US-Russia alteration and implications for India

Shilpa Parasrampuria
Phd Scholar and visiting faculty at Pundit Deendayal Petroleum University.

Received: May 24, 2018
Accepted: July 03, 2018

ABSTRACT

The paper attempts to thrown light on the current status of relationship between the dominant power U.S.A. and the emerging energy superpower Russia. U.S. has ushered in a regime of tariffs and sanctions which has widespread global implications. Russia is facing dual threat to its economy in the form of both sanctions as well as tariffs. Since U.S. economy dwarfs the Russian economy the latter is in need of funds and investments from U.S. India has unwittingly got embroiled in the standoff between the U.S. and Russia. Its various international defence and energy engagements are threatened because of the sanctions on Russia. India needs to walk the diplomatic tightrope adroitly to squeeze maximum gains from both its strong allies. India faces the persistent menace of Pakistan and the rising aggressive China in its borders and hence cooperation of both U.S. and Russia is vital for its defence and energy needs.

Keywords: Russia, U.S.A., India, Sanctions, CAATSA, Trade.

The trade hurricane that President Donald Trump has unleashed on China as well as America’s allies are threatening to disrupt long-standing alliances without any corresponding advantages. President Trump’s policy of imposing tariffs on imported goods as well as simultaneously making attempts to improve relations with Russia has caused a major upset in global trade and commerce paradigm. His dramatic win in the 2016 elections is credited to the Russian agencies whose meddling and interference did serious harm to Clinton’s campaign.

Unlike Trump President Vladimir Putin started his presidency by initiating friendly overtures abroad. However the momentum was broken when President Putin invoked global ire due to his annexation of Crimea from Ukraine in 2014 on flimsy grounds. President Obama the then President of U.S. reacted strongly and pledged millions of dollars insupport of Ukraine. European Union (EU) and United States (U.S.) imposed sanctions on Russia targeting three major oil firms – Rosneft, Transneft and Gazprom. The oil unit of gas giant Gazprom. Major banks and corporations came under restrictions regarding access to foreign funds. Many prominent individuals were blacklisted. Rossiya Bank also came under the radar. Russian economy is a petro economy dependent on the international sale of oil. The sanctions targeted the defence establishment and the financial network besides the energy establishment.

The Putin administration was further accused of interfering in the U.S. elections of 2016 through messaging and internet trolls. The American intelligence held the Russians in contempt of American laws by accusing them of releasing sensitive and personal information about Democratic party influential politicians. The departing Obama administration expelled thirty-five Russian diplomats and seized two Russian diplomatic properties. US energy cooperation with Russia too fell in the radar.

United States and Russia were further involved in a diplomatic spat over the Skripal poisoning case in England. England accused Russia of attempting to poison an ex Soviet agent and his daughter who were residing in Britain. In a rare display of solidarity 23 countries protested with England by kicking out Russian diplomats from their soil. U.S. showed solidarity with Britain and kicked out 60 Russian diplomats while Russia responded by kicking out the same number of U.S. diplomats.

In August 2017, US Congress pass the countering America’s Adversaries through Sanctions Act that imposed new sanctions on Russia for past misdemeanors. President Putin is perceived to be sympathetic to Putin’s interests and so the American Congress decided that the initiative for Russia should not be the president’s sole prerogative. The Act of 2017 prevents the easing, suspending or ending of sanctions by the President without the approval of the US Congress. On March 15’ 2018, Trump administration imposed financial sanctions under the Act on the 13 Russian government hackers and front organisations that have been indicted in the 2016 U.S. elections.

In spite of crooning friendly noises, Trump was forced by the administration to impose very tough sanctions, taking disciplinary measures against seven high-profile Russian oligarchs and their companies. Oleg Deripaska, an aluminium tycoon and prominent Russian oligarch was targeted. His aluminium producing company Rusal saw a fall of 16 percent in its share value on the Moscow exchange, while the London-listed company EN+ saw a plunge of 22 percent. Viktor Vekselberg, Suleiman Kerimov, Krill
Shamalov and 17 Russian officials were targeted. Prominent among them were Alexei Miller, Chairman of Gazprom and Andrei Kostin, head of state-owned VTB.

The Treasury said the latest sanctions were linked to Russia’s actions in Crimea, Syria and Ukraine and its interference in the west, including its cyber activities. “Russian oligarchs and elites who profit from this corrupt system will no longer be insulated from the consequences of their government’s destabilizing activities,” said Steven Mnuchin, the Treasury Secretary. The American legislators are clearly against any concession or relief granted to Russia.

The assets freeze and travel ban imposed after Crimea’s annexation were specifically targeted at the individuals responsible for the act. Some others were further sanctioned for cyber-operations or alleged interference in the U.S. presidential election. But currently the sanctions are targeting the business and political establishment even if there is no direct connection between the individuals and the acts that invited sanctions. “This is a sweeping attack against the Russian establishment,” said Christopher Granville, director of Trusted Sources, the consultancy.

Russia has witnessed a continuous decrease in its consuming power after sanctions first hit the world’s number 11 economy in 2014. The GDP did expand by 1.5 percent in 2017, yet the picture is far from rosy. Analysts argue that the slow expansion will not be enough to tangibly improve people’s lives or increase funding in domestic areas like education and health. Kremlin had indeed made an appreciable effort to keep inflation law and has ensured the lowering capital flight that was rampant post 2014.

But an unrelenting United States is making it more and more difficult for Russia to do business. Republican senators John Barrasso and Cory Gardner introduced a bill enforcing sanctions on companies building the vital Nord Stream pipeline. The pipeline will enable Russia to export oil to Europe. The venture would make the trade economical and efficient and increase Russia's leverage over the continent. However U.S. is seeking to push its own oil sale in Europe. Brenda Shaffer an energy expert at Georgetown University said

“Linking U.S. energy gas exports to anti-Nord Stream 2 legislation undermines the U.S. position against the pipeline,” she said, because it “reinforces Moscow’s claim that the U.S. is acting out of self-interest, despite that not being the case.” Germany has been actively involved in the pipeline project and is most likely to oppose U.S. directives on other countries. This could further aggravate the divide between Trump and America’s traditional allies in Europe.

The regime of sanctions target future growth prospects of a country and are detrimental in the long run. Their asphyxiating effect is not pronounced from a small term perspective as the global hydrocarbon market has retained its stability. They can however jeopardize Russia’s future energy production. The sanctions are slowing the development of the network of pipelines and will eventually squeeze Russia out of external markets. U.S. sanctions are expanded and designed according to personal calculations. In summer 2015, the U.S Treasury department identified the Yuzhno-Kirinskoyskoye gas deposit on the Sakhalin Island as an old deposit in the Arctic. It too ended up on the sanctions list, and the launch of operations had to be delayed.

The American President can impose any sanctions blocking operations worth more than $5 million a year that provides equipment and services to the energy sector through CAATSA. U. The personal sanctions on Gazprom’s head Alexei Miller affected Gazprom’s sales as well as network of pipelines. The Russian government has been proactive in dealing with sanctions. They have invested heavily, gave numerous tax privileges and devalued the ruble to avoid a decrease of oil production. They can further increase extraction value due to prepared fields. Russia will not suffer catastrophically from the mid-term perspective. However in the long term inaccessibility to Western technology and finance will limit its ability. Russia would need western technology to intensify production at already existing oil and gas fields. The United States is vastly superior with an economy of about $20 trillion, while Russia’s is less than $2 trillion.

The annual trade of the U.S. is worth around $5 trillion, resulting in an annual deficit of about $500 billion. To correct this anomaly the Trump administration unleashed a trade war beginning with the imposition of tariffs on imported steel and aluminium. The 25 percent tariff imposed by U.S. on steel imports will cause about $2 billion in losses for Russian steel exporters, while 10 percent tariffs on U.S. aluminium imports will cause losses about $1 billion for Russian aluminium producers. Russia intends to impose reciprocal tariffs on U.S. goods. In 2017 U.S. exported goods worth $6,998.5. imported goods worth $17,021.4 which resulted in the deficit of -10,022.9 for U.S. Moscow has imposed duties of 25 to 40 percent on US products. Russia has faced a loss of $537.6 million due to American tariffs while its countermeasures only compensate $87.6 million.
Russia's gas supply is coming under serious constraints because of its acrimonious relationship with Ukraine which closes a geographical passage and the sanctions hit Nord Stream project. Russia would need international financing in order to retain its competitive edge. The world is witnessing a surplus of hydrocarbon suppliers. The sanctions give other players an opportunity to replace Russia in the international market. Russia's exports to Europe is getting restricted due to excessive supply from competitors and blocking of transit routes to Europe. Russia needs to deal with the sanctions or create an environment which result in the easing of sanctions. It has diverted its attention to the rapidly multiplying Asian markets.

India striking a balance

Indian foreign policy orientation is towards forging better ties with both Russia and U.S. since both countries form a vital component of Indian geopolitical calculations. India's rising GDP and the voluminous demands in energy and defence sectors has made it a lucrative customer in the international markets. Since both U.S. and Russia aspire to sell defence and energy components to India, the country has unwittingly got embroiled in the Russia-U.S. scuffle.

India and Russia are traditional friends sharing an intimacy that has surprised many. The friendship of these two divergent ideologies have spanned a full 70 years and is robust with multiple meetings at numerous levels. US-India friendship has seen many fluctuations but today it seems destined.

Defence and Energy: The Central Aspect of the Relationship

Defence has formed the nucleus of Indo-Soviet friendship. Indian defence forces have a legacy of Soviet and Russian defence arsenal. According to Stockholm Peace Research Institute (SIPRI) 2018 report, Indian import of Russian military hardware was 79 percent during 2008-2012. Russia supplied 68 percent of weapon imports compared to 14 percent from United States and 8 percent from Israel, between 2012-2016. India concluded 13 contracts worth about $4.3 billion with U.S. from 2015-2017 with Russia securing 12 contracts for $1.2 billion. India has bought many defence related items from U.S. including F-16 from Lockheed Martin and F-18 from Boeing. The US is rapidly increasing its arms sales to India. In the last five years it is the second biggest supplier by providing 15 percent of its weapons imports. The US though keen to sell Predator Guardian UAV's and F-18 and F-19 fighter jets but is not interested in joint production with India.

The defence relationship of India with Russia is unique and covers the ambit of joint production of many weapons including the BrahMos cruise missile, Fifth generation Fighter Aircraft, Kamov-226T helicopters, T-90 tanks amongst others. The Brahmos project is the signature achievement of Russian-Indian military partnership and has the distinction of being the fastest missile of its type it the world. Vietnam and Indonesia have expressed an interest to buy BrahMos the missile jointly developed by Russia and India. This would make both the countries joint sellers.

Apart from defence, India's energy requirements are also mammoth and both U.S. and Russia are keen to make their sale. The International Energy Agency predicts that India would be the third largest energy consumer in the world by 2025. Russia's surplus energy complements the deficiency in India's energy paradigm. Russian companies are participating in Indian oil and gas projects both upstream and downstream as well as engaging in joint exploration. India is entering the Russian energy market through investment. India's ONGC Videsh Limited (OVL), has invested USD 2.7 billion in the Sakhalin-1 offshore gas development project in Siberia. India has been cooperating in extracting hydrocarbons in the giant oilfields of Trebs and Titov with Bashneft, the Kirinsky gas block with Gazprom, and Yurubomskoye oil field with Rosneft.

The intertwined interests

The present world is witnessing an interesting era of entanglements. To counter balance the increasing Chinese influence in the Indian Ocean and Asia-Pacific region, India and US have increased their proximity. US also views India as a balancer in Asia's power strategy with relation to China. Rex Tillerson, Secretary of State acknowledged India's role as a 'pivotal state' in the US regional strategies. His proposal of a new regional security architecture had US, Japan, India and Australia as main pillars. He spoke of balancing China's strategic rise. Both U.S. and India signed a Joint Strategic Vision for the Asia-Pacific and Indian Ocean Region, on January 25, 2015. In November 2017, senior officials form India, United States, Japan and Australia met in Manila and they all agreed to strive for a "free" and "open" Indo-Pacific. The Quad alliance is
directed not only at China but also includes Russia within its ambit. Prime Minister Narendra Modi’s keynote speech at Shangri-La Dialogue in June 2018 clearly chose the Indo-Pacific as the fulcrum of 21st century geopolitics and placed India’s role in the region front and centre. The emphasis of the Indo-Pacific as a region of priority for US national interest in the National Security Strategy (NSS) and the National Defence Strategy (NDS) embodies a clear recognition of India’s centrality as an Indian Ocean power.

Although India offers a wide and rewarding market to both U.S. and Russia, yet the personal equation with both is strained. India is perturbed about Russia’s overtures with Pakistan and Russia too is not pleased with India’s growing proximity towards the United States. A Russian-Pakistani rapprochement started in 2014 when Russia removed its arms embargo against Islamabad and decide to sell four Mi-35M helicopters to Pakistan. The annual military training exercises began in 2016. Russia and Pakistan are negotiating potential energy deals worth about $10 billion. Russia is also a beneficiary of Chinese investment and that further complicates the situation.

The imposition of CAATSA by the U.S. administration further drove a wedge between amicable relations. India’s various defence and energy trade with Russia had come under the U.S. scanner under its CAATSA (Countering American Adversaries Through Sanctions Act) law. The Indian defence establishment is keen to acquire the Rs 39,000 crore S-400 air defence system. Nirmala Sitharaman discussed the proposal during the 7th Moscow Conference in April 2018. Initially U.S. was contemplating putting this deal under the CAATSA scanner. India however was not interested in listening to American dictates.

United States realizes the needs of India for the air defence shield since China has already purchased the system from Russia. United States is also keen to maintain friendly overtures with India. A modified waiver to section 231 of CAATSA was provided by the US Senate and House Armed Services Committee, in a joint conference report to the National Defence Authorisation Act-2019. The legislation aims to exempt India from the sanctions regime under CAATSA, which deter the countries from buying Russian weapon systems. India has military contracts worth $12 billion from Russia hanging in balance. Russian products are also required to maintain the huge inventory of Russian-origin weapon systems in the armed forces. The elephant in the room being India’s overwhelming dependence on Russian defence arsenal which was cleverly interpreted by Secretary of Defence James Mattis that keeping India close is more important than punishing India for its defence purchases.

The imposition of tariffs had little impact on steel production in India as steel export to U.S. is 3.3 percent of total exports. India has decided to impose counter tariffs from August 4, 2018, on agricultural products such as apples, almonds, chickpeas, lentils, and walnuts, and industrial inputs such as grades of iron and steel products. These tariffs would generate a revenue of $240 million. U.S. accuses India of imposing high tariffs on U.S. goods particularly Harley Davidson motorbikes. India ranked 13th in U.S. list of trading partners in 2011 and enjoyed a trade surplus of $14.5 billion. The trade surplus reached $23 billion by 2017 end with New Delhi becoming the 9th largest trading partner. India is also amongst the top trading partner in services. While India has a deficit in trade with Russia, it enjoys a surplus from U.S. trade.

India and Russia have all applied to the World Trade Organisation (WTO) to challenge the U.S. tariffs on import of steel and aluminium that was imposed in March 2018. The matter would be decided by the WTO.

India’s Diplomatic Coupe

India needs both US and Russia on its side. The main security problem of terrorism, confronting the nation has its genesis in Pakistan. An aggressive Chinawith a vast defence arsenal is a powerful presence on the northern borders and can be disturbingly aggressive. India’s significant lack of energy resources coupled with its defence requirement will always take it back to Russia who has a stronghold in both the sectors. Russia has also supported India’s claim for a Security Council membership in United Nations. Moreover by aligning with the “Make in India,” initiative of Prime Minister Modi they are contributing to India attaining some amount of self sufficiency in the crucial defence sector.

While India needs Russia for manifold reasons, its requirement of American support is also crucial. In the complex security apparatus of Asia, India needs American support to counterbalance both Pakistan and China. Since Russia (a target of western sanctions) is indebted to China, it cannot be a dependable ally in any possible confrontation with the second most powerful state of the world. China has made significant investments in the Russian economy. India’s economy is growing at an impressive pace and U.S. investment is crucial for Indian economy. Moreover India’s large service sector too is dependent on the American economy.

India and Russia are also closely integrated through various multilateral forums like United Nations (UN), BRICS, G20, RIC and SCO. A free trade agreement between India and the Eurasian economic Union
(EAEU) is in the offing. The EAEU is a Russian initiative that also includes Armenia, Belarus, Kazakhstan and Kyrgyzstan. It would ensure free movement of Indian goods, services, capital and labour to the countries of the former Soviet Union. This would boost Indian trade and industry.\(^3\)

The ideal situation for India would be to partner both Russia and U.S and a possible alliance of these three would stop China in its track. However this is wishful thinking at the moment and what seems more likely is a strong Indo-US presence. India needs to be creative in finding commonalities. The economies of both India and the U.S are intertwined with that of China that has created a sense of complex interdependence despite divergences over security issues. If India is able to strike the right cord it will likely is a strong Indo-US alliance against China,' ASIA TIMES, accessed on August 2, 2018,

### Bibliography

12. March 15, 2018"Where is the Russian economy headed?" DW, accessed on July 25, 2018, https://www.dw.com>where-is-t...
15. Stephen M. Walt, 12 March, 2018, "I knew the Cold War. This is no Cold War." Foreignpolicy.com
ET Online, July 12, 2018, "Brother Russia has more goodies for India: developing Brahmos and Fifth generation jet," ET Online, https://economictimes.indiatims.com> …


Raj Yashwant Raj, 01 April’ 2018,'US closely watching India’s plan to buy S-400 defense system from Russia, hindustan times, www.hindustantimes.com


PTI, "Us tariff on steel import may indirectly affect India: Minister, ET, July 13, 2018, accessed July 29, 2018, https://m.economictimes.com> … > Steel


Chris Stevenson, July 6, 2018,"Russia hits back at US trade tariffs by increasing import duties on American goods,” INDEPENDENT, accessed on July 26, 2018, www.independent.co.uk