERIALS, LIME AND	25	1.69764
WOOL, FINE OR COARSE ANIMAL HAIR	51	1.47848
EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS	7	1.31771
PULP OF WOOD OR OF OTHER MATERIALS, WASTE AND SCRAP OF PAPER OR PAPERBOARD	47	1.31232
IRON & STEEL	72	1.31088
ORGANIC CHEMICALS	29	1.22941
ORES, SLAG AND ASH	26	1.21575
MAN-MADE FILAMENTS	54	1.04254
LAC, GUMS, RESINS & OTHER VEGETABLES SAPS & EXTRACTS	13	1.0201
EDIBLE FRUIT & NUTS, PEEL OF CITRUS FRUIT OR MELONS	8	1.0109

RCA of Exports from Russia to India (based on Russian Statistics)

The principal niches allotted for Russian exports to India are timber processing, chemicals, some types of fuels (coal and oil) and metals. In certain instances, export potential in these areas has already been exploited, and identification of barriers to trade is required to improve trade turnover.

Agricultural produce

As regards this item of export, over 2000-04, Russia has wielded sustained comparative advantage, with bumper years witnessing higher than standard RCA. Data in Comtrade for 1999-2003 and India's RCDA index for this article indicates that India imports grain, although this interest is on the decline. Russian exports of this product according to Russian statistics has been insignificant over 1994-2004.

Table. 10.

	2000	2001	2002	2003	2004
RCA_{RUS} (043 – barley grain)	30.85	141.89	407.80	551.53	93.24
RCDA_{IND} (043 – barley grain)	199.92	255.81	137.42	69.75	n/a
production of grain (million tonnes). as according to the Rosstat	59.4	75.1	75.2	56.5	63.4

Timber and timber processing.

Russia features significant and sustained RCA in terms of timber production. Indian imports of the item are high (Figure 1), though according to Russian Customs statistics, exports to India of timber and articles made of timber are negligible.

At the same time, over the past decade, according to the data from Russian Customs, there have been sustained exports to India of products of reprocessed timber (“paper, cardboard, articles made of paper mass, paper or cardboard), involving an increase from USD 21.5 million in 1994 to USD94.5 million in 2004 (5.7% and 3.8% respectively of the total exports to India from Russia).

Chemicals

There is clearly a sustainable niche for Russian fertilizers in the Indian market place (272, crude fertilizers, and 562, manufactured fertilizers, as in Figure 1). Exports of fertilizers into India over 1994-2004 amounted to USD 11.5 million in 1997 and USD 110.1 million (2001) – 1.3% and 9.4% respectively of total exports. (As per Russian statistics) In 2005-2006, the exports of fertilizers – crude and finished together amounted to about 677 million USD. A promising avenue is the export of sulphur and related combinations (274, sulphur/unroasted pyrites, Figure 1)

Fuels

Over 2000-04, there have been auspicious conditions for stronger exports from Russia of certain types of coal, oil and petroleum products which are actively procured in India. At the same time, a significant growth in exports of these commodities from Russia has been recorded in various Customs statistics under the article “mineral fuels, oil and related refinement products” with figures for 2004 (USD 13.5 million) being an increase from 1999 (USD 1.5 million).

Metals

India is an active importer and exporter of metals of Russian provenance. Of metals, where Russia wields RCA in terms of extraction and development, India imports groups 673, 675, 689. There may be strong demand for nickel (683), which is supplied from Russia to India in a slack fashion.

Perspective commodities groups for exportations from Russia into India (as at 2004):

Перспективные товарные группы для экспорта из России в Индию (2004)

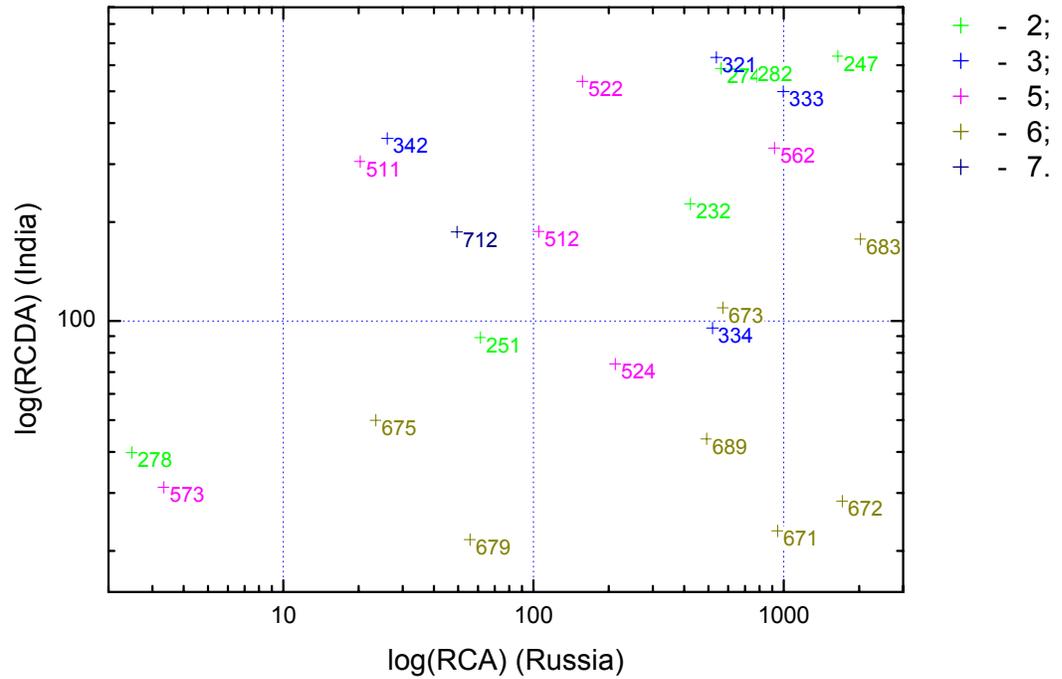


Figure. 1. The perspective commodities groups for the Russian exports into India as at 2004. The listing of the groups in the legend:

0	FOOD AND LIVE ANIMALS
1	BEVERAGES AND TOBACCO
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS
3	MINERAL FUELS, LUBRICANTS AND RELATED MATERIALS
4	ANIMAL AND VEGETABLE OILS, FATS AND WAXES
5	CHEMICALS AND RELATED PRODUCTS, N.E.S.
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL
7	MACHINERY AND TRANSPORT EQUIPMENT
8	MISCELLANEOUS MANUFACTURED ARTICLES
9	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC

Table 11 The commodities whose exports from Russia and imports into India are well in excess of the average global standing as at 2004.

RUSSIA-INDIA	RCArus	RCDAind
232 - RUBBER SYNTH/WASTE/ETC	423.71	227.07
247 - WOOD IN ROUGH/SQUARED	1 645.71	638.84

251 - PULP AND WASTE PAPER	61.34	89.16
272 - FERTILIZERS CRUDE	361.48	1 222.45
274 - SULPHUR/UNROASTD PYRITES	562.60	586.26
278 - OTHER CRUDE MINERALS	2.48	39.79
282 - FERROUS WASTE/SCRAP	745.19	593.81
321 - COAL NON-AGGLOMERATED	538.26	633.45
325 - COKE/SEMI-COKE/RETORT C	678.76	1 853.52
333 - PETROL./BITUM. OIL,CRUDE	996.30	498.81
334 - HEAVY PETROL/BITUM OILS	519.00	95.18
342 - LIQUID PROPANE/BUTANE	26.05	359.00
511 - HYDROCARBONS/DERIVATIVES	20.29	305.43
512 - ALCOHOLS/PHENOLS/DERIVS	104.90	187.28
522 - ELEMENTS/OXIDES/HAL SALT	156.83	535.48
524 - OTHER INORGANIC CHEMICAL	212.10	74.04
562 - MANUFACTURED FERTILIZERS	917.57	335.95
573 - VINYL CHLORIDE ETC POLYM	3.33	31.20
671 - PIG IRON ETC FERRO ALLOY	945.94	23.01
672 - PRIMARY/PRODS IRON/STEEL	1 715.74	28.32
673 - FLAT ROLLED IRON/ST PROD	571.41	109.83
675 - FLAT ROLLED ALLOY STEEL	23.45	49.92
679 - IRON/STEEL PIPE/TUBE/ETC	55.78	21.65
683 - NICKEL	2 026.44	177.45
689 - MISC NON-FERR BASE METAL	492.30	43.82
712 - STEAM/VAPOUR TURBINES	49.44	186.65

Imports from India into Russia

The principal niches allotted to the Indian market importations into Russia cover the products of agricultural produce, various metals, the products of the chemicals industry, and the products manufactured by the machine-building industry. The commodity range of the Indian commodities groups possessing comparative advantages in the global market-place and

potentially sought after, demand-wise, in Russia, is more extensive than what the Russian commodities are for India. Here, traditional Indian hallmark importations commodities are included – viz. tea, coffee, and tobacco. Back in the year 2004, these commodity categories covered 83% of the Russian importations of the agricultural produce from India. 55% out of it accounted for the importations of coffee, tea, and related extracts and concentrates, with the remaining 28% going out for tobacco importations. However, we should point it out that the share accounted for by the importations of Indian tea as part of the overall importations of this product by Russia has witnessed a decline. *Perspective commodities groups for importations from India into Russia (as at 2004):*

Перспективные товарные группы для импорта из Индии в Россию (2004)

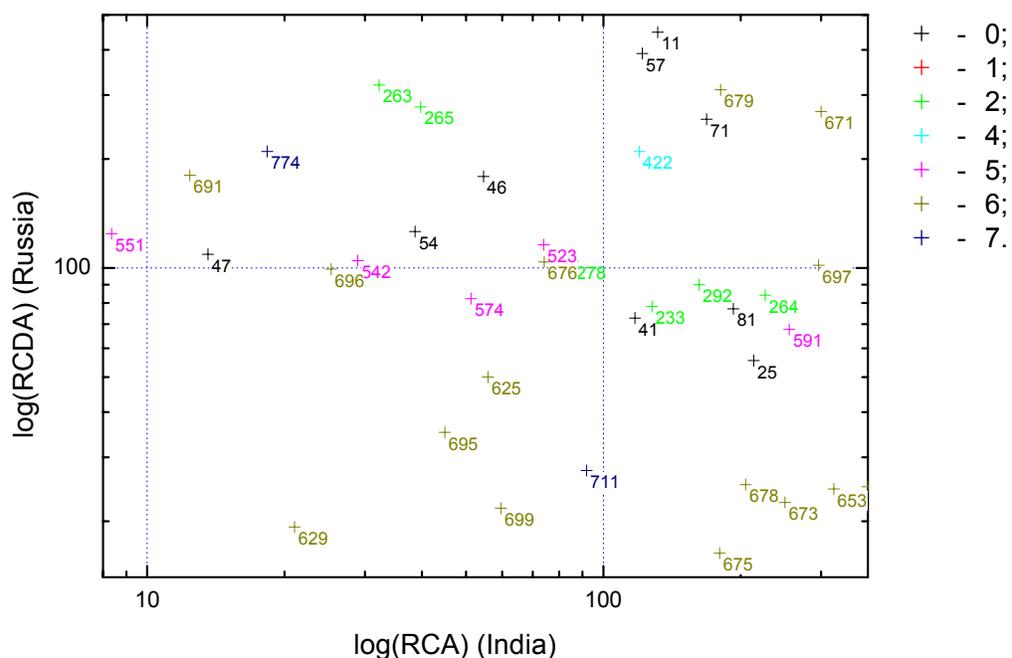


Figure. 2. The perspective commodities groups for the Indian imports into Russia as at 2004. The listing of the groups in the legend:

0	FOOD AND LIVE ANIMALS
1	BEVERAGES AND TOBACCO
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS
3	MINERAL FUELS, LUBRICANTS AND RELATED MATERIALS
4	ANIMAL AND VEGETABLE OILS, FATS AND WAXES
5	CHEMICALS AND RELATED PRODUCTS, N.E.S.
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL
7	MACHINERY AND TRANSPORT EQUIPMENT
8	MISCELLANEOUS MANUFACTURED ARTICLES
9	COMMODITIES AND TRANSACTIONS NOT CLASSIFIED ELSEWHERE IN THE SITC

Table 12 The commodities whose exports from India and imports into Russia are well in excess of the average global standing as at 2004.

Table 13

	RCaInd	RCDArus
011 - BEEF, FRESH/CHILLD/FROZN	131.55	447.36
025 - EGGS, ALBUMIN	213.62	55.48
041 - WHEAT/MESLIN	117.32	72.80
042 - RICE	2 368.49	76.90
046 - FLOUR/MEAL WHEAT/MESLIN	54.61	178.92
047 - CEREAL MEAL/FLOUR N.E.S	13.58	109.10
054 - VEGETABLES,FRSH/CHLD/FRZ	38.65	126.12
057 - FRUIT/NUTS, FRESH/DRIED	121.67	391.01
071 - COFFEE/COFFEE SUBSTITUTE	168.39	257.39
074 - TEA AND MATE	1 597.17	1 221.74
075 - SPICES	1 021.90	2.50
081 - ANIMAL FEED EX UNML CER.	192.71	77.17
121 - TOBACCO, RAW AND WASTES	314.48	1 018.50
223 - OIL SEEDS-NOT SOFT OIL	127.82	78.29
263 - COTTON	32.22	320.04
264 - JUTE/BAST FIBRE RAW/RETD	226.39	84.13
265 - VEG TEXT FIBRE EX COT/JU	39.77	278.23
273 - STONE/SAND/GRAVEL	930.20	94.71
278 - OTHER CRUDE MINERALS	85.64	104.42
281 - IRON ORE/CONCENTRATES	2 858.57	486.35
285 - ALUMINIUM ORES/CONCS/ETC	538.07	1 553.05
287 - BASE METAL ORE/CONC NES	552.56	319.68
292 - CRUDE VEG MATERIALS NES	162.11	89.99
422 - FIXED VEG OILS NOT SOFT	119.93	209.78
431 - ANIMAL/VEG OILS PROCES'D	30.19	5.60
523 - METAL SALTS OF INORG ACID	73.99	115.90
542 - MEDICAMENTS INCLUDING VET	28.95	104.86

551 ESSENT.OIL/PERFUME/FLAVR	-	8.35	124.33
574 POLYACETALS/POLYESTERS..	-	51.24	82.30
591 - HOUSEHOLD/GARDEN CHEMICAL		255.60	67.67
625 TYRES/TREADS	- RUBBER	55.85	49.97
629 - ARTICLES OF RUBBER		21.03	19.29
653 - MAN-MADE WOVEN FABRICS		319.82	24.55
658 - MADE-UP TEXTILE ARTICLES		758.53	19.93
661 LIME/CEMENT/CONSTR MAT'L	-	379.26	24.92
671 - PIG IRON ETC FERRO ALLOY		299.99	270.47
673 - FLAT ROLLED IRON/ST PROD		250.04	22.52
674 - ROLLED PLATED M- STEEL		524.55	87.25
675 - FLAT ROLLED ALLOY STEEL		179.87	16.31
676 BARS/RODS/ETC	- IRON/STEEL	74.20	103.93
678 - IRON/STEEL WIRE		205.07	25.22
679 PIPE/TUBE/ETC	- IRON/STEEL	180.77	310.48
691 - IRON/STL/ALUM STRUCTURES		12.40	180.39
695 TOOLS	- HAND/MACHINE	44.91	35.19
697 - BASE METAL H'HOLD EQUIPMENT		296.37	101.80
699 - BASE METAL MANUFACTURES		59.62	21.72
711 - STEAM GENERATING BOILERS		91.83	27.61
746 BEARINGS	- BALL/ROLLER	1.59	19.69
774 - MEDICAL ETC EL DIAG EQUIPMENT		18.33	209.68

Appendix 3.2

Exports of India to Russia (million USD)

SITC rev3 2digit	code	1999	2000	2001	2002	2003	2004	2005
MEDICINAL AND PHARMACEUTICAL PRODUCTS	54	109.3	104.9	98.1	102.7	133.3	154.4	235.5
COFFEE, TEA, COCOA, SPICES AND MANUFACTURES THEREOF	07	229.3	187.6	154.6	107.0	102.7	89.7	123.2
VEGETABLES AND FRUIT	05	4.5	3.0	3.1	6.0	13.6	23.0	56.8
TOBACCO AND TOBACCO MANUFACTURES	12	47.3	28.2	22.2	24.0	20.6	31.5	39.4
TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., AND RELATED PRODUCTS	65	78.1	78.1	37.4	19.2	22.5	17.4	37.9
ARTICLES OF APPAREL AND CLOTHING ACCESSORIES	84	249.1	321.8	337.9	265.6	203.8	104.2	22.1
ROAD VEHICLES (INCLUDING AIR-CUSHION VEHICLES)	78	1.5	2.1	1.3	2.0	2.6	9.0	14.5
IRON AND STEEL	67	0.1	0.4	1.5	1.7	6.1	5.9	12.7
ORGANIC CHEMICALS	51	15.6	8.3	6.7	6.6	10.1	10.3	12.5
ELECTRICAL MACHINERY, APPARATUS AND APPLIANCES, N.E.S., AND ELECTRICAL PARTS THEREOF (INCLUDING NONELECTRICAL COUNTERPARTS OF HOUSEHOLD TYPE, N.E.S.)	77	27.2	9.2	17.1	7.7	4.5	12.2	11.9
MACHINERY SPECIALIZED FOR PARTICULAR INDUSTRIES	72	2.5	4.1	7.4	3.8	7.9	7.0	11.8
MANUFACTURES OF METALS, N.E.S.	69	2.4	2.3	2.7	2.3	5.6	8.8	11.5
MISCELLANEOUS MANUFACTURED ARTICLES, N.E.S.	89	30.6	25.7	15.0	9.9	12.4	13.3	11.5
DYEING, TANNING AND COLORING MATERIALS	53	1.2	2.0	2.4	4.4	4.2	6.3	11.3

PLASTICS IN NONPRIMARY FORMS	58	1.1	0.8	2.5	4.0	6.8	10.2	10.5
TRANSPORT EQUIPMENT, N.E.S.	79	2.0	0.1	4.4	12.2	3.0	4.4	10.3
PLASTICS IN PRIMARY FORMS	57	0.7	1.4	0.8	1.0	5.6	3.4	9.2
LEATHER, LEATHER MANUFACTURES, N.E.S., AND DRESSED FURSKINS	61	1.4	2.8	5.6	3.3	5.0	3.8	8.9
NONMETALLIC MINERAL MANUFACTURES, N.E.S.	66	1.2	2.4	3.3	3.5	4.3	5.7	7.4
CEREALS AND CEREAL PREPARATIONS	04	38.0	0.6	5.9	7.6	13.8	1.2	6.7
GENERAL INDUSTRIAL MACHINERY AND EQUIPMENT, N.E.S., AND MACHINE PARTS, N.E.S.	74	8.2	1.5	3.2	1.8	3.1	5.3	6.0
PAPER, PAPERBOARD, AND ARTICLES OF PAPER PULP, PAPER OR PAPER BOARD	64	0,9	1,9	1,5	1,6	2,2	2,8	5,8
CRUDE ANIMAL AND VEGETABLE MATERIALS, N.E.S.	29	0.3	1.7	0.9	1.9	1.7	2.2	5.1
TELECOMMUNICATIONS AND SOUND RECORDING AND REPRODUCING APPARATUS AND EQUIPMENT	76	0.1	3.7	4.3	1.2	4.5	4.2	4.5
OIL SEEDS AND OLEAGINOUS FRUITS	22	3.6	6.7	5.5	1.7	1.8	4.0	4.0
NONFERROUS METALS	68	2.9	1.2	0.5	0.6	1.4	0.6	3.9
POWER GENERATING MACHINERY AND EQUIPMENT	71	6.7	0.6	0.6	4.9	0.4	3.2	3.6
ESSENTIAL OILS AND RESINOIDS AND PERFUME MATERIALS; TOILET, POLISHING AND CLEANSING PREPARATIONS	55	7.1	6.3	8.0	4.4	6.6	4.4	3.5
RUBBER MANUFACTURES, N.E.S.	62	5.5	4.8	2.5	1.8	3.6	1.1	3.3
CHEMICAL MATERIALS AND PRODUCTS, N.E.S.	59	8.7	5.0	2.4	0.8	1.6	2.6	2.6
FISH (NOT MARINE MAMMALS), CRUSTACEANS, MOLLUSCS AND AQUATIC INVERTEBRATES, AND	03	0.1	0.2	2.0	0.8	0.2	0.2	2.4

PREPARATIONS THEREOF								
FIXED VEGETABLE FATS AND OILS, CRUDE, REFINED OR FRACTIONATED	42	11.5	11.0	12.0	7.1	11.5	1.7	2.4
PROFESSIONAL, SCIENTIFIC AND CONTROLLING INSTRUMENTS AND APPARATUS, N.E.S.	87	6.5	4.7	2.2	1.1	0.7	0.9	1.8
FOOTWEAR	85	10.4	7.0	1.6	0.5	0.3	1.5	1.4
ANIMAL OR VEGETABLE FATS AND OILS PROCESSED; WAXES AND INEDIBLE MIXTURES OR PREPARATIONS OF ANIMAL OR VEGETABLE FATS OR OILS, N.E.S.	43	0.2	0.1	0.3	0.7	1.4	0.7	1.2
TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS	83	13.3	18.9	8.0	6.0	5.3	2.0	1.1
CRUDE FERTILIZERS (IMPORTS ONLY), EXCEPT THOSE OF DIVISION 56, AND CRUDE MINERALS (EXCLUDING COAL, PETROLEUM AND PRECIOUS STONES)	27	0.0	0.3	0.4	0.5	0.2	0.6	1.0
OFFICE MACHINES AND AUTOMATIC DATA PROCESSING MACHINES	75	0.6	1.8	0.8	0.9	0.7	0.1	0.9
FEEDING STUFF FOR ANIMALS (NOT INCLUDING UNMILLED CEREALS)	08	5.4	10.4	0.1	0.1	0.3	1.3	0.9
INORGANIC CHEMICALS	52	0.4	0.7	0.4	0.4	0.5	0.8	0.8
METALWORKING MACHINERY	73	0.6	0.4	0.8	0.3	0.2	0.5	0.6
TEXTILE FIBERS (OTHER THAN WOOL TOPS AND OTHER COMBED WOOL) AND THEIR WASTES (NOT MANUFACTURED INTO YARN OR FABRIC)	26	0.2	0.9	0.5	0.2	0.5	0.5	0.6
CORK AND WOOD MANUFACTURES OTHER THAN FURNITURE	63	0.6	0.1	0.1	0.2	0.1	0.3	0.4
MEAT AND MEAT PREPARATIONS	01			0.1	0.1		0.6	0.3

PHOTOGRAPHIC APPARATUS, EQUIPMENT AND SUPPLIES AND OPTICAL GOODS, N.E.S.; WATCHES AND CLOCKS	88	1.0	0.4	0.4	0.4	0.3	0.2	0.3
FURNITURE AND PARTS THEREOF; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS	82			0.0	0.0	0.2	0.2	0.1
SUGARS, SUGAR PREPARATIONS AND HONEY	06	0.0		0.2	0.0	1.1	0.1	0.1
HIDES, SKINS AND FURSKINS, RAW	21					0.4		0.0
METALLIFEROUS ORES AND METAL SCRAP	28	5.7	22.1	0.8	56.2	54.9	33.6	0.0
CRUDE RUBBER (INCLUDING SYNTHETIC AND RECLAIMED)	23		0.0	0.0	0.3	0.3	0.1	0.0
PREFABRICATED BUILDINGS; SANITARY, PLUMBING, HEATING AND LIGHTING FIXTURES AND FITTINGS, N.E.S.	81	0.2		0.3	0.0	0.6	1.3	0.0
FERTILIZERS (EXPORTS INCLUDE GROUP 272; IMPORTS EXCLUDE GROUP 272)	56			5.6				0.0
CORK AND WOOD	24		0.0					0.0
PULP AND WASTE PAPER	25					0.0	0.0	0.0
DAIRY PRODUCTS AND BIRDS' EGGS	02		0.0		0.0	0.0		
MISCELLANEOUS EDIBLE PRODUCTS AND PREPARATIONS	09	0.2	0.3	1.3	0.1	0.1	0.0	
BEVERAGES	11	0.1		0.0		0.0	0.0	
COAL, COKE AND BRIQUETTES	32			0.0				
PETROLEUM, PETROLEUM PRODUCTS AND RELATED MATERIALS	33			0.1	0.0	0.0	0.1	
ANIMAL OILS AND FATS	41			0.1			0.0	
SPECIAL TRANSACTIONS AND COMMODITIES NOT CLASSIFIED ACCORDING TO KIND	93	2.8	4.1	9.6	9.7	9.8	0.9	

Appendix 3.3

Table 2

million USD		Exports of Russia to india						
SITC rev3 2digit	code	1999	2000	2001	2002	2003	2004	2005
IRON AND STEEL	67	24.0	54.7	36.7	109.7	113.7	208.4	361.6
POWER GENERATING MACHINERY AND EQUIPMENT	71	79.0	37.3	55.0	44.6	68.0	234.0	254.0
FERTILIZERS (EXPORTS INCLUDE GROUP 272; IMPORTS EXCLUDE GROUP 272)	56	110.1	92.9	101.2	56.4	49.4	27.4	182.0
GENERAL INDUSTRIAL MACHINERY AND EQUIPMENT, N.E.S., AND MACHINE PARTS, N.E.S.	74	25.7	34.2	36.1	18.6	51.5	120.3	162.9
PROFESSIONAL, SCIENTIFIC AND CONTROLLING INSTRUMENTS AND APPARATUS, N.E.S.	87	17.7	31.0	39.1	62.4	91.9	119.6	145.4
ELECTRICAL MACHINERY, APPARATUS AND APPLIANCES, N.E.S., AND ELECTRICAL PARTS THEREOF (INCLUDING NONELECTRICAL COUNTERPARTS OF HOUSEHOLD TYPE, N.E.S.)	77	12.0	21.1	18.7	25.2	39.1	57.0	111.2
PAPER, PAPERBOARD, AND ARTICLES OF PAPER PULP, PAPER OR PAPER BOARD	64	55.6	59.6	65.0	56.0	66.3	94.6	107.0
TELECOMMUNICATIONS AND SOUND RECORDING AND REPRODUCING APPARATUS AND EQUIPMENT	76	34.5	18.4	38.2	39.6	51.2	72.9	102.8
MANUFACTURES OF METALS, N.E.S.	69	26.1	13.8	18.5	12.7	91.2	88.0	101.5
MISCELLANEOUS MANUFACTURED ARTICLES, N.E.S.	89	294.9	305.3	85.7	154.2	134.9	119.7	77.2
METALWORKING MACHINERY	73	5.8	1.8	3.8	1.9	10.4	15.5	60.4
METALLIFEROUS ORES AND METAL SCRAP	28	8.5	2.7		0.0		16.4	46.8
OFFICE MACHINES AND AUTOMATIC DATA PROCESSING MACHINES	75	1.7	4.0	0.9	2.3	3.2	18.3	24.4
CRUDE FERTILIZERS (IMPORTS	27	1.5	3.1	6.7	11.0	11.2	13.4	22.6

ONLY), EXCEPT THOSE OF DIVISION 56, AND CRUDE MINERALS (EXCLUDING COAL, PETROLEUM AND PRECIOUS STONES)								
COAL, COKE AND BRIQUETTES	32	48.1	3.7	5.5	2.9	19.5	57.9	21.1
TRANSPORT EQUIPMENT, N.E.S.	79	53.9	217.4	93.5	30.5	593.1	22.2	19.0
NONFERROUS METALS	68	6.1	17.9	31.7	18.4	37.2	7.4	17.5
ORGANIC CHEMICALS	51	0.8	1.8	3.1	1.0	4.8	8.1	15.9
INORGANIC CHEMICALS	52	0.7	0.5	0.9	3.2	7.7	10.3	15.5
NONMETALLIC MINERAL MANUFACTURES, N.E.S.	66	3.0	1.5	2.0	1.6	0.9	1.9	14.1
PETROLEUM, PETROLEUM PRODUCTS AND RELATED MATERIALS	33	0.4	0.5	0.0	0.1	31.0	35.7	12.4
MACHINERY SPECIALIZED FOR PARTICULAR INDUSTRIES	72	20.8	13.7	2.0	7.4	21.2	9.4	10.9
CHEMICAL MATERIALS AND PRODUCTS, N.E.S.	59	13.6	7.0	9.4	7.5	6.0	12.8	7.2
RUBBER MANUFACTURES, N.E.S.	62	4.1	8.9	2.0	2.4	8.5	7.3	6.0
CRUDE RUBBER (INCLUDING SYNTHETIC AND RECLAIMED)	23	8.6	9.5	19.8	36.5	31.4	29.9	5.1
PULP AND WASTE PAPER	25	0.4	1.6	1.2	1.6	1.9	3.9	3.5
FURNITURE AND PARTS THEREOF; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS	82	0.2	0.3	0.1	0.0	0.1	1.0	1.6
ROAD VEHICLES (INCLUDING AIR-CUSHION VEHICLES)	78	0.4	0.4	6.2	12.1	5.6	0.4	1.5
PREFABRICATED BUILDINGS; SANITARY, PLUMBING, HEATING AND LIGHTING FIXTURES AND FITTINGS, N.E.S.	81	0.1	0.5	9.1	0.4	1.3	1.3	1.4
PLASTICS IN PRIMARY FORMS	57	1.1	0.7	1.3	1.1	1.4	1.8	1.3
VEGETABLES AND FRUIT	05			1.3	6.7	3.8	1.5	1.0
TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., AND RELATED PRODUCTS	65	0.3	1.0	1.0	0.7	0.8	2.3	1.0
CORK AND WOOD	24		0.0	0.4	0.0	0.0	0.0	0.9
PHOTOGRAPHIC APPARATUS, EQUIPMENT AND SUPPLIES AND OPTICAL GOODS, N.E.S.; WATCHES AND CLOCKS	88	2.1	2.6	3.8	1.9	0.8	1.7	0.5
DYEING, TANNING AND COLORING MATERIALS	53	0.1	0.2	0.1	0.2	0.3	0.3	0.5
LEATHER, LEATHER MANUFACTURES, N.E.S., AND DRESSED FURSKINS	61	0.1	0.0	0.0		0.3	0.6	0.4
MEDICINAL AND PHARMACEUTICAL PRODUCTS	54	2.3	2.2	2.9	0.3	0.6	0.4	0.4

PLASTICS IN NONPRIMARY FORMS	58	0.4	0.3	0.2	0.1	0.2	0.4	0.2
CORK AND WOOD MANUFACTURES OTHER THAN FURNITURE	63	0.0	0.1	0.0	0.0	0.0	0.0	0.2
TEXTILE FIBERS (OTHER THAN WOOL TOPS AND OTHER COMBED WOOL) AND THEIR WASTES (NOT MANUFACTURED INTO YARN OR FABRIC)	26		0.1		0.1	0.2	0.1	0.1
ESSENTIAL OILS AND RESINOIDS AND PERFUME MATERIALS; TOILET, POLISHING AND CLEANSING PREPARATIONS	55		0.0		0.0	0.0	0.1	0.1
OIL SEEDS AND OLEAGINOUS FRUITS	22			1.2		0.2	1.1	0.1
ARTICLES OF APPAREL AND CLOTHING ACCESSORIES	84	0.8	0.1	0.1	0.1	0.9	1.1	0.0
TRAVEL GOODS, HANDBAGS AND SIMILAR CONTAINERS	83	0.0		0.0	0.0	0.0	0.0	0.0
COFFEE, TEA, COCOA, SPICES AND MANUFACTURES THEREOF	07	0.0	0.0	0.0				0.0
CRUDE ANIMAL AND VEGETABLE MATERIALS, N.E.S.	29						0.0	0.0
BEVERAGES	11			0.0		0.0		0.0
FOOTWEAR	85				0.0			0.0
MEAT AND MEAT PREPARATIONS	01							
DAIRY PRODUCTS AND BIRDS' EGGS	02							
FISH (NOT MARINE MAMMALS), CRUSTACEANS, MOLLUSCS AND AQUATIC INVERTEBRATES, AND PREPARATIONS THEREOF	03							
CEREALS AND CEREAL PREPARATIONS	04							
SUGARS, SUGAR PREPARATIONS AND HONEY	06							
FEEDING STUFF FOR ANIMALS (NOT INCLUDING UNMILLED CEREALS)	08							
MISCELLANEOUS EDIBLE PRODUCTS AND PREPARATIONS	09							
TOBACCO AND TOBACCO MANUFACTURES	12							
HIDES, SKINS AND FURSKINS, RAW	21	0.1		0.1				
ANIMAL OILS AND FATS	41							

FIXED VEGETABLE FATS AND OILS, CRUDE, REFINED OR FRACTIONATED	42	0.3						
ANIMAL OR VEGETABLE FATS AND OILS PROCESSED; WAXES AND INEDIBLE MIXTURES OR PREPARATIONS OF ANIMAL OR VEGETABLE FATS OR OILS, N.E.S.	43						0.0	
SPECIAL TRANSACTIONS AND COMMODITIES NOT CLASSIFIED ACCORDING TO KIND	93	311.2	109.1					

Source: UN Comtrade

Appendix 3.4

India's exports to the Russian Federation (1993-2000) (USD million)¹

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
All commodities	648.60	807.38	1046.56	811.84	954.12	709.26	952.60
Tea	99.82	86.36	142.69	75.04	198.49	197.89	160.23
RM Garments of cotton including accessories	28.29	27.03	39.66	30.47	52.92	93.13	157.86
Drugs, pharmaceuticals and fine chemicals	89.82	89.84	90.92	108.99	106.07	47.65	113.94
Cotton yar fabric. Made ups etc.	14.56	31.67	35.52	61.78	76.61	51.23	68.27
Coffee	26.10	44.96	102.10	85.78	93.97	59.17	51.91
Tobacco, unmanufactured	48.07	4.77	21.63	30.35	59.27	25.12	44.63
RM Garments of wool	21.39	21.95	33.23	33.52	25.76	15.74	39.12
Non-basmati rice	-	0.46	31.61	89.51	41.37	33.51	36.08
RM Garments of manmade fibers	13.07	8.30	12.26	12.22	16.06	26.01	34.21
Plastic and linoleum products	59.88	25.01	27.94	32.82	30.80	12.64	24.24
Machinery and	16.97	26,54	20.39	20.92	14.15	18.84	20.95

¹ Figures and cautions are to be found compiled from CMIE statistics in various articles in Shamsuddin (ed.), India and Russia, Towards Strategic Partnership (Lancer's Books 2001): Gulshan Sachdeva, Indo-Russian Trade and economic Relations: Present Realities and Future Possibilities, R.G. Gidadhbli, India-Russia Economic Relations: Challenges and Opportunities and Tahir Asghar, Indo-Russian Trade: An Overview.

instruments							
Electronic goods	21.29	37.58	18.20	4.75	20.1	5.84	18.98
Spices	7.44	15.07	8.96	9.09	14.70	8.29	11.86
Caster oil	8.07	15.18	13.54	2.2	1.83	1.06	11.67
Leather goods	13.68	9.64	5.61	6.41	8.28	5.37	9.84
Footwear of leather	20.44	31.97	18.89	12.34	27.94	11.84	9.72
Manmade madeups	9.55	21.53	6.77	6.72	5.02	2.65	8.53
Cosmetics/toiletries	25.47	51.24	34.88	19.09	20.26	7.86	7.84
Manufactures of metals	2.09	3.74	2.37	2.16	2.26	2.91	6.14
Processed minerals	15.62	50.37	60.38	31.62	0.75	15.53	6.12
Oil meals	21.95	22.02	9.58	3.47	10.94	2.8	5.39
Rubber manufactured products	2.89	1.74	4.78	2.34	3.77	3.81	5.37
Handicrafts excluding handmade carpets	0.77	0.86	1.41	0.9	0.98	0.53	4.57
Leather garments	-	-	6.43	7.41	8.66	3.96	3.48
Groundnut	1.70	2.95	1.55	0.67	7.42	1.39	2.59
Non-Ferrous metals	0.01	0.21	-	2.96	2.97	0.1	2.47
Woolen yarn fabrics Madeups etc.	2.53	2.48	0.46	1.56	0.8	1.5	2.33
Paper/wood products	1.81	1.88	2.17	2.42	0.55	1.64	2.31
Basmati rice	0.31	1.01	2.83	1.17	0.28	0.03	2.01

Appendix 3.5

Indian imports from the Russian Federation (1993-2000)(USD million)²

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
All Commodities	256.89	504.54	857.53	628.98	679.02	545.42	618.23
Fertiliser manufactured	3.65	40.50	130.66	77.17	157.42	65.16	63.27
Iron and Steel	3.65	40.50	130.66	77.17	157.42	65.16	63.27
Non-ferrous metals	72.07	135.25	179.10	164.33	136.17	55.57	59.52
Newsprint	35.54	41.34	85.38	74.13	82.26	60.93	50.26
Coal, coke and briquettes						5.71	40.96
Non-electrical machinery	13.18	36.86	47.57	27.83	39.09	21.88	30.13
Primary Steel pig iron based items	1.35	15.79	28.68	8.51	10.46	4.15	23.72
Metalliferous ores and metal scrap	2.82	7.88	9.97	10.89	17.21	13.40	20.04
Synthetic and reclaimed rubber	0.83	4.01	4.42	4.83	8.10	12.41	16.18
Cotton raw and waste	0.42	3.95	5.36	1.51	15.64		
Organic chemicals	5.36	22.08	45.72	29.19	34.73	19.19	15.24
Project goods	11.76	57.01	16.30	9.27	1.18	18.32	14.95
Gold and silver	0.91	16.61	3.06	1.22	35.28	9.56	
Transport equipment	6.80	18.26	12.90	37.58	16.82	5.90	7.80
Electronic goods	0.70	1.55	2.00	1.52	1.51	1.34	7.09
Printed books newspapers etc.	0.15		1.98	0.84	0.05	0.08	5.44
Medicinal and pharmaceutical products	1.96	1.74	2.57	5.22	5.78	5.56	4.98
Sulphur and unroasted iron			0.78	1.70			3.74
Inorganic chemicals	1.48	5.49	1.88	14.43	17.89	13.11	3.17
Manufactures of metals	0.79	1.19	2.49	1.40	1.56	2.36	2.97
Electrical machinery	0.11	0.44	0.86	0.47	1.36	1.27	2.66
Professional instruments, optical goods	0.06	0.29	1.29	1.64	1.09	0.94	2.1

etc.							
Non metallic mineral mnts.	0.15	0.77	0.71	0.32	1.47	1.70	1.87
Raw hides and skins	0.88	0.42	0.86	1.11	0.79	1.02	1.33
Artfel, resins, plastic material,etc.	2.83	2.81	4.65	1.98	1.73	0.29	1.13
Pulp and waste paper	5.47	9.59	23.23	6.44	10.73	0.70	0.85
Machine tools	0.39	0.27	9.31	4.61	2.24	2.58	0.66
Pearls precious and semiprecious stones	0.15	0.35	2.20	1.35	0.99	0.01	0.50
Leather	0.57	0.08	0.07	0.05	0.34	0.71	0.30

Indian imports from the Russian Federation (2000-2006)(USD million)

	Commodity	2000-2001	2001-02	2002-03	2003-04	2004-2005	2005-2006
1.	IRON & STEEL	101.10	51.25	102.27	188.91	338.46	549.93
2.	FERTILZERS MANUFACTURED	86.17	137.29	96.51	140.69	231.46	484.95
3.	NON-FERROUS METALS	1.08	59.15	68.43	146.34	155.04	240.40
4.	SILVER	61.28	6.81	7.11	15.34	71.75	141.90
5.	NEWSPRINT	63.93	63.70	63.16	73.22	90.95	98.29
6.	SYNTHC & RECLMD RUBBER	16.73	30.72	37.50	54.90	65.88	78.87
7.	METALIFERS ORES & METAL SCRAP	7.25	4.04	6.72	7.91	8.44	53.03
8.	MACHRY EXCPT ELEC & ELECTRONIC	16.76	17.54	28.64	33.37	29.49	48.23
9.	ORGANIC CHEMICALS	5.08	6.87	12.06	21.93	23.40	41.59
10.	OTHER CRUDE MINERALS	6.84	14.96	15.07	21.88	21.29	40.98
11.	TRANSPORT EQUIPMENTS	30.23	6.30	9.69	60.11	4.27	26.72
12.	PRNTD BOOKS,NWSPAPRS,JR NLS ETC	14.88	10.89	18.09	25.13	20.31	24.59
13.	INORGANIC CHEMICALS	10.47	4.83	19.22	16.25	16.76	23.75
14.	MACHINE TOOLS	1.23	0.72	0.41	1.14	3.56	19.77
15.	PERLS PRCUS SEMIPRCS STONES	0.83	0.38	1.00	1.44	11.73	15.20
16.	COAL,COKE & BRIQUITTES ETC.	6.26	11.97	15.99	49.49	132.95	14.49
17.	ELECTRONIC GOODS	11.05	5.85	17.21	26.55	5.28	13.19
18.	PRIMRY STEL,PIG	13.96	3.63	4.10	8.82	35.72	11.60

	IRON BASD ITMS						
19.	PROJECT GOODS	4.44	3.09	2.06	9.00	4.61	11.15
20.	OTHER COMMODITIES	37.78	59.18	35.39	24.70	9.65	9.19
21.	MANUFACTURES OF METALS	3.16	5.32	6.61	11.65	2.32	8.12
22.	MEDICINAL & PHRMACUTICL PRODTS	5.01	5.07	3.12	2.11	3.42	5.24
23.	PROFSNL INST,ETC EXCPT ELCTRNC	1.27	2.56	1.16	3.94	2.08	5.01
24.	ARTFCL RESNS,PLSTC MATRLS,ETC.	1.20	1.66	1.62	3.13	2.55	4.07
25.	PULP AND WASTE PAPER	1.08	2.38	2.10	3.41	5.33	3.89
26.	PULSES	0.00	1.98	9.01	2.71	1.37	3.82
27.	CHEMICAL MATRL & PRODCTS	0.83	2.31	0.74	1.98	2.39	3.47
28.	PAPER BOARD & MANUFACTURES	0.17	0.15	0.05	0.51	0.43	2.05
29.	WOOD AND WOOD PRODUCTS	0.08	0.90	0.08	0.02	0.03	1.84
30.	ELEC MACHRY EXCPT ELECTRONIC	0.50	1.02	1.25	1.57	2.99	1.68
31.	M-MADE FMNT/SPUN YRN(INC. WAS)	0.67	0.45	2.27	0.15	0.47	1.64
32.	NON-METLC MNRL MNFS EXCL PERLS	0.49	3.45	2.73	0.37	1.29	1.15
33.	DYENG,TANNG,COLR NG MATRLS	0.17	0.03	0.17	0.15	0.33	0.82
34.	LEATHER	0.27	0.32	0.63	0.16	0.59	0.62
35.	OTH TXT YRN,FABS,MADEUP ARTL	0.01	0.00	0.00	0.05	0.12	0.36
36.	RAW HIDES & SKINS	0.07	0.23	0.04	0.00	0.00	0.16
37.	WOOL, RAW	0.00	0.02	0.35	0.49	0.09	0.06
38.	COMP.SOFTWARE IN PHYSICAL FORM	0.00	0.00	0.00	0.03	0.16	0.05
39.	GOLD	0.00	8.40	0.00	0.00	0.01	0.05
40.	NATURAL RUBBER	0.00	0.00	0.00	0.00	0.00	0.03
41.	SPICES	0.01	0.01	0.03	0.04	0.03	0.03
42.	WOOLEN AND COTTON RAGS ETC.	0.01	0.08	0.02	0.04	0.06	0.02
43.	READYMADE G- MENTS(WOVN&KNIT)	0.00	0.00	0.00	0.00	0.01	0.01
44.	MADEUP TEXTILE ARTICLES	0.00	0.00	0.00	0.00	0.00	0.00
45.	SULPHR & UNROSTD IRON PYRTS	0.41	0.00	0.00	0.00	15.64	0.00
46.	FERTILIZERS,CRUDE	3.56	0.00	0.00	0.00	0.04	0.00
	Total Import from	516.3	535.5	592.61	959.6	1,322.7	1,992.0

	RUSSIA	5	1		3	4	1
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Data Source: DGCIS, Kolkata

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Appendix 3.6

India's exports to Russia (2001-02 to 2005-06)²

(million USD)

HS code	Exports to Russia 2001-06	2001-2	2002-03	2003-04	2004-5	2005-6
01					0.01	
02	MEAT AND EDIBLE MEAT OFFAL.		0.09		0.62	0.33
03	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTABRATES.	1.73	0.81	0.23	0.25	0.89
04	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PROD. OF ANIMAL ORIGIN, NOT ELSEWHERE SPEC. OR INCLUDED		0.01	0.07		
05	PRODUCTS OF ANIMAL ORIGIN, NOT ELSEWHERE SPECIFIED OR INCLUDED.			0.03	0.00	0.01
06	LIVE TREES AND OTHER PLANTS; BULBS; ROOTS AND THE LIKE; CUT FLOWERS AND ORNAMENTAL FOLIAGE.	0.00	0.02	0.21	0.30	0.29
07	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS.	0.41	1.29	1.98	2.96	12.72
08	EDIBLE FRUIT AND NUTS; PEEL OR CITRUS FRUIT OR MELONS.	1.79	2.42	5.09	10.38	12.54
09	COFFEE, TEA, MATE AND SPICES.	92.77	66.68	61.74	61.01	67.77
10	CEREALS.	5.79	7.58	13.96	1.11	6.50
11	PRODUCTS OF THE MILLING INDUSTRY; MALT; STARCHES; INULIN; WHEAT GLUTEN.	0.01			0.00	0.14
12	OIL SEEDS AND OLEA. FRUITS; MISC. GRAINS, SEEDS AND FRUIT; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER.	5.48	2.21	2.07	4.42	4.42
13	LAC; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS.	0.83	1.39	1.23	1.83	4.32
14	VEGETABLE PLAITING MATERIALS; VEGETABLE PRODUCTS NOT ELSEWHERE SPECIFIED OR INCLUDED.	0.04	0.00		0.01	0.00
15	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR	12.01	7.57	12.53	2.14	2.54

² Statistics of the Foreign Trade of India, by Countries and Commodities. Vol. 1 (Exports), Vol.2 (Imports). (Director General of Commercial Intelligence and Statistics, Ministry of Commerce, Government of India). Annual Figures as published in March.

	CLEAVAGE PRODUCTS; PRE. EDIBLE FATS; ANIMAL OR VEGETABLE WAXEX.					
16	PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES	0.20			0.00	1.55
17	SUGARS AND SUGAR CONFECTIONERY.	0.16	0.04	1.04	0.09	0.09
18	COCOA AND COCOA PREPARATIONS.	0.04			0.02	
19	PREPARATIONS OF CEREALS, FLOUR, STARCH OR MILK; PASTRYCOOKS PRODUCTS.	0.02	0.03	0.02	0.11	0.17
20	PREPARATIONS OF VEGETABLES, FRUIT, NUTS OR OTHER PARTS OF PLANTS.	6.68	2.26	6.68	11.81	31.18
21	MISCELLANEOUS EDIBLE PREPARATIONS.	42.33	40.94	42.33	33.26	54.92
22	BEVERAGES, SPIRITS AND VINEGAR.	0.04	0.00	0.04	0.01	
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODER.	0.26	0.07	0.26	1.65	0.87
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES.	20.88	24.09	20.88	31.80	39.27
25	SALT; SULPHUR; EARTHS AND STONE; PLASTERING MATERIALS, LIME AND CEMENT.	0.62	0.51	0.62	0.64	0.95
26	ORES, SLAG AND ASH.	10.38	13.27	10.38	9.43	0.01
27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES.	0.02	0.02	0.02	0.06	
28	INORGANIC CHEMICALS; ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS, OF RARE-EARTH METALS, OR RADI. ELEM. OR OF ISOTOPES.	45.58	43.59	45.58	25.08	0.84
29	ORGANIC CHEMICALS	13.84	10.78	13.84	11.91	13.42
30	PHARMACEUTICAL PRODUCTS	131.23	98.95	131.23	163.63	233.15
31	FERTILISERS.				0.03	0.04
32	TANNING OR DYEING EXTRACTS; TANNINS AND THEIR DERI. DYES, PIGMENTS AND OTHER COLOURING MATTER; PAINTS AND VER; PUTTY AND OTHER MASTICS; INKS.	4.38	4.45	4.38	6.89	11.29

33	ESSENTIAL OILS AND RESINOIDS; PERFUMERY, COSMETIC OR TOILET PREPARATIONS.	5.72	3.90	5.72	3.89	2.62
34	SOAP, ORGANIC SURFACE-ACTIVE AGENTS, WASHING PREPARATIONS, LUBRICATING PREPARATIONS, ARTIFICIAL WAXES, PREPARED WAXES, POLISHING OR SCOURING PREP.	1.01	0.49	1.01	0.68	0.89
35	ALBUMINOIDAL SUBSTANCES; MODIFIED STARCHES; GLUES; ENZYMES.	0.26	0.00	0.26	0.12	0.72
37	PHOTOGRAPHIC OR CINEMATOGRAPHIC GOODS.	0.01	0.02	0.01	0.11	0.06
38	MISCELLANEOUS CHEMICAL PRODUCTS.	2.04	1.11	2.04	3.33	3.45
39	PLASTIC AND ARTICLES THEREOF.	20.19	10.35	20.19	22.05	25.49
40	RUBBER AND ARTICLES THEREOF.	3.94	2.15	3.94	1.78	3.77
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	5.08	3.19	5.08	3.84	8.42
42	ARTICLES OF LEATHER,SADDLERY AND HARNESS;TRAVEL GOODS, HANDBAGS AND SIMILAR CONT.ARTICLES OF ANIMAL GUT(OTHR THN SILK-WRM)GUT.	6.57	7.75	6.57	2.86	2.00
44	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL.	0.09	0.19	0.09	0.33	0.43
47	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPERBOARD.	0.01		0.01	0.00	0.00
48	PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR OF PAPERBOARD.	2.29	1.65	2.29	3.19	5.77
49	PRINTED BOOKDS, NEWSPAPERS, PICTURES AND OTHER PRODUCTS OF THE PRINTING INDUSTRY; MANUSCRIPTS, TYPESCRIPTS AND PLANS.	0.26	0.12	0.26	0.22	0.75
50	SILK	0.18	0.04	0.18	0.33	0.27
51	WOOL, FINE OR COARSE ANIMAL HAIR, HORSEHAIR YARN AND WOVEN FABRIC.	0.21	0.28	0.21	0.00	
52	COTTON.	15.97	13.96	15.97	12.22	27.75
53	OTHER VEGETABLE TEXTILE FIBRES; PAPER YARN AND WOVEN FABRICS OF PAPER YARN.	0.13	0.18	0.13	0.13	0.26

54	MAN-MADE FILAMENTS.	0.59	0.80	0.59	0.22	0.98
55	MAN-MADE STAPLE FIBRES.	1.29	0.93	1.29	0.94	1.06
56	WADDING, FELT AND NONWOVENS; SPACIAL YARNS; TWINE, CORDAGE, ROPES AND CABLES AND ARTICLES THEREOF.	0.26	0.09	0.26	0.70	0.55
57	CARPETS AND OTHER TEXTILE FLOOR COVERINGS.	0.77	0.24	0.77	0.92	1.81
58	SPECIAL WOVEN FABRICS; TUFTED TEXTILE FABRICS; LACE; TAPESTRIES; TRIMMINGS; EMBROIDERY.	0.20	0.04	0.20	0.10	0.04
59	IMPREGNATED, COATED, COVERED OR LAMINATED TEXTILE FABRICS; TEXTILE ARTICLES OF A KIND SUITABLE FOR INDUSTRIAL USE.	0.99	0.96	0.99	1.34	2.69
60	KNITTED OR CROCHETED FABRICS.	0.11	0.49	0.11	0.10	0.19
61	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, KNITTED OR CROCHETED.	173.90	218.57	173.90	95.43	17.84
62	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES, NOT KNITTED OR CROCHETED.	31.52	46.63	31.52	9.91	3.25
63	OTHER MADE UP TEXTILE ARTICLES; SETS; WORN CLOTHING AND WORN TEXTILE ARTICLES; RAGS	2.35	1.46	2.35	2.94	2.77
64	FOOTWEAR, GAITERS AND THE LIKE; PARTS OF SUCH ARTICLES.	0.27	0.49	0.27	1.57	1.35
65	HEADGEAR AND PARTS THEREOF.	0.16	0.03	0.16		
66	UMBRELLAS, SUN UMBRELLAS, WALKING-STICKS, SEAT-STICKS, WHIPS, RIDING-CROPS AND PARTS THEREOF.	0.02		0.02		
67	PREPARED FEATHERS AND DOWN AND ARTICLES MADE OF FEATHERS OR OF DOWN; ARTIFICIAL FLOWERS; ARTICLES OF HUMAN HAIR.					0.00
68	ARTICLES OF STONE, PLASTER, CEMENT, ASBESTOS, MICA OR SIMILAR MATERIALS.	1.51	1.02	1.51	2.46	3.73
69	CERAMIC PRODUCTS.	0.91	1.49	0.91	1.07	0.40
70	GLASS AND GLASSWARE.	1.13	0.63	1.13	1.67	2.90
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRE-METALS, CLAD	1.47	0.86	1.47	3.57	1.89

	WITH PRE.METAL AND ARTCLS THEREOF;IMIT.JEWELRY;COIN.					
72	IRON AND STEEL	5.95	1.67	5.95	3.99	12.18
73	ARTICLES OF IRON OR STEEL	1.44	0.53	1.44	3.64	3.15
74	COPPER AND ARTICLES THEREOF.	1.00	0.03	1.00	0.60	0.74
75	NICKEL AND ARTICLES THEREOF.				0.00	1.48
76	ALUMINIUM AND ARTICLES THEREOF.	1.00	0.65	1.00	0.59	2.44
79	ZINC AND ARTICLES THEREOF.	0.01		0.01	0.07	0.08
80	TIN AND ARTICLES THEREOF.	0.06		0.06	0.00	
81	OTHER BASE METALS; CERMETS; ARTICLES THEREOF.	0.06	0.09	0.06		0.06
82	TOOLS IMPLEMENTS, CUTLERY, SPOONS AND FORKS, OF BASE METAL; PARTS THEREOF OF BASE METAL.	3.52	1.13	3.52	6.22	7.40
83	MISCELLANEOUS ARTICLES OF BASE METAL.	0.24	0.61	0.24	0.65	0.47
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	13.00	11.77	13.00	18.37	22.67
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS,AND PARTS.	9.50	4.75	9.50	18.37	16.79
86	RAILWAY OR TRAMWAY LOCOMOTIVES, ROLLING-STOCK AND PARTS THEREOF; RAILWAY OR TRAMWAY TRACK FIXTURES AND FITTINGS AND PARTS THEREOF; MECHANICAL	0.08		0.08	0.02	
87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF.	2.62	2.00	2.62	9.53	14.45
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF.	3.00	12.27	3.00	4.16	10.29
89	SHIPS, BOATS AND FLOATING STRUCTURES.				0.21	
90	OPTICAL, PHOTOGRAPHIC CINEMATOGRAPHIC MEASURING, CHECKING PRECISION, MEDICAL OR SURGICAL INST. AND APPARATUS PARTS AND ACCESSORIES THEREOF;	0.83	6.58	0.83	1.27	2.05
91	CLOCKS AND WATCHES AND	0.27	0.17	0.23	0.04	0.02

	PARTS THEREOF.					
92	MUSICAL INSTRUMENTS; PARTS AND ACCESSORIES OF SUCH ARTICLES.	0.04	0.00	0.03	0.00	0.01
93	ARMS AND AMMUNITION; PARTS AND ACCESSORIES THEREOF	0.01	0.01			
94	FURNITURE; BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHING; LAMPS AND LIGHTING FITTINGS NOT ELSEWHERE SPECIFIED OR INC	0.04	0.11	0.19	0.26	0.12
95	TOYS, GAMES AND SPORTS REQUISITES; PARTS AND ACCESSORIES THEREOF.	0.19	0.04	0.33	0.24	0.23
96	MISCELLANEOUS MANUFACTURED ARTICLES.	6.22	2.72	1.72	1.62	2.22
97	WORKS OF ART COLLECTORS' PIECES AND ANTIQUES.			1.15	1.06	0.48
98	PROJECT GOODS; SOME SPECIAL USES.		0.00	1.45	0.03	1.19
99	MISCELLANEOUS GOODS.		9.72	8.51	0.86	10.31
95	TOYS, GAMES AND SPORTS REQUISITES; PARTS AND ACCESSORIES THEREOF.	0.19	0.04	0.33	0.24	0.23
96	MISCELLANEOUS MANUFACTURED ARTICLES.	6.22	2.72	1.72	1.62	2.22
97	WORKS OF ART COLLECTORS' PIECES AND ANTIQUES.			1.15	1.06	0.48
98	PROJECT GOODS; SOME SPECIAL USES.		0.00	1.45	0.03	1.19
99	MISCELLANEOUS GOODS.		9.72	8.51	0.86	10.31

**COMPARATIVE TREND ANALYSIS OF INDIA'S SHARE AS A SUPPLIER TO
RUSSIA**

Value in million USD

Year	Global imports	Imports from India	India's %age share in Russia's total imports
1997	66326.58	801.22	1.21
1998	58996.33	668.23	1.13
1999	40428.95	677.19	1.68
2000	45452.72	556.19	1.22
2001	41527.82	542.28	1.31
2002	42103.36	512.81	1.22
2003	52410.08	583.51	1.11
2004	75030.17	629.65	0.83

TOP 20 PRODUCT GROUPS OF GLOBAL IMPORTS OF RUSSIA (YR.2004)

Value in million USD

HS Code	Description	Global Imports	%age share of the Product Group in Russia's total imports	Imports from India	India's %age share as supplier	%Age Share of Intra CIS Imports	Top 3 Suppliers	%age share
84	Machinery, Boilers & Mechanical Appliances	11209.34	16.45	15.59	0.14	8.07	Germany	21.15
							Italy	9.38
							Ukraine	7.17
87	Vehicles, not railways	7410.59	10.88	7.27	0.10	3.99	Japan	33.94
							Germany	16.37
							U.K	8.1
85	Electrical Machinery	6648.60	9.76	31.29	0.47	5.13	Germany	19.14
							China	17.02
							Sweden	8.04
30	Pharmaceutical Products	2857.25	4.19	212.56	7.44	0.54	Germany	20.32

Chapter IV Trade in services

Introduction

- 4.1 Services are playing an important role in the economies of developed and developing countries alike. This importance is easily visible in the increasing growth in world trade in commercial services, which in 2005 was of the tune of USD 2500 billion, which is roughly 1/4th of merchandise trade. Services account for about 60% of world output and a third of global employment.
- 4.2 In India, services accounted for 54% of GDP in 2005-2006 and services exports accounted for 40% of total exports in the same year. If India's exports continue to grow at the current rate, they will outstrip the quantum of merchandise exports by 2010.
- 4.3 In Russia, the services sector has grown in recent years and so has services trade. The services sector contributed about 55% of its GDP in 2005. Russia's services exports grew by 21 % in 2005 from USD 20 billion to USD 24 billion. Russia is, however, a net importer of services with services imports at USD 39 billion in 2005 as compared to USD 24 billion in 2004.

India and Russia: Bilateral Service Trade

Structure of services trade

- 4.4 India and Russia have been successful in increasing their shares in world services export. With USD 60 billion of services export in 2005, India's share in world services export has increased from a mere half a percent in 1990 to 2 % in 2005. With USD 20 billion of services export in 2004, Russia's share in world services export was 1% in 2004 (Appendix 4.1)
- 4.5 India has recorded a trade surplus in services in 2005. In general, this has been largely contributed by miscellaneous services (mainly IT and software services). However, India was a net importer of services even in 2003, even though the net deficit was of a small order. The decline of transport services imports in 2003 helped India in narrowing this deficit. In travel services, there was almost a four-fold increase in imports in 2003, compared to 1995, whereas exports have grown one and a half fold in 2003.
- 4.6 In case of Russia, transportation accounted for over 37% of Russia's service exports in 2005. The share of other service exports such as construction services (9 %), and other business services (21%) have also increased in 2005. It is worth mentioning that there was an increase in the share of IT services in Russian exports from 0.06% of services exports in 2000 to 1.7% in 2005. In 2005, except in transport services, Russia recorded a trade deficit in most of the service sectors. The major services imports in 2005, were public travel (accounting for 46.7% of the total services imports), followed by transport-related services (11.5%), construction-related services (9.1 %), insurance services (3.4%), and royalties and license payments (3.2%).
- 4.7 The principal areas in the sphere of services in the bilateral context are currently constituted by the services for construction of facilities by teams seconded by Russian

organizations to India. The other types of services, such as - tourism, telecommunications services, insurance-related services, financial services, and informational services and other services, still account for a very meager portion of the services output of the two countries. Considering the structure of the Russian services output, certain changes in this particular area may well be anticipated. India's interest lies in seeking liberal market access, disciplining domestic regulations and concluding Mutual Recognition Agreements, predominantly in professional services.

- 4.8 In the bilateral context, at the moment a large portion of trade in services flowing between the countries accounts for exports from Russia to India of the services is associated with the construction and maintenance of equipment. In the first place, a case in point is the reconstruction and construction of infrastructural facilities in India, notably the construction of automobile routes and rail-roads, underground lines, electric power generating plants (thermal power generating plants, hydro-electric power plants, and nuclear power plants).
- 4.9 According to a study conducted by the Boston Consulting Group, it is estimated that 40 million new services jobs and USD 200 billion revenue would be generated by 2020 in India. This would include 20 million direct jobs through remote services (Mode 1) and through import of customers. For this India proposes to seek preferential market access in Russia, beyond what has been given in its accession negotiations.
- 4.10 As part of addressing the issue of increasing the bilateral trade flows, it is essential to improve the environment for information dissemination regarding the activities in the sphere of construction of infrastructural facilities in India. Additionally, it is also indispensable to develop and promote the currently dormant areas for co-operation (for instance, in the area of tourism, education, and health care) in both countries. India seeks market access for Contractual Service Suppliers (CSS) and Independent Professionals (IP). India wants free movement of natural persons and for this visa and immigration procedures, Economic Needs and Labour Market Tests, Work permit norms, procedures for recognition of qualifications etc. need to be modified. However, the Russian side's view is that these issues may be considered after the agreement on visas is reached and Russia becomes a member of the WTO.

Recommendations to Increase Bilateral Trade in Specific Sectors

- 4.11 There are a number of sectors, which should be explored as potential areas where India-Russia bilateral trade in services could be strengthened through enhanced cooperation. It has been noticed that domestic regulations, especially qualification requirements and procedures, make it difficult for service providers to access other country markets, even if such countries have taken specific commitments. Domestic regulation can also pose a hindrance in the setting up of commercial presence by a company from one country into another country. The development of disciplines would ensure that domestic regulations are not more burdensome than necessary and are applied in a non-discriminatory manner to all service providers in existing and potential sectors. The potential sectors for increasing bilateral trade in services, and special measures proposed to increase bilateral trade and investments in these sectors are as follows :

IT and IT enabled Services

- 4.12 India is an important global center of IT in the world. The key drivers of India's competitive edge are namely highly skilled human resources, cost arbitrage, reliable telecom infrastructure etc. This has enabled IT companies to offer a range of services

from application development, ERP, systems integration to BPO services. India offers a unique combination of attributes that have established it as the preferred offshore destination for IT-BPO. Over 2001-06, India's share in global sourcing is estimated to have grown from 62 per cent to 65 per cent for IT and 39 per cent to 45 per cent for BPO. The visibly higher preference for India is driven by its acquired competence when measured across a range of parameters that determine the attractiveness of a sourcing location. The process quality and expertise in service delivery has been a key factor driving India's sustained leadership in global service delivery. Today, India-based centers (both Indian firms as well as MNC-owned captives) constitute the largest number of quality certifications achieved by any single country. As of December 2006, over 440 Indian companies had acquired quality certifications with 90 companies certified at SEI CMM Level 5 – higher than any other country in the world. The software and ITES exports from India grew from USD 12.9 billion in the year 2003-04 to USD 31.3 billion during the year 2006-07. The production of the Indian electronics and IT industry is estimated at Rs. 2456 billion. during 2006-07, as compared to Rs. 1903 billion. during the year 2005-06, a growth of 29.1%.

- 4.13 The Russian IT sector is one the most dynamic in the Russian economy and is gaining strength rapidly. According to the forecast of the analysts, by 2010 the volume of IT services in Russia will reach 10 billion USD with the annual average growth at 67%. The Russian government pays a lot of attention to its development (by this indicator it is only outstripped by the oil and gas sector). For example, in 2007 on the basis of public-private partnership 7 technological Special Economic Zones will be established.
- 4.14 Nevertheless, Russian-Indian cooperation in this sector is very small. This could be explained by the fact that on the one hand, Russian and Indian specialists are not familiar with each other's potential and possibilities of cooperation. On the other hand, there is a lot of suspicion and fear of competition on both sides as both Russian and Indian IT-specialists work mainly in the sphere of out-sourcing for foreign companies. To get around barriers for Indo-Russian cooperation in this sphere, the following areas of cooperation are suggested:
- India and Russia should aim to strengthen and facilitate service sector cooperation, strategic alliance and investment in areas like IT equipments, computer hardware, and telecommunication networks.
 - Both sides should consider steps to identify possible areas of cooperation. In order to achieve this a joint meeting of the Russian and Indian companies operating in the IT market could be organized.
 - Russia invites Indian IT-companies to take advantages of techno-parks in the sphere of information technology in the Russian Federation and the technological Special Economic Zones.
 - Indian side notices that, at present the Indian companies that are registered in Russia are charged pay-roll tax (social security tax). The Indian side suggests that in order to make the sector competitive for Indian companies the social security tax paid by Indian Professionals in Russia may either be charged at a low rate or done away with. The Russian side clarifies that Indian workers are treated in the same way as all foreign workers. There is a provision of getting tax reimbursement upon leaving the country.
- 4.15 The Indian side suggested that both the countries could explore the possibility for potential tie-ups in the Information technology field to complement each other's strengths.

Transport services

Maritime Transportation Services

- 4.16 Both the countries need to strengthen the maritime transport services sector including maritime transport services and improvements in port infrastructure. Besides, India may look at leveraging Russian expertise and experience in this sector to rapidly beef up port infrastructure. India may similarly seek to strengthen its inland waterways infrastructure.
- 4.17 Keeping in view Russia's strength in the above-mentioned areas, Russia should take steps for providing its services. Special measures include improving the process of dissemination of information about possibilities, existing in India among Russian companies.
- 4.18 The JSG noted that the containerization of cargo has seen rapid growth in India. Russia can explore the cooperation from Indian container companies to develop its infrastructure, especially, to develop the North South Transport Corridor (NSTC) which will provide faster and efficient connectivity between the two countries for promoting bi-lateral trade.
- 4.19 India can offer Russian companies large opportunities in following areas:
- Transportation of goods from Black Sea / Baltic Region.
 - Modernization of major Indian ports.
 - Dredging operation in existing as well as new ports.
 - Supply of various categories of Ships to Shipping Corporation of India as part of their fleet expansion programme.

Inland Waterways

- 4.18 Both the countries may introduce measures, aimed at enhancing greater co-operation and investments in this area and in particular, consider signing a Memorandum of Understanding (MOU) of Collaboration in Scientific and Engineering Areas, Related to Water Ways Transportation.

Road Transportation Services

- 4.19 In India the National Highway sector tenders are put out for global bidding and normally follow the World Bank tender procedure for documentation and evaluation and Russian companies may also bid, as and when, the tenders are issued. The Russian companies need to deepen their understanding and knowledge with regard to, the tender procedure and legal matters associated with road transport sector in India. This information will help the Russian companies to bid for tenders in the Indian highways sector. Russian companies interested in this sector will ensure the flow of investment and technical expertise of these companies in India.
- 4.20 India may consider co-operation with Russia in the area of modernization, and procuring state-of-the-art equipment, of rail-road transport including Russian multi-level train movement safety controls, electrification of rail-roads, etc.

4.21 To disseminate information the following steps may be taken by Russia :

- Create web-site, where information on Indian tenders is available to the Russian companies in Russian.
- Russian companies interested in bidding for Highway projects may like to open a liaison office in India, to facilitate their understanding of the Indian market. The Russian Trade Representative and Russian-Indian Business Councils can also assist the Russian companies for this purpose.

Aviation Services

- 4.22 Currently there is an unutilized potential between the two countries in the area of aviation services. JSG recommends studying the possibilities of development of aviation services in the area of, for example, transportation of expensive or perishable goods. The increased flights between both the countries will also have spin offs for other services such as tourism.
- 4.23 The Russian side feels that there is a potential of overhaul and rehabilitation repairs and modernization of the Russian-made aircraft equipment in operation, as well as participation in and modernization of Indian airports. In particular, Russian side can introduce integrated system of flight safety e.g. wake-vortex flight-safety system, which matches existing and future regulations on the basis of CNS/ATM ICAO technologies. The Russian side also expressed that the procedures for registration of Russian aircrafts in India need to be made more simple.
- 4.24 The Indian side expressed the view that the pilots above 60 years of age should be accepted for operation of commercial aircraft over Russian air space when operating under Multi-crew environment with another pilot below 60 years of age as agreed in the MoU entered in Feb, 2006.

Construction and Engineering services

- 4.27 To translate the enormous potential existing between the two countries into actual trade, both countries need to strengthen cooperation in the development of infrastructure and its essential offshoot sector of construction and engineering services. To this end, Russia can participate in India's energy development and plant construction, including power plant construction, and offshore gas and oil development. Efforts should be made to address all concerns relating to market access and remove impediments to trade in construction services. The Russian experience and expertise in deep coal mining can be accessed to train India's coal miners.
- 4.28 Most of the Indian steel plants in the public sector are undergoing modernization and Russian companies can provide technical expertise and equipments for this purpose. Indian Side proposes that Russia can enter into Joint venture collaboration with India for exploration and mining of good quality coking coal in the Siberian region.
- 4.29 Bearing in mind the vast experience of Russian companies in infrastructure building they could be competitive in bids for reconstruction and construction of metro lines in India.

- 4.30 Russian construction companies can also participate in building housing facilities in India as they can offer cheap and safe production for mass orders and the same can be reciprocally explored by Indian construction companies in Russia.

Telecommunication Services

- 4.31 The telecommunications sector in Russia is growing rapidly since the mid 1990-s and since the year 2000 the level of the growth has reached about 30% annually. By the end of the 2006 the number of cell-phone users in Russia was about 150 million persons³ and the level of mobile penetration has reached 104%. In the same year the number of active Internet-users has reached 11 million. By 2010, the number of Internet-users will be about 50 million persons and the gains from the advertisement in the Internet will increase by 8 times.
- 4.32 According to a research study conducted by the Standard & Poor's, Telecommunication sector is the most transparent in the Russian economy (for example in adherence to the International Accounting Standards) . The intention of the leading companies is to attract foreign investments and to issue IPOs in the near future. Moreover, by the estimates of some analytical agencies the telecommunications sector has an excellent potential for development with the volume of the market reaching USD 54 bln. by the year 2008.
- 4.33 India has witnessed a telecommunication boom, and it is a fast growing sector. The mobile growth in the country is phenomenal. The Indian companies are looking for investments and supply of services in this sector in Russia.
- 4.34 Russian mobile telecommunication companies are looking for investing into foreign mobile operations. For example, Russian mobile operators invest in many CIS countries, Turkey, etc. However, up till now efforts of Russian companies to work on Indian telecommunication market has not produced any concrete results.
- 4.35 Russian side's view is that in India, except for the manufacture of telecom equipments where 100% FDI is allowed, in almost all the spheres of telecommunications (basic and cellular, V-Sat and other value added telecom services) there is a cap on foreign ownership at 74%. Therefore the Russian side feels that relaxing the FDI norms can bring more capital and expertise to the Indian market, and increase services trade between the two countries.
- 4.36 India can explore the possibility of providing services to the three largest Russian telecom service providers that jointly account for about 90% of the Russian cellular communication market.

Financial services

- 4.37 Since efficiency and competitiveness in financial services can improve India-Russia bilateral trade in services, both countries need to work together to strengthen domestic financial systems. In particular, both parties could collaborate in the field of financial services with a view to promote regulatory co-operation and share related experiences to facilitate the development of the financial market and improve the financial market infrastructure. All existing fora including bilateral meetings between Central Banks/regulators should also be optimally utilized. Recognizing that improving the efficiency and competitiveness of the financial markets of the two countries is of great

³ Actually this number is lower, because some users have more than one SIM-card

significance in creating an environment for mutual cooperation and economic development, it is also recommended that both the sides should work towards appropriate improvements of their commitments for commercial presence in financial services. It is recommended that the Financial Services authorities of both sides enter into mutual consultations with a view to increasing cooperation in this area.

- 4.38 Indian side is facing difficulties as Indian banks in Russia have to adhere to norms concerning a minimum capital, 75% of the bank's employees and 50% of the management board being Russian. In addition, there is the issue of withholding tax and the problems associated with visa rules and work permits.
- 4.39 In order to increase trade in goods and services, both parties India and Russia need to consider the ways to stimulate both Indian banks and Russian banks to open subsidiaries in each other's country. In Russia 100% foreign subsidiaries are allowed in the banking sector. In India the RBI Roadmap allows 100% share of foreign capital in Wholly Owned Subsidiaries (WOS) and branches. Also foreign bank branches need to have only start-up initial assigned capital and not share capital.
- 4.40 In the case of insurance, non-Russian insurance companies are permitted to operate in Russia, but, in the case of life insurance and other forms of insurance, 49% equity restriction is applied. Total foreign capital in the insurance sector is pegged to a ceiling and all chief executives of insurance agencies are required to be Russian citizens. At present there is discrimination between EU and non-EU countries in the insurance sector in Russia. Russia as a part of accession process to the WTO will do away with the discriminatory treatment.
- 4.41 In India in the insurance sector FDI upto 26% of the paid-up capital is allowed. According to Section 6AA of the Insurance Act 1938 Indian partners shall divest in a phased manner the share capital in excess of 26% of the paid up equity capital after a period of ten years from the date of commencement of business. The compulsion of divestment is not applicable to foreign investors.

Distribution services

- 4.42 Retail sector is one of the fastest growing sector in Russia. Retail turnover is growing by more than 13% every year. As a result, retail sector is a major attractions for FDI in Russia. International operators – Metro, Achan, IKEA, etc. – have opened their stores in a number of Russian regions. Russian's own retail chains are being formed, and they are getting interested in investing in other countries.
- 4.43 The Russian side is of the view that in India retail sector is largely closed for foreign investments in multi-brand retail and the trade between Russia and India in this sector can increase in future.

Research and Development Services

- 4.44 The growth of research and development in the fields of bio-technology, automobile and pharmaceuticals in India has provided it with sufficient strength and competence to provide services in these fields to Russia. Russia at the same time is becoming a world leader in mathematically intensive services. Further, co-operation in fields of space, energy, metallurgy (non-ferrous and rare metals), biomedical technologies, accelerators

and lasers can be explored between both the countries. In order to conduct research in these areas joint dedicated research centers could be established.

- 4.45 The JSG suggests considering the possibility of creation of joint venture funds for operations within the two countries that will facilitate the introduction of innovations into business operations.
- 4.46 India suggested that Russia could consider participation in mega projects in the following areas:
- Energy, focusing on solar technology and alternative energy sources
 - Nanotechnology
 - Biotechnology
 - Information Technology
 - Science Parks for demonstration and incubation
- 4.47 Russian side is interested in expertise sharing in the area of techno-parks development (based on the Bangalore model) and co-operation under the GLONASS programme, which has recently developed rapidly in Russia.
- 4.48 Another sphere of cooperation could be the development, as based upon the CNS/ATM ICAO technologies, of an integrated system intended to secure flight safety, ensuring the existing and prospective requirements as set out by the ICAO, including wake-vortex flight-safety system.

Tourism services

- 4.49 There has been a rapid growth in tourist movement between the two countries. Chartered flights from Russia are arriving in large numbers in Goa and Kerala, and the number of Russians who have visited India increases by 8-10% annually. The stimulation of service trade in this sphere will require active promotion of destinations in both countries through focused media campaigns and participation in major sectoral international exhibitions. Special attention should be paid to the quality improvement of tourism services. This issue could be solved through better tourist staff training by arranging student internships and by conducting inter-company and inter-hotel training for specialists of tour industry.
- 4.50 Nowadays 7 regions have received the status of the tourism and recreational special economic zones: Krasnodar, Altai and Stavropol territories, Kaliningrad and Irkutsk regions, Republics Altai and Buriat. Indian potential investors should be informed about the advantages obtained by the residents of the SEZ. Similar cooperation would be extended by Russia for disseminating information about areas chosen for special tourism promotion activities in India.
- 4.51 JSG recommends that joint faculty and student exchange programmes from the respective educational institutions between Russia and India need to be undertaken with the support of the competent Government bodies.

Health Services

- 4.52 Both sides can provide competitive services in Mode 1 (trans-border outsourcing) in health sector. Tele-diagnosis and tele-medicine are some of the areas of mutual and hi-tech cooperation, which can be explored.

- 4.53 JSG recommends that medical tourism, including naturopathy and Indian traditional medicine, between both the countries can be enhanced keeping in view the availability of specialist doctors in different fields in both the countries.

Education services

- 4.54 Large number of Indian students are going abroad for further studies. The following subjects are most popular among Indian students going to study in Russia: medicine; engineering (construction, automation of management, electronics, aviation, etc.); Information Technology; and in the recent years, industrial- and household-design. Only a small share of Indian students go to study to Russia (about 800 persons annually), while Russian education system is very strong in most of the subjects, listed above.
- 4.55 Russian higher education establishments need to advertise more actively its education opportunities to Indian students through organization of seminars, workshops, education fairs, etc. It has been noticed that target-oriented exhibitions have of late become the most effective forms of the effort aimed at promotion of Russian higher education establishments in the Indian education market. Russian side may endeavor to participate and organize these fairs on the regular basis.
- 4.56 The Intergovernmental Protocol on equivalence of documents on education, scientific degrees and diplomas (signed on 25th of November 1987) is in effect now between Russia and India. However, the issue of mutual recognition of Russian and Indian degrees still exists. It is therefore suggested that a new bilateral agreement on recognition and equivalence of the documents on education, be considered between both the countries which would facilitate increased movement of students in the field of education, scientific and cultural cooperation.
- 4.57 The expansion of bilateral economic ties between two countries, joint projects implementation and investment activity, development of cultural, educational, tourist ties require that both parties get involved in training of the qualified personnel in the state and corporate management system. Russia can organize special 1-week courses for Indians in the different areas which can be beneficial to Indians. Preliminary title for this course is “Russian state management system and regulation of foreign-economic activities in Russia”. In this course Indians can receive information of the State system mechanisms and State management in the Russian Federation, state of legal-regulatory base and practices of foreign-economic and investment activities regulation and cooperation development. Reciprocally, the Indian side can organize courses which can include India’s experience of modern IT application in the State and corporate management system, and other disciplines of Russian interest in Indian institutions/organisations.

Audio visual and entertainment services

- 4.58 India’s entertainment sector has historically enjoyed a special appeal in Russia, especially, due to the fact that Indian cinema has had the advantage of accessibility in the sector over a long period of time, when penetration of Western cinema to the Russian market was limited. India would like an enhanced access in this sector especially for post-production activities. Specific areas of interest to India are animation, and broadcasting and telecasting services.

- 4.59 Popular Indian films can find market in Russia after being dubbed in Russian and India should explore this segment too.
- 4.60 Russian cinema industry is regaining its strength very fast. The possibility of Russian movies entering Indian market may to be considered.

Energy Services

- 4.61 India's growing gas and petroleum sector especially exploration, setting up of plants and laying of pipelines are areas where Russia can provide services and investments. The thermal and hydel power plants coming up in the India can draw upon the experience of Russian technicians and engineers.
- 4.62 The Russian side can also offer its expertise in oil and gas industry including geophysical services.

Fashion Technology

- 4.63 Fashion & Textiles have long been an area of cooperation between India and Russia. The Russian fashion retail market has undergone complete change in the past few years as the expendable income levels have gone up and Russian retail market has emerged as a 2nd most promising market of the world. International brands hold 80% share of organized retail market today in Russia.
- 4.64 The maturing of the Russian market is also seen by the fact that many international fashion fairs like Collection Premiere Moscow (CPM), ISPO Russia, Interest of Rossija, Heimtextil, Rossija and premiere Vision are being held. Retail boom of such magnitude, has enormously widened the scope for bilateral trade in services between the two countries as well as the fashion textiles & related sectors. India's interest lies in seeking liberal market access in Retail, & Franchise, while Russian interest lies in consolidating its Textiles education along with that in Fashion, Retail, Visual Merchandising and Marketing etc.
- 4.65 Both countries can have collaboration and tie up with institutions for research and development and training of faculty as well as students in this field. Russian designers may explore the possibility of setting production facilities in India.

Way Forward to enhance bilateral trade and Principles for expanding services trade

- 4.66 In view of enormous potential in service trade sector between India and Russia, both Governments should engage in deepening mutual cooperation and take substantial measures to remove barriers to trade in services. Keeping this in view, both sides can base negotiations in an eventual CECA on the following principles:
- (a) Substantial coverage of services sectors
 - (b) Providing "real" market access by disciplining domestic regulations
 - (c) Wider and deeper coverage in form of commitments in IT and IT-related services, financial services, telecommunication services, construction services and transportation services.

India and Russia Share in World Trade in Services:

The following table shows the change in the shares of India and Russia in world services exports from 1995 to 2004. It is clear that the share of both India and Russia in world services exports has risen from 1995 to 2004.

Further, India's share in world services exports has risen much faster than that of Russia's during 1990s. At present, India's services export represents 7.97 % of developing economies and 1.8 % of global services exports, whereas the same for Russia is 1.23 and 0.92 %s respectively.

Shares of India and Russia in world Services Exports (Million USD)

Particulars	1995	2000	2004
India's Total Exports in Services	6775	16684	39638
Russia's Total Exports in Services	10568	9565	20290
World's total export of services	1239039	1528385	2192792
Total export of services of developing economies	287220	352869	497007
Total exports of services of developed economies	930912	1148763	1641466
India's Share in world's export of services (%)	0.54	1.09	1.80
Russia's Share in world's export of services (%)	0.85	0.62	0.92
India's share in developing economies (%)	2.35	4.72	7.97
Russia's share in developed economies (%)	0.11	0.83	1.23

Source: Handbook of Statistics, 2004, UNCTAD

Appendix 4.2

Important Components of Trade in Services (Exports): India

<i>Particulars</i>	<u>1995</u>		<u>2000</u>		<u>2003</u>	
	<u>Volume USD mn</u>	<u>Share (%)</u>	<u>Volume USD mn.</u>	<u>Share (%)</u>	<u>Volume USD mn.</u>	<u>Share (%)</u>
Total services	6775		16684		23397	
Transport	1890	27.89	1979	11.85	3062	13.07
Travel	2582	38.11	3460	20.72	3887	16.59
Other services	2303	33.99	11245	67.35	16448	70.23
Communications	....		599	3.58	1066	4.55
Construction	....		502	3.00	284	1.21
Computer and information services	....		4727	28.31	11366	48.53
Insurance	170	2.51	257	1.53	409	1.74
Financial services	.....		276	1.65	392	1.67
Other business services	2120	31.29	4148	24.84	2601	11.11
Government services n.i.e.	11	0.16	654	3.91	305	1.30

Important Components of Trade in services (Imports) - India (Millions USD)

<i>Particulars</i>	1995	Share (%)	2000	Share (%)	2003	Share (%)
Total services	10267.8		19186.7		25709.9	
Transport	5703.07	55.37	8703.76	45.25	9356.33	35.55
Travel	996.176	9.66	2690.36	13.98	3509.86	13.33
Other services	3568.55	34.61	7792.54	40.52	12843.7	48.80
Communications	..		104.787	0.54	610.495	2.31
Construction	..		127.092	0.66	1208.94	4.59
Computer and information services	..		576.783	2.99	659.305	2.50
Insurance	558.778	5.42	813.152	4.22	1168.91	4.44
Financial services	..	26.32	1277.19	6.64	488.039	1.85
Other business services	2713.82	1.99	4320.68	22.46	8088.05	30.73
Government services n.i.e.	205.653		290.401	1.51	199.167	0.75

Source: Handbook of Statistics, 2005, UNCTAD

Appendix 4.3

Important Components of Trade in Services (Exports): Russia

<i>Particulars</i>	<u>1995</u>		<u>2000</u>		<u>2003</u>	
	<u>Volume USD mn.</u>	<u>Share (%)</u>	<u>Volume USD mn.</u>	<u>Share (%)</u>	<u>Volume USD mn.</u>	<u>Share (%)</u>
Total services	10568		16030		23092	
Transport	3781	35.54	3555	22.04	6119	26.31
Travel	4312	40.53	3430	21.26	4502	19.35
Other services	2475	23.26	2580	15.99	5608	24.11
Communications	482	4.53	385	2.38	443	1.90
Construction	103	0.96	170	1.05	1050	4.51
Computer and information services	...		59	0.36	175	0.75
Insurance	...		35	0.21	148	0.63
Financial services	68	0.63	100	0.62	176	0.75
Other business services	1818	17.08	1740	10.78	3177	13.66
Government services n.i.e.	...		...		140	0.60

Important Components of Trade in services (Imports) Russia (Million. USD)

<i>Particulars</i>	1995	Share (%)	2000	Share (%)	2003	Share (%)
Total services	20206		16229		27122.2	
Transport	3306	16.19	2329	14.20	3103.45	11.17
Travel	11599	56.83	8848	53.97	12879.8	46.36
Other services	5301	25.97	5052	30.81	11138.9	40.10
Communications	309	1.51	288	1.75	554.74	1.99
Construction	1671	8.18	407	2.48	2458.85	8.85
Computer and information services	..		474	2.89	457.91	1.64
Insurance	..		411	2.50	773.8	2.78
Financial services	73	0.35	36	0.21	314.235	11.31
Other business services	3244	15.89	3367	20.53	5045.68	18.16
Government services n.i.e.	..		..		635.23	2.28

Source: Handbook of Statistics, 2005, UNCTAD

Appendix 4.4

Revealed Comparative Advantage of India and Russia in various Service Sectors:

Revealed Comparative Advantage (RCA) is basically the ratio of a country's share of a service export in its total exports and the world's share of the service export in total world exports of the service. This is represented through a mathematical equation as under:

$$RCA = (X_{iwk} / X_{iw\Sigma k}) / (X_{wk} / X_{w\Sigma k}),$$

where X_{iwk} is country i 's world exports of service k ,

$X_{iw\Sigma k}$ is country i 's exports of goods and services,

X_{wk} is world exports of service k , and

$X_{w\Sigma k}$ is world exports of goods and services.

If the estimated RCA index of a sector is found to be greater than one, then it is considered as globally competitive (Balassa, 1965).

The RCA of India and Russia in various service sectors is displayed below:

Country	Sector	1995	2000	2003
India	Total Services	0.96	1.47	1.48
	Transport	1.10	0.89	1.01
	Travel	1.12	1.12	0.98
	Other Services	0.76	2.08	2.05
Russia	Total Services	0.60	0.43	0.55
	Transport	0.89	0.76	0.86
	Travel	0.76	0.54	0.50
	Other Services	0.32	0.26	0.37

Source: UNCTAD Handbook of Statistics

An RCA greater than 1 indicates that the country has a comparative advantage in supplying the product/service and an RCA smaller than one indicates the opposite. From the analysis of the above table it is evident that, presently India has complete edge in the Services sector as a whole and in particular, in IT and software services. In fact, India has gained consistent comparative advantage during 1995 to 2003 in the services sector as a whole. In case of Russia, Transport Services have by far performed the best in the services sector as a whole.

Chapter V Investment cooperation

Introduction

5.1 Investment cooperation is important for the furtherance of bilateral economic relations between India and Russia. India attracted approx 16 billion USD FDI in 2006-07 and Russia attracted about 18 billion USD FDI in 2006. Outward FDI from the two countries has been increasing as well. However, the relatively small amount of mutual investment between Russia and India reflects the existence of great potential for future cooperation.

Foreign direct investments in India

5.2 The Government of India has undertaken a comprehensive review of the FDI policy and associated procedures, as a result of which a number of rationalisation measures have been undertaken which, inter-alia include, dispensing with the need of multiple approvals from Government and/or regulatory agencies that existed in certain sectors, extending the automatic route to more sectors, and allowing FDI in new sectors. Kearney FDI confidence index 2005 ranked India as the most favoured democracy.

5.3 The policy of the Government of India with respect to Foreign Direct Investment is available on the website www.dipp.gov.in. All changes are notified on this website. As per the extant policy, FDI up to 100% is allowed, under the automatic route, in most sectors/activities. FDI under the automatic route does not require prior approval either by the Government of India or the Reserve Bank of India (RBI). FDI is permitted up to 100 per cent on the automatic route in most sectors subject to sectoral rules/regulations as applicable.

5.4 At present, FDI is not permitted in the following sectors:

- (i) Retail trading (except Single Brand Product Retailing);
- (ii) Atomic energy;
- (iii) Lottery business;
- (iv) Gambling and betting;
- (v) Agriculture excluding the following : Floriculture; Horticulture; Development of seeds; Animal Husbandry; Pisciculture, Cultivation of vegetables, Mushrooms etc. under controlled conditions and services related to agro and allied sectors; Plantations (Other than Tea plantations).

5.5 Government of India has a single window system for according approvals for FDI in sectors where Government approvals are required. The Foreign Investment Promotion Board (FIPB) located in the Ministry of Finance is the sole authority for according such approvals. Information about the procedures of application to FIPB as well as the status of applications can be accessed on the website of the Ministry of Finance, i.e. www.finmin.nic.in.

5.6 Foreign investments in equity capital of an Indian company under the portfolio investment scheme are not within the ambit of FDI policy and are governed by

separate regulations of the Reserve Bank of India (RBI) / Securities and Exchange Board of India (SEBI). Foreign investors intending to set up Branch/Liaison/Project offices are also governed by specific regulations under the Foreign Exchange Management Act (FEMA). The procedure and permissible activities are available at the website of the Reserve Bank of India – www.rbi.org.in.

- 5.7 FDI received during the financial year 2006-07 (from April, 2006 to March, 2007) show an inflow of USD 15.7 billion compared to USD 5.5 billion during the corresponding period 2005-06. This represents an increase of 184% in dollar terms.
- 5.8 The cumulative FDI inflow since 1991 (taking into account the equity capital component only) stands at USD 54.62 billion at the end of March 2007.
- 5.9 The top 5 investing countries in terms of FDI inflows from August 1991 to March 2006 are Mauritius (41.2%), USA (12.8%), Japan (4.9%), Netherlands (5.94%) and UK (8.7%). The top 5 sectors attracting highest FDI inflows from August 1991 to March 2006 are electrical equipments (including computer software and electronics) (18.7%), telecommunications (8.7%), transportation industry (8.04%), services sectors (financial and non financial 17.84%) and fuel (power and oil refinery) (6.3%). The top states attracting FDI inflows from January 2000 to March 2006 are Maharashtra, Dadar and Nagar Haveli, Daman and Diu (24.4%), Delhi, part of UP and Haryana (22.7%), Tamil Nadu and Pondicherry (7.5%), Karnataka (6.8%), and Andhra Pradesh (3.9%).

Foreign direct investments in Russia

- 5.10 In to-day's world, it is only the openness and foreign investor attractiveness of a country that secures a stable and sustainable development of the economy. From the Russian perspective, foreign direct investments are important, above all, as a tool-box for attracting newer technologies, business techniques and know-how, to the country. Failing this, the nation might well be falling behind in its development.
- 5.11 FDI in Russia amounted in 2004 to 15.4 billion USD, in 2005 – 14.6 billion USD, in 2006 – about 18 billion USD. Russia is the leader in FDI not only among the CIS countries but also among the States of South-Eastern Europe.
- 5.12 In 2005 major activities of foreign investors were focused on the three sectors of the economy. The first is the fuel and energy complex and the second is the food industry: Coca-Cola has bought a major Russian juice manufacturer Multon for 501 million USD. The third is the service industry: the largest was the 1.3-billion-USD Chinese-Russian project for construction of Baltic Pearl complex in St.-Petersburg. The abovementioned transactions reflect the traditional distribution of foreign capital in Russian economy. FDI is mostly directed to industrial branches. The next in line areas, in terms of the investor attractiveness rate, are trade and public catering, general commercial activities for the provision of operations in the market etc.
- 5.13 According to the CBR's preliminary estimate of the full-year 2006 Balance of Payments, net private capital inflows were \$41.6bn in 2006, up from \$1.1bn in 2005. In June 2007, cumulative inflow of foreign investments amounted to 150 bn dollars.

- 5.14 The greatest contributors to the accumulated foreign capital were ‘any other investments’, as made on a repayable basis, (that is, the credits issued by the international financial organizations, trade credits, etc.), which accounting for 48.8% (as at the end of September, the year 2005, the relevant figure stood at 53.1%), whilst the share taken up by foreign direct investments has constituted 49.3% (44.9% on the previous year), with the portfolio investments standing at 1.9% (2.0% on the previous year).
- 5.15 The principal investing countries for the Russian economy remain to be Cyprus, Luxembourg, the Netherlands, Germany, the United Kingdom, the USA, and France. It should be noted that in the 3rd quarter of 2006, India was one of the leading investing countries, together with Cyprus, the Netherlands, Germany, the United Kingdom, Luxembourg, Switzerland and the USA. These countries accounted for 82.3% of the total amount of the accumulated foreign investments.
- 5.16 Over the recent years, the economy of the country has achieved overall macro-economic stability, which is bolstering the investment-grade attractiveness of the country. The macro-economic stability is, for instance, characterized by such a factor like the continuous growth of the foreign-exchange reserves (FERs). Thus, the FERs amounted to 250.6 billion US dollars on the January 1, 2007.
- 5.17 According to the assessment made by A.T.Kearney consultancy, Russia ranks 11th in terms of attractiveness for Foreign Direct Investments. In the judgment of the Institute for International Finance, Russia, in terms of investment attractiveness, stands at par with China.
- 5.18 Some more reasons, such as the availability of qualified labour force, can also be regarded as competitive advantages of Russia. Multinational companies, such as General Motors, Samsung Electronics, Huawei Technologies have research centres engaged in R&D in this country.
- 5.19 The annual survey conducted by Japanese Bank for International Cooperation (JBIC 2006) can give the idea as to which sectors of Russian economy would be most attractive for foreign investors. In the course of this survey the responding top managers of Japanese multinational companies have graded Russia as the 6th among the most promising FDI locations in 2006-2008 (above the USA and China). Russia is mostly attractive for FDI in general machine building (the 4th place) and automotive industry (the 7th place).

Legislation governing Foreign Investment in Russia

- 5.20 Foreign investors’ activities are regulated by several federal laws (concerning foreign investments of the year 1991 and the year 1992, as well as the federal law concerning the production sharing (the year 1995), (amended and supplemented in the year 1999), coupled with the federal law concerning special economic zones.
- 5.21 Currently, Russia is preparing the law on the access of foreign investors to the strategic branches of the Russian economy. According to the draft law, restrictions are being planned upon for 39 types of the economic activities, principally related to the defence industries. The chief objective sought by the draft law being developed is to remove the artificial barriers, which were sometimes being raised in the way of foreign investors. The law will be of a permission nature, and will legislate the list of the branches, as accessible to investments. Apart from this, in 2005 the Federal Assembly of the Russian Federation has endorsed the law concerning the

‘Concession agreements’, which aims at the establishment of the legal foundation for the regulation of concession relations, including the procedure as applicable to the conclusion, modification, and termination, of concession agreements.

Special Economic Zones (SEZs) in India

5.22 India was one of the first in Asia to recognise the effectiveness of the Export Processing Zone (EPZ) model in promoting exports with Asia’s first EPZ set up in Kandla in 1965. Seven more zones were set up thereafter. In order to impart stability to SEZ regime and to achieve generation of greater economic activity and employment through the establishment of SEZs, a Special Economic Zone Act has been enacted. The SEZ Act, 2005, supported by SEZ Rules, has come into effect on 10th February, 2006.

5.23 Special Economic Zones (SEZs) are set up in the private sector or in association with the State Governments in the joint sector or by the State Governments and its agencies themselves. The Central Government itself does not propose to set up any new SEZs, nor there are any country specific SEZs.

5.24 Proposals for setting up of SEZs are considered by an Inter Ministerial Committee known as Board of Approval under the Chairmanship of the Commerce Secretary and consisting of representatives from Ministry of Finance (CBEC and CBDT), Ministry of Home Affairs, Ministry of Defence, respective State Governments, the Development Commissioners etc. Once an SEZ is approved by the Board of Approval and the Central Government notifies the area of the SEZs, units are allowed to be set up in the SEZ. The SEZ units operate in the Custom bonded environment and are under the supervision of a dedicated customs wing.

Foreign Direct Investment (FDI) in SEZs in India

5.25 According to the SEZ policy, the Board of Approvals (BOA) has the power to grant approval for foreign collaboration and Foreign Direct Investment (FDI) in the SEZs for its development, operation and maintenance. Further, except for the following activities FDI up to 100% is allowed through automatic route, for all manufacturing activities in the SEZs:

- a) arms and ammunitions, explosives and allied items of defence equipment, defence aircraft and warships;
- b) atomic substances;
- c) narcotics and psychotropic substances and hazardous chemicals;
- d) distillation and brewing of alcoholic drinks; and
- e) Cigarettes/cigars and manufactured tobacco substitutes.

5.26 Some of the prominent SEZs with Foreign Direct Investment that have recently come up are: Nokia SEZ in Tamil Nadu (Investment of USD 100 Million – an additional investment of USD 150 million by Dec. 07); Quark City SEZ in Chandigarh (Expected to have FDI of around USD 0.5 billion); Flextronics SEZ in Tamil Nadu (already invested USD 100 Million - final investment USD400 million); Apache SEZ (Adidas Group) in Andhra Pradesh (expected investment USD 50 million)

Incentives and facilities offered to SEZs in India

5.27 The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from Minimum Alternate Tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units upto USD 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

5.28 The major incentives and facilities available to SEZ developers include:-

- Exemption from Customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on export income for a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

5.29 *Minimum area requirements:* Certain minimum area requirements are stipulated under the SEZ Act for various categories of SEZs, such as (i) 1000 hectares for Multi-product SEZs; (ii) 100 hectares for multi services and sector specific SEZs; (iii) 10 hectares for IT SEZs (with minimum built up area of 1 lakh sq metres); Gem and Jewellery (with minimum built up area of 50,000 sq metres and biotech and non conventional energy (excluding non conventional energy production and manufacturing) (with minimum built up area of 40,000 sq metres) and (iv) 40 hectares (with minimum built up area) of 1 lakh sq metre for FTWZs. In case of certain special states, relaxation have been made with regard to the minimum area requirement for Multi product and sector specific SEZs.

5.30 *Approved/Operational SEZs:* Eight existing Export Processing Zones located at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (U.P.) were converted into SEZs and are functional. Under the SEZ Act, the Board of Approval for SEZs have granted 369 Formal approvals for setting up of Special Economic Zones in the private/joint sector or by the State Governments and its agencies. 146 of these have been notified for operations some of which are already in operation while the rest are in various stages of implementation.

5.31 *Benefits from SEZs:*

- Economic activities expected to be generated through the SEZs are investments, infrastructural development, employment opportunities and exports.
- Investment of the order of USD 25 billion, including FDI of USD 5 – 6 billion is expected by the end of December 2007, in infrastructure development of SEZs and in setting up of units
- At present, 1016 units are in operation in the SEZs, providing direct employment to about 1.27 lakh persons (over 40% of whom are women). Special Economic Zones are likely to create large scale direct and indirect employment. These are expected to create 500,000 jobs by December 2007.
- Exports from SEZs for the last three years have been of the order of : USD 2996 million in 2003-04; USD 4075 million in 2004-05; USD 5004.56 million in 2005-06.

Special economic zones in Russia.

5.32 A vigorous process for the development and emplacement of special economic zones (the 'SEZs') is unfolding upon the territory of Russia. The principal Statutory Legal Act governing the procedure as applicable to the creation and operations of the Special Economic Zones in the Russian Federation is the federal law dated July 22, 2005, numbered as No. 116-FZ, concerning the 'Special Economic Zones in the Russian Federation'. Additionally, its operation is regulated by the executive order issued by the President of the Russian Federation, dated July 22, 2005, numbered as No. 855, concerning the 'Federal Agency for the Management of Special Economic Zones'. The Federal Agency falls within the purview of the Ministry for Economic Development and Trade of the Russian Federation, and exercises its activities directly, or through the vehicle of, its territorial authorities and subordinate organizations, in co-operation with other federal organs of the executive power, the regional organs of the executive power, the local self-government authorities, public associations and other organizations.

5.33 Special Economic Zones (the 'SEZs') of the following types may be set up in the territory of the Russian Federation,:

- Industrial manufacturing special economic zones;
- Technology introduction special economic zones;
- Tourism recreation zones.

5.34 Currently, the issue of introduction of modifications into the legislation as regards the creation of other types of the 'SEZs' (in particular, Port economic zones) is under contemplation.

5.35 The establishment of the 'SEZs' allows to achieve, specifically, the following objectives:

- The improvement of the investment and entrepreneurial climates;
- The levelling-off of the environment in place for country-to-country competition;
- The development of the 'new' economy, that is, the promotion of science-intensive production and services in the area of high technologies, as well as the commercialization of science research developments;

The establishment of the 'SEZs' provides an instrument for the support of exportations for certain territories.

- 5.36 The law enunciates, for the residents of the 'SEZs', preferences of an administrative, taxation, and customs nature. Attention of the government, the investment climate, and possible preferences, have led to the fact that a number of major companies, in particular, the 'Boeing', the 'Hewlett-Packard', the 'IBM', and the 'Intel' have shown an interest in the special economic zones being developed and emplaced in the Russian Federation at the moment.
- 5.37 Based on the results from the tender held by the Ministry for Economic Development and Trade of the Russian Federation and the RosSEZ [the Russian Federation Special Economic Zones Management Agency] back in the year 2005, the session of the Government of the Russian Federation on December 8, 2005, endorsed the proposition to establish four Special Economic Zones of the technology commercialization type at the cities of Saint-Petersburg, Tomsk, Zelenograd, Dubna (the Moscow Region), as well as the establishment of two Special Economic Zones of the industrial manufacturing type at the city of Lipetsk and the city of Yelabuga (the Republic of Tatarstan).
- 5.38 In October 2006, a Special Economic Zone was established in Kaliningrad region with the special juridical mode for investment, manufacturing and other activities. In 2006, two Tourism recreation zones were created in Mineralnye Vody (in the Caucasus) and in Irkutsk region and the Republic of Buryatia.

Indian investments abroad

- 5.39 The overseas investment policy in India has been highly liberalised over the years. Indian corporates/partnership firms are now allowed to invest up to 200% of their net worth in entities abroad without seeking any specific approval, i.e., on the automatic route. Prior permission of Government of India or regulatory agencies is not required for such overseas investment. The proposals not qualifying under the automatic route are approved by the Special Committee on Overseas Investments in the Reserve Bank of India.
- 5.40 Indian investment abroad has jumped from USD 557 million to USD 2856 million from April 1996 to March 2006, an increase of more than 500%. The number of approvals has also significantly increased from 290 to 1395 during the same period.
- 5.41 During the current financial year 2006-07 (in April 06), 93 approvals worth USD 400 million have been granted to Indian companies for investment abroad. The sectoral classification of approved Indian investments abroad during the financial year 2005-2006 (from April 05 to March 06) shows that 60% investments were in the manufacturing sector followed by services (30.6%) and trading sector (4.7%).
- 5.42 The top 5 country destinations of approved Indian investments from April 1996 to March 2006 out of the total approved investments are Russia (17.2%), USA (15.3%), Mauritius (8.8%), Sudan (6.2%) and British Virgin Islands (5.8%).
- 5.43 The performance of Indian companies abroad has been highlighted in a recently published report by the Boston Consulting Group, named as "The new global challengers: How 100 top companies from rapidly developing economies are challenging the world". This report has identified top 100 companies (RDE 100)

which are based in the large Rapidly Developing Economies (RDE). This list was generated through a detailed screening process from 12 major RDEs on the basis of size of the economies, value of exports and amount of FDI. This list comprised Brazil, China, the Czech Republic, Hong Kong, India, Indonesia, Mexico, Poland, Russia, Thailand and Turkey. 21 Indian companies have figured in this list of 100 companies from RDEs

- 5.44 The RDE 100 Indian companies belong mainly to three sectors – technical and commercial services, automotive and healthcare. Major Indian companies that have invested abroad comprise automotive manufacturers such as Bajaj, Mahindra & Mahindra, Tata Motors, TVS Motors and Bharat Forge; IT/BPO companies such as Infosys, Satyam, Tata Consultancy Services and Wipro; major engineering and construction conglomerate, Larsen & Toubro; leading pharmaceutical companies such as Ranbaxy, Cipla and Dr.Reddy's; industrial goods companies such as Hindalco, Tata steel and Crompton Greaves and companies from other sectors such as ONGC, Reliance industries, Videocon, VSNL and Tata Tea.
- 5.45 The report finds that while much of the Indian corporate growth into international market has been organic, some at least has been through M&A activity overseas. Over the period of 2000-2004 Indian firms accounted for about 15% of all RDE based companies M & A activity overseas and about 26% in mature markets, more than any other RDE can claim. For its mature markets acquisitions, India has been most active in North America followed by western Europe. The concentration on North America is driven to a considerable extent by the entry of Indian firms into the IT services/BPO space in the region.
- 5.46 Indian companies have followed several different globalization strategies, sometime overlapping in practice as with the other RDE 100 companies. However, given India's great advantage in its inherent engineering talent, the lion's share of the Indian 21 have used the engineering-led innovation approach. Bharat Forge and Crompton Greaves which were among the earlier Indian firm to internationalise have also built category leadership today. The auto companies which have internationalized more recently have centered on taking their brand global.
- 5.47 Some Indian companies have become global leaders in their own segments. For example Bharat Forge is now the world's second largest forging company. Similarly Ranbaxy is among the top 10 generic pharmaceutical companies in the world. Wipro has become world's largest third-party engineering services company. Low cost in manufacturing, domain knowledge in different sectors, and home-grown strengths in engineering and research- jointly these place Indian on a very strong platform.

Russian business abroad

- 5.48 Not only foreign companies have started investing more into Russia, but Russian corporations have also started more aggressively to gain a foot-hold in the global market. Not merely the sales of raw materials or commodities in the markets of the West and the East has gone up but the major Russian corporations have also started to acquire companies and enterprises abroad, aggressively investing funds into investment projects outside of the boundaries of Russia. Thus, according to UNCTAD, in 2005 Russia occupied the 3rd place (13 billion USD) among emerging and transition economies as for direct investments abroad (giving way only to Hong Kong and Virgin Islands). The average growth of direct Russian investments abroad

in the recent years (1992-2004) amounted to 12% p.a. These investments do not only contribute to stronger influence as exercised by the country globally, but are also conducive to further growth in domestic exportations.

5.49 On one hand, Russian multinational companies are mostly active in the areas related to natural resources-the most significant purchases of 2005 being the purchase by LUKOIL of the Canadian Nelson Resources engaged in exploring and production at oil fields of Kazakhstan (the total amount of the transaction was about 2 billion USD). The same year the major aluminum producer RusAl purchased 20% of shares in the Australian alumina producer Queensland Alumina for 400 million USD.

5.50 On the other hand, Russian companies from other sectors are also growing more and more active. Russian mobile operators have actively developed their business not only in the territory of the CIS but also far abroad. Alfa-Group that has purchased 27% of shares in the Turkish mobile operator Turkcell for 3.3 billion USD can serve as an example of such penetration.

5.51 Russia is becoming a home to the world's largest corporations in some sectors. For example, in October 2006 two Russian aluminum companies – Rusal (3d in the world in terms of aluminum production) and Sual (is included in the world top 10 producers)- and Swiss company Glencore International AG have signed the agreement to create "United company RUSAL" by combining their aluminium and aluminous assets. "United company RUSAL" will be the world's largest aluminum and aluminous producer (12.5% of the world primary aluminum and 16% of the world aluminous production) and will have staff of about 110 thousand persons working on the 5 continents.

5.52 There are several reasons making Russian companies to invest abroad. The major reason is the desire to secure their presence in the relevant markets. And they are not only the markets of the neighboring countries (the CIS) but also the markets which are end destinations of their products. Secondly, there is also the desire to increase their efficiency, i.e., to go up within added value chain. The third factor is the access to natural resources.

5.53 The total accrued Russian investments abroad amounted in 2005 to 120 billion USD. The most attractive sectors of economy for the Russian capital were: oil, mining, metallurgy, transport, communications, food and tobacco industries.

Investment co-operation between India and Russia

5.54 The Agreement between the Government of the Russian Federation and the Government of the Republic of India about investment cooperation and protection was signed on the 23 of December 1994, and became effective on 14 of August 1996. Bilateral Agreement between the Government of the Russian Federation and the Government of the Republic of India about avoidance of double taxation was signed on 25 of March 1997, and became effective from 11 of April 1998. This agreement has been actively applied in practice from 2000-2001.

5.55 Over the past decade, the amount of the Russian investments into the Indian economy constituted approx. USD120 million, out of which USD 80 million accounted for the enterprise of the "BrahMos Pvt.Ltd." Company.

5.56 Further, though the total amount of Indian investments into the Russian economy is large (owing to big investments by ONGC Videsh Ltd), the number of Indian

investments remains few. The biggest Indian investor is the Indian Government-owned company, “ONGC Videsh Ltd.” company, which has invested into the ‘Sakhalin – 1’ Project approx. 2.8 billion US dollars.

- 5.57 During the visit of President of the Russian Federation H.E V.Putin to India in January 2007, a Memorandum on cooperation between Rosneft and ONGC has been signed.
- 5.58 From 2007, the Russian-Indian investment forum will be held on the regular basis. Thus, both sides can expect the increase in amount of investments and some significant deals may be concluded
- 5.59 The Russian and the Indian sides are working out an agreement on the question of utilization of Rupee debt for implementation of large joint investment projects in the industries which are priorities for both countries in order to promote Russian-Indian strategic partnership.
- 5.60 Economic cooperation between the regions of Russian Federation and Indian States and Union Territories has also been emphasized in recent times. Within this framework there are protocols on cooperation between Karnataka and Samara Region, Gujarat and Astrakhan Region, and Andhra Pradesh and Tatarstan. The Prime Minister of Tatarstan visited the state of Andhra Pradesh in December 2004 and CM of Gujarat visited Astrakhan in July 2006. Protocol on cooperation between Mumbai and St. Petersburg was signed in December 2004 during President Putin’s visit to India.

Potential Areas for Investment

Investment in Russia

- 5.61 The areas where Indian companies have invested or shown significant interest are:
- 5.61.1 *Power sector* - Indian side does not generally get to know any information on investment possibilities related to energy sphere in Russia especially in government/large enterprises in the area of E&P, pipeline, petrochemical and gas processing plants and LNG where Indian investment can flow to Russia. **JSG recommends** that there should be a more frequent exchange of information between India and Russia in the energy sector to facilitate cooperation in this sector.
- 5.61.2 *Health care and pharmaceuticals*- Such Indian companies as Ranbaxy, Dr. Reddy's Lab, Unique Pharmaceuticals Laboratories also work in Russia through their representative offices.
- 5.61.3 *Automotive industry*- Tata Motors is considering the construction of an assembling plant in the territory of Russia. Other Indian auto manufacturers may also want to have their production facilities in Russia. Experts believe that in the medium term (since 2008) the competition in the Russian automotive market will grow and it would be difficult to reach large sales volumes with no assembling plant.

- 5.61.4 *Chemical production and fertilizers* - Fertilizers (and other products) are main commodities exported from Russia to India. Indian direct investments in the industry are spread throughout the world. India is a stable consumer of fertilizers. In such situation it is possible to analyze the advantages of establishment of, e.g., joint ventures with Indian companies which would guarantee products supply to the Indians.
- 5.61.5 *Metallurgy and mining* - Russian experts keep providing consulting services to Indian steel, coal and energy companies therefore, this area could be attractive for Indian companies.

Investments in India

5.62 The areas that are the most interesting for Russian companies are:

- 5.62.1 The sector having the largest potential for absorption of FDI in India is the *infrastructure sector*. Infrastructure development requires huge resources. The Planning Commission of India has estimated that investment in infrastructure - defined broadly to include road, rail, air and water transport, electric power, telecommunications, water supply and irrigation - will need to be of the order of about Rs. 14,50,000 crore or USD 320 billion during the 11th Plan period. The Indian Government is making efforts for increasing investment in infrastructure through a combination of public investment, Public Private Partnership and occasionally, exclusive private investments wherever feasible. To promote inflow of private capital in infrastructure the Government has placed reliance on promoting Public-Private-Partnerships (PPPs). To meet the requirement of infrastructure projects for long term debt that is not available in the market, a Special Purpose Vehicle (SPV), India Infrastructure Finance Company Ltd. (IIFC), a Non-Banking Finance Company, has been set up that will provide long term debt for more than 10 years, upto 20% of the project cost. Hence, Russian capital may also take part in reconstruction of ports and harbours, airports etc.
- 5.62.2 India is strong in the area of *IT and telecommunications*, especially in IT, software. In 2002-2003 the share of IT, software and services accounted for 2.4% of GDP and about 20% of exports. By 2008 India is planning to increase the figures up to 7 and 35% respectively. Availability of great number of low-paid but highly qualified programmers, free command of English and the government's support are called as major reasons for India's success in the area. India is a "key link" for many multinational companies. It is expected that about 855 million. USD of FDI will be attracted in telecommunications in the next 2 years. Russian companies have expressed their interest in investing in Indian telecommunication sector.
- 5.62.3 100% foreign investment is permitted in most areas of *agricultural products processing* in India. The Russian company RUSAGRO International Pvt. Ltd has its subsidiary in India.
- 5.62.4 With the opening of India's *power sector* investment opportunities have now become available in generation, transmission, distribution and trading of electricity. A number of generation and transmission projects are being developed through competitive route in which companies from Russia could participate.

5.62.5 Construction of *thermo- and nuclear energy facilities*. Russia and India have a long history of cooperation in this area, for example, Russian company “Power Machines” has been operating in India for more than 40 years. Russian side is highly interested in extending cooperation, and in participation in new ambitious projects.

5.62.6 *Investments into Special Economic Zones* can also be of interest for Russian companies. It is a duty-free enclave which is given the status of a foreign territory for the purposes of trade, duties and tax collection. Enterprises working in such zones are under special tax regime. Special economic zones may be interesting to companies engaged in IT; other high-tech and research-based sectors/industries which are important for Indian-Russian cooperation (chemistry, metallurgy and others); diamond processing and jewellery production; and others.

Institutional and legal measures for increasing the investment cooperation between the two countries.

5.63 JSG recommends that the following measures can increase the level of investment cooperation between India and Russia:

- i. Facilitating the utilization of Rupee debt for implementation of large joint investment projects in the industries which are priorities for both countries
- ii. Establishing special Commissions for biotechnologies and hi-technology. Such agency can be established in order to discuss and eliminate the barriers to mutual investments in the said fields that are of interest for both.
- iii. Establishing dedicated information agencies spreading, on a regular basis, information on business opportunities in Russia and India. It is notable that both Indian and Russian parties have the respective dedicated publications facilitating such information exchange.
- iv. It may be reasonable at initial stages to define the industries and the companies which are most active in the foreign markets both in India and Russia and then to focus on work with such companies. The first success can be an example for the majority of other enterprises.
- v. Spreading information on the opportunities of financial institutions (including banks, insurance organizations, stock market, etc.) in terms of investments. It shall become one more important issue of information support.
- vi. Signing agreements on cooperation between financial institutions of both countries.
- vii. Establishment of Regional Business Councils of India and Russia providing for companies from different Russian regions and Indian states to assess properly trade opportunities and prospects, to find partners and proper business mechanisms in the both countries. Such Business Councils can embrace the companies of a certain industry if there is the mutual interest only to such industry. An important task of such a council can be to involve small and medium businesses into trading relations between India and Russia thus providing for long-term stable relations.

Chapter VI Bilateral Economic Cooperation in other areas

6.1 The close relationship between India and Russia is marked by goodwill and shared interest. In addition to cooperation in trade and investment, wide-ranging cooperation in areas such as defence, atomic energy space, culture, etc. form the basis of our relationship. The possibilities of further economic cooperation in some of the areas are as follows:

Science and Technology

6.2 The ongoing cooperation in the field of science & technology, under the Integrated Long-Term Programme of cooperation (ILTP) is the largest cooperation programme in this sphere for both India and Russia. Development of SARAS Duet, semiconductor products, super computers, poly-vaccines, Laser Science and Technology, Seismology, high-purity materials, software & IT and Ayurveda have been identified as priority areas of co-operation. ILTP is coordinated by the Department of Science and Technology from the Indian side and by the Russian Academy of Sciences and Russian Ministry of Industry & Science and Technology from the Russian side.

6.3 Existing research programmes spans Biotechnology, research on Building materials, cooperation in Agricultural and Soil Sciences, Studies on animal diseases & vaccination, production of transgenic animals and exchange of germ plasma, cooperation between IMD and ROSHYDROMET on meteorology, cooperation in the area of Bio-active Marine Organisms, Gas Hydrates and Geo-Studies, cooperation between GOSSTANDART and Bureau of Indian Standards, cooperation in the area of seismology under Indo-Russian Centre for Earthquake research, collaboration in High Performance computing, cooperation between the Indian National Academy of Science and the Russian Academy of Sciences, cooperation in Powder Metallurgy, cooperation in the production of Oral polio Vaccines, Ayurvedic Research etc.

6.4 Software & IT and Ayurveda have been identified as priority areas of future co-operation. There are areas of considerable potential for future research such as immuno-modulators and new generation vaccines, cooperation on commercial basis in IT Parks, collaboration in the field of Telemedicine, Cyber Security, Cyber forensic, Nano-technology, Stem Cells research, robotics and Cybernetics, cooperation in the joint development of space technology including spacecrafts, landing systems, space station building etc.

6.5 The establishment of a Joint Technology Centre to commercialize laboratory-level results is being planned. However, a lot of potential remains untapped and R&D requires commercial orientation and encouragement for participation of private sectors.

6.6 Both sides will respect Intellectual Property Rights.

Cooperation in the Energy sector

6.7 As of now, India does not import oil or gas from Russia. Russia has the world's sixth largest oil reserves with oil production of 9.2 million barrels per day [or mbpd] in 2005. Russia is the second largest exporter of oil after Saudi Arabia exporting 5.15 mbpd. It has the largest reserves [47.57 trillion cubic metre] of Natural Gas in the world and is highest producer [producing 587 billion cubic metre or bcm in 2005] and exporter [157 bcm].

- 6.8 ONGC Videsh Limited's [OVL] investment of about USD2.7 billion in the Sakhalin-I project is the only significant involvement of any Indian company in the Russian oil and gas sector. There are a cooperation agreement between GAIL including joint bidding and exploration of a Block in the Bay of Bengal, a MOU between ONGC Group and Gazprom, and cooperation between ONGC and Skotchinsky Institute.
- 6.9 Noticeably, with the exception of "Sakhalin" there have been no arrangements to link India's high energy requirements with the Russian exports of oil and natural gas. The Indian side indicated that India could source one million barrel of oil and OEG per day from Russia and also commit substantial funds for Eastern Siberian Projects. Indian side suggests that ONGC Videsh Limited from Indian side and Gazprom/Rosneft could consider the possibility of forming an integrated joint venture for exploration and production in Russia and aim to transport and market its production in India in which event Gazprom/Rosneft may also participate in the downstream activities in India. This could take the shape of further equity participation of India in the Russian energy sector and/or a long term plan through swap arrangements whereby Russia comes to occupy a role in the energy security of India. This would also include non-conventional and alternate sources of energy. The final decision on this issues should be taken by the companies in question.
- 6.10 Indian side indicates that Indian Oil companies could also collaborate with Russian National Oil Companies for joint participation in the upstream sector in Russia/India or in third countries.
- 6.11 GAIL & GAZPROM have signed a strategic cooperation agreement. They have also been working jointly for exploration and development of Block-26 in the Bay of Bengal. Both have also shown interest and cooperation for Iran-Pakistan-India (IPI) pipeline and North-European gas pipeline (NEGP). It is recommended by JSG that necessary efforts in this direction may be expedited.
- 6.12 Possible areas of increased future cooperation include joint projects between Russian and Indian companies (including private ones) in Russia, India and third countries in the areas of exploration and development of new fields, LNG, refining and building of petro infrastructure.
- 6.13 Kudankulam Nuclear Power Project with two units of combined capacity of 2000 MW is a good example of Indo-Russian nuclear cooperation. Russian side offers increase in cooperation in this sector, and suggests to build 4 more Nuclear Power units in India.
- 6.14 Both sides expressed interest in expanding cooperation in the energy sector. The Electricity Act of India has put in place a liberal and competitive framework for the power sector in India. 100% FDI has been permitted in generation, transmission, distribution and trading of electricity. There are good opportunities for the Russian companies for participating in the power sector as project developer, equipment supplier or as technical consultancy service provider.

Cooperation in Space sector

- 6.15 India has extensive and long term cooperation with Russia in the Space sector. During President Putin's visit to India in December 2004, two important bilateral agreements were signed: (i) Inter-Governmental Umbrella Agreement on Cooperation in Outer Space for Peaceful Purposes, and (ii) the Inter-Agency (ROSCOSMOS-ISRO) Agreement on cooperation in the Russian Global Satellite Navigation System

“GLONASS”. An Agreement on Technology Safeguards for Cooperation in the GLONASS project was signed on 06th December 2005 during PM’s visit to Moscow. Two more follow-up Agreements on GLONASS – (i) on the launch by Indian GSLV of GLONASS-M, (ii) joint development of GLONASS-K satellites were signed during the visit of Prime Minister Mr. Mikhail Fradkov to India from 16-17 March 2006. Two agreements on cooperation in GLONASS were signed during President Putin’s visit to India in January 2007.

Metallurgy and Mining

- 6.16 There are considerable opportunities in the emerging markets of the two countries for cooperation in the sectors of metallurgy and mining. Existing works are in the areas of mathematical model for rail roller straightening process, blast furnace charge process control, thermo mechanical control cooling process rolling, technology for production of coach wheels of high fracture toughness etc.
- 6.17 There is a considerable demand for coking coal in India, in which Russia offers a lot of opportunities. Production of titanium di-oxide and titanium sponge is another area in which Russian companies play an important role in the world market and India is a good source of ores. There is a need for joint work and some joint ventures are on the anvil. There is need to cooperate closely in areas such as coal gasification project and the area of mines safety where there could be considerable mutual gains.

Cooperation between quality inspection and certification organizations

- 6.18 The JSG suggests that in order to facilitate bilateral trade and remove the technical barriers, the concerned institutions of India and Russia should set up a bilateral dialogue mechanism and take measures for harmonizing standards and conformity procedures with the international requirements. The two sides should cooperate to improve standardization, certification regulations and qualification evaluation, as well as to promote coordination between Government departments, implementing institutions, and supervision authorities of each country.
- 6.19 MRAs on conformity assessment and equivalence etc. between India and Russia should be considered to remove difficulties in this area. The JSG suggests that there may be greater technical cooperation and exchange of information between the relevant agencies on both the sides for this purpose. Information regarding the agencies responsible for different areas relating to standardization, certification and regulation needs to be exchanged between India and Russia.

Cooperation in the sphere of Culture

- 6.20 India-Russia relations in the field of culture are historical. Five Chairs relating to Indology have been established in Moscow, St. Petersburg, Kazan and Vladivostok. “Days of Russian Culture” were held in India in November 2003, in Delhi, Kolkata and Mumbai. “Days of Indian Culture” in Russia were organized from 25th Sep to 5th October 2005 in Russia. 130th birth anniversary of Nikolai Roerich and 100th birth anniversary of Svyatoslav Roerich were celebrated in India in October 2004. CM of NCT of Delhi led a delegation for participating in the event “Days of Delhi in Moscow”

from 28 May-01 June 2006. The two countries agreed to hold “Year of Russia in India” in 2008 and “Year of India in Russia” in 2009. The inter-Governmental mechanism for cultural cooperation includes a Cultural Exchange Programme (CEP), which is revised periodically.

6.21 There is a need to promote each other’s films, animation products, children’s films on commercial basis. Both sides could think of cooperation in the development of direct links and contacts between the Russian State Television channels and Radio Broadcasting Company and Indian broadcasting organizations and cooperation between the news agencies

Chapter VII Conclusion

7.1 The findings as ensuing from the assessment of the prospects for the development of the trade and economic relationships between India and Russia show that there are indeed vast opportunities for expansion of the bilateral trade turn-over and investment co-operation between the two countries. However, the stagnating trade flows, over the recent years, have evidenced the presence of considerable barriers to bilateral trade and investment. If these are resolved, the scale of bilateral trade in areas of strength could increase substantially. Cooperation in other sectors could also be invaluable to both sides.

7.2 Notably –

- (i) The economies of the two countries are robust and expanding
- (ii) In various sectors of bilateral trade, major strengths exist that require consolidation.

7.3 The projection based on the Gravity Model indicate that the economic growth of both countries on its own could lead to increase in trade flows only up to USD 7 billion by 2010. Therefore, to reach the targeted level of bilateral trade turnover of USD 10 billion in 2010 both countries should implement special measures to overcome the existing barriers and facilitate trade relations.

7.4 To achieve, precisely, such a grasp of opportunities and to attain the trade target of USD 10 billion, the report concludes that-

- (i) A Joint Task Force should be constituted for three years to monitor improvements in the trade in goods and services and investments.
- (ii) Proper data should be evolved that takes into consideration not only the standard commodities and merchandise that are involved in trade in goods but also the services. This will establish the range and character of the trade in services, which is difficult at the moment.
- (iii) Attention should be paid to the areas where there is considerable potential in the immediate future. First of all, the cooperation should be increased in the spheres of industrially advanced technology products and innovative development of different industries of economy. Besides, there are also a number of other directions with big potential, for example, the jewellery and gems trade.
- (iv) Attention should be paid to improvements in communications and transport along the lines already evolved (the North South corridor being the specific case in question).
- (v) Programme should be evolved to promote sectors that have served the two countries well and where trade is crucial (drugs and pharmaceuticals and fertilizers being the best case in point).
- (vi) Discussions may be undertaken to establish areas of economic cooperation that may involve special regimes of Customs duties in some tariff categories to encourage trade keeping with the regulations of the WTO. In this context discussions may be undertaken to evolve agreement on Rules of Origin.

7.5 However, such measures will have a serious impact that will stretch well beyond the matter of the raising of the scale of trade to USD 10 billion, only, if there are important changes in entrepreneurial approach. Essentially:

- (i) Russia must come to regard India as significantly endowed with advantages for business activity. The Indian business environment offers many opportunities to the Russian businessmen.
- (ii) The same can be said of India's perspective on the Russian Federation.
- (iii) Promotion of "Brand India" over a range of goods need to take place in the RF. In term of transportation cost, Indian goods may not have cost advantages. However, they have many advantages over many Chinese, European and US products, even as the quality of Indian goods is appreciably better.
- (iv) In view of enormous potential in services sector between India and Russia, both Governments should engage in deepening mutual cooperation and take substantial measures to promote trade in services. Without an integrated approach to the trade in services, most opportunities may be treated as one-off ventures with limited benefits. Statistics on trade in services also need improvement, in order to get proper evaluation of such trade.
- (v) Given large potential for investments between the two countries, both countries should introduce measures aimed at promoting investment into each others territory.
- (vi) A number of specific measures in specific industries should be implemented with an aim to facilitate bilateral trade and reduction of barriers to bilateral trade and investment.

Comprehensive Economic Cooperation Agreement

7.6 The material produced in the Report indicates that a Free Trade Agreement (FTA) alone will only have a limited value. However, a Comprehensive Economic Cooperation Agreement (CECA) which covers FTA in goods (i.e. having 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), services, investment and identified areas of economic cooperation may be useful in enhancing Economic cooperation between the two countries in the medium and long run. Tariff adjustments would be an important component of of this Agreement, however, these will be matched with agreements on investment cooperation and stronger commitment towards cooperation for increasing bilateral trade in services.

7.7 The JSG, therefore, recommends that an India-Russia Comprehensive Economic Cooperation Agreement (CECA) comprising the following may be evolved, based on the results of implementation of other recommendations of JSG:

- a. Agreements on Trade in goods and services, and investment along with definite Rules of Origin and Mutual Recognition Agreements on Conformity Assessment and equivalence ;
- b. Identified understanding for facilitation and promotion of trade and investment and removal of Non Tariff Barriers(NTBs) to bilateral trade;

c.Measures and Agreements for promotion of economic cooperation in identified sectors.

Recommendations

7.8 The JSG recommends the implementation of the recommended measures for improving trade flows aimed at the elimination of the informational and technical barriers, for the improvement of the bilateral trade turn-over and investments flows. The Recommendations may be implemented promptly by both the Indian and Russian Governments by way of expeditious implementation of measures identified in Chapters 2 to 6 of this Report to remove impediments to bilateral trade and facilitate enhanced economic engagement within an agreed time frame. The JSG also recommends that the Government on both the Sides be informed about the Report of the JSG and to set up a Joint Task Force to monitor the implementation of the recommendations of JSG Report and to consider the feasibility of concluding the 'Comprehensive Economic Co-operation Agreement (CECA)' between India and Russia. The terms of Comprehensive Economic Cooperation Agreement (CECA), may be worked out on the basis of the experiences of the implementation of recommendations of this report and the evaluation of the impact of Russia's accession to the WTO.
